

UPM SUPPLIER AUDIT IN RUSSIAN KARELIA

Verified by Det Norske Veritas (DNV)

1. BACKGROUND

UPM origin of wood tracing system

Knowing the origin of wood is a requirement of UPM's Forestry and Wood Sourcing Guidelines. It is important for UPM to verify that the wood raw material supplied to the company's mills is sustainably sourced, legally logged and not from protected forest areas. The guidelines also commit the company to verify that its suppliers are operating responsibly and are complying with the company's policies and guidelines.

UPM has developed a guide for all its Russian wood suppliers. The objective of the guide is increased awareness and improved operational health and safety measures, roundwood quality and environmental issues.

Role of supplier audits

UPM regularly carries out supplier audits based on the statement of origin to monitor performance of and compliance with UPM's policies and guidelines. UPM focuses its audits on new suppliers, terminal operators and those suppliers with logging operations near protection areas. However, all of UPM's suppliers are audited within a three year period.

The supplier audit results provide fact based on information which is used to give feedback and strengthen cooperation with our suppliers. These are important steps towards the continuous improvement of UPM's operations.

Supplier audit in Karelia and Greenpeace report

Greenpeace studied the legality of wood exports from the Republic of Karelia to Finland over a 3 month period. Five out of fourteen sites investigated were included in a report titled "Partners in crime" published on 19th September 2006. Wood was delivered to UPM from three of the sites. On 21st September 2006, UPM decide to carry out a normal supplier audit and logging site check to verify the sustainability and legality of wood from these sites, and also to look at the concerns raised by Greenpeace. The supplier audit was carried out on 5-6th October and was accompanied by representatives of UPM's supplier and the Russian authorities. Det Norske Veritas, an independent third party auditor, accompanied the visit in order to verify the supplier audit.

2. SUPPLIER AND KEY ISSUES

Supplier and location

The supplier to be audited was ZAO Zapkarelles. The wood supplied to UPM's mills came from 3 logging sites in Russian Karelia: kvartals 189, 195 and 196. The kvartals are located in the Tolvoyarvskoe Lesnichestvo of the Suojärvi Leshoz.

Felling licences

The Russian authorities are responsible for issuing felling licences, including the technical site instructions and site map attached to it. The technical instructions cover logging methods, timing, soil and water protection, protection areas and health and safety.

Felling licences are the key documents issued by the Russian authorities which provide the legal right to fell. The felling licences were issued as follows: kvartal 189 on 13.6.2006 and kvartals 195 and 196 on 3.1.2006.

Statement of origin

UPM requires a statement of origin for all wood deliveries from Russia regardless of size or method of delivery. The document requires details of each delivery, a map grid reference (kvarttal number) for the logging site and notification of any protection areas located nearby. The statement of origin must be provided within one month of the start of deliveries and should be updated regularly, for example whenever new sites are planned for felling. The statement of origin for these sites has been received from the supplier.

Protection areas

The technical instruction attached to the felling licences did not identify any special protection areas. UPM staff also cross-check this information with the official protection areas, moratorium areas and planned protection areas held in the companies GIS mapping system.

Environmental Impact Assessment (EIA)

The evaluation of environmental impacts is the responsibility of the Russian authorities. During 2006, the Karelian leshoses have the right to issue felling licenses without an EIA on the basis of an agreement between the Karelian Government and the Federal Russian Ministry of Natural Resources.

UPM's supplier has an official letter from Rosleschoz (Federal Forestry Agency of Russia) stating that logging can proceed.

Water

All of the logging sites lay outside water protection zones and there were no requirements for watercourse buffer zones in the technical instructions attached to the felling licences.

Regeneration

In all sites, the method of reforestation following clear cutting is planting of seedlings. However, in kvartal 196 there was also the requirement to leave 70% of the understorey over 6 hectares for regeneration purposes.

3. UPM SUPPLIER AUDIT AND FIELD CHECK RESULT

The report below is a summary report of three separate full reports on each site.

Supplier: ZAO Zapkarelles
Region: Karelia
Leshoz: Suojärvi
Lesnichestvo: Tolvoyarvskoe

Kvartal 189

	Score
Documentation and origin of wood	4
Logging impacts (reference felling licence, technical instructions and map)	3
Work site management (waste and tidiness)	2
Health and Safety	0
Logging contractor awareness	3
Timber quality	3
Overall evaluation	3
<i>UPM comments:</i> All operations done in accordance with felling licence and technical instruction. Clear cut harvesting method implemented as required. Statement of origin verified as accurate. The evaluation took place after felling and health and safety issues could not be checked. Logging had taken place on the adjacent block 171 one year ago.	
<i>Russian authority comments:</i> Robert Lepele, Suojärvi Leshoz, "Logging was legal. The technical guidance did not include a buffer zone around the small lake"	

Kvartal 195

	Score
Documentation and origin of wood	4
Logging impacts (reference felling licence, technical instructions and map)	3
Work site management (waste and tidiness)	2
Health and Safety	0
Logging contractor awareness	3
Timber quality	3
Overall evaluation	3
<i>UPM comments:</i> All operations done in accordance with felling licence and technical instruction. Clear cut harvesting method implemented as required. Statement of origin verified as accurate. There exists dead wood in and over the watercourse, but it has fallen naturally already many years ago, not during logging operations. The evaluation took place after felling and health and safety issues could not be checked.	
<i>Russian authority comments:</i> Robert Lepele, Suojärvi Leshoz, "All logging is legal. The technical guidance did not include buffer zones along this small brook."	

Kvartal 196

	Score
Documentation and origin of wood	4
Logging impacts (reference felling licence, technical instructions and map)	2
Work site management (waste and tidiness)	2
Health and Safety	0
Logging contractor awareness	3
Timber quality	3
Overall evaluation	3
<p><i>UPM comments:</i> All operations done in accordance with felling licence and technical instruction. Clear cut harvesting method implemented as required. Statement of origin verified as accurate. Understorey left for regeneration in compliance with requirements of the felling licence – 70% required actual 80%. However, the regenerating forest had suffered in logging. Logging site borders were marked properly with poles on the corners and tape or marks on borderline trees. The evaluation took place after felling and health and safety issues could not be checked.</p>	
<p><i>Russian authority comments:</i> Robert Lepele, Suojärvi Leshoz, "All logging is legal. The condition of the regeneration is better than is required by forest legislation and the logging licence."</p>	

UPM scoring system for logging site:

0	Not applicable
1	Poor
2	Satisfactory
3	Good
4	Excellent

Meeting with Karelian Forestry Agency

In a meeting with Josif Skadorva, the Chief Forester of the Karelian Forestry Agency, he stated that "...felling on the logging sites of UPM's supplier was legal and in accordance with Russian forestry legislation. The felling licenses for sites in the kvartals 188/189 and 195/196 were issued legally."

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Environment Manager

UPM Forest Russia

17th October 2006