

**Forest Management and Stump-to-Forest Gate Chain-of-Custody
Certification Evaluation Report for the:**

Timberlands Limited

**Conducted under auspices of the SCS Forest Conservation Program
SCS is an FSC Accredited Certification Body**

**CERTIFICATION REGISTRATION NUMBER
SCS-FM/COC-0059P**

Submitted to:

**Timberlands Limited
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Certified: 6/30/2008

By:

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Organization of the Report

This report of the results of our evaluation is divided into two sections. Section A provides the public summary and background information that is required by the Forest Stewardship Council. This section is made available to the general public and is intended to provide an overview of the evaluation process, the management programs and policies applied to the forest, and the results of the evaluation. Section A will be posted on the SCS website (www.scsertified.com) no less than 30 days after issue of the certificate. Section B contains more detailed results and information for the use of the SAMPLE COMPANY.

FOREWORD

Scientific Certification Systems, a certification body accredited by the Forest Stewardship Council (FSC), was retained by Timberlands Limited (TL) to conduct a certification evaluation of its New Zealand forest estate. Under the FSC/SCS certification system, forest management operations meeting international standards of forest stewardship can be certified as “well managed”, thereby enabling use of the FSC endorsement and logo in the marketplace.

In May, an interdisciplinary team of natural resource specialists was empanelled by SCS to conduct the evaluation. The team collected and analyzed written materials, conducted interviews and completed a 5 day field and office audit of the subject property as part of the certification evaluation. Upon completion of the fact-finding phase of the evaluation, the team determined conformance to the 56 FSC Criteria in order to determine whether award of certification was warranted.

This report is issued in support of a recommendation to award FSC-endorsed certification to Timberland Limited, for the management of its New Zealand forest estate. In the event that a certificate is awarded, Scientific Certification Systems will post this public summary of the report on its web site (www.scscertified.com).

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SECTION A- PUBLIC SUMMARY AND BACKGROUND INFORMATION

1.0 GENERAL INFORMATION

1.1 FSC Data Request

| | |
|---|--|
| Applicant entity | Timberlands Limited |
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| Certificate Number | SCS-FM/COC-0059P |
| Certificate/Expiration Date | 6/30/2008 – 6/30/2013 |
| Certificate Type | <i>single FMU</i> |
| Location of certified forest area | |
| Latitude | 38°24'46"S |
| Longitude | 176°32'51"E |
| Forest zone | <i>temperate</i> |
| Total forest area in scope of certificate which is included in FMUs: | |
| Total forest area in scope of certificate which is: privately managed ¹ | <i>196,585 ha</i> |
| Number of forest workers (including contractors) working in forest within scope of certificate | 683 |
| Area of forest and non-forest land protected from commercial harvesting of timber and managed primarily for conservation objectives | <i>7374.15 ha (includes HCVF)</i> |
| Area of forest protected from commercial harvesting of timber and managed primarily for the production of NTFPs or services | <i>0</i> |
| Area of forest classified as 'high conservation value forest' | <i>975 ha</i> |
| List of high conservation values present ² | Otangimoana Stream Plot Road Wetland Otamatea Stream Rangitaiki Wetlands Upper Rangitaiki River Waiotapu Geothermal Area Capella Rd Wetland and Forest |
| Chemical pesticides used | Glyphosate Organosilicone Metsulfuron Hexazinone Terbuthylazine Clopyralid Haloxypop Picloram/ triclopyr |

¹ The category of 'private management' includes state owned forests that are leased to private companies for management, e.g. through a concession system.

² High conservation values should be classified following the numbering system given in the ProForest High Conservation Value Forest Toolkit (2003) available at www.ProForest.net

| | |
|--|---|
| | Copper oxychloride 1080 Potassium cyanide Pindone |
| Total area of production forest (i.e. forest from which timber may be harvested) | 187544 ha |
| Area of production forest classified as 'plantation' for the purpose of calculating the Annual Accreditation Fee (AAF) | ha or ac Timberlands – 173,185 Te Manawa O Tuhoë 1203 |
| Area of production forest regenerated primarily by replanting ³ | 187544 ha |
| Area of production forest regenerated primarily by natural regeneration | NA |
| List of main commercial timber and non-timber species included in scope of certificate (botanical name and common trade name) | Pinus radiata (Radiata Pine) Pseudotsuga menziesii (Douglas Fir) Cupressus lusitanica (Mexican Cypress) |
| Approximate annual allowable cut (AAC) of commercial timber | |
| List of product categories included in scope of joint FM/COC certificate and therefore available for sale as FSC-certified products (include basic description of product - e.g. round wood, pulp wood, sawn timber, kiln-dried sawn timber, chips, resin, non-timber forest products, etc.) | Roundwood, Pulpwood, Chips Treeferns, various native ferns |

Conversion Table English Units to Metric Units

Length Conversion Factors

| <u>To convert from</u> | <u>to</u> | <u>multiply by</u> |
|------------------------|----------------|--------------------|
| mile (US Statute) | kilometer (km) | 1.609347 |
| foot (ft) | meter (m) | 0.3048 |
| yard (yd) | meter (m) | 0.9144 |

Area Conversion Factors

| <u>To convert from</u> | <u>to</u> | <u>multiply by</u> |
|------------------------|---------------------|--------------------|
| square foot (sq ft) | square meter (sq m) | 0.09290304 |
| acre (ac) | hectare (ha) | 0.4047 |

Volume Conversion Factors

Volume

| <u>To convert from</u> | <u>to</u> | <u>multiply by</u> |
|------------------------|--------------------|--------------------|
| cubic foot (cu ft) | cubic meter (cu m) | 0.02831685 |
| gallon (gal) | liter | 4.546 |

| | |
|------------------|---|
| 1 acre | = 0.404686 hectares |
| 1,000 acres | = 404.686 hectares |
| 1 board foot | = 0.00348 cubic meters |
| 1,000 board feet | = 3.48 cubic meters |
| 1 cubic foot | = 0.028317 cubic meters |
| 1,000 cubic feet | = 28.317 cubic meters |
| Breast height | = 1.4 meters, or 4 1/2 feet, above ground level |

³ The area is the *total* area being regenerated primarily by planting, *not* the area which is replanted annually. NB this area may be different to the area defined as a 'plantation' for the purpose of calculating the Annual Accreditation Fee (AAF) or for other purposes.

Although 1,000 board feet is theoretically equivalent to 2.36 cubic meters, this is true only when a board foot is actually a piece of wood with a volume 1/12 of cubic foot. The conversion given here, 3.48 cubic meters, is based on the cubic volume of a log 16 feet long and 15 inches in diameter inside bark at the small e

1.2 Management Context

As a private enterprise located in the New Zealand, the Timberlands Limited managed estate is subject to a host of local, regional and central (Crown) regulations. The principal regulations of greatest relevance to forest managers in the New Zealand are associated with the following statutes:

Pertinent Regulations at the Central Government Level:

Resource Management Act 1991 (RMA)
 Forests Amendment Act 1993 (Forests Act 1949)
 Forest and Rural Fires Act 1989
 Health and Safety in Employment Act 1992
 Historic Places Act 1993
 Conservation Act 1997
 Wildlife Act 1953
 Climate Change Response Act 2006

| | |
|---|--|
| Biosecurity Act 1993 | National Parks Act 1980 |
| Co-operative Forestry Companies Act 1956 | Native Plants Protection Act 1934 |
| | New Zealand Walkways Act 1990 |
| Crown Forest Asset Act 1989 | Pesticides Act 1979 |
| Fencing Act 1978 | Plant Varieties Rights Act 1987 |
| Forestry Encouragement Act 1962 | Plants Act 1970 |
| Forestry Rights Registration Act 1983 | Reserves Act 1977 |
| Hazardous Substances and New Organisms Act 1996 | Te Ture Whenua Act 1993 (Maori Land Act 1993) |
| Land Act 1948 | Transport Act 1962 |
| Maori Reserved Land Act 1955 | Trespass Act 1975 |
| Misuse of Drugs Act 1975 | Wild Animal Control Act 1977 |
| Commerce Act 1975 | Local Government Act 1974 |

| | |
|--------------------------------|------------------------------|
| Companies Act 1955 | Machinery Act 1950 |
| Companies Act 1993 | Minimum Wage Act 1983 |
| Contracts Enforcement Act 1956 | Overseas Investment Act 1973 |
| Workplace Relations Act 2001 | Public Works Act 1981 |
| Holidays Act 1981 | Sale of Goods Act 1908 |
| Land Transfer Act 1952 | Trade Marks Act 1953 |

Fisheries Regulations 1986
Forest and Rural Fires Regulations 1979
Forest Disease Control Regulations 1967
Forest Produce Import and Export Regulations 1966

Forestry (Indigenous Timber Milling) Regulations 1993

Indigenous Forest Timber Advisory Committee Regulations 1966

Rural Fire District Regulations 1980

State Forest Parks and Forest Recreation Regulations 1979

Pertinent Regulations at Regional and District Level:

Bay of Plenty Regional Plan
Waikato Regional Plan
Hawkes Bay Regional Plan
Rotorua District Plan
Whakatane District Plan
Taupo District Plan
Hastings District Plan
Western Bay of Plenty District Plan
South Waikato District Plan

Regulatory Context for Regional and District Regulations:

Most activities are permitted, but where these are controlled or discretionary Resource Consents (53 in total) are held.

1.2.1 Environmental Context

TL became a fully independent forest management company following a management buyout effective July 2006. TL changed its name from Kaingaroa Timberlands Management Limited, the previous name on the certificate. Kaingaroa Timberlands Partnership (KTP), remain the significant FSC certified forest estate managed by TL. However, since the last audit TL have added the Te Manawa o Tuhoe Forest to this.

. The KTP consists of 189,186 hectares of plantation forests in the central North Island of New Zealand. The bulk of these forests are managed under 21 Crown Forest Licences (CFL), where the land remains in state ownership or Maori owned land and harvesting rights are owned by KTP. Some area is freehold. Kaingaroa Timberlands Partnership purchased these forests on 19th December 2003. Prior to 30 June 2003, the forests were managed by Fletcher Challenge Forests Ltd. (FCF) as an integral part of FCF's wider forest estate with a total combined area of some 360,000 ha. FCF had a current certificate SCS-FM/COC-00027P, awarded October 2001. On February 27th 2004, FCF transferred the management of their remaining forests to two other companies, PruTimber and Kiwi Forests Group, under a variety of sale and land ownership agreements.

1.2.2 Socioeconomic Context

The TL managed plantation estate lies within the central North Island of New Zealand and the administrative boundaries of Bay of Plenty and Waikato. The dominant land uses in the region are indigenous forest estate, pastoral farming and plantation forest. The area is well known for its geothermal activity. The region includes a number of large lakes many formed by volcanic events. There is increasing political and community concern over a decline in the water quality in these lakes, which is attributed to the effects of intensive agricultural practice.

Soils in the region are predominantly volcanic and include breccias and ignimbrites. Kaingaroa forest lies on an elevated volcanic plateau dissected by many streams and rivers. To the east of the plateau lie the ranges of the Te Urewera National Park.

The population in the wider region was just under 240,000 in 2001, and compared with the nation as a whole, has a higher than average proportion of Maori, lower levels of educational achievement, above average unemployment, and below average incomes. About 11,000 people work in the agricultural, forestry or fishing sector. Communities of the region have a relatively high level of dependency on forestry and forest product processing, and the fortunes of smaller communities in the region tend to be directly linked with those of the industry and individual companies. The communities regarded as particularly vulnerable to changes in employment within the local forestry industry are Murpara, Minginui, Te Whaiti and Kaingaroa Village.

1.3 Forest Management Enterprise

1.3.1 Land Use

This FSC certification evaluation is concerned with the management of all of TL's New Zealand based forest operations (except the 800 ha Poronui Forest). TL manages a total forest estate of 189,186 hectares (as at 31st March 2008), specialising in intensively managed plantation forestry. The predominant species by far is Radiata pine, managed as an even-aged crop, with pruning on the better sites, thinning, and clear-felling followed by replanting. TL operates no sawmills or other wood processing facilities, with the exception of a centralised log merchandising operation, the Kaingaroa Processing Plant, located within the forest.

Table 1. Area of TL by Land Class

| Client | Type | | | |
|--------|------------|---------|-------------|--------|
| | Productive | Reserve | Unplantable | Total |
| KTP | 173185 | 7374 | 14609 | 195168 |
| TMOT | 1203 | 0 | 214 | 1417 |
| Total | 174,388 | 7374 | 15103 | 196582 |

Definitions:

Water Water bodies and the riparian strips and associated river flats
Planted Reserve Heritage Protection Area managed by Taupo Orchid Society

TL manages its timberland investment under a different philosophy than recent owners of the forest management rights. Its objective of management is "to maximise the long-term economic value derived from the forest while meeting all other factors where these are constraining". In 2004, this resulted in changes to operational policy. TL will increase the rotation age of radiata pine from the current 26 years to a target of 30 years in the KTP estate, with the transition occurring over an extended period of time and the policy continuously reviewed. In order to achieve this, the annual clearfell volume to be harvested was reduced from 2.4 million m³ to 1.85 million m³, resulting in a significant reduction in the number of logging contractors required by the company, as from September 2004. The current long term yield forecast suggests that a rotation of around 30 years could be attained by 2012, when the clearfell harvest would increase to a sustainable level in excess of 3 million m³ per year. Silvicultural policy and practice remain unaltered, as does the policy, budget and staff resources committed to environmental issues.

The managers believe that their current forest management policy will result in increased yields (and hence profitability) over the long term. Figure 1 shows the expected percentage increase in merchantable mean annual increment at rotation age due to the new management policy. This increase, totalling some 37% by 2032, is the predicted result of higher final crop stockings after silviculture and improved planting stock, indicating that the forest estate is managed and harvested on a sustainable basis with continuous improvement.

1.3.2 Land Outside Scope of Certification

Poronui Forest managed by TL is not included in this audit.

1.4 Management Plan

1.4.1 Management Objectives

TL is committed to managing all aspects of its business commercially and competitively, to world-class standards. The primary focus of TL is to grow value of the investment for the forest owners. Value is obtained through:

- Incremental value growth of the forest through a combination of biological growth and silvicultural treatment.
- Cash realisation through the harvesting of wood products. This is achieved through the harvesting of mature plantation forest stands and selling logs. A harvested tree is graded and cut into log grades that meet market demands while maximising higher value grades.

To do this TL has adopted the following guiding principles across our company:

- Clearly communicate a business philosophy supported by explicit company objectives.
- Continue a customer focused approach to marketing, including long term supply arrangements.
- Manage all activities in a safe and sustainable manner whilst maximising the company's value.
- Aim to equal best international and local plantation forestry practice.
- Improve competitiveness through lower cost structures, including better resource utilisation, increased productivity and more efficient work practices.

TL utilises resources in the Central North Island of New Zealand to provide solid wood products for its customers derived from fast growing, sustainable forestry plantations. The extent to which the business will prosper in the future depends greatly on the quality of the natural and physical resources that provide the foundation for the business.

The company has a strong commitment to sustaining the natural resource base, not only for the future of the company, but also for the future of the communities in which TL operates.

The forest is managed to:

- Grow trees and produce logs for the manufacturing of a variety of wood products in New Zealand and overseas with a focus on producing higher valued pruned logs;
- Ensure that the productivity of the land does not decline;
- Ensure that environmental values are identified and maintained;
- Ensure that historic sites are identified and protected;
- Ensure that other forest values and products are identified, protected and where possible enhanced, and
- Harvest the trees as close as possible to their economic optimum age.

TL is committed to ensure that the management of the forest is sustainable, from an environmental, social, cultural and economic perspective.

TL manages 174,288 ha of FSC Certified exotic plantation forest in the Central North Island, almost all of which is leased from the crown or Maori. This comprises certified forests for two clients; Kaingaroa Timberlands (173,185 ha) and Te Manawa o Tuhoe (1,203 ha) The Company also manages:

- a log processing plant at Kaingaroa
- a log warehousing yard at Murupara
- a tree nursery at Te Ngae, Rotorua

TL also manages one other 1,200 ha in New Zealand forest that is not certified.

TL employs up to 60 people directly in its management, log manufacturing, distribution, marketing and forestry operations.

TL makes use of private contractors in silviculture, harvesting and transport operations, making a major contribution to the local economy.

1.4.2 Forest Composition

The TL managed lands (certified forests) total approximately 196,585 hectares, made up of 10 Forests, all located in New Zealand's central North Island region. Of that total, about 173,000 hectares are occupied by standing crop or are in the process of being replanted following harvest, and together are classed as the actual productive forest area. An estimated 7,374 hectares is protected natural areas or indigenous vegetation (ranging from wetlands, waterbodies, scrubland to tall forest) and agreed areas of non-commercial exotic/native vegetation. The balance is unstocked (unplanted gaps in stands including skids, firebreaks, etc) or unplantable (roads, water bodies, transmission corridors, un-assessed indigenous areas etc).

Some 93% of the planted area is established in Radiata pine, with Douglas fir and other species including eucalyptus making up the balance. After almost a hundred years of trial planting, Radiata has proven to be the species that grows most economically in the soil and conditions of the Central North Island.

1.4.3 Silvicultural Systems

Establishment and Silviculture

TL aims to intensively manage the forest estate to supply a range of wood products. Intensive management involves best practice land preparation, planting of improved tree stocks, thinning (reducing the number of trees in a given area) and, in selected areas, pruning of trees (removal of lower branches).

The key drivers of the choice of silvicultural regime are:

- i) the margin of clearwood prices over knotty wood prices,
- ii) absolute price levels,
- iii) costs other than land,
- iv) site-related growth conditions, and
- v) the characteristics of the tree stocks available.

TL establishes (plants) two key species on an operational basis – radiata pine and Douglas fir. Around 4,500 hectares of Radiata pine, 150 hectares of Douglas fir and up to 100ha of cypress are planted each year throughout the estate, re-establishing recently harvested areas.

The establishment phase is crucial to obtaining a quality crop. This means that the forest manager must aim for high treestock survival and have high initial growth rates in order to compete with other on-site vegetation. Operations at the time of establishment therefore aim to:

- Cultivate the soil;
- Place the tree roots in the soil in a position that encourages stability;
- Reduce competition from other vegetation in the first year of growth.

Herbicides are used for weed control and are usually confined to the year of planting and occasionally the following year. Successful establishment means that herbicides are only required to be used up to three times every 25 to 35 years. Applications before and after planting are limited to areas where weeds are likely to be a problem. Spot spraying after planting typically covers less than 5% of the establishment area.

Pesticides are selected based on their ability to desiccate and/or kill the target weed species at the same time as being safe to use (i.e. non-toxic to non-target species, such as animals and humans) and breaks down quickly in soil and water to a safe organic substance. Spraying

plans include strategies to protect watercourses, wildlife habitats and areas of native forest.

The estate has been modelled by site type and land type to identify establishment and silvicultural constraints. The forest is segregated into homogenous management units and a particular regime is assigned to each unit depending on its characteristics.

Each year TL examines the areas available for establishment to determine land preparation, which includes cultivation, raking, rolling, slashing, skid rehabilitation, oversowing and spraying, taking into account the needs of each site based on the characteristics of the homogenous management unit.

TL also develops plans for its planting regime, again based on the site types as set out in the following table.

| Species | Low growth sites | Medium/high growth sites |
|----------------|-------------------------|---------------------------------|
| Radiata pine | 1,000 stems per hectare | 1,000 stems per hectare |
| Douglas fir | 1,666 stems per hectare | Nil |

Thinning of stands is undertaken to provide the optimum growing space for selected crop trees within the stand to maximise their economic return. The aim is to thin out the smaller or poorly formed trees, leaving the bigger, better formed trees to grow on. On flatter land close to processing plants “production thinning” may be applied, whereby the thinned stems are taken out of the stand and sold as pulplogs and sawlogs. Non-commercial thinning operations, where production thinning is considered impractical or uneconomical, results in the thinned stems being left on the forest floor to decompose.

Pruning involves the removal of lower branches from young trees, and is carried out on better growth sites. The objective of pruning is to produce clearwood from the wood that continues to grow over the branch stubs. Clearwood is used for applications where appearance is paramount, e.g. long length mouldings. Radiata is one of the few species in the world that is capable of producing clearwood economically through pruning.

The basic silviculture regime for Radiata pine is to prune approximately 50% of each age class focussing on non-structural growth sites. Thinning is undertaken after pruning or at 14m leaving between 350 to 380 stems per hectare. Structural stands a re thinning to a minimum of 400 stems per hectare.

Douglas fir are focused on the slopes on southern sites of Kaingaroa. Stands are thinned at around 14m height (18-20 yrs) to a minimum of 350 stems per hectare.

EXAMPLE:

As has been the long-term norm for this region, COMPANY/FOREST MANAGEMENT generally practices selection silviculture that results in continuous forest cover. Harvest prescriptions are normally oriented towards sanitation and salvage activities designed to

capture mortality and to improve the health of timber stands. As the extent of mortality and inferior trees within a stand decreases from successive entries, the harvest orientations turn more towards spacing and concentration of growth on the best phenotypes of the desired species. Unless dictated by inordinate mortality, the COMPANY/FOREST MANAGEMENT selection harvest entries are planned to occur on 10-15 year intervals within a given stand. Under this all-aged approach, a target oldest age within the “managed” component of a stand is 90-120 years. This target age is generally associated with culmination of mean annual increment.

1.4.4 Management Systems

Harvesting

A comprehensive planning process determines how and when to harvest the tree resource in the TL managed estate. Long-term harvest profiles are developed, and are then translated into annual harvest plans. Planning includes consideration of watercourses, protected areas and wildlife management. TL endeavours to harvest the forest resource as closely as possible to the optimum tree age for each stand.

A major determinant on the level of harvest is the age class distribution. Our aim is to harvest close to optimum tree age rather than maintain a set yield. An uneven age class distribution, as occurs in the Douglas fir resource (with different areas of trees in each age class), may result in the annual harvest moving significantly above or below the long-term sustainable level. The age class distribution is a consequence of establishment and harvesting decisions made in the past.

Across the whole estate Radiata pine has a relatively even age class distribution, which means that harvest level projections can be relatively stable over time.

- Age 1- 10 years 34% of the estate
- Age 11 – 20 years 36% of the estate
- Age above 20 years 30% of the estate

However the ability to alter the harvest to respond to market demand fluctuations from year to year does exist.

TL uses three basic criteria to ensure the right harvesting methods are employed:

1. Health and Safety: the method is the most appropriate for the topography and nature of land so that the potential for injury is minimised.

2. Environmental: the method, which creates the least impact on the environment.

3. Economic: the method, which is the most cost-effective for the area, taking safety and environmental considerations into account.

TL is committed to adopting harvesting techniques and technology that minimise the impact on the environment and reduce the risk of accidents and injuries.

To meet these objectives, we have divided our estate into five terrain types and use the appropriate machinery configurations on each type, as follows:

1 & 2. *Flat* (FLT 0-10 degrees) and *Flat-rolling* (FRG 10-20 degrees). A mechanical harvester fells the tree and removes most of the branches, leaving the residues on the cutover land. Logs are removed with rubber-tyred skidders fitted with mechanised grapples.

3. *Rolling, steep* (RST 20-32 degrees). This includes land with areas that are unable to be harvested easily with rubber tyred skidders, and which therefore requires tracked machines either to provide tracks on which rubber tyred skidders can work, or to actually extract the stems. In this type of extraction, manual (chainsaw) clearfelling is most likely to be used, and excavators fitted with logging grapples are sometimes used to “shovel” full length stems to points that the extraction machines are able to work safely.

4. *Steep, short* (SST 32 degrees or more, but less than 500 metres haul distance). This country is too steep for skidders or tracked machines to work safely, and consequently haulers are used in this operation. The predominant hauler used is the “swingyarder”. This is a hauler with a short tower, and it has the ability to work close to the edge of the slope, swinging the stems to one side of the machine before they are moved to a skid site (flat open areas within the forest). The swingyarder is flexible machine that can be moved and set up relatively easily, and can use a variety of harvesting techniques to suit any given situation or difficulty factor.

5. *Steep, long* (32 degrees or more but greater than 500 metres haul distance). This country is also too steep for skidders or tracked machines and requires another type of hauler. Tall poles or towers to which the haul ropes are attached are used to provide lift, so that stems are hauled to the landing sites with minimal environmental impact.

Harvesting in the TL estate is one of three types:

1. Production thinning

Where cull trees are removed from the stand for sale. The annual production thinning program is expected to produce less than 100,000 m³ per year. However, due to a peculiar stage in the forest estates growth there are currently no suitable production thinning areas. Suitable areas are expected to be ready for production thinning within the next 3 years. The preferred method of extraction is by forwarder.

2. Stem Harvesting

The predominant harvesting system employed in the Kaingaroa Forest under TL’s management is that of clearfelling where all the trees in a harvest area are harvested in one operation. With stem harvesting the extraction crews bring the stems to the road edge. Then the whole tree stems are transported to super-skids or to KPP to undergo computer-based assessment for log-making. Whole-stem transportation is only possible where an extensive off-highway (non-public) roading network exists, which can cater for the extra long length and weight of these transport units.

3. Conventional Harvesting

Also involving clearfelling, it is characterised by manual log making on local skid sites. It usually occurs where there are long transport distances or where the stand is not connected to a processing yard by off-highway roads.

1.4.5 Monitoring System

TL conducts a monitoring program to understand the impact of activities on the environment and society, and the impact of the environment on the ability to grow the best trees. This understanding leads to the development of strategies to ensure that the company continues to manage its activities in a sustainable way. Monitoring undertaken by TL includes:

- Log production
- Markets
- Growth rates
- Age class and distribution
- The state and health of indigenous reserves and High Conservation Value Forest
- Rare species such as the NZ falcon.
- Environmental incidents
- High risk operations
- Resource consents
- Stream quality
- Complaints and disputes
- Illegal activities
- Recreation and forest use
- Socio-economic values
- Financial performance
- Operational quality
- Forest health and pest control
- Nutrient levels
- Pesticide use
- Health and safety
- Weather and fire risk

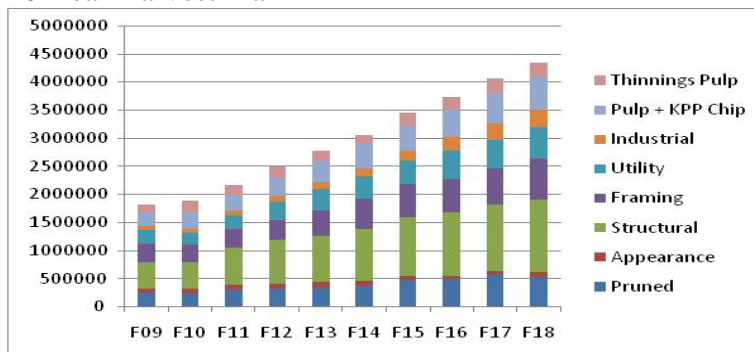
1.4.6 Estimate of Maximum Sustainable Yield

TL maintains a Forest Estate Model (FEM) that describes the forest estate as it stands today and predicts what it will look like tomorrow. The basis of the model is current area, a yield description by stand age, costs and revenues and a set of management constraints.

- Area – net stocked area is measured at age 0 (planting), age 5 (first time planted boundaries can be seen on an aerial photograph), mid-rotation (age 15-18, two years after silviculture is complete) and on clearfell when the area is zero. Area measures have an estimated accuracy of plus or minus 2%.
- Yield description – every stand (being the smallest homogenous unit) is assigned a yield table. The yield table describes volume per hectare by log grade and age. Older stands, aged 23 and older, are generally described by intensive individual inventory based yield tables. The inventory is ‘grown’ on using region specific growth models. Younger stands are assigned a generic yield table based on site productivity and actual or planned silviculture (pruned height, thinning regime and final crop stocking). TL maintains 3-400 current growth and yield Permanent Sample Plot’s and trials and regularly reconciles predicted with actual harvest volumes. TL annually measures 4-5,000 temporary growth and yield plots.
- Cost and revenues – these are based on planned silviculture and expected supply chain costs and revenues.
- Management constraints – these are numerous with the key ones being;
 - Annual harvest levels can fluctuate by up to 300,000m3.
 - Prune 50% of an ageclass, focussing pruning on the low productivity and framing on the high productivity sites. The basis for this is risk and economics; framing regimes have better NPV’s across all sites. However the owner wants some diversification and pruning is comparatively better on low than high productivity sites.
 - Final crop stockings are based on site and whether the stand is pruned or not; higher stockings on better sites, and pruned stands have lower stockings than framing.

Future harvest levels are determined by running the FEM (using a LP solver) to maximise NPV. The current model drives towards a non declining yield of 4.2M Radiata with an average clearfell age of 30-31 years; higher on poor sites and lower on good sites. The current FEM doesn’t replant minor species, or Douglas fir, as the forest description isn’t detailed enough to enable the model to make these sorts of species siting decisions with the required accuracy.

10 Year Harvest Plan



1.4.7 Estimated, Current and Projected Production

1.4.8 Chemical Pesticide Use

TL aims to use the minimum amount of pesticides required for it to undertake its management activities. This strategy is applied from both economic and environmental stances. The company actively seeks ways to reduce the amount of chemicals it uses during its operations.

Herbicides are utilised for weed control prior to planting, and in the first year or two following planting. Radiata pine stands have a 28 to 35 year rotation, and there is no annual re-spraying program, i.e. for each stand, herbicide use is restricted to only one prior to re-establishment and one or two years in the rotation.

Spraying plans include strategies to take into account factors such as protecting watercourses, wildlife habitats and tracts of native vegetation.

While it would be ideally desirable to eliminate herbicide use, the practical and economic realities are that some controlled herbicide use is unavoidable.

Herbicides used include:

Glyphosate
Organosilicone
Metsulfuron
Hexazinone (FSC Derogation Applies)
Terbuthylazine (FSC Derogation Applies)
Clopyralid
Haloxypop
Picloram/ triclopyr

Dothistroma (*Dothistroma pini*) is currently the only fungus treated within the forest estate. *Dothistroma* is a fungus that attacks pine needles and severely reduces tree growth, in severe cases killing the trees. A copper-based fungicide with a low active ingredient rate is used when required to combat the fungus, based on forest health monitoring. The product is considered to have a low environmental impact, and its application includes strategies to take into account factors such as protecting watercourses, wildlife habitats and tracts of native vegetation. As in the case of herbicides, TL works to use the minimum amount of fungicide possible to achieve effective control. *Dothistroma* infection can also be partially controlled through silviculture practices, ensuring timely thinning and pruning operations, which increases air movement and lowers humidity levels.

Fungicides used include:

Copper oxychloride

The main animal pest in the forest estate is the introduced possum, which can attack the growing tips of trees causing stem malformation and die-back. Possums are also a major pest

to neighbours along the forest boundaries, as they can carry tuberculosis to cattle and deer. Furthermore they eat native tree species in conservation reserves and parks. Rabbits and hares can also be a pest in the first two years after planting, as they can eat the tops of young trees.

TL engages professional pest control organisations to target introduced pests such as possums and rabbits. These organisations use accepted strategies to prevent impacts on non-target species, and coordinate operations with other organisations such as the Animal Health Board and Department of Conservation to achieve maximum effective control in the forest estate and on neighbouring land.

Vertebrate poisons used include:

1080 (FSC Derogation Applies)
Potassium cyanide
Pindone

2.0 GUIDELINES/STANDARDS EMPLOYED

The SCS Draft Interim Standard for New Zealand Forest Plantation Management was originally developed by modifying the SCS' Generic Interim Standard to reflect management of New Zealand forests and then incorporating relevant components of the New Zealand Draft Regional/National Standard. Prior to the Timberlands Limited assessment stakeholders were notified of the availability of the June 2003 draft standard on the SCS website and the process for providing comments. No comments were received. The resulting SCS Interim Standard for New Zealand Forest Plantation Management, (Version June 2003) is available upon request from SCS (www.scs-certified.com).

3.0 THE CERTIFICATION ASSESSMENT PROCESS

3.1 Assessment Dates

The on-site portion of the assessment occurred May 5, 2008 through May 9, 2008.

3.2 Assessment Team

Mr. Sterling Griffin RPF #2805, Team Leader, Sterling Griffin is a Senior Certification Forester with Scientific Certification Systems. He is a Registered Professional Forester in the State of California with 10 years professional experience in private and public forest management. He is a graduate of Purdue University and has conducted Forest Stewardship Council (FSC) endorsed assessments on over 6 million acres of forestland in North and South America. Recent FSC assessments have included public lands administered by Fort Lewis, WA Forestry Branch, Michigan DNR, Indiana DOF, New York DEC, Maryland DNR and numerous private operations in Maine, Pennsylvania, Oregon, Washington, and California. Prior to joining SCS, he was the founder of a private consulting firm in Northern California specializing in sustained yield management, fuels reduction, and forest health management.

His professional career also includes silvicultural and ecosystem research for the U.S. Forest Service. Areas of research activities include stand level response to vegetative competition and Long-Term Ecosystem Productivity (LTEP) in the Pacific Northwest.

Ms. Brenda Baillie, Forest Research, is an Environmental Scientist in the Sustainable Management of Forest Ecosystems Programme. Her experience and background in the forest industry includes the supervision and management of forestry operations, workstudy officer, safety co-ordinator and safety auditor. She has been in the research area for ten years focusing on the ecology and management of stream and riparian areas.

3.3 Assessment Process

3.3.1 Itinerary

- 5/5/2008 – Audit team review of management system documents and previous audit reports.
- 5/6/2008 – Opening meeting with key Timberlands management staff and interviews relating to planning and administrative operations.
- 5/7/2008 – Field Visit to assess management system implementation.
- 5/8/2008 – Follow-up interviews, Audit team deliberations, closing meeting

3.3.2 Evaluation of Management System

The process by which Scientific Certification Systems evaluated the systems employed by TL in managing its forest estate entailed the following components:

- Empanelment of an interdisciplinary team with demonstrated credentials and expertise in forest certification, auditing protocols, forest management, wildlife management as well as a working knowledge of the forest types found in New Zealand
- Review of documents provided to the audit team members
- Extensive interviews with a broad cross-section of TL personnel at the head office in Rotorua.
- Interviews and review of comments from a broad cross-section of external stakeholders.
- Field reconnaissance of a broad array of forest conditions and past and present management activities in various compartments that comprised the sample for the main assessment.

3.3.3 Selection of FMU's to Evaluate

The forest management operation undergoing certification consists of a single Forest Management Unit.

3.3.4 Sites Visited

Stop 1 – Plantation Pruning Operation

Contracted operation by CNI Forest Management. Employ 9-10 people on each crew. Reviewed safety and work training records. Discussed employment package for workers. Site planted with Radiata Pine with heavy Gorse and Broom understory along perimeter. Chemicals not used when planted trees have established themselves.

Stop 2 – Cutting Unit adjacent to the Rangitaiki River

Even age unit. Harvested up to edge of river with Equipment Exclusion Zone 10m from river. Conifers are removed to prevent trees from “toppling” into river and causing potential logjams and flooding threat. Trees in ELZ were hand felled away from river. No replanting within 20m from river to allow indigenous vegetation to dominate and preclude any further harvesting within the zone.

Stop 3 – Site Prep after harvesting operation

Mounding being done to loosen soil for replanting. Soil can become compacted and mounding also gets trees above the frost for better establishment. Workers demonstrated decent knowledge of potential R/T/E wildlife species that may be present and communicated the notification policy if identified.

Stop 4 – Public campground on TL forest

Campground was originally established by the Forest Service but kept open by TL to provide recreational opportunities. Next to Rangitaiki River, a major trout bearing stream. Site was well maintained without trash or major impacts.

Stop 5 – Harvest Area 9840

Even-aged harvest unit. Road leading to harvest unit was temporarily closed to protect public safety. Contract crew displayed extensive experience and happy with interaction with TL and on-site company foresters. Equipment new and in good condition. On-site chemicals properly stored and spill kits available in case of accidents. Health and safety precautions all being followed.

Stop 6 – Ecological Reserve Area adjacent to harvest unit 9840

Boundary well marked and understood by contract crew. On-going work being done to restore limited habitat type. TL voluntarily chose to designate and apply restoration efforts.

Stop 7 – Cable yarding harvest unit

Contractor was awarded safety award for developing electronic chocker release thereby eliminating the need for a person to perform the dangerous chaser duties. Contractor happy with structure of TL contacts. Yarder being used due to steeper slopes. Riparian areas not harvested due to area restrictions. Perennial stream initiation point not marked on map, left for tree planter to decide where to stop planting and allow indigenous vegetation to dominate. See CAR 2008.3.

3.3.5 Stakeholder Consultation

Pursuant to SCS protocols, consultations with key stakeholders were an integral component of the evaluation process. Consultation took place prior to, concurrent with, and following the field evaluation. The following were distinct purposes to the consultations:

- To solicit input from key stakeholders as to the applicability of the SCS interim draft standard, as modified to reflect forest management in New Zealand.
- To solicit input from affected parties as to the strengths and weaknesses of TL's management, relative to the standard, and the nature of the interaction between the company and the surrounding communities.
- To solicit input on whether the forest management operation has consulted with stakeholders in regards to identifying any high conservation value forests.

Prior to, during, and following the site evaluation, a wide range of stakeholders from the regional area were consulted in regard to their relationship with TL, and their views on the management of TL's forestlands. Stakeholders included Tangata Whenua (indigenous land owners), Timberland employees and the New Zealand Department of Conservation. Stakeholders were contacted with a notification letter soliciting comment and/or phone contact. Comments were received via meetings and personal interviews "face-to-face", phone interviews and through written responses. Additional comments may have been received from individuals not wishing to reveal their identities.

Ten Tangata Whenua (indigenous land owners) provided feedback including representatives from the following tribes:

- Ngati Hurunga TeRangi
- Ngati Taeotu
- Ngati Te Kahu
- Ngati Tumatawera
- Tuhourangi
- Ngati Wahiao
- Ngati Whare
- Ngati MAnawa

While there were no particular issues around TL's relationship with the indigenous land owners, it was apparent that TL had not made an independent conclusive effort to identify native owners of lands upon which they have forests. This was because TL felt that the existence of multiple claimants (cross claims) meant that they were unable to determine who were the rightful land owners. TL has opted to wait for the Crown to decide Maori ownership (via the Treaty of Waitangi settlement process) at which time the company will adopt that finding. However, a corrective action was included in the audit with respect to this, as the FSC criteria identified a clear responsibility on the part of forest managers with

regard to Native peoples use rights, regardless of any cross claim issues or overriding Crown/Native owner processes.

In order to solicit feedback from Timberland employees, 13 contractors were contacted and all reported favorable view points of TL management, particularly with regard to health and safety. Contractors referred to enjoying an informal, two way dialogue with TL management where a culture of openness and mutual respect was manifest.

Interviews with staff at the Department of Conservation indicated that TL had not been helpful with regard to public access to native tracks of forest that the public had traditionally accessed via plantation forest roads. However, no breach of any legal public access covenants could be applied since this issue is rooted in the historical separation of native and plantation forests when the Government dismantled the Forest Service in 1987.

3.4 Total Time Spent on audit

A total of 22 auditor days were spent conducting the assessment.

3.5 Process of Determining Conformance

FSC accredited forest stewardship standards consist of a three-level hierarchy, principle, then the criteria that make up that principle, then the indicators that make up each criteria. Consistent with SCS Forest Conservation Program evaluation protocols, the team collectively determines whether or not the subject forest management operation is in conformance with every applicable indicator of the relevant forest stewardship standard. Each non-conformance must be evaluated to determine whether it constitutes a major or minor non-conformance at the level of the associated criterion or sub-criterion. Not all indicators are equally important, and there is no simple numerical formula to determine whether an operation is in non-conformance. The team must use their collective judgement to assess each criterion and determine if it is in conformance. If the forest management operation is determined to be in non-conformance at the criterion level, then at least one of the indicators must be in major non-conformance.

Corrective action requests (CAR's) are issued for every instance of non-conformance. Major non-conformances trigger major CAR's and minor non-conformances trigger minor CAR's

Interpretations of Major CAR's (Preconditions), Minor CARs and Recommendations

Major CARs/Preconditions: Major non-conformances, either alone or in combination with non-conformances of other indicators, result (or are likely to result) in a fundamental failure to achieve the objectives of the relevant FSC Criterion given the uniqueness and fragility of each forest resource. These are corrective actions that must be resolved or closed out prior to award of the certificate. If major CAR's arise after an operation is certified, the timeframe for correcting these non-conformances is typically shorter than for minor CAR's. Certification is contingent on the certified operations response to the CAR within the stipulated time frame.

Minor CARs: These are corrective action requests in response to minor non-conformances, which are typically limited in scale or can be characterized as an unusual lapse in the system. Corrective actions must be closed out within a specified time period of award of the certificate.

Recommendations: These are suggestions that the audit team concludes would help the company move even further towards exemplary status. Action on the recommendations is voluntary and does not affect the maintenance of the certificate. Recommendations can be changed to CARs if performance with respect to the criterion triggering the recommendation falls into non-conformance.

4.0 RESULTS OF THE EVALUATION

Table 4.1 below, contains the evaluation team's findings as to the strengths and weaknesses of the subject forest management operation relative to the FSC Principles of forest stewardship. The table also presents the corrective action request (car) numbers related to each principle.

Table 4.1 Notable strengths and weaknesses of the forest management enterprise relative to the P&C

| Principle/Subject Area | Strengths Relative to the Standard | Weaknesses Relative to the Standard | CAR/REC #s |
|---|--|---|---|
| P1: FSC Commitment and Legal Compliance | <ul style="list-style-type: none"> ▪ Forest managers displayed a complete understanding of the regulatory framework ▪ Good relations are maintained with regulatory agencies | <ul style="list-style-type: none"> ▪ None noted | |
| P2: Tenure & Use Rights & Responsibilities | <ul style="list-style-type: none"> ▪ The Treaty of Waitangi is respected in all management operations ▪ There is a good record of TL interactions with use right holders. ▪ TL is working with the government and local claimants to settle disputes. | <ul style="list-style-type: none"> ▪ TL has not identified local communities (mana whenua), and/or other stakeholders with duly recognized customary tenure or use rights within the defined forest area and the nature of these rights have not been described and documented | <ul style="list-style-type: none"> ▪ CAR 2008.1 |
| P3: Indigenous Peoples' Rights | <ul style="list-style-type: none"> ▪ TL maintains good communications with the Tangat Whenua and their representatives ▪ TL maintains an “open door” policy to meet with representatives of concerned groups | <ul style="list-style-type: none"> ▪ None noted | |
| P4: Community Relations & Workers' Rights | <ul style="list-style-type: none"> ▪ TL contractors maintain excellent Health and Safety training records ▪ Most goods and services are procured within the local region ▪ Social implications are closely monitored | <ul style="list-style-type: none"> ▪ None noted | |

| | | | |
|-------------------------------------|--|--|---|
| P5: Benefits from the Forest | <ul style="list-style-type: none"> ▪ TL maintains good staffing and reinvestment to implement the management plan. ▪ Post-harvest reviews are conducted by field foresters to assess waste, etc. ▪ TL is a full participant in local economic development plans ▪ Harvest rates are compatible with long-term objectives of increasing rotation lengths and value of sawlogs | <ul style="list-style-type: none"> ▪ None noted | |
| P6: Environmental Impact | <ul style="list-style-type: none"> ▪ TL has a complete Environmental Management System with procedures in place for environmental impacts assessments at the site and landscape-level. ▪ Operational planning thoroughly assesses potential on-site impacts ▪ TL has a Biodiversity and Rare and Threatened Species Plan that address species and their habitats ▪ Riparian areas, wetlands, and unique habitats are protected | <ul style="list-style-type: none"> ▪ TL has not completely compiled information regarding the extent to which representative samples of existing ecosystems are protected within the regional landscape. ▪ TL has not identified, classified, and mapped all watershed, riparian, and aquatic features relevant to TL forest management. | <ul style="list-style-type: none"> ▪ CAR 2008.2 ▪ CAR 2008.3 ▪ CAR 2008.4 |
| P7: Management Plan | <ul style="list-style-type: none"> ▪ The management plan is very extensive and detailed ▪ Managers and workers demonstrate good ability to implement the management plan | <ul style="list-style-type: none"> ▪ None noted | |

| | | | |
|--|--|---|---|
| P8: Monitoring & Assessment | <ul style="list-style-type: none"> ▪ TL has adopted the NZ best practices for the assessment and monitoring of timber growth and production. ▪ Results of monitoring are incorporated into management plans. ▪ Adaptive management is practiced when new information is available | <ul style="list-style-type: none"> ▪ None noted | |
| P9: Maintenance of High Conservation Value Forest | <ul style="list-style-type: none"> ▪ The management plan provides protection measures to maintain or enhance the HCVF values | <ul style="list-style-type: none"> ▪ TL has not formally classified some areas meeting their HCVF definition | <ul style="list-style-type: none"> ▪ CAR 2008.5 |

4.2 Preconditions

No preconditions were placed on Timberlands during the initial evaluation.

5.0 CERTIFICATION DECISION

5.1 Certification Recommendation

As determined by the full and proper execution of the SCS Forest Conservation Program evaluation protocols, the evaluation team hereby recommends that the Timberlands Limited (TL) be awarded FSC certification as a “Well-Managed Forest” subject to the corrective action requests stated in Section 5.2. TL has demonstrated that their system of management is capable of ensuring that all of the requirements of the SCS Draft Interim Standard for New Zealand Forest Plantation Management are met over the forest area covered by the scope of the evaluation. TL has also demonstrated that the described system of management is being implemented consistently over the forest area covered by the scope of the certificate.

5.2 Initial Corrective Action Requests

| | |
|-------------------|--|
| CAR 2008.1 | TL must identify local communities (mana whenua), and/or other stakeholders with duly recognized customary tenure or use rights within the defined forest area and the nature of these rights must be described and documented |
| Deadline | 2009 Annual Audit |
| Reference | <i>Indicator 2.2.a</i> |

| | |
|-------------------|--|
| CAR 2008.2 | TL must compile information regarding the extent to which representative samples of existing ecosystems are protected within the regional landscape (including old-crop stands); where gaps exist within the landscape, TL must take actions that contribute to correcting those deficiencies, appropriate to the scale and intensity of operations. |
| Deadline | 2009 Annual Audit |
| Reference | <i>Indicator 6.4.b</i> |

| | |
|-------------------|---|
| CAR 2008.3 | TL must identify, classify, and map all watershed, riparian, and aquatic features relevant to TL forest management (including all areas that will not be replanted with non-native species.) prior to site-specific operations. |
| Deadline | 2009 Annual Audit |
| Reference | <i>Indicator 6.5.e</i> |

| | |
|-------------------|--|
| CAR 2008.4 | TL must provide complete and up-to-date records of all chemical pesticides used, including quantities applied, on the defined forest |
|-------------------|--|

| | |
|------------------|------------------------|
| | area. |
| Deadline | 2009 Annual Audit |
| Reference | <i>Indicator 6.6.b</i> |

| | |
|-------------------|---|
| CAR 2008.5 | TL must complete an assessment of the defined forest for the presence of areas meeting the FSC definition of High Conservation Value Forests (HCVF); the methodology and results of the assessment must be included in the Management Plan and its summary. |
| Deadline | 2009 Annual Audit |
| Reference | <i>Indicator 9.1.a</i> |

6.0 SURVEILLANCE EVALUATIONS

If certification is awarded, surveillance evaluations will take place at least annually to monitor the status of any open corrective action requests and review the continued conformance of Timberlands Limited to the SCS Draft Interim Standard for New Zealand Forest Plantation Management. Public summaries of surveillance evaluations will be posted separately on the SCS website (www.scscertified.com).

6.1 2009 annual Audit

6.1.0 Surveillance Decision and Public Record

6.1.1 Assessment Dates

Since the 2008 five yearly audit, there were audit activities undertaken on the following dates:

- May 2009 Answered queries regarding Chain of custody and proposed stumpage sales.
- June 2009 In the two weeks prior to the field audit, TL supplied their responses to the CARs issued in 2008, and discussed FSC-ADV-30-102.

This annual surveillance audit included a field visit June 10-12th 2009, with on-site inspections of field operation and interviews with TL management staff and contractors.

A total of 9.5 auditor days were spent conducting the assessment.

6.1.2 Assessment Personnel

The two-person audit team comprised Dr. Chris Goulding and Ms Brenda Baillie.

Dr. Chris Goulding is a Principal Scientist, Scion, New Zealand Forest Research Institute Limited with over 35 years professional forestry experience in applied research and forest management consultancy. For 16 years he managed the forest mensuration and management systems research field before his present position. His most recent consultancies include forest investment and valuations, plantation management options, technical

audits of forest planning systems and their information, resource inventory, harvest value recovery, and the development of a national carbon sequestration monitoring system. Dr. Goulding has conducted FSC forest management and chain-of-custody certification evaluations for SCS in New Zealand and Australia. Countries of work experience include New Zealand, Australia, Canada, Fiji, Finland, Indonesia, Malawi, Turkey, United Kingdom and United States.

Ms. Brenda Baillie, Scion, New Zealand Forest Research Institute Limited, is an environmental scientist. Her experience and background in the forest industry includes the supervision and management of forestry operations, workstudy officer, safety co-ordinator and safety auditor. She has been in research for 13 years focusing on the ecology and management of stream and riparian areas.

6.1.3 Assessment Process

Following the full evaluation in 2008, this year auditing was concerned with the evaluating TL's response to the CAR's issued during that audit and issues as expressed in Principle 1 and Principle 9.

The scope of this annual audit included: document review, a field trip to the forest operations with company staff, office interviews with management personnel and, as appropriate, interaction with outside stakeholders, principally contractors and forest workers. The auditors also reviewed operational plans, accident and incident reports, and complaints received in the last year.

Field audit

Wednesday June 10th 2009

- Discussion with Colin Maunder, who presented an overview of the current company situation and explained their responses to the five open CARs.
- Interviews with TL senior management: Ian Hinton (Technical Manager) on inventory, planning and yield forecasting.
- Demonstration of TL company GIS by Glenis Boulanger, including progress on delineating riparian features in order to meet CAR 2008.3
- Review of documents, including Chain of Custody.

Thursday June 11th 2009

- A field trip for Dr. Chris Goulding and Ms Brenda Baillie to visit operations in Whakawerawera and Kaingaroa Forests and interview TL operational staff and contractors. Attended by TL managers Colin Maunder (Forest Risk Manager), Rex King (Harvest Planner) and Sarah Orton (Graduate Forester).
- The auditors selected four sites independently from TL, from a list of current operations.
 - Blue and Green Lakes Covenant area. This area is a HCVF of high environmental and cultural sensitivity. A protective covenant is in place to protect natural and historic resources, scenic values, lake water quality and public recreation. The Green Lake (Lake Rotokakahi) is privately owned by local Maori and access is restricted by the owners, with two culturally significant sites. The auditors viewed the results of the thinning and small-coupe harvesting carried out two years ago by helicopter around the margins of the Green Lake, including survival and early growth of the planted Redwoods. Replacement over the next 20 to 25 years of the 90 year old Douglas fir is with Redwoods by a group selection

silvicultural system over 20-25% of the area using small groups and strips up to 30m x 300m in order to trial strategies that will convert the forests to uneven aged.

- L.G. Willis land preparation (spot rake and mounding) in Cpt 19, at the old Waiotapu Village site, Timberlands supervisor Rob Brown. Interviewed employee Bryce Flutey on operational, safety, environmental and employment matters.
- Sherwood_043 ground-based clearfell operation Cpt 391. Interviewed John Sherwood, Manager, on production, safety and environmental issues, discussed prescription requirements. Sherwood employs 12 people from local surrounding communities.
- Inspection of the Waiotapu geothermal HCVF area to assess the results of the wilding tree removal a few years previously.

Friday June 12th 2009

- Final team synthesis and formulation of recommendations
- An exit interview with David Balfour, Managing Director, and senior managers, closing at 4-00 pm

6.1.4 Status of Corrective Action Requests

| | |
|--|-----------------------|
| CAR 2008.1 (minor) | Reference: 2.2 |
| <p>TL must identify local communities (mana whenua), and/or other stakeholders with duly recognized customary tenure or use rights within the defined forest area and the nature of these rights must be described and documented. Deadline: 2009 Annual Audit</p> | |
| Action Taken By Company/Auditor Comments | |
| <p>A register of mana whenua and customary rights was prepared and presented in a report to the auditors (tables 1 and 2, respectively). This register will require frequent up-dating, particularly in the light of the Central North Island Treaty settlement that applies to a significant portion of the TL forest estate. Over the next two years, Maori will conduct talks with those who share customary rights and pursue a mana whenua determination.</p> | |
| Position in the end of this audit: <i>Closed Out</i> | |
| CAR 2008.2 (minor) | Reference: 6.4 |
| <p>TL must compile information regarding the extent to which representative samples of existing ecosystems are protected within the regional landscape (including old-crop stands); where gaps exist within the landscape, TL must take actions that contribute to correcting those deficiencies, appropriate to the scale and intensity of operations. Deadline: 2009 Annual Audit</p> | |
| Action Taken By Company/Auditor Comments | |
| <p>A report on information of the ecosystems represented in the regional landscape was presented to the auditors. TL consider that all indigenous areas in their forests are currently protected, primarily through the Reserve Management Plan, where information is accessible in addition to through the company GIS. The report concentrated on representative areas of plantations covering a range of species that had been planted in the past. The documented 6.5 ha of “representative” radiata pine is small relative to the species importance. See Recommendation 2009.1</p> | |
| Position in the end of this audit: <i>Closed Out</i> | |
| CAR 2008.3 (minor) | Reference: 6.5 |
| <p>TL must identify, classify, and map all watershed, riparian, and aquatic features relevant to TL forest management (including all areas that will not be replanted with non-native species.) prior to site-specific operations. Deadline: 2009 Annual Audit</p> | |
| Action Taken By Company/Auditor Comments | |
| <p>Timberlands have entered known perennial streams into their GIS system and are updating their records as each area is harvested.</p> | |
| Position in the end of this audit: <i>Closed Out</i> | |
| CAR 2008.4 (minor) | Reference: 6.6 |
| <p>TL must provide complete and up-to-date records of all chemical pesticides used, including quantities applied, on the defined forest area. Deadline: 2009 Annual Audit</p> | |
| Action Taken By Company/Auditor Comments | |

| | |
|--|-----------------------|
| TL provided the auditors with a complete and up-to-date list of chemicals used on their forest estate and in their nursery and a list of chemical pesticides and amounts held in the nursery chemical store. | |
| Position in the end of this audit: <i>Closed Out and a new CAR issued see Major CAR 2009.1</i> | |
| CAR 2008.5 (minor) | Reference: 9.1 |
| TL must complete an assessment of the defined forest for the presence of areas meeting the FSC definition of High Conservation Value Forests (HCVF); the methodology and results of the assessment must be included in the Management Plan and its summary. Deadline: 2009 Annual Audit | |
| Action Taken By Company/Auditor Comments | |
| TL have made an initial assessment of their plantation estate and have proposed 4 new HCVF's. They have yet to undertake a formal consultation process with appropriate stakeholders and complete the management plans. | |
| Position in the end of this audit: <i>Closed Out and replaced with Minor CAR 2009.2</i> | |

6.1.5 General Observations

At the beginning of 2007 the company began increasing its annual harvest, consistent with its strategy of gradually increasing the rotation age of the forest, being still well below the long term sustainable yield. In the forest year to 30th June 2008⁴, TL harvested 1.9 million tonnes of logs, sold to export markets and 57 domestic customers. The average age of the forest has increased by some two years since this strategy was implemented. The harvest rate continued to increase through to the time of the audit.

TL is applying for FSC emergency derogations for otherwise prohibited chemical use. These include the aerial application of 1080 by Regional Councils under the authority of the 1993 Biosecurity Act, and (to be decided) their use in the TL tree nursery as most recently covered by FSC-ADV-30-102 v1 "Nurseries and implications for the scope of forest management enterprise (FME) evaluation".

6.1.6 New Corrective Action Requests and Recommendations

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|--|---|
| Non-conformance: <i>The field trip identified that formal safety inspections had not been undertaken at a land preparation operation.</i> | |
| Minor CAR 2009.1 | TL must demonstrate that formal operational safety inspections are in place for all their operations. |

⁴ Statistics of the harvest of the TMOT forest are to 31 December 2008.

| | |
|------------------|-------------------|
| | |
| Deadline | 2010 Annual Audit |
| Reference | 4.2 g |

| | |
|---|---|
| Non-conformance: <i>While previous surveys of TL's estate for HCVF included stakeholder consultation, interviews with a sample of stakeholders in the recent reassessment process of potential HCVF's indicated inadequate consultation by TL and they were unaware of the HCVF process.</i> | |
| Minor CAR 2009.2 | TL must ensure adequate Stakeholder consultation on identifying HCVF's in their plantation. |
| Deadline | 2010 Annual Audit |
| Reference | 9.2 b |

| | |
|--|--|
| Non-conformance: <i>The 2008 annual survey of HCVF's was carried out but the formal report detailing the results of 2008 year's monitoring was not available to the auditors.</i> | |
| Minor CAR 2009.3 | TL must ensure results of the annual monitoring of all HCVF's are currently available. |
| Deadline | 2010 Annual Audit |
| Reference | 9.4 d |

Recommendations:

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|--|---|
| Background/Justification: <i>The documented 6.5 ha of radiata pine in "representative existing ecosystems" is small relative to the species importance. There are other undocumented areas and a gap (30 - 50 years) in the older age-classes that could be filled by protecting appropriate small stand(s) from harvesting, even if not permanently.</i> | |
| REC 2009.1 | Rec. 2009.1 The protected 6.5 ha area of radiata pine, particularly of older post-rotation, is small relative to the importance of the species. TL should supplement their 2009 report (taking action where necessary) and document their protected representation of radiata stands to achieve a more complete range of ages (30 to 80+) and historical silvicultures. |
| Reference | 6.4.b |

6.1.7 General Conclusions of the Annual Audit

The SCS Evaluation Team would like to thank TL staff for their hospitality during the 2009 annual audit and their efforts in organising the field trips and documentation preparation. We appreciated the willingness of staff and contractors to co-operate and actively participate in the certification process.

On the basis of the information gathered during this 2009 surveillance audit, the SCS team concludes that Timberlands Ltd. are putting into effect their intention to manage their forests with a commitment and adherence to the FSC Principles and Criteria. Management complied with the five Corrective Action Requests made in the previous audit.

The next audit should be conducted at the scale of a surveillance audit, to be carried out commencing May 2010.

The SCS Evaluation Team has determined that the Timberlands Limited forest management programme merits continuance of its forest management and chain of custody certificate, subject to ongoing progress in closing out the three open CARs.

6.2.0 2010 Surveillance Decision and Public Record

6.2.1 Assessment Dates

Since the last annual surveillance audit, there were audit activities undertaken on the following dates:

May 2010 In the week prior to the field audit, TL supplied their responses to the CARs issued in 2009.

This annual surveillance audit included a field visit with on-site inspections of field operation and interviews with TL management staff and contractors.

A total of 9.5 auditor days were spent conducting the assessment.

6.2.2 Assessment Personnel

The two-person audit team comprised Dr. Chris Goulding and Ms Brenda Baillie.

Dr. Chris Goulding is a Principal Scientist, Scion, New Zealand Forest Research Institute Limited with over 36 years professional forestry experience in applied research and forest management consultancy. For 16 years he managed the forest mensuration and management systems research field before his present position. His most recent consultancies include forest investment and valuations, plantation management options, technical audits of forest planning systems and their information, resource inventory, harvest value recovery, and the development of a national carbon sequestration monitoring system. Dr. Goulding has conducted FSC forest management and chain-of-custody certification evaluations for SCS in New Zealand and Australia. Countries of work experience include New Zealand, Australia, Canada, Fiji, Finland, Indonesia, Malawi, Turkey, United Kingdom and United States.

Ms. Brenda Baillie, Scion, New Zealand Forest Research Institute Limited, is an environmental scientist. Her experience and background in the forest industry includes the supervision and management of forestry operations, workstudy officer, safety co-ordinator and safety auditor. She has been in research for 14 years focusing on the ecology and management of stream and riparian areas.

6.2.3 Assessment Process

This year auditing was concerned with the evaluating TL's response to the CAR's issued during the 2009 annual audit and examined Principles 5, 7 and 8 in detail (last year Principles 1 and 9 were examined).

The scope of this annual audit included: document review, a field trip to the forest operations with company staff, office interviews with management personnel and, as appropriate, interaction with outside stakeholders, principally contractors and forest workers. The auditors also reviewed operational plans, accident and incident reports, and complaints received in the last year.

Field audit

Tuesday May 4th 2010

- Discussion with Colin Maunder, who presented an overview of the current company situation and explained their responses to the three open CARs.
- Interviews with TL senior management: Ian Hinton (Technical Manager) on inventory, planning and yield forecasting; Belinda Bird (HR Advisor) on induction and training for TL staff; and Margrett Davenport (Health & Safety Coordinator) on TL's health and safety system and accident/incident statistics for the last year.
- Review of documents, including Chain of Custody.

Wednesday May 4th 2010

A field trip for Dr. Chris Goulding and Ms Brenda Baillie to visit operations in TL's estate. The auditors independently selected sites to visit from a list of current forest operations. They were accompanied for all or part of the day by Colin Maunder, Forest Risk Manager and Rex King, Harvest Planning, plus other TL staff listed below. Interviews with contractors and their staff were conducted privately and confidentially away from TL staff.

- Volcanic Plateau Logging (VPL_037), ground-based, clearfell Douglas-fir operation in Whirinaki Forest, Cpt 158. Interviewed principle contractor Steve Yeoman on business establishment and management, logging planning, production, safety and environmental issues. The auditors inspected the site and viewed safety, induction and training records and the operational prescription. Interviewed TL supervisor Matt Waghorn on job requirements, harvest planning and TL's graduate forester programme.
- Lealand_040, ground-based, mechanized operation in Kaingaroa Forest, Cpt 162. Interviewed Jim Blackburn, manager, on operational and safety matters, viewed the operational prescription for the block and safety, induction and training records. Discussed work and workplace conditions with Rickey Blackburn, Haeata Hanana and Isaac Davy, skid workers. Interviewed TL harvesting manager Blair Cooper on job requirements and TL's graduate forester programme.
- CTL 3, tree pruning operation in Kaingaroa Forest Cpt 328. Interviewed principle contractor Colin Tanatiu on business establishment and management, labour recruitment, retention and management, production, quality control, and safety matters. The auditors also observed the pruning operation. Interviewed TL Area Forester Wayne Cameron.
- Plantation Museum Trial, Kaingaroa Forest, Cpt 1044, planted in 2004. This is one of three living plantation museums established in New Zealand by Dr. W. R. J. Sutton to demonstrate the evolution of plantation forestry that is unique to New Zealand. A series of plots illustrate the key silvicultural regimes for *Pinus radiata* from 1900 through to the 21st century with an additional plot containing other exotic and indigenous tree species for comparative purposes. Blue and Green Lakes Covenant area (HCVF). The auditors re-visited this area to view the progress of the redwood plantings established in the small-coupes harvesting by helicopter several years previously. *Thursday May 4th 2010*

Review of documentation and systems, with interviews with TL staff pertaining to Principles 5, 7 and 8. Staff interviewed were: David Balfour and Wayne Derrick, Managing Directors, Colin Maunder, Forest Risk Manager, Ian Hilton, Technical Manager, Jane Bird, Systems Manager, Nigel Heron, Technical and Biosecurity Forester, Glenis Boulanger, Team leader – Forest Information, Cheryl Hindle, Forest Information Officer.

Friday May 4th 2010

- Telephone interview with John Hura representing Central North Island Iwi Collaborative (CNIIC).
- Final team synthesis and formulation of recommendations
- An exit interview with David Balfour, Managing Director, and senior managers, closing at 2-00 pm

6.2.4 Status of Corrective Action Requests and Recommendations

| | |
|---|------------------------|
| CAR 2009.1 (minor) | Reference: 4.2g |
| TL must demonstrate that formal operational safety inspections are in place for all their operations. Deadline: 2010 Annual Audit | |
| Action Taken By Company/Auditor Comments | |
| The auditors interviewed TL staff and contractors, assessed TL's safety management systems and processes including documentation verification during the field trip to confirm that formal safety inspections were in place for their operations. | |
| Position in the end of this audit: <i>Closed Out</i> | |
| CAR 2009.2 (minor) | Reference: 9.2b |
| TL must ensure adequate Stakeholder consultation on identifying HCVF's in their plantation. Deadline: 2010 Annual Audit | |
| Action Taken By Company/Auditor Comments | |
| TL provided written documentation to demonstrate that a formal consultation process was undertaken with stakeholders to identify HCVF's in their estate. Two new HCVF's have been recognized, the Iwitahi orchid reserve and the Torepatutahi Soil Conservation Covenant. Two other potential HCVF's are still under a consultation process with iwi. | |
| Position in the end of this audit: <i>Closed Out</i> | |
| CAR 2009.3 (minor) | Reference: 9.4d |
| TL must ensure results of the annual monitoring of all HCVF's are currently available. Deadline: 2010 Annual Audit | |
| Action Taken By Company/Auditor Comments | |
| TL provided the auditors with a summary of annual monitoring of HCVF's for the last two years. | |
| Position in the end of this audit: <i>Closed Out</i> | |

| | |
|--|---|
| REC 2009.1 | Rec. 2009.1 The protected 6.5 ha area of radiata pine, particularly of older post-rotation, is small relative to the importance of the species. TL should supplement their 2009 report (taking action where necessary) and document their protected representation of radiata stands to achieve a more complete range of ages (30 to 80+) and historical silvicultures. |
| Reference | 6.4.b |
| Action Taken By Company/Auditor Comments | |
| There was no action by TL on this recommendation. During the field audit, a visit was made to the New Zealand forestry Group Plantation Museum situated within the TL forest estate that demonstrates historical silviculture. While very commendable, this is comprised of young trees. TL have the opportunity to protect small areas of representative samples of older stands. | |
| Position in the end of this audit: <i>Closed Out but renewed and renamed as an observation.</i> | |

6.2.5 General Observations

On July 1, 2010, the New Zealand government reached an agreement under the treaty of Waitangi Act with claimants to the land on which TL have forest management and harvesting rights under the terms of their Crown Forest Licence. Ownership of the land has now passed from the crown to the indigenous peoples who formed a joint partnership between the various Maori Iwi and Hapu – the Central North Island Iwi Collaborative (CNIIC). The licence provides for a termination date, beyond which the management rights of the land are progressively returned to the new owners as the forest is harvested. This termination date has been delayed one year, with replanting by TL during the 2010 season. An agreement on the future of the management rights for harvested stands is under discussion, with several options open including buy-in rights to KT by CNIIC. Access by the general public for recreation has been agreed, as has the terms of the use of the Kaingaroa Roving Network.

At the beginning of 2007 the company began increasing its annual harvest, consistent with its strategy of gradually increasing the rotation age of the forest, being still well below the long term sustainable yield. In the forest year to 30th June 2009⁵, TL harvested 2.045 million tonnes of logs, sold to export markets and 47 domestic customers, nearly half of whom have FSC Chain of Custody certificates. The average age of the forest has increased by some two years since this strategy was implemented. The harvest rate has continued to increase through to the time of the audit. Four new logging crews have been hired in the last year.

TL holds FSC pesticide derogations for three chemicals otherwise prohibited in certified forests; Hexazinone and Terbutylazine and Sodium monofluoroacetate (1080). TL is currently seeking renewal of their pesticide derogations for Hexazinone and Terbutylazine.

TL has particularly strong management concerning, and compliance with, the criteria of Principles 5, 7 and 8 surveyed this year, with the exception of an integrated environmental monitoring programme over their estate as a whole. While they have assessed their natural reserves and they monitor environmental impacts of operations, an overall monitoring strategy and its implementation is deficient relative to their monitoring of growth and yield, see observation 2010.2 below.

6.2.6 New Corrective Action Requests and Observations

No CARs have been issued as a result of the 2010 surveillance. Below are two observations.

⁵ Statistics of the harvest of the TMOT forest are to 31 December 2010.

Observations:

| | |
|--|---|
| Background/Justification: <i>The documented 6.5 ha of radiata pine in “representative existing ecosystems” is small relative to the species importance. There are other un- documented areas and a gap (30 - 50 years) in the older age-classes that could be filled by protecting appropriate small stand(s) from harvesting, even if not permanently.</i> | |
| OBS 2010.1 | Rec. 2009.1 The protected 6.5 ha area of radiata pine, particularly of older post-rotation, is small relative to the importance of the species. TL should supplement their 2009 report (taking action where necessary) and document their protected representation of radiata stands to achieve a more complete range of ages (30 to 80+) and historical silviculture. |
| Reference | 6.4.b |
| Background/Justification: <i>TL actively monitor the environmental impacts prior to and following sensitive operations. A baseline assessment of their natural areas has been completed and they have begun monitoring water quality and key endangered species. Their monitoring of chemical usage and reductions has improved. However, there is no comprehensive overview and plan for active monitoring the impacts of TL’s forest management on the environment as a whole, especially with regards to any change.</i> | |
| OBS 2010.2 | In order to continuously improve its management, TL would find it beneficial to develop a strategic plan to integrate its monitoring programmes that assess forest condition and determine the environmental impact of their forest management activities, as a whole over their estate. Monitoring procedures should be consistent and replicable over time to allow comparison of results and assessment of change. |
| Reference | 8.1g; 6.1 a and b; 10.8 a and b; 9.4 a and b. |
| Background/Justification: Records of qualifications for workers are maintained by each contractor, each of whom operates as an independent business to TL. However, a well trained contractor workforce is as important to TL as it is to the contractor and some form of records/database accessible to TL would be advantageous to provide them with at least a high level overview of the qualifications of workers on their estate. | |
| OBS 2010.3 | It would be advantageous to TL to maintain some form of overview and high level summary of worker’s qualifications, to ensure that workers on their estate are adequately trained. |
| Reference | 7.3.3. |

6.2.7 General Conclusions of the Annual Audit

The SCS Evaluation Team would like to thank TL staff for their hospitality during the 2010 annual audit and their efforts in organising the field trips and documentation preparation. We appreciated the willingness of staff and contractors to co-operate and actively participate in the certification process.

On the basis of the information gathered during this 2010 surveillance audit, the SCS team concludes that Timberlands Ltd. are putting into effect their intention to manage their forests with a commitment and adherence to the FSC Principles and Criteria. Management have complied with the three Corrective Action Requests made in the previous audit.

The next audit should be conducted at the scale of a surveillance audit, to be carried out in May 2011, but with stakeholder consultation with the new landowners beginning several months earlier.

The SCS Evaluation Team has determined that the Timberlands Limited forest management programme merits continuance of its forest management and chain of custody certificate.

7.0 SUMMARY OF SCS COMPLAINT AND APPEAL INVESTIGATION PROCEDURES

The following is a summary of the SCS Complaint and Appeal Investigation Procedures, the full versions of the procedures are available from SCS upon request. The SCS Complaint and Appeal Investigation Procedures are designed for and available to any individual or organization that perceives a stake in the affairs of the SCS Forest Conservation Program and that/who has reason to question either the actions of SCS itself or the actions of a SCS certificate holder.

A **complaint** is a written expression of dissatisfaction, other than **appeal**, by any person or organization, to a certification body, relating to the activities of staff of the SCS Forest Conservation Program and/or representatives of a company or entity holding either a forest management (FM) or chain-of-custody (CoC) certificate issued by SCS and duly endorsed by FSC, where a response is expected (ISO/IEC 17011:2004 (E)). The SCS Complaint Investigation Procedure functions as a first-stage mechanism for resolving complaints and avoiding the need to involve FSC.

An “**appeal**” is a request by a certificate holder or a certification applicant for formal reconsideration of any adverse decision made by the certification body related to its desired certification status. A certificate holder or applicant may formally lodge an appeal with SCS against any adverse certification decision taken by SCS, within thirty (30) days after notification of the decision.

The written Complaint or Appeal must:

- Identify and provide contact information for the complainant or appellant
- Clearly identify the basis of the aggrieved action (date, place, nature of action) and which parties or individuals are associated with the action
- Explain how the action is alleged to violate an SCS or FSC requirement, being as specific as possible with respect to the applicable SCS or FSC requirement
- In the case of complaints against the actions of a certificate holder, rather than SCS itself, the complainant must also describe efforts taken to resolve the matter directly with the certificate holder
- Propose what actions would, in the opinion of the complainant or appellant, rectify the matter.

Written complaints and appeals should be submitted to:

Dr. Robert J. Hrubes
Senior Vice-President
Scientific Certification Systems
2200 Powell Street, Suite 725
Emeryville, California, USA94608

Email: rhruhes@scscertified.com

As detailed in the *SCS-FCP Certification Manual*, investigation of the complaint or appeal will be confidentially conducted in a timely manner. As appropriate, corrective and preventive action and resolution of any deficiencies found in products or services shall be taken and documented.