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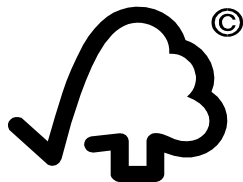


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**SmartWood**

*Practical conservation through certified forestry*

## Forest Management **2006 Annual audit** Report for:

### Integrated Tree Cropping Limited

### Albany, Western Australia

Certificate Code: SW-FM/CoC-1217

Audit Dates: 10-13 May 2006  
Report Finalized: 10 December 2006

Auditors: John Tredinnick  
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# 1. AUDIT PROCESS

## 1.1. Auditors and qualifications:

### John Tredinnick

John Tredinnick is a Principal Consultant with URS Forestry based in Perth, Western Australia. He has a Bachelors Degree in Forest Science and a Masters Degree in Science, including specific studies in natural resource economics. John also has some 20 years experience working with the forest industry in Australia and overseas. This experience has included management positions involved with native forestry, plantation development, farm forestry, processing, timber trading and corporate finance. John joined URS in January 2000 and currently manages the Australian operations of URS Forestry as well as being involved with a number of forestry projects. John completed Lead Assessor Training by SmartWood in June 2002 and has previously been involved with several FSC Forest Management audits and scoping assessments.

### Christian Sloth

Christian Sloth is regional Operations Coordinator of the SmartWood office in Jakarta, Indonesia. He has a Masters Degree in forest science and land use in developing countries as well as a Masters Degree in agro-forestry and tropical forestry. Before joining SmartWood in 2006 Christian worked for two years in Vietnam for the United Nations Food and Agriculture Organisation as a forestry specialist. He has also worked as a technical advisor for the Cambodian Development Resource Institute, undertaking research on forest valuation and management.

## 1.2. Audit schedule

Date	Location /main sites	Main activities
May 10 2006	Albany, ITC office and properties	Review of company changes and actions taken on CARS and Conditions. Property visit.
May 11 2006	Esperance properties	Visit ITC properties in Esperance.
May 12 2006	Albany, ITC office	Discussion of findings and de-briefing
May 13 2006	Albany, Perth	Audit finalization and report preparation
Total number of person days used for the audit: 8 = number of auditors participating 2 times total number of days spent for the audit 4		

### 1.3. Sampling methodology:

The primary objective of the SmartWood annual audit is to verify that Corrective Action Requests (CARs) required as a result of an assessment or subsequent audit of Integrated Tree Cropping (ITC) are being met and that their forest management practices continue to be in conformance with the FSC Principles and Criteria (P&C). ITC has been FSC certified since 2003 and this is their second annual audit.

ITC has three certified forest management units (FMUs) in their operations: Bunbury/Albany (Western Australia), Esperance (Western Australia), and the Green Triangle region of Victoria and South Australia. This audit focused on the Western Australian FMUs. Within Western Australia the auditors selected sites that represented the spectrum of plantation management activities and social and environmental issues needed for a thorough evaluation of compliance with selected FSC Principles and Criteria (Principles 4 and 6) as well as compliance with the CARs of the previous certification. Attention was also given to sites that had current operational activities, such as harvesting or recent establishment. Though audit sites were generally pre-selected by the audit team, several sites were randomly chosen for review while traveling through the FMUs.

<b>FMU or Site audited</b>	<b>Rationale for selection</b>	<b>Group FMU belongs to and number of FMUs in the group</b>
Albany Port Facility	Verification and inspection of COC regarding the transport and shipment of chips	Albany FMU
ITC forest properties in Albany	Ongoing harvest activities enabling the audit team to observe harvest practices and interview contractors.	Albany FMU
ITC forest properties in Esperance	Ongoing planting activities, as well as young plantations, enabling the audit team to observe planting and post-planting practices, such as spraying and protection of native vegetation on the properties.	Esperance FMU

### 1.4. Stakeholder consultation process

The focus of this audit was on progress against a number of CARs and direct stakeholder consultation was confined to opportunistic interviews with ITC employees, contractors and advisors in the field. In addition to on-site interviews a stakeholder survey was sent to relevant stakeholders during the audit implementation.

Stakeholder type (NGO, government, local inhabitant etc.)	Number of stakeholders informed	Number of stakeholders consulted or providing input
Contractor	0	1
ENGO	31	0
Shires	15	0
Social/ Community	5	0
Indigenous Groups	1	0

### 1.5. Changes to Standards (if applicable)

The standard used was “*SmartWood Interim FSC Standard for Australia Second Draft Version 2a, September 2002*”

No changes to the standard have occurred since the last evaluation.

## 2. AUDIT FINDINGS AND RESULTS

### 2.1. Changes in the forest management of the FMO

The main change to ITC’s forest management since the last annual audit has been the addition of the Ausron properties to ITC’s management portfolio.

The net effect of this change to the area of both native vegetation and plantation now managed by ITC is shown in the table below.

#### Ausron Estate to be included in ITC FSC certified area (ha)

	South West WA	Green Triangle
Planted Area	3 837	7 721
Other (includes native vegetation, wetlands, rock, cleared agricultural land etc)	1 941	1 822

#### New (2006) areas to be included in ITC FSC certified area (ha)

	South West WA	Esperance
Estimated area to be planted in 2006	668	16 007
Other (includes native vegetation, wetlands, rock, cleared agricultural land etc)	912	4 854

#### Area to be taken out of ITC FSC certified area (ha)

	South West WA	Green Triangle
Planted Area	2121	278
Other (includes native vegetation, wetlands, rock, cleared agricultural land etc)	455	Nil*

\* ITC still manages trees on these properties for other clients and therefore still has responsibility for the non-planted areas.

**Total ITC area for 2006 FSC Audit**

	<b>South West WA</b>	<b>Esperance</b>	<b>Green Triangle</b>	<b>Total</b>
Planted Area	48 684	40 007	31 043	119,734
Other (includes native vegetation, wetlands, rock, cleared agricultural land etc)	11 822	11 678	2 970	26,470

**2.2. Stakeholder issues**

No significant issues were raised by stakeholders as part of this audit. There were no observed disputes between local communities, workers, neighbors or farmers and the company. Moreover, SmartWood received no complaints or comments from stakeholders concerning ITC’s forest management practices over the past year.

**2.3. Compliance with applicable corrective actions**

The section below describes the activities of the certificate holder to address each applicable corrective action issued during previous evaluations. For each CAR a finding is presented along with a description of its current status. Failure to meet CARs will result in noncompliances being upgraded from minor to major noncompliances with compliance required within 3 months or face suspension or termination of the SmartWood certificate. The following classification is used to indicate the status of the CAR:

<b>CAR Status Categories</b>	<b>Explanation</b>
<b>Closed</b>	Certified operation has successfully met the CAR and addressed the underlying noncompliance.
<b>Open</b>	Certified operation has <u>not met</u> the CAR; underlying noncompliance is still present. CAR becomes a Major CAR with a 3 month deadline for compliance

Condition #10-2004	Reference Standard #: 4.4
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	ITC has no effective means of measuring its social performance. The company's community relations capacity would be enhanced by the development of key social performance indicators – recognizing the broad range of issues related to employment, regional business and economic development, community sponsorship, community consultation, social impact management, research and OH&S – and by the publication of performance data and commitment to continuous improvement.
Corrective Action Request: Within two years of the issuance of a certificate, ITC shall address community concerns about the social impacts of its operations including the long-term viability of the industry; its impacts on landscape and the environment; and its effects on regional populations, community facilities and service provision. ITC should establish formal processes for ongoing stakeholder consultation to ensure that community concerns are incorporated in their business development strategy and operational decision-making. It should develop social performance indicators relevant to its business objectives and operations and report publicly on its social objectives and performance.	
Timeline for Compliance: Two Years	

<p>Audit findings: Community concerns about the social impact of hardwood plantations in the regions where ITC conduct its operations were still prevalent at the time of the audit and are the subject of a Commonwealth Government inquiry into the nature of the investment schemes under which ITC operate. The concerns are being addressed at an industry level through associations such as Treefarm Investment managers Australia (TIMA) and through research that has been conducted by the Cooperative Research Centre (CRC) for Forestry, to which ITC is a contributor.</p> <p>New projects focusing on social impacts are underway via the CRC that build on a previous report completed by the Bureau of Resource Sciences (BRS) that assessed the social impacts of plantation forestry in the Great Southern Region of Western Australia, including its impacts on regional populations, community facilities and service provision.</p> <p>At a company level ITC has completed a social impact assessment survey that was used as a basis for identifying issues of importance and relevance to local communities. Using the results of this survey, ITC has developed an <i>External Communications Strategy</i> that aims to develop effective two way communication with stakeholders. The strategy is supported by operational procedures that specifically address stakeholder communication and the audit team was provided with evidence in support of this communication taking place.</p> <p>ITC has not yet developed social performance indicators relevant to its business objectives and operations or established a process for reporting publicly on its social objectives and performance.</p>	
Status: OPEN	
Follow-up Action (if applicable): See MAJOR CAR# 10-2004	

Condition #17-2004	Reference Standard #: 6.4
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Tree farms include within their boundaries areas of remnant bushland, wetlands, and riparian zones. Long-term protection in the event that land is returned to the lessor or sold by ITC is not typically secured.
Corrective Action Request: Within two years of the issuance of the certificate, with the	

objective of ensuring representative samples of existing ecosystems are protected at the landscape level, ITC shall engage proactively with government agencies and NGOs to develop a strategic approach to developing a network of reserve areas across its estate. Ideally this should be undertaken prior to first and second rotation establishment of plantations, be considered at landscape level and have sound ecological rationale.

Timeline for Compliance: Two Years

Audit findings: ITC has committed significant resources towards the identification and protection of natural vegetation on its properties while these areas are under the management of ITC. The company has created a separate position for fire and biodiversity management and has been working closely with a number of researchers and ENGOs to carry out surveys of flora and fauna on its properties. ITC has also been working with Green Skills in Western Australia to establish re-vegetation projects and has initiated discussions with the Department of Conservation and Land Management on the integration of ITC's Special Management Zones within broader regional management plans.

A commitment to biodiversity conservation is evident at all levels of company policies and procedures, as documented in the *Regional Plantation Forests Management Plan*, property management plans, harvesting procedures and the *High Conservation Value and Biodiversity Management Strategy*. This commitment is also clear at the operational level.

The objective of this CAR was to encourage ITC to permanently reserve areas of natural significance via measures that are available for long term protection such as covenants on the land title. While such measures would obviously be beneficial there are obvious constraints in the case where ITC is a leaseholder and covenants on freehold land can also have an impact on resale value. Measures for long term protection are being considered by ITC, but actions for protection beyond ITC's term of management are considered to be beyond the scope of this assessment.

Status: CLOSED

Follow-up Action (if applicable): See Observations with reference to standard 6.4

Condition #22-2004	Reference Standard #: 8.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	ITC undertakes a number of monitoring processes within the production forest as part of both in-house and collaborative projects. There is no active monitoring of flora and fauna condition in remnant bushland and wetlands contained within the tree farms, neither is there active monitoring for wildings.
Corrective Action Request: Within two years of the issuance of a certificate, ITC shall have developed and started to implement plans for the on-site and off-site monitoring of its operations on:	
<ul style="list-style-type: none"> <li>• genetic pollution and wildings;</li> <li>• spread of dieback;</li> <li>• wetlands (including pollution and drawdown) and wetland dependent communities; and</li> <li>• groundwater and groundwater dependent communities.</li> </ul>	
Timeline for Compliance: Two years	

Audit findings: The monitoring of wildling spread is now carried out as part of firebreak monitoring and any observations are registered by ITC.

The *High Conservation Value Forest and Biodiversity Management Strategy* addresses the

<p>need to identify areas that are impacted by dieback and to classify wetlands, but it does not contain any details of the monitoring processes that have been put in place. Discussions with ITC staff suggest that some monitoring is being undertaken through both internal and external parties, however ITC was unable to present a consolidated response to meet the conditions of this CAR in relation to dieback, wetlands and groundwater and groundwater dependent communities.</p>
Status: OPEN
Follow-up Action: MAJOR CAR #22-2004

CAR # 1-2005:	Reference Standard: Criterion 2.3
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	<p>ITC has developed a <i>Communications Plan</i> that forms part of its corporate marketing plan. However, this plan deals primarily with investors and financial advisers rather than local neighbours and communities.</p> <p>Checklists for harvesting and spraying operations do not currently include a prompt for communication with neighbours.</p> <p>ITC has advised that results of a stakeholder survey will be used to establish both monitoring and performance standards.</p>
Corrective Action Request: ITC shall develop a stakeholder communications strategy that ensures an effective two-way flow of information with all of its stakeholders and establishes a process for monitoring performance in this area.	
Timeline for Compliance: 5 months	

<p>Audit findings: ITC has an <i>External Communications Procedure</i>, which has been updated to include FSC specific requirements. The objectives of the procedure have been summarized in a <i>Stakeholder Communication Table</i>, which lists the different management processes, relevant stakeholders and issues associated with the operational activity and appropriate methods for engagement. The stakeholder requirements associated with management activities are incorporated into relevant operational procedures.</p> <p>Monitoring of performance against the procedures is via the <i>Integrated Management System (IMS)</i> review committee. Any complaints are recorded on an incident report form and tabled for action via operations meetings.</p>	
Status: CLOSED	
Follow-up Action (if applicable): See observation with reference to criteria 2.3.	

CAR # 2-2005:	Reference Standard: Criterion 3.1
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	<p>A draft policy on Indigenous people's rights and interaction with Indigenous communities has been prepared. The policy specifies a commitment to "providing opportunities for economic development and employment of Indigenous people", but does not put an emphasis on the development of knowledge and understanding of indigenous issues within ITC.</p> <p>There is no specific policy commitment to the identification of all local Indigenous groups and interests, or to establishing formal arrangements for Indigenous communities' communications and engagement. Responsibilities for implementing the policy are also unclear.</p>

Corrective Action Request: ITC shall develop an Indigenous Communities policy that demonstrates a proactive approach to the understanding and management of Indigenous interests and concerns in relation to ITC operations.

Timeline for Compliance: 3 months

Audit findings: In order to integrate Indigenous communities concerns and priorities into planning operations, ITC has developed an *Indigenous Relations Policy* and an *Indigenous Communications Strategy*. Both of these documents have been incorporated into the company's *Environmental Management System (EMS)*.

The *Indigenous Relations Policy* outlines ITC's commitment to improve and develop relations with indigenous communities in areas where the company operates. The policy addresses issues such as equal opportunities for employment, economic development, communications, and the identification and protection of important cultural sites.

The *Indigenous Communications Strategy* has been put in place to ensure that staff and contractors communicate sensitively and appropriately with key Indigenous people and/or groups. The strategy outlines the circumstances where communication may be required, actions that need to be taken and relevant Indigenous groups at a regional level. All communications with Indigenous communities and groups are recorded in a register for reference.

ITC has demonstrated its commitment to being proactive in this area by organizing cultural awareness training for operational staff and by assigning specific responsibility to an Indigenous Relations Officer. Staff consulted by the audit team believed that the training had been beneficial. The audit team appreciates that in the regions where ITC operates there will not always be opportunities to incorporate Indigenous people into the operations, however we are satisfied that the company is receptive to these opportunities.

Status: CLOSED

Follow-up Action (if applicable):

CAR # 3-2005:	Reference Standard: Criterion 6.5
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	<p>While ITC's establishment practices require that no native vegetation (including isolated paddock trees) is disturbed, the draft harvest guidelines do not address the clearing of paddock trees during harvesting operations and such clearing was apparent during the field inspection. The company needs to be consistent with its policy on native vegetation clearing during harvesting procedures and should develop clear protocols for making decisions on the removal of native vegetation, without compromising health and safety of operators.</p> <p>Harvest plans were found to be largely consistent with the procedures developed by ITC and with the FSC principles and criteria, however there was some variance to the plan observed during the inspection of operations.</p>
Corrective Action Request: ITC shall demonstrate that harvest plans are being developed and implemented in accordance with company policies and the relevant FSC Principles and Criteria.	
Timeline for Compliance: 3 months	

Audit findings: Since the previous audit, ITC has developed its own harvesting system and has engaged contractors to implement the process. A Harvesting Manager has also been engaged with responsibility for the operations, including compliance with FSC Principles and Criteria.

Harvest plans are prepared for each of the properties that includes the following aspects as part of the template:

1. Harvest and transport;
2. Water (to minimize run-off);
3. Seasonal and wet season restrictions;
4. Social and cultural restrictions;
5. Hygiene (to avoid dieback);
6. Fire protection;
7. Silviculture for the next crop
8. Biodiversity; and
9. Occupational Health and Safety

ITC map each property and identify water courses, drainage lines and other water bodies including the requirement for new culverts and pipes. A pre-harvest checklist is used to ensure that the appropriate techniques have been applied in pre-harvest planning and site preparation.

During the field audit no significant issues or inconsistencies with the plans were observed at the sites visited. It should be noted that the field visits were carried out during dry conditions and on relatively flat properties, where the opportunities for soil movement (other than dust) were minimal.

Staff and contractors were consistent in their explanation that any isolated remnant vegetation would only be removed if it posed a health and safety hazard and had been assessed for potential ecological significance.

Status: CLOSED

Follow-up Action (if applicable):

CAR # 4-2005:	Reference Standard: Criterion 7.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	<p>ITC continues to pursue the goal of incorporating all of the requirements of Criterion 7.1 into a single document at the property level. Progress in achieving this goal has been negligible for both previously established properties and for properties established during 2005.</p> <p>With a rapidly expanding estate, the audit team does not believe that continuing with the proposed format of management plans is practical. It is suggested that ITC redefines the documents and procedures that constitute its management plan by including other elements of its management systems. The company needs to assess the appropriate operational level at which to apply each of the requirements under Criterion 7.1</p>
Corrective Action Request: ITC shall clearly identify the elements of its management system that meet the requirements of Criterion 7.1.	
Timeline for Compliance: 6 months	

<p>Audit findings: ITC has developed draft <i>Regional Plantation Forests Management Plans</i> for its operations in the Green triangle and in the south west of Western Australia. The plans address the requirements of Criterion 7.1 at the regional level, with more specific operational details covered by either property level plans or operational management procedures. The procedures are referenced by the <i>Regional Plantation Forests Management Plans</i> through hyperlinks to the company's intranet.</p> <p>The management plans have been developed at an appropriate level and were generally found to address the requirements of Criterion 7.1. Some further work is required over time to adequately address the harvesting and marketing of products other than woodchips and to describe the socio economic conditions within the regions where the company operates.</p>
Status: CLOSED
Follow-up Action (if applicable): See observation with reference to criteria 7.1.

CAR # 5-2005:	Reference Standard: Criterion 7.2
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	See non-compliance for CAR # 4-2005
Corrective Action Request: After identifying relevant elements of its management systems (see CAR #4-2005), ITC shall establish a process to ensure that all properties covered by the certificate are managed in accordance with Criterion 7.1.	
Timeline for Compliance: 3 months	

<p>Audit findings: In addition to periodic management reviews of the <i>Regional Plantation Forests Management Plans</i>, ITC has developed a system to automatically update property level management plans through use of a database in which information is up-dated when changes occur on the specific property. This allows for effective and flexible adaptation to changes and improvement of procedures and methods.</p>
Status: CLOSED
Follow-up Action (if applicable):

CAR # 6-2005:	Reference Standard: Criterion: 9.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	<p>ITC has developed a <i>Draft Biodiversity Management Strategy</i> however biodiversity is only one element of HCVF and it is suggested that this strategy be further developed as a <i>HCVF Management Strategy</i> that clearly identifies each of the elements of HCVF.</p> <p>The strategy should also address precautionary approaches to operational management where HCVF may be present, but have not yet been identified.</p>
Corrective Action Request: ITC shall develop and begin implementing a strategy to identify, monitor and conserve HCVFs across the estate. The strategy must be incorporated into management systems and include a requirement for all areas supporting these values to be clearly identified on maps. It must identify the financial and management resources allocated towards this strategy and include a precautionary approach to operational management where HCVF data is absent.	
Timeline for Compliance: 6 months	

<p>Audit findings: ITC has developed a <i>HCVF and Biodiversity Management Strategy</i>, which includes a requirement for the conservation of HCVF in management plans at both the regional and operational level. The strategy clearly defines HCVF and identifies relevant aspects of the</p>
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<p>FSC Principles and Criteria that pertain to HCVF. It defines the values to be managed and sources of information, including links to other datasets on the company's intranet. The strategy has clear and realistic targets for the assessment of HCVF across the estate. It describes processes for ongoing monitoring of native vegetation, but has insufficient detail on the requirements for monitoring wetlands and other aspects of HCVF.</p> <p>ITC has allocated \$100,000 over a two year period for on-ground surveys of native vegetation and \$50,000 for on-ground actions necessary for the protection of areas found to contain significant biodiversity values.</p> <p>Precautionary approaches to operational activities where there is not complete information were found to be part of the operational culture in regions inspected as part of this audit.</p>
Status: CLOSED
Follow-up Action (if applicable): See MAJOR CAR #22-2004

CAR # 7-2005:	Reference Standard: Criterion 6.6
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	<p>ITC has procedures for the use of 1080 that cross-reference, and are consistent with, research and guidelines that have been prepared by the relevant state agencies.</p> <p>Through this cross-referencing the procedures contain measures for reducing the impact on non-target species, but they do not require surveys of potential habitat. The State guidelines also suggest that co-ordination with other landowners will be more effective, but do not require such co-ordination. The procedures do not have any provision for monitoring the effectiveness of control.</p>
Corrective Action Request: ITC shall upgrade its existing procedures for fox baiting to include: <ul style="list-style-type: none"> <li>• Stringent measures for protecting non-target species;</li> <li>• Surveys of areas identified as potential habitat for threatened non-target species prior to baiting;</li> <li>• A commitment to coordination with state agencies, conservation agencies, community groups and adjoining landowners;</li> <li>• An ongoing monitoring program that demonstrates effectiveness at controlling target pests and minimizing the impact on non-target species; and</li> <li>• Details of the company's efforts to reduce its use of 1080</li> </ul>	
Timeline for Compliance: 3 months	

<p>Audit findings: ITC presented a <i>Procedure for Vermin Control</i> and during the course of the audit, changes were made to the procedures that strengthen the company's commitments to the actions required under this CAR. The revised procedure was found to meet the requirements of this CAR.</p>
Status: CLOSED
Follow-up Action (if applicable):

CAR # 8-2005:	Reference Standard: Criterion 8.3
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	<p>ITC are currently chipping plantations on site and transporting chips directly to the port.</p> <p>In October 2002, ITC formed a joint venture (JV) with Timbercorp Limited to market export woodchips. The JV, named Plantation Pulpwood Exports Pty Ltd (PPE), will market woodchips from the plantations managed by the two companies. To facilitate the handling of PPE's resource, another jointly owned company - Plantation Pulpwood Terminals Pty Ltd (PPT) - has been established by the two companies to develop and manage export terminals.</p> <p>The CoC system in place now uses loading dockets and trucking slips to track the movement of the chips. These are recorded in the database that is run by PPT. This database also tracks the ins and outs for the chip pile.</p> <p>This system then tracks the flow of product however it does not clearly state that the product is FSC certified. This is an important COC requirement, particularly if in the future the company would include any non-FSC wood chip in their piles.</p>
<p>Corrective Action Request: ITC shall ensure that the following points are met to strengthen the existing CoC system and bring it in line with the requirements of the FSC in regard to CoC.</p>	
<p>1. ITC shall upgrade its documented control system for each of the following elements:</p> <ul style="list-style-type: none"> <li>• Procedures for maintaining the separate identity of certified materials upon receiving them.</li> <li>• Procedures for separate production and maintaining the identity of certified material.</li> <li>• Procedures for tracking certified material at each stage of processing and handling.</li> <li>• Procedures for maintaining the separate identity of finished certified product.</li> <li>• Procedures for invoicing and shipping FSC-certified products.</li> <li>• Procedures for the control and use of SmartWood and/or FSC logos.</li> <li>• Procedures for recording purchasing, inventory, finished product, and sales quantities.</li> <li>• Procedures for compiling annual audit data for SmartWood auditors, including summary records for certified turnover.</li> </ul> <p>2. ITC shall provide training/orientation and written instructions pertaining to certified product handling and representation to employees.</p>	
<p>Audit findings: ITC have up-dated their wood chip tracking and wood procurement procedures with the following documents:</p> <ul style="list-style-type: none"> <li>• <i>Wood Procurement Policy</i></li> <li>• <i>Controlled Wood Declaration</i></li> <li>• <i>Procedure for Invoicing and Shipping FSC Certified Products</i></li> <li>• <i>Procedure for Maintaining Identity of Certified Materials upon receiving them</i></li> <li>• <i>Procedure for Maintaining the Separate Identity of Finished Certified Products</i></li> <li>• <i>Procedure for Recording, Purchasing, Inventory, Finished Product and Sales Quantities</i></li> </ul>	

- *Procedure for Separate Production and Maintaining the Identity of Certified Material*
- *Procedure for the Control and Use of SmartWood and/or FSC Logos*
- *Procedure for Tracking Certified Material at each Stage of Processing and Handling*
- *Chain of Custody Harvesting Operations*
- *ITC Chain of Custody Staff Structure 2005*
- *ITC Supply Chain Flowchart May 2005*
- *Procedure for Compiling Annual Audit Data for SmartWood auditors, including Summary Records for Certified Turnover*

Several of the procedures were found to be very brief and they did not contain the detailed information on the requirements for CoC that is necessary to clearly demonstrate an understanding of the relevant standard(s). There was a significant amount of cross referencing within the documentation and the procedures would be considerably improved through the incorporation of all requirements for managing CoC within the one document.

Notwithstanding this, the operational processes were found to be largely compliant with FSC-POL-40-01 (Percentage based claims) and standards for controlled wood. Deficiencies noted were:

- The *Procedure for Invoicing and Shipping FSC Certified Products* does not specify the correct terminology to be used on shipping documents. This was also noted as a deficiency in the implementation of the policy where percentage based claims were made.
- ITC woodchips are comingled with those supplied by Timbercorp, but only ITC owned chips are included in the percentage based claim.
- No batch period had been identified and claims were made based on a “first on, first off basis”.

Subsequent to initial feedback from the audit, additional training was undertaken and ITC loaded a vessel during June 2006. The documentation provided to the audit team demonstrated compliance with the deficiencies noted in respect to terminology and comingling.

ITC has advised that it will be managing CoC in accordance with the new CoC standard, FSC-STD-40-004 from July 2006. Any further requirement to demonstrate conformance with the previous standard is consequently unnecessary, however the audit team is still seeking some comfort that the company has a clear understanding of requirements under the new standard.

Status: CLOSED

Follow-up Action (if applicable): See Observation related to Indicator Criterion 8.3

## 2.4. New corrective actions issued as a result of this audit

CAR # 10-2004	Reference Standard #: Criterion 4.4
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	ITC has not yet developed social performance indicators relevant to its business objectives and operations or established a process for reporting publicly on its social objectives and performance.
Corrective Action Request: ITC shall develop social performance indicators relevant to its business objectives and operations and report publicly on its social objectives and performance.	
Timeline for Compliance: Three months from receipt of the final Annual Audit report	

CAR # 22-2004:	Reference Standard #: Criterion 8.2
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	The <i>High Conservation Value Forest and Biodiversity Management Strategy</i> addresses the need to identify areas that are impact by dieback and to classify wetlands, but it does not contain any details of the monitoring processes that have been put in place. Discussions with ITC staff suggest that some monitoring is being undertaken through both internal and external parties, however ITC was unable to present a consolidated response to meet the conditions of this CAR in relation to dieback, wetlands and groundwater and groundwater dependent communities.
Corrective Action Request: ITC shall develop and start to implement plans for the on-site and off-site monitoring of its operations on: <ul style="list-style-type: none"> <li>• spread of dieback;</li> <li>• wetlands (including pollution and drawdown) and wetland dependent communities; and</li> <li>• groundwater and groundwater dependent communities.</li> </ul>	
Timeline for Compliance: Three months from receipt of the final Annual Audit report	

CAR #1-2006:	Reference Standard #: Criterion 6.6
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	<p>ITC used Simazine during its 2005 management operations even though, at that point, Simazine was included on the list of non-acceptable chemicals issued by the FSC and certain conditions of a derogation for the use of simazine had not been met. There is no suggestion that this was a willful breach by ITC. There was also confusion among other forest owners and auditors in Australia regarding the status of FSC derogations on the use of Simazine and particularly regarding the formation of the Pesticides Advisory Group.</p> <p>As of 16 January 2006 FSC has issued a Simazine derogation (FSC-POL-30-601 Addendum 2), valid until September 2006. This derogation allows FSC certified forest owners and managers in Australia to use Simazine under a set of conditions:</p> <ol style="list-style-type: none"> <li>1. There shall be no application of Simazine in domestic drinking water supply water catchments.</li> <li>2. Simazine shall not be applied on sites with conditions in which simazine can move off-site or accumulate in water courses. There shall be no aerial application of Simazine in certified operations.</li> </ol>

	<p>3. Where Simazine is used there shall be buffers around the edges of sites and along drainage lines to ensure there is no spray drift, contamination of waterways, or off-site impact on native vegetation.</p> <p>4. The certification applicant shall document the specific policies and procedures to be followed with respect to pre- and post- application monitoring of water courses, buffers, native vegetation and soils in catchments where Simazine is applied; the results of this monitoring shall be made available to the 'Pesticides Advisory Group' (see Note 1) for its consideration. The policies and procedures of certification applicants shall be evaluated and confirmed by the certification body prior to the issue of a certificate.</p> <p>It was found that ITC applies Simazine in a careful manner, but the company has not specified relevant buffer widths for different classes of streams and drainage lines.</p> <p>ITC has not developed the necessary policies for the monitoring of Simazine and has not been carrying out any monitoring of Simazine in catchment areas where Simazine is applied.</p>
<p>Corrective Action Request: ITC shall further develop its procedures and operational practices for the use of Simazine by:</p> <ul style="list-style-type: none"> <li>• Identifying and classifying water courses and drainage lines and, when using Simazine, apply a standardized system for applying buffer zones of suitable width to the specific class of watercourse.</li> <li>• Documenting policies and procedures to be followed with respect to pre- and post-application monitoring of water courses, buffers, native vegetation and soils in catchments where Simazine is applied; the results of this monitoring shall be made available to the Pesticides Advisory Group (when formed) for its consideration.</li> </ul>	
<p>Timeline for Compliance: Three months from receipt of the final Annual Audit report</p>	

## 2.5. Audit observations

Observations are very minor problems or the early stages of a problem that does not of itself constitute non-compliance, but which the auditor considers may lead to a future non-compliance if not addressed by the client.

Observation	Reference Std #
ITC uses several different registers to record and monitor stakeholder and other communications. It is recommended that ITC consolidate stakeholder communications register into one central register.	2.3
ITC could categorise all wetlands, native vegetation remnants, streams etc. as Special Management Zones and identify these as such on maps and other records.	6.4
ITC could work with local governments in order to secure permanent (beyond the ownership period of ITC) protection of important natural eco-systems within its properties.	6.4
Some further work could be undertaken on the <i>Regional Plantation Forests</i>	7.1

<i>Management Plans</i> to adequately address the harvesting and marketing of products other than woodchips and to describe the socio economic conditions within the regions where the company operates.	
Multiple procedures for the management and documentation of CoC could be incorporated into a single document.	8.3

## 2.6. Audit decision

This audit was conducted for the purpose of determining whether ITC is still meeting the requirements of the FSC and SmartWood's Interim Australian Forest Management standards.

It has been found by the auditors that ITC are indeed still meeting the standard, however there are 3 major CARs that will need to be met within specific timelines for ITC to maintain the certificate.