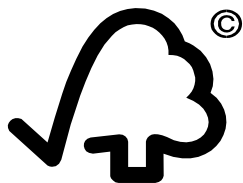


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FM-06 April 2007



**SmartWood**

*Practical conservation through certified forestry*

Forest Management  
**2008 Annual Audit and  
Expansion Audit**  
Report for:

**Integrated Tree  
Cropping**  
in  
**Australia**

Certificate code: SW-FM/COC-1217

Auditors: **Christian Sloth  
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Audit Dates: **27 January – 1 February 2008**

Report Finalized: **January 29, 2009**

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# 1. INTRODUCTION

The purpose of this report is to document annual audit conformance of ITC Limited, hereafter referred to as Forest Management Enterprise (FME). The report presents the findings of SmartWood auditors who have evaluated company systems and performance against FSC forest management standards and policies. Section 2 of this report provides the audit conclusions and any necessary follow-up actions by the company through corrective action requests.

SmartWood audit reports include information which will become public information. Sections 1-3 will be posted on SmartWood's website according to FSC requirements. All appendices will remain confidential.

Dispute resolution: If SmartWood clients encounter organizations or individuals having concerns or comments about Rainforest Alliance / SmartWood and our services, these parties are strongly encouraged to contact SmartWood regional or Headquarters offices directly (see contact information on report cover). Formal complaints or concerns should be sent in writing.

## NOTE:

The current reports represents the annual audit report for the ITC estates in South Western Australia (Esperance and Albany) and Victoria as well as the results of the expansion audit for the Queensland estates. The field visit portion of the audit was limited to the Victoria estate and to Queensland.

The findings of the annual audit for the Albany, Esperance and Victoria regions are dealt with in the usual audit report template and related appendices. The results of the expansion audit have been included as a separate appendix VII where the main gaps of the Queensland operations has been identified and outlined.

# 2. AUDIT FINDINGS AND RESULTS

## 2.1. Audit conclusion

<b>Based on Company's conformance with FSC and SmartWood requirements, the audit team makes the following recommendation:</b>	
<input type="checkbox"/>	<b>Certification requirements <u>met</u>, certificate maintenance recommended</b> Upon acceptance of CAR(s) issued below
<input checked="" type="checkbox"/>	<b>Certification requirements <u>not met</u>:</b> Conformance with Major CAR(s) required
Additional comments:	It should be observed that the minor CARs of the 2007 annual audit (report finalized 31 August 2007) were not closed during the document review for existing CARs related to the SWA estates. As these CARs were given a 12 month timeline from the finalization of the audit 2007 and the audit occurred 5 months after finalization, it means that a CAR verification audit is warranted by the end of this timeline (31 August 2008).

	<p>Thus, it was found that the active status of the existing certificate for the properties included under the scope of management for the SWA and VIC Eucalyptus plantations can be maintained until the results of the CAR Verification audit.</p> <p>However it was to conclusion of the audit team that the company needs to improve on a number of areas before the Queensland estate can be included under the scope of that certificate. The results of the expansion audit field visit findings are found in Appendix VII outlined as a criteria level conformance evaluation and an accompanying gap analysis report for reference.</p>
<p>Issues identified as controversial or hard to evaluate.</p>	

## 2.2. Changes in the forest management of the FME

Carl Richardson has been appointed to be the General Manager for Forestry. In terms of management of FSC related activities within the ITC, Emily Silberberg will return to ITC as the primary contact and responsible person. Gordon Robson will continue to be involved.

As mentioned this audit report contains the findings of the annual audit 2008 for the existing scope of the ITC FSC certificate covering the South Western Australia and Victoria estates as well as the expansion audit results for the properties managed as part of the Queensland Estate. It is the intention of ITC to include their Queensland estates under the certification

## 2.3. Stakeholder issues

Prior to and subsequent to the audit SW received communications by email related to community activities related to plantation activities in the Albany region WA. These comments were not specifically aimed at ITC alone, but more generally to the plantation industry in the region.

On 25 January 2008 SW received a summary of a “Community Concerns” meeting with participation from some of the major plantation companies in the region and the interested parties. Apparently no local representatives from local communities were present.

The meeting was used to discuss some of the perceived issues concerned with the plantation companies’ relation to local communities.

The issues raised were the following:

1. Roads & highways are not designed for log or woodchip cargoes; Infrastructure needs – too narrow roads – increasingly degraded highways; Trucks: pollution – noise – frequency – driving along roads in the tourist season – attitude of the drivers
2. Request to restrict harvesting activity along Porongorup Rd during the tourist season by developing and introducing a voluntary industry wide road user condition

3. Impact on vineyards; dust; taste of grapes; Grape growers complain they only receive a letter only one day before harvesting activities
4. Impact on the National Park; Porongorups; not wide enough buffer zones; wildings in National Parks; Wildings in National Parks
5. Community request for more protection of remnant vegetation
6. Chemical use issues

None of these issues were directly addressed to the operations of ITC and as such it is not possible at this point to say if any of these community comments are concerns about the ITC operations. OBS 02/08 was made in this regard.

## 2.4. Conformance with applicable corrective action requests

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 using the following categories. Failure to meet CARs will result in non-conformances being upgraded from minor to major status with conformance required within 3 months with risk of suspension or termination of the SmartWood certificate if Major CARs are not met. The following classification is used to indicate the status of the CAR:

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

CAR 13/04: Condition 13	Reference Standard #: 6.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	To date, all flora and vegetation assessments have been undertaken on established tree farms supporting remnants of greater than 10 ha in size. No assessments have been undertaken on properties prior to site disturbing activities. Preferably, site-specific information would be gathered prior to woodlot allocation such that potential impacts can be considered during the planning phase.
<b>Corrective Action Request:</b> By end of year 4, ITC should have completed (in consultation with relevant experts) inventory and condition surveys of all identified remnants, incorporating results into relevant management plans and reflected in appropriate site specific management practices. Such surveys must be completed prior to site preparation activities on all newly acquired properties.	
<b>Timeline for Compliance:</b> By the end of year four.	
<b>Evidence to close CAR:</b>	ITC have completed condition surveys and flora surveys for all South West WA properties. Condition surveys have also been completed for all Esperance and Green Triangle properties.

	<p>However, it was found that ITC has not yet completed inventory and condition surveys for all remnant vegetation.</p> <p>ITC has developed a budget to estimate the cost of completing flora surveys for the remaining remnants that meet the size and condition threshold. The estimated cost came to be \$250, 000. It was found that given this cost it would be unrealistic for the company to carry out complete and full inventories on all remnants within their estates.</p> <p>During the audit ITC proposed that ITC conduct a desktop probability/risk assessment of ITC remnants using State based mapping information and/or the database of an environmental organisation (yet to be confirmed). Remnants identified as containing a high probability of rare or endangered flora will then have a ground based survey to ground truth.</p> <p>For new properties, ITC proposed to conduct a condition index survey determine if the remnants meet our condition threshold. It is standard practice in plantation establishment that all remnants be protected from any disturbance and individual trees earmarked for removal are done so in accordance with local government permit conditions.</p> <p>ITC is currently working to develop a partnership with Bush Heritage Australia to conduct desktop risk assessments, peer review Biodiversity and HCVF strategy, provide ongoing management advice for remnant habitat, and long term conservation measures for freehold native vegetation. This partnership is yet to be confirmed, but it is acknowledged by the auditors as a very positive approach that should be followed through.</p> <p>Due to the fact that the process of developing the guidelines for carrying out the risk assessment and ground truth for properties found to contain high probability of RTE species; it was not possible to close the CAR. However it should be underlined that the auditor found that the approach suggested by ITC is sensible and would provide a sufficient level of inventory of RTE species and remnants to meet the intent of the original CAR.</p>
<b>CAR Status:</b>	Open
<b>Follow-up Actions (if app.):</b>	CAR Verification Audit by August 31, 2008

CAR: 15/04 Condition 15	Reference Standard #: 6.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Of concern was ITC's characterization of most areas with surface water within the managed estate as 'waterlogged areas', potentially

	undervaluing their conservation value as ephemeral wetlands. ITC recognized this issue and during the assessment process re-labeled all such areas as wetlands awaiting classification according to relevant State criteria.
<p><b>Corrective Action Request:</b>  By the end of year 4, ITC shall have re-classified all managed wetlands, the results of which must be incorporated into relevant management plans, shown on maps and reflected in appropriate management practices (e.g. correct setbacks, and allowance for approach flights of broilgas). This may necessitate changes to MIS woodlots if existing plantations are found to be reclassified wetlands.</p>	
<p><b>Timeline for Compliance:</b> By the end of year four</p>	
<b>Evidence to close CAR:</b>	<p>It was found during the 2008 annual audit that ITC has not yet carried out the requested re-classification of wetlands. This was discussed with staff in Queensland as well and is the Victoria estates.  The CAR is kept open and upgraded to a Major CAR</p>
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	CAR Verification Audit by August 31, 2008

CAR # 01/07:	Reference Standard #: Criterion 5.6
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	<p>ITC has reviewed the productivity of plantations in the Esperance region and it is apparent that several of the previously established plantations will not meet the yield estimates that were expected at the time of establishment.</p> <p>ITC believes that some improvements in productivity can be expected in the future as a result of advances in silviculture, land selection and genetics. In particular, ITC has focused its new land acquisition on an area assessed to have access to groundwater and this is expected to assist growth.</p> <p>The auditor agrees that these changes can be expected to improve the yields from new plantations, but has some concerns about the quantum of improvements estimated by the company. In particular, significant improvement is expected via genetic gain, but it is unclear whether the base genetic material upon which this gain is assessed is equivalent to the genetic material planted in the current stands.</p> <p>If plantation productivities can't be achieved that are commensurate with financial hurdle rates, then properties may need to be converted to alternative land uses following harvesting.</p>
<p><b>Corrective Action Request:</b>          ITC should document the assumptions used to estimate productivity in the Esperance region and demonstrate that the yield estimates are conservative in accordance with Criterion 5.6.</p> <p>On the basis of these estimates, ITC should review the area that is likely to be established in future years. In the event that there is likely to be significant changes to ITC's footprint in this region, a transition plan should be developed that considers the economic, social and environmental impacts of changes to the area under management.</p>	
<p><b>Timeline for Compliance:</b> Twelve months from receipt of the final Annual Audit report</p>	
<p><b>Evidence to close CAR:</b></p>	<p>ITC has carried out another round of inventory in Esperance and has planned an additional inventory in February 2008. Both of these inventories will be used to revise production estimates for the Esperance region. Some of inventories has been carried out, but by the time of the 2008 annual audit the data analysis and required adjustment of yield estimates was had not been prepared.</p> <p>In Western Esperance region ITC plans not to extend leases of plantation areas after the first rotation. This means that some areas currently under plantation will not be replanted with tress but put under other land use system as per the plans of a subsequent lessee.</p> <p>ITC has not yet developed the transition plan or the report on possible social, economic and environmental impacts of these changes in management.</p>

	However, since this CAR was given a 12 month timeline from the date of the final 2007 audit report completion is not due until 31 <sup>st</sup> August 2008.
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	CAR Verification Audit by August 31, 2008

CAR 02/07:	Reference Standard #: Criterion 7.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	At the time of the audit, ITC did not have an established process for reviewing and adjusting management plans to incorporate changing silvicultural, social and environmental conditions.
Corrective Action Request: ITC should establish a process for reviewing and adjusting management plans. The process should be documented within the management plan and include both the frequency of the review and identification of staff with responsibility for the review.	
Timeline for Compliance: Twelve months from receipt of the final Annual Audit 07 report	
<b>Evidence to close CAR:</b>	ITC is currently up-dating their management plans across all estates as well as property plans.  The requirement for establishing a process for regular review and adjustment of management plans has not been finalized.
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	CAR Verification Audit by August 31, 2008

CAR 03/07:	Reference Standard #: Criterion 8.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Criterion 8.1 requires a plan and design for monitoring procedures that is consistent and replicable. ITC has monitoring procedures at a functional level (eg survival counts, foliar analysis, inventory, independent reporting to investors) that are undertaken, documented and well understood. However, the frequency and intensity of routine monitoring on the productive estate is not documented in either the property management plan or the regional management plan. There is a post plant inspection report that provides a good template for recording the outcomes from routine inspections, but this does not appear to be widely used.
Corrective Action Request: The regional management plan should be modified to describe the monitoring procedures that are undertaken on the production estate. The procedures should include a description of the frequency and intensity of routine monitoring, as well as links to the records that are to be kept.	
Timeline for Compliance: Twelve months from receipt of the final Annual Audit report	
<b>Evidence to close CAR:</b>	ITC is currently up-dating their monitoring procedures across all estates. However, the process has not been completed across all estates.  The requirement for establishing a process for regular review and adjustment of management plans has not been finalized.
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	CAR Verification Audit by August 31, 2008

CAR 04/07:	Reference Standard #: Criterion 8.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	All of the monitoring procedures proposed by ITC at the present time are designed to monitor on-site impacts. The on-site focus of monitoring is appropriate at this stage until sufficient data has been collected to assess the possible impact of plantations on adjacent and regional ecosystems. Once these impacts are better understood, ITC will be in a position to assess the risk of offsite impacts and an appropriate monitoring process can be put in place.
Corrective Action Request: Data collected from onsite monitoring of the impacts of plantation operations on local ecosystems shall be collated and assessed. The results shall be used to document and implement procedures for the offsite monitoring of the impacts of plantation operations on adjacent and regional ecosystems.	
Timeline for Compliance: Twenty four months from receipt of the final Annual Audit report	
Evidence to close CAR:	Pending
CAR Status:	OPEN
Follow-up Actions (if app.):	As this CAR has a 24 month timeline this is not yet applicable for evaluation. However it will be expected that this CAR has been met by the time of the re-assessment which is preliminarily scheduled to take place in January 2009.

CAR 05/07:	Reference Standard #: Criterion 9.1, 9.3, 7.4
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	<p>ITC has documented strategies for the identification of HCV and HCV have been identified on an area of approximately 2,200 ha in the Albany region of south west Western Australia. A description of the values is described in the <i>High Conservation Value Forest and Biodiversity Strategy</i>.</p> <p>Threats to HCV are known to field staff and a number of actions are being undertaken to manage the values, including:</p> <ul style="list-style-type: none"> <li>• Fauna trapping;</li> <li>• Eradication of introduced Acacia sp; and</li> <li>• Catchment protection</li> </ul> <p>At the time of the audit, documentation had not yet been prepared describing threats to HCV and strategies to protect the values associated with HCV.</p> <p>The <i>South Western Australia Regional Plantation Forests Management Plan</i> does not include the specific measures necessary to ensure the maintenance and/or enhancement of conservation attributes.</p>
Corrective Action Request: ITC should document the threats to values associated with HCV and the strategies that are to be employed to manage these threats.	
The <i>South Western Australia Regional Plantation Forests Management Plan</i> should be revised to include the specific measures necessary to ensure the maintenance and/or enhancement of HCV.	
Timeline for Compliance: Twelve months from receipt of the final Annual Audit report	

<b>Evidence to close CAR:</b>	So far HCV's has only been identified in the WA region. However, ITC is still in the process of documenting threats and identifying strategies to manage these.  The CAR remains open.
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	CAR Verification Audit by August 31, 2008

CAR 06/07:	Reference Standard #: Criterion 9.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	ITC has involved stakeholders with appropriate expertise in the development of its procedures for identifying HCV. However, the company has not yet organized a credible, independent, technically qualified review of its assessment procedures. Such a review also needs to extend to the threats and management actions identified in CAR 05/07.
Corrective Action Request: Following the completion of CAR 03/07, ITC should engage a credible, independent, technically qualified person to review its: <ul style="list-style-type: none"> <li>• HCV assessment procedures;</li> <li>• Identified threats to HCV; and</li> <li>• The management actions identified for minimizing these threats.</li> </ul>	
Timeline for Compliance: Twelve months from receipt of the final Annual Audit report	
<b>Evidence to close CAR:</b>	Pending
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	CAR Verification Audit by August 31, 2008

CAR 07/07:	Reference Standard #: Criterion 9.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	ITC is in the process of developing maps and other management tools that can be used to communicate the presence of HCVs, and the associated management restrictions, to its stakeholders. These stakeholders include staff, contractors, neighbours and regional natural resource management groups.
Corrective Action Request: The company shall document its procedure for stakeholder consultation on the HCVF strategy and any actions resulting from stakeholder consultation.	
Timeline for Compliance: Twelve months from receipt of the final Annual Audit report	
<b>Evidence to close CAR:</b>	Actions to this are still pending for SWA region.
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	CAR Verification Audit by August 31, 2008

CAR 08/07:	Reference Standard #: Criterion 9.4
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The <i>High Conservation Value Forest and Biodiversity Strategy</i> outlines a number of way in which HCVs will be monitored, including periodic surveys of Condition Index, flora and fauna surveys and wetland monitoring procedures. The primary tool to be used for ongoing monitoring is the survey of Condition Index, which is to be undertaken every three years in the case of remnant vegetation. The timing of wetland monitoring procedures is not specified in the strategy.
Corrective Action Request: The <i>High Conservation Value Forest and Biodiversity Strategy</i> should be revised to ensure that HCVs are monitored on at least an annual basis in order to assess the effectiveness of measures employed to maintain or enhance the applicable conservation attributes. .	
Timeline for Compliance: Twelve months from receipt of the final Annual Audit report	
<b>Evidence to close CAR:</b>	HCV monitoring strategy is under revision and it's implementation and frequency will be included in the up-dated management plan as per CAR 02/07.
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	CAR Verification Audit by August 31, 2008

CAR 09/07:	Reference Standard #: Criterion 8.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The commercial invoice currently has the description:  <i>'At least xxx bdmt (xx%) of this shipment is FSC Credit Material'</i> .  The description is inconsistent with the <i>FSC Chain of Custody Manual</i> and should be changed in order to provide a more precise estimate of the quantity of Controlled Wood and to make it clear to the purchaser that the balance of the wood provided is Controlled Wood.
Corrective Action Request: Invoice details should be changed to specify the quantity of FSC Credit Material and the quantity of Controlled Wood.	
Timeline for Compliance: Twelve months from receipt of the final Annual Audit report	
<b>Evidence to close CAR:</b>	The CoC system of ITC is currently being up-dated to include a CoC/CW certification that will cover the scope of handling and mixing FSC certified and Controlled Wood chips in the port terminals at Albany (SWA), Esperance (SWA), Portland (VIC), Gladstone (QLD).  The requirements for invoicing to ITC customers will be covered under the scope of the COC/CW certificate once this has been issued. Until such time. ITC shall continue to work on ensuring that the information on their invoices conform to the COC requirements.
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	ITC have applied for CoC/CW certification and the process of certification has been initiated.  CAR Verification Audit by August 31, 2008

	<b>See also CAR 02/08</b>
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**2.5. New corrective actions issued as a result of this audit**

CAR 13/04: Condition 13	Reference Standard #: 6.1
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	To date, all flora and vegetation assessments have been undertaken on established tree farms supporting remnants of greater than 10 ha in size. No assessments have been undertaken on properties prior to site disturbing activities. Preferably, site-specific information would be gathered prior to woodlot allocation such that potential impacts can be considered during the planning phase.
<p><b>Corrective Action Request:</b> By end of year 4, ITC should have completed (in consultation with relevant experts) inventory and condition surveys of all identified remnants, incorporating results into relevant management plans and reflected in appropriate site specific management practices. Such surveys must be completed prior to site preparation activities on all newly acquired properties.</p>	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR: 15/04 Condition 15	Reference Standard #: 6.1
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	Of concern was ITC's characterization of most areas with surface water within the managed estate as 'waterlogged areas', potentially undervaluing their conservation value as ephemeral wetlands. ITC recognized this issue and during the assessment process re-labeled all such areas as wetlands awaiting classification according to relevant State criteria.
<p><b>Corrective Action Request:</b> By the end of year 4, ITC shall have re-classified all managed wetlands, the results of which must be incorporated into relevant management plans, shown on maps and reflected in appropriate management practices (e.g. correct setbacks, and allowance for approach flights of broilgas). This may necessitate changes to MIS woodlots if existing plantations are found to be reclassified wetlands.</p>	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR # 01/07:	Reference Standard #: Criterion 5.6
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	<p>ITC has reviewed the productivity of plantations in the Esperance region and it is apparent that several of the previously established plantations will not meet the yield estimates that were expected at the time of establishment.</p> <p>ITC believes that some improvements in productivity can be expected in the future as a result of advances in silviculture, land selection and genetics. In particular, ITC has focused its new land acquisition on an area assessed to have access to groundwater and this is expected to assist growth.</p> <p>The auditor agrees that these changes can be expected to improve the yields from new plantations, but has some concerns about the quantum of improvements estimated by the company. In particular, significant improvement is expected via genetic gain, but it is unclear whether the base genetic material upon which this gain is assessed is equivalent to the genetic material planted in the current stands.</p> <p>If plantation productivities can't be achieved that are commensurate with financial hurdle rates, then properties may need to be converted to alternative land uses following harvesting.</p>
<p><b>Corrective Action Request:</b> ITC should document the assumptions used to estimate productivity in the Esperance region and demonstrate that the yield estimates are conservative in accordance with Criterion 5.6.</p> <p>On the basis of these estimates, ITC should review the area that is likely to be established in future years. In the event that there is likely to be significant changes to ITC's footprint in this region, a transition plan should be developed that considers the economic, social and environmental impacts of changes to the area under management.</p>	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR 02/07:	Reference Standard #: Criterion 7.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	At the time of the audit, ITC did not have an established process for reviewing and adjusting management plans to incorporate changing silvicultural, social and environmental conditions.
<p><b>Corrective Action Request:</b> ITC should establish a process for reviewing and adjusting management plans. The process should be documented within the management plan and include both the frequency of the review and identification of staff with responsibility for the review.</p>	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR 03/07:	Reference Standard #: Criterion 8.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Criterion 8.1 requires a plan and design for monitoring procedures that is consistent and replicable. ITC has monitoring procedures at a functional level (e.g. survival counts, foliar analysis, inventory, independent reporting to investors) that are undertaken, documented and well understood. However, the frequency and intensity of routine monitoring on the productive estate is not documented in either the property management plan or the regional management plan. There is a post plant inspection report that provides a good template for recording the outcomes from routine inspections, but this does not appear to be widely used.
Corrective Action Request: The regional management plan should be modified to describe the monitoring procedures that are undertaken on the production estate. The procedures should include a description of the frequency and intensity of routine monitoring, as well as links to the records that are to be kept.	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR 04/07:	Reference Standard #: Criterion 8.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	All of the monitoring procedures proposed by ITC at the present time are designed to monitor on-site impacts. The on-site focus of monitoring is appropriate at this stage until sufficient data has been collected to assess the possible impact of plantations on adjacent and regional ecosystems. Once these impacts are better understood, ITC will be in a position to assess the risk of offsite impacts and an appropriate monitoring process can be put in place.
Corrective Action Request: Data collected from onsite monitoring of the impacts of plantation operations on local ecosystems shall be collated and assessed. The results shall be used to document and implement procedures for the offsite monitoring of the impacts of plantation operations on adjacent and regional ecosystems.	
Timeline for Compliance: By the time of reassessment tentatively scheduled for January 2009	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR 05/07:	Reference Standard #: Criterion 9.1, 9.3, 7.4
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	<p>ITC has documented strategies for the identification of HCV and HCV have been identified on an area of approximately 2,200 ha in the Albany region of south west Western Australia. A description of the values is described in the <i>High Conservation Value Forest and Biodiversity Strategy</i>.</p> <p>Threats to HCV are known to field staff and a number of actions are being undertaken to manage the values, including:</p> <ul style="list-style-type: none"> <li>• Fauna trapping;</li> <li>• Eradication of introduced Acacia sp; and</li> <li>• Catchment protection</li> </ul> <p>At the time of the audit, documentation had not yet been prepared describing threats to HCV and strategies to protect the values associated with HCV.</p> <p>The <i>South Western Australia Regional Plantation Forests Management Plan</i> does not include the specific measures necessary to ensure the maintenance and/or enhancement of conservation attributes.</p>
<p>Corrective Action Request: ITC should document the threats to values associated with HCV and the strategies that are to be employed to manage these threats.</p> <p>The <i>South Western Australia Regional Plantation Forests Management Plan</i> should be revised to include the specific measures necessary to ensure the maintenance and/or enhancement of HCV.</p>	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR 06/07:	Reference Standard #: Criterion 9.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	<p>ITC has involved stakeholders with appropriate expertise in the development of its procedures for identifying HCV. However, the company has not yet organized a credible, independent, technically qualified review of its assessment procedures. Such a review also needs to extend to the threats and management actions identified in CAR 05/07.</p>
<p>Corrective Action Request: Following the completion of CAR 03/07, ITC should engage a credible, independent, technically qualified person to review its:</p> <ul style="list-style-type: none"> <li>• HCV assessment procedures;</li> <li>• Identified threats to HCV; and</li> <li>• The management actions identified for minimizing these threats.</li> </ul>	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	

<b>Follow-up Actions (if app.):</b>	
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CAR 07/07:	Reference Standard #: Criterion 9.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	ITC is in the process of developing maps and other management tools that can be used to communicate the presence of HCVs, and the associated management restrictions, to its stakeholders. These stakeholders include staff, contractors, neighbours and regional natural resource management groups.
Corrective Action Request: The company shall document its procedure for stakeholder consultation on the HCVF strategy and any actions resulting from stakeholder consultation.	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR 08/07:	Reference Standard #: Criterion 9.4
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The <i>High Conservation Value Forest and Biodiversity Strategy</i> outlines a number of way in which HCVs will be monitored, including periodic surveys of Condition Index, flora and fauna surveys and wetland monitoring procedures. The primary tool to be used for ongoing monitoring is the survey of Condition Index, which is to be undertaken every three years in the case of remnant vegetation. The timing of wetland monitoring procedures is not specified in the strategy.
Corrective Action Request: The <i>High Conservation Value Forest and Biodiversity Strategy</i> should be revised to ensure that HCVs are monitored on at least an annual basis in order to assess the effectiveness of measures employed to maintain or enhance the applicable conservation attributes. .	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR 09/07:	Reference Standard #: Criterion 8.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The commercial invoice currently has the description:  <i>'At least xxx bdmt (xx%) of this shipment is FSC Credit Material'</i> .  The description is inconsistent with the <i>FSC Chain of Custody Manual</i> and should be changed in order to provide a more precise estimate of the quantity of Controlled Wood and to make it clear to the purchaser that the balance of the wood provided is Controlled Wood.
Corrective Action Request: Invoice details should be changed to specify the quantity of FSC Credit Material and the quantity of Controlled Wood.	
Timeline for Compliance: CAR Verification Audit by August 31, 2008	
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	

<b>Follow-up Actions (if app.):</b>	
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CAR 01/08	Reference to Standard: 8.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	ITC has carried out a study titled " <i>Community Perceptions of the Plantation Industry</i> report (ITC, 2005), however no ongoing monitoring system is being applied for assessing potential social impacts of the operations.
Corrective Action Request: ITC shall develop and start to implement a system for monitoring of social impacts of it operations.	
Timeline for conformance:	Prior to next annual audit
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

CAR02/08	Reference to Standard: CoC 1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	<p>ITC undertakes harvesting and in field chipping. In these operations, ITC retains ownership of the fiber harvested until the chips are loaded onto a vessel at the Albany chip terminal.</p> <p>However the terminal is a joint venture owned equally by ITC Limited and Timbercorp Limited through the Plantation Pulp Enterprise (PPE). The chip pile is shared between Timbercorp Limited and ITC.</p> <p>Procedures are documented in the ITC Limited <i>Chain of Custody Manual</i>.</p> <p>ITC also sells chips as a mixed product using chops from other plantation operations. ITC does this applying the requirements for Controlled Wood and CoC requirements of FSC and keeps records of all volumes entered into the pile and all sales on an ongoing basis.</p> <p>However, it was found that ITC is in fact managing purchase of non-FSC certified material as Controlled Wood and selling a product as mixed of FSC certified and Controlled Wood under their FM/CoC certificate. This is not in accordance with the requirements of FSC and therefore ITC have to be assessed and certified against the CW/CoC standard.</p>
Corrective Action Request: ITC shall ensure that a Controlled Wood and CoC certification is obtained for the port terminal facilities. This certification shall cover the full operation of receiving, mixing, storing, shipping and selling chips as a mixed product group containing wood from FSC certified and Controlled sources.	
Timeline for conformance:	Three months from the finalization of this report
<b>Evidence to close CAR:</b>	
<b>CAR Status:</b>	
<b>Follow-up Actions (if app.):</b>	

## 2.6. Audit observations

**Observations** are very minor problems or the early stages of a problem which does not of itself constitute a non-conformance, but which the auditor considers may lead to a future non-conformance if not addressed by the client. An observation may be a warning signal on a particular issue that, if not addressed, could turn into a CAR in the future (or a pre-condition or condition during a 5 year re-assessment).

<b>OBS 01/08</b>	<b>Reference Standard &amp; Requirement: 8.1</b>
ITC has developed a “Remnant Vegetation Condition Index Survey” to assist in evaluating areas of remnant vegetation within plantation properties. Prior to commencement of site disturbing activities, ITC staff undertake the assessment.	
<b>Observation:</b> ITC should periodically engage a suitably trained ecologist to independently evaluate the veracity of these surveys.	
<b>OBS 02/08</b>	<b>Reference Standard &amp; Requirement: 8.1</b>
General comments were received relating to plantation industry impacts in the Albany region WA. No specific comments were received relating to ITC operations as such. See section 2.3.	
<b>Observation:</b> ITC should engage pro-actively with stakeholders on a regular basis to discuss potential issues that could become conflicts in the future.	

## 3. AUDIT PROCESS

### 3.1. Auditors and qualifications:

**Christian Sloth (team leader):** is the regional Operations Coordinator of the SmartWood office in Bali, 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. Since joining SmartWood in 2006 he has participated in more than 30 FM and CoC audits and assessments.

**Gitte Kragh (Ecologist):** Gitte holds a Master of Science (research) degree (2005) from the University of Aarhus (AU), Denmark. Bachelor of Science degree (2002) from the University of Aarhus, Denmark. Gitte’s specialization is ecology and biodiversity, population biology, conservation and fragmentation, biogeography, spiders, neotropic and ecotourism. Gitte is based in Queensland Australia.

**Roy Teale (Ecologist):** Roy is a Zoologist and Director of Biota Environmental Sciences. He has over 12 years’ experience in the planning and implementation of fauna surveys, translocation programs and monitoring programs, with a specialist background in assessment and management of rare fauna populations. Roy has carried out more than 60 fauna assessments for a wide range of clients. Roy also has a comprehensive knowledge of the formal requirements of acts and other legislation that are relevant to many aspects of wildlife and biodiversity conservation.

### 3.2. Audit schedule

Date	Location /Main sites	Principal Activities
28 Jan 08	Regional Office, Hamilton, Victoria	Opening meeting
28 Jan 08	Victoria estate	Field visit
29 Jan 08	Victoria Estate- Queensland	Travel
30 Jan 08	Queensland, Gladstone	Field visit
31 Jan 08	Queensland, Rockhampton	Field visit
01 Feb 08	Queensland, Mackay	Visit to Mackay office and field visit
01 Feb 08	Queensland	Travel
Total number of person days used for the audit: 12 <b>plus 2 days in Victoria with only one auditor = 14</b> = number of auditors participating 3 times total number of days spent for the audit 12		

### 3.3. Sampling methodology:

The audit team applied both a broad scale approach to reach as many relevant stakeholders as possible via a general survey questionnaire as well as more focused conversations with selected stakeholders that were contacted by email or telephone.

### 3.4. Stakeholder consultation process

Prior to the annual audit a stakeholder notification and survey was distributed to a broad range of stakeholders asking for feedback and comments on ITC operations. In addition selected key stakeholders were contacted directly via telephone subsequent to the audit in order to follow up on specific issues that were raised during the audit.

Stakeholder type (I.e. NGO, government, local inhabitant etc.)	Stakeholders notified (#)	Stakeholders consulted or providing input (#)
NGO, Government	140	1
Indigenous groups	Contacted subsequent to audit	3
Industrial	Contacted subsequent to audit	1

### 3.5. Changes to Certification Standards

Forest stewardship standard used in audit:	Rainforest Alliance/SmartWood interim standard for assessing forest management version dated 28 May 2007.
Revisions to the standard since the last audit:	<input type="checkbox"/> No changes to standard. <input checked="" type="checkbox"/> Standard was changed (detail changes below)
Changes in standard:	Only minor changes and editing were implemented
Implications for FME:	Conformance to new requirements verified