



## Corrective Action Verification Audit (CVA) Report Public Summary

Organisation:	Interholco AG
Certificate Code:	NC-LS-000160
Report Date:	9 <sup>th</sup> March 2017

### I. AUDIT PROCESS

Auditor, Qualifications:	Debora van Boven-Flier	
Audit Date(s):	21 <sup>st</sup> February 2017	
CVA Type:	Desk review <input checked="" type="checkbox"/>	On-site <input type="checkbox"/> Location(s): N/A
Audit Overview:	The LegalSource responsible person, Tom van Loon, sent adjusted procedures and supply chain evidence. The auditor held an interview with him before conducting a brief closing meeting.	
Changes to Scope since last Audit:	N/A	

### II. NON-CONFORMITY REPORT (NCR) EVALUATION

NCR number: 03/2014 02909	NC grading:	Major <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	LegalSource standard (V1) - 7.1 LegalSource standard (V1) - 8.1 LegalSource standard (V1) - 8.2		
<b>Description of Non-conformance:</b>			
<p>In relation to the use of 3rd party verification and certification it is considered that certification/verification schemes in general are seen as strong means of risk mitigation. However it must be underlined that these systems should not be used without further due diligence to ensure that they cover all applicable requirements and that the requirement are observed by the supply chains. Most certification schemes have weaknesses that should be considered. Interholco has developed procedure to evaluate 3rd party verification and certification schemes ( DGProc_32-05_Evaluation of certification schemes and DGProc_32-05b_Evaluation of certification schemes SGS TLTV )</p> <p>In the case of TLTV programme several areas of partial compliance was identified.</p>			
<b>Corrective action request:</b>	<p>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.</p> <p>Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</p>		

<b>NCR conformance deadline:</b>	3 months from report finalisation (28-2-2017)
<b>Client evidence:</b>	<p><b>2014:</b> Subsequent to the finalisation of the certification report, Interholco provided the following revisions to close this NCR: Danzer: Update of the evaluation of certification schemes done and actions will be implemented.</p> <p>TLTV verification only concerns at the moment only two concessions where Interholco have audits reports and confirmed legal compliance. The two concessions are not providing other wood than TLTV. IF there would be other suppliers, TLTV does not allow a claim on the invoice and Interholco are informed by suppliers if they would buy from another supplier.</p> <p><b>2015:</b> Interholco accepts following 3rd party certification/verification schemes: FSC, MTTC, BV OLB, SGS TLTV and RA VLC as measures to ensure low risk for legal violation. Interholco has developed procedure to evaluate 3rd party verification and certification schemes:</p> <ul style="list-style-type: none"> <li>- DGProc_32_05 Evaluation of certification &amp; legality verification schemes</li> <li>- DGProc_32-05b_Evaluation of certification schemes ANNEX 3_SGS-TLTV</li> <li>- DGProc_32-05b_Evaluation of certification schemes_annex 3_SGS-TLTV V.1, 24 mars 2014</li> <li>- RF03 OLB CoC v3.5_EN_app 1 supplier assessment</li> <li>- RF03+OLB+CoC+v3.5_EN++10+12+10</li> </ul> <p>While 3rd party certification/verification schemes in general are seen as strong means of risk mitigation, they should not be used alone without further due diligence to ensure that they cover all applicable requirements and that the requirements are observed by the supply chains. Most certification schemes have weaknesses that should be considered. Not all applicable laws included in the EUTR, are comprehensively covered by certification schemes.</p> <p>This following issues was observed during the current assessment related to Interholco's system to evaluate verification and certification systems:</p> <ul style="list-style-type: none"> <li>- The FSC and PEFC schemes have limited trade and customs requirements and do not ensure automatic provision of information on these categories of law to an "operator" buying certified products. In the future, the FSC Online Claims Platform will be able to help. In particular, the FSC system does not currently assess compliance with trade and customs laws, a requirement under the EUTR.</li> <li>- The OLB certification system allows mixing of materials from "acceptable sources" which included those covered by the "suppliers' assessment program", or by one of the verification programs recognized by OLB (clause 2.3.2 of the OLB Chain of Custody Standard, Exhibit 16b). The suppliers' assessment program, does not include consideration of: timber harvesting, including environmental and forest legislation including forest management and biodiversity conservation, where directly related to timber harvesting; third parties' legal rights concerning use and tenure that are affected by timber harvesting, and trade and customs, in so far as the forest sector is concerned as required under Article 2(h) and 6(a) and (b) of the European Timber Regulation (EUTR).</li> </ul> <p>The two examples provided above were not detected during Interholco's own evaluation of the certification schemes. As they currently accept certification as evidence of compliance with applicable legislation, Interholco are not currently assessing these additional categories of law under their due diligence system.</p>

	<p><b>2016 Audit:</b> Interholco presented:</p> <ul style="list-style-type: none"> <li>• Certification scheme evaluation (DGProc_32_05)</li> <li>• Risk Assessment for supplier of Ghanaian origin species to Belgium (2016)</li> <li>• Risk Assessment for supplier of Gabonese origin species to Belgium (2016).</li> </ul> <p><b>2017 CVA:</b> Interholco presented:</p> <ul style="list-style-type: none"> <li>• Adjusted procedures 'Danzer Procurement Rules' (Exh 1)</li> <li>• Risk assessment table (DGProc_32-020b) (Exh 2)</li> <li>• Trade and transport documents for supplier (Exh 3).</li> <li>• Correspondence and adjusted IHC-CoC_01_IHC CoC Procedure_Jan 2017 (Exh 4)</li> </ul>
<p><b>Evaluation of Evidence:</b></p>	<p><b>2014:</b> It is considered that Interholco have sufficiently revised their certification system evaluation details and have also included follow up on the identified areas where there could be partial compliance of these systems.</p> <p>It was found that Interholco has partly corrected the non-compliance, however there is yet to be evidence of any follow up on the partial compliance areas of the TLTV standard. The NCR is therefore downgraded to Minor and provided with a timeline until the next annual audit to provide objective evidence of compliance.</p> <p><b>2015:</b> NEPCon believes that the assessment of the certification systems carried out by Interholco was not sufficient to ensure that all the requirements of this standard have been met, or that Interholco are addressing the shortcomings identified in the third party certification schemes they have assessed. The consequences of this insufficient assessment of certification schemes has impacts for a number of criteria and indicators of the LegalSource Standard:</p> <ul style="list-style-type: none"> <li>- 7.1.2 and 7.1.3: Interholco are not assessing and specifying the level of risk related to legal violations within the supply chains and the risk that the material is mixed with other material of illegal or unknown origin somewhere in the supply chain during transport, processing or storage.</li> <li>- 8.1: Interholco do not have efficient and justified measures for mitigating risks where specified for any of the three areas listed in 7.1.1, 7.1.2 or 7.1.3.</li> <li>- 8.2 Interholco have not documented and justified the effectiveness of risk mitigation measures (if they are necessary).</li> </ul> <p><b>CVA September 2015:</b> Regarding OLB, IHC have analysed their OLB certificates and verified that the OLB auditors check trade and customs taxes and import/export permits, auditors confirmed this by reviewing the OLB standard for Cameroon. IHC does not use the OLB credit system, and IHC confirms that it will not accept OLB credit certificates until the gap in the OLB system is remedied. Auditors also reviewed the revised risk assessment for the OLB system undertaken by IHC and the risks and mitigation actions have been recorded.</p> <p>Regarding FSC, auditors reviewed the revised risk assessment and noted that information regarding the risk of illegality associated with trade and customs has been included for the FSC</p>

supply chains from Gabon, Cameroon, Congo. A number of the FSC certified supply chains from these countries are also either OLB certified or RA VLC. As these two schemes verify trade and customs taxes and import/export permits this gap is addressed for these supply chains.

There are three suppliers which are supplying only FSC certified material (no OLB certificates). Although IHC have identified a risk associated with these supply chains. IHC have collected sample trade and transport documents from some suppliers, but are not doing this systematically. IHC believe that the risk for CEMAC countries (Cameroon, Central African Republic, Chad, Republic of the Congo, Equatorial Guinea and Gabon) is reduced in relation to trade and transport. This is based on an evaluation of the export permit process in these countries, and experience on the ground. Based on this evaluation, IHC believes a non-systematic collection of documents is sufficient risk mitigation.

Although the assessment of risk has been updated, auditors do not believe the current ad-hoc system for collecting documents sufficiently address the known risks in these jurisdictions (see for example the NEPCo Risk Assessment of Cameroon). Based on discussions with auditors during the onsite CVA, IHC have committed to implementing a more systematic collection and review process.

As the CVA has been partly resolved, but the implementation and review of documentation for only FSC certified materials has not been fully implemented, the NCR remains open but has been downgraded to a minor.

- DGProc\_32-05\_Evaluation of certification-legality verification schemes (revised)

#### **2016 Audit:**

The auditors reviewed the certification scheme evaluation conducted by Interholco and reviewed the risk assessment for the only two supply chains which were only FSC certified/ controlled wood (i.e. not dual certified to FSC and OLB standards). The Environmental and Social Responsibility Manager stated that trade and transport documentation was now being collected for supply chains which provide only FSC certified/ Controlled Wood materials. The risk assessment and supporting documentation presented for a specific supplier, confirmed that this was the case. The Environmental and Social Responsibility Manager stated that this documentation will be collected systematically 1-2 times per year, in order to confirm that the following sub-categories are adhered to:

#### *5. Trade and transport*

*5.1 Classification of species, quantities, qualities: Legislation regulating how harvested material is classified in terms of species, volumes and qualities in connection with trade and transport. Incorrect classification of harvested material is a well-known method to reduce/avoid payment of legality prescribed taxes and fees.*

*5.2 Trade and transport: All required trading permits shall exist as well as legally required transport document which accompany transport of wood from forest operation.*

*5.3 Offshore trading and transfer pricing: Legislation regulating offshore trading. Offshore trading with related companies placed in tax havens combined with artificial transfer prices is a well-*

*known way to avoid payment of legally prescribed taxes and fees to the country of harvest and considered as an important generator of funds that can be used for payment of bribery and black money to the forest operation and personal involved in the harvesting operation. Many countries have established legislation covering transfer pricing and offshore trading. It should be noted that only transfer pricing and offshore trading as far as it is legally prohibited in the country, can be included here.*

*5.4 Custom regulations: Custom legislation covering areas such as export/import licenses, product classification (codes, quantities, qualities and species).*

*5.5 CITES: CITES permits (the Convention on International Trade in Endangered Species of Wild Fauna and Flora, also known as the Washington Convention).*

However, it became apparent during the audit that another supplier also provides materials from Gabon. These materials are certified against only the FSC standards (FSC 100%) and not OLB.

The cases were discussed with the Environmental and Social Responsibility Manager and the auditors found that, whilst systematic sampling collection of documents for trade and transport risk were being collected and assessed for certain suppliers, the same was not being done for other ones. As the other supply chain is also originating from a (high risk) African country the Organisation's mitigation action should have been also applied to this supply chain.

Immediately following the audit, the Environmental and Social Responsibility Manager provided email communication from the FSC certification body (Rainforest Alliance) stating that trade and customs compliance is assessed as part of FSC CoC audits and provided the template FSC audit report used.

However, the auditors do not agree with this statement. NEPCon is also an FSC certification body and two of the auditors are experienced FSC CoC auditors. Whilst the FSC standard may in theory include a requirement for compliance with trade and customs laws, in practice the legal compliance is not focussed upon during FSC audits. For example, FSC auditors do not actively assess risk of illegal transfer pricing and many may be unaware of the need to check such risks in supply chains. In addition, FSC requires checking of delivery documentation for FSC claims. In many countries a packing list may be used to transfer claims and not a legally required transport document. Therefore, the auditor may never request legally required transport documents from CoC Organisations. The vague phrasing of this FSC advice note does not ensure that the detailed legal compliance is adequately assessed during CoC audits.

As the issue has been partially addressed, the non-conformance remains open. As this is a recurring issue, the non-conformance is raised to a major NCR.

- Certification Scheme Evaluation for FSC (DGProc\_32-05)
- Risk Assessment relevant suppliers
- Email from Rainforest Alliance
- Rainforest Alliance FSC CoC report template

	<p>The auditors also reviewed a risk assessment for an FSC certified supply chain from a company based in France with harvest origin in Cameroon. The auditors found that all companies in the supply chain held valid FSC certificates and were found to supply materials with FSC claims on documentation.</p> <p>However, the auditors noted that the species purchased (Paduk [Pterocarpus soyauxii]) was not included in the FSC certificate scope on info.fsc.org for either the direct supplier or the FMU. This issue had not been picked up during risk assessment of the supplier/supply chain. Upon review of the FSC Public Summary report (found at info.fsc.org) the auditors found Paduk to be included in the scope of the certificate. However, it was clear that for this supply chain, checks had not been rigorously conducted to ensure that all species sourced were included in the scope of the FSC certificate.</p> <p>As certification is the major mitigation action employed by Interholco for African supply chains, it is integral that checks on certificate scope are conducted rigorously.</p> <ul style="list-style-type: none"> <li>- FSC Certificate Record for direct supplier and FMU</li> </ul> <p><b>2017 CVA:</b> The adjusted procedure is now clearly stating 'Risk assessment for "2. the risk of legal violations within the supply chains in relation to trade and transport of the products, including declaration and classification of the material for customs". For those certification systems that do not include this in their scope, risk mitigation / verification will be done if risk was identified (e.g. sample verification of legal trade, transport, customs requirements).'</p> <p>Since the previous audit, Interholco has not had any purchase as such and it is unlikely they will get purchases soon as most FSC certified wood comes from companies that are FSC certified combined with a legality certificate. For the one purchase that was only FSC certified, without a legality certification which was discussed during the audit, from a supplier, all supporting documents have been submitted and considered to sufficiently document legality aspects relating to trade and transport. Exh 3.</p> <p>Regarding the point of not having noticed that the species wasn't included in the scope of supplier's certificate which wasn't picked up on during the risk assessment. Corrective measures were undertaken by including the extra check for species in procedures and following up with suppliers to ask them to include the species within their certificate scope. (IHC-CoC_01_IHC CoC Procedure Jan 2017). Exh 4.</p>
<b>NCR Status:</b>	CLOSED
<b>Comments (optional):</b>	<p><b>CVA September 2015:</b> As the CVA has been partly resolved, but the implementation and review of documentation for only FSC certified materials has not been fully implemented, the NCRA remains open but has been downgraded to a minor.</p>

### III. CONCLUSIONS

NCRs Closed:	<input checked="" type="checkbox"/> No follow-up required related to closed NCRs
	<input type="checkbox"/> Original NCRs closed and new NCR(s) issued, see section IV below
NCRs Open:	<input type="checkbox"/> Certification not approved; conformance with NCRs required
	<input type="checkbox"/> Major NCRs not closed; suspension of certification required
	<input type="checkbox"/> Minor NCRs are upgraded to Major; see section IV below
	<input type="checkbox"/> New NCR(s) issued, see section IV below
Comments/Follow-up Actions:	None

### IV. OPEN NCRs

Newly issued or upgraded NCRs:

None