



**Investigation of a Complaint Regarding Potential Non-
Conformance with the Requirements of the
ISO 14001 and SFI Standards**

Public Summary Report

**International Forest Products Limited
Coastal Woodlands Operations**

July 30, 2003

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A. Introduction

This report is intended to summarize the results of our investigation of a complaint made by the Sunshine Coast Conservation Association (SCCA) regarding the forest management activities of International Forest Products Limited (Interfor) within the Sunshine Coast Forest District.

NB: In the interest of brevity, many of the details included in the documents reviewed during our investigation have been omitted from this public summary report. As such, the report has been written for an audience with a good understanding of the issues raised in the SCCA complaint, and is not intended to serve as a summary of all of the issues that pertain to it. For a more detailed discussion of these issues, the reader is directed to the source documents referenced in the text of the report.

According to the information included on their website, the Sunshine Coast Conservation Association is a regional umbrella group that was established in 1997 for the purpose of assisting local conservation advocacy groups to reach their goals as well as to address major regional conservation and environmental issues. The SCCA, in concert with its 16 member groups, has been working on environmental issues since its inception. Their stated mission is to preserve the natural biodiversity of the Sunshine Coast region for the present and future benefit of humanity and all life.

Interfor is an integrated forest company with several woodlands operations located on the coast of British Columbia and one in Adams Lake near Kamloops. The Company's coastal woodlands operations, which include those located in the Sunshine Coast Forest District, have been certified to both the ISO 14001 and SFI standards.

KPMG Performance Registrar Inc. (KPMG PRI), an accredited ISO 14001 registrar and SFI certifier, first certified Interfor's coastal woodlands operations to the ISO 14001 standard in the fall of 1999. SFI certification of the Company's coastal woodlands operations was subsequently granted in January 2001.

B. Nature of the Complaint

The SCCA complaint, which was received by KPMG PRI on March 17, 2003, relates to logging and logging approvals in old growth forests, mountain goat winter range and marbled murrelet (MAMU) habitat, and alleges that non-conformances exist in relation to several of the requirements of the ISO 14001 and SFI standards. The primary premise of the complaint is that Interfor's Forest Development Plans (FDPs) and the associated government approvals for 121 Category A cutblocks located in the Sunshine Coast Forest District (23 of which have been logged to date) do not meet legal requirements, and that the Company is carrying out illegal logging in the areas covered by these plans. As both the ISO 14001 and SFI standards require the Company to demonstrate a commitment to

regulatory compliance, an assertion is made that these situations of alleged legal non-compliance also constitute non-conformances with the requirements of these standards.

The requirements of the ISO 14001 and SFI standards for which an assertion of non-conformance has been made by the SCCA include the following:

ISO 14001

Element

4.2	Environmental policy
4.3.3	Objectives and targets
4.4.2	Training, awareness and competence
4.4.6	Operational control
4.5.1	Monitoring and measurement

SFI

Principles of Sustainable Forestry

3.5	Legal compliance
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Performance Measure

4.1.1.1.1	Policies to implement and achieve the SFI principles and objectives
4.1.5.1.4	Promoting a diversity of forest cover across the landscape
4.1.6.1.1	Identification and management of special sites
4.3.1.1.1	Annual reporting of compliance with the SFI standard
4.4.1.1.1	Management review of SFI program implementation

The SCCA has asked that KPMG PRI investigate the circumstances surrounding their complaint, and remove the Company's ISO 14001 and SFI certifications until such time as the alleged non-conformances are remedied.

NB: It is important to note that the issues to which the SCCA complaint relates are not new, and have been the subject of a number of reviews and complaints over the past few years. In particular:

- On March 9, 2000, the SCCA submitted a complaint to the Forest Practices Board of British Columbia (FPB), alleging that the Acting District Manager had erred in approving several Interfor cutblocks that were located in areas of old growth deficit, goat winter range and MAMU habitat. In its July 2002 investigation report, the FPB concluded that the Acting District Manager had erred in not grand-parenting a number of goat winter ranges that had been previously identified by staff from the Ministry of Environment Lands and Parks (MELP), a designation which would have affected 16 of Interfor's category A cutblocks.

- On December 19, 2001 an Administrative Review Panel quashed the District Manager's approval of the FDP for Forest License A19220 with respect to cutblock N-1, on the basis that the plan did not include measures to protect MAMU habitat in contravention of section 10(1)(c)(ii) of the Forest Practices Code Act.

The SCCA has now brought the matter to KPMG PRI in the form of a complaint alleging non-conformance with the requirements of ISO 14001 and the SFI standard.

C. Conduct of KPMG PRI's Investigation

Following our receipt of the complaint from the SCCA, and in order to provide for a more efficient investigation into the alleged non-conformances with both the ISO 14001 and SFI standard, a decision was made to follow the complaint procedures outlined in section 9 of the SFI standard. This process provided for an initial 45 day window during which Interfor retained the services of Sterling Wood Group Inc. (Sterling Wood), who were contracted to conduct their own investigation into the merits of the complaint. Following the completion of their investigation, Sterling Wood prepared a report which was presented to both Interfor and the SCCA. KPMG PRI was also provided a copy of this report, as well as the SCCA's written response to it.

During the prescribed 45 day period during which the Sterling Wood investigation was taking place, KPMG PRI reviewed the supporting documentation included with the SCCA complaint, and maintained periodic contact with the parties to evaluate the progress of the Sterling Wood investigation. However, our formal investigation of the complaint did not commence until we had received both the Sterling Wood report and the SCCA's response.

The primary steps involved in our investigation included:

- Review of the original SCCA complaint and the supporting documentation provided with it.
- Review of both the Sterling Wood report and the SCCA response to it.
- Review of additional documentation provided by Interfor and Sterling wood regarding the blocks in question and the nature of the tests performed during the Sterling Wood investigation.
- Telephone interviews with Stuart McPherson of Sterling Wood, as well as several Interfor employees (Gerry Fraser, Wayne Wall, Jeff Pollock and Laszlo Kardos).
- Meetings with representatives of the SCCA (Dan Bouman and Maria Hunter) and Interfor's Sechelt office (Al Blattler and Denis Lozinsky).

- Assessing the merits of the complaint with respect to: (1) issues of regulatory compliance (as noted in the FPB report and Administrative Review Panel ruling) and illegal logging, and (2) conformance with the requirements of the ISO 14001 and SFI standards.

Given the nature of the issues involved in the complaint, it was decided that field visits would not be of significant value at this time. However, it is expected that a number of the blocks mentioned in the complaint will form a part of the field sample for the next combined ISO 14001/SFI assessment of Interfor's coastal woodlands operations, which is currently scheduled for fall 2003.

D. Summary of Findings

The results of our investigation into the merits of the SCCA's complaint are summarized as follows:

1. Regulatory Compliance and Illegal Logging

As noted in section B of this report, the primary premise of the SCCA complaint is that the Company's Forest Development Plans (FDPs) and the associated government approvals for 121 Category A cutblocks located in the Sunshine Coast Forest District do not meet legal requirements, and that the Company is carrying out illegal logging in the areas covered by these plans. This assertion is based largely on the SCCA's interpretation of the implications of the results of the FPB investigation and the December 19, 2001 Administrative Review Panel ruling, both of which are discussed briefly below.

a) Forest Practices Board Investigation

The FPB's investigation took approximately 2 years to complete, and focused on three of Interfor's 2000-2004 FDPs for Forest License A19220 within the Sechelt Supply Block of the Sunshine Coast TSA. In its July 2002 report the FPB concluded that:

- It was inappropriate for the Acting District Manager to not grandparent a number of goat winter range (GWR) areas that had been proposed by MELP in the Sunshine Coast Forest District.
- It was appropriate for the District Manager to be satisfied that biodiversity and MAMU habitat would be adequately managed and conserved by the 3 FDPs.
- The SCCA assertion that the licensee (i.e., Interfor) had targeted sensitive areas for logging was not substantiated.

Based on these conclusions, the FPB stated that it was inappropriate for the District Manager to approve those FDPs in the absence of sufficient evidence that goat winter range would be adequately managed and conserved in 16 cutblocks in two FDPs.

Our review of the facts in this matter suggests that while section 185 of the FPC Act provides the FPB with the authority to reach their own conclusions and make recommendations regarding issues of regulatory compliance, these are not legally binding on the parties to an investigation. While the FPB can request that a party notify it of the steps taken to address its recommendations, the FPB does not have the authority to require a party to implement them. As such, the FPB's opinion that the Acting District Manager erred in failing to grandparent the goat winter range areas proposed by MELP, while of potential concern from a resource management perspective, does not mean (as suggested in the SCCA complaint) that Interfor is carrying out illegal logging in areas of proposed wildlife habitat reserves. Rather, it suggests that the FPB and the Acting District Manager are of differing opinions as to whether the necessary tests for the grand-parenting of the proposed GWR areas had been met.

Conclusion: The FPB report does not override the Statutory Decision Maker's conclusions. As such, the FPB contention that the District Manager erred in approving the FDPs does not make the FDPs invalid. The FDPs therefore remained valid for regulatory compliance purposes.

b) Administrative Review Panel Ruling

In its decision dated December 19, 2001, the Administrative Review Panel found that:

- The District Manager's approval of block N-1 did not adequately manage and conserve MAMU habitat.
- Interfor' failure in this instance (i.e., with respect to block N-1) to consider the possibility of interim measures for the protection of MAMU habitat was contrary to the requirements of section 10(1)(c)(ii) of the FPC Act, which requires that FDPs specify measures to protect prescribed forest resources (which include Identified Wildlife such as MAMU).

Theses findings were based in part on the lack of information relating to the presence or absence of identified MAMU nesting activity within block N-1. In the opinion of the Panel, both the licensee (Interfor) and the MELP Rare and Endangered Species biologist (RES) had misinterpreted the intent of the Identified Wildlife Management Strategy (IWMS) and related policy by

concluding that areas within the operable landbase (such as block N-1) were excluded from consideration as candidate Wildlife Habitat Areas (WHAs) for which interim measures might be applied. As a result, block N-1 was never inventoried by the RES to determine whether or not there was evidence of MAMU nesting activity, and the District Manager approved the block without the benefit of this information. The Panel therefore concluded that there was a flaw in the preparation of the FDP, and that they could not reasonably determine pursuant to section 41(b) of the FPC Act that the approval of block N-1 adequately manages and conserves MAMU. The Panel therefore quashed the approval of the FDP with respect to block N-1, and the District Manager was directed to reconsider his approval consistent with the Panel's findings.

Conclusion: Regulatory non-compliance exists with respect to block N-1 in Interfor's Forest License A19220 (North Jervis Inlet). However, no logging has taken place on this cutblock.

In considering the conclusions of the Panel, it is important to note that the decision to quash the District Manager's approval of the FDP applies only in respect of block N-1. As such, the District Manager's approval of all of the remaining blocks that were approved under the 2001-2005 FDP for Forest License A19220 were not affected by this decision.

Conclusion: Although the Company has yet to amend the FDP to address the deficiency noted by the Panel in relation to section 10(1)(c)(ii) of the FPC Act, the current category A approved status for all of the remaining blocks included in the FDP remains in effect.

Overall conclusion with respect to the illegal logging element of the complaint: On the basis of the points raised in the above discussion, we have concluded that there is no evidence to suggest that the Company is carrying out illegal logging under the FDP for A19220.

2. ISO 14001 and SFI Non-conformances and Opportunities for Improvement

The following sections of this report are intended to summarize the key findings of our investigation with respect to the requirements of the ISO 14001 and SFI standards.

NB: ISO 14001 and SFI findings are handled differently depending on the seriousness of the issues present. ISO 14001 and SFI findings may fall into one of the following 3 categories:

Major non-conformances – exist where there are significant or pervasive weaknesses in the design or implementation of an EMS element or SFI program component. Where identified during an audit or investigation, major non-

conformances require the development of a detailed corrective action plan within 30 days. The action plan must be completed within 3 months, and a follow-up visit by the auditor is required to close the non-conformance on or before the expiry of the 3 month period.

Minor non-conformances – exist where there are isolated weaknesses in the design or implementation of an EMS element or SFI program component that do not preclude the organization from achieving the applicable requirements of the standard. Where identified during an audit or investigation, minor non-conformances require the development of a detailed corrective action plan within 30 days. As with major non-conformances, the action plan must be completed within 3 months. However, the non-conformance does not have to be formally closed until the next audit visit.

Opportunities for improvement – exist where there is no clear non-conformance with the requirements of a standard, but a situation exists which may result in a non-conformance at a future date if left unattended. Where identified, opportunities for improvement become a focus area for future audit visits.

Overall conclusion regarding Interfor’s conformance with the requirements of the ISO 14001 and SFI standards: Our investigation of the SCCA complaint has led us to the conclusion that the majority of allegations regarding non-conformance with the requirements of the ISO 14001 and SFI standards were unfounded.

A total of 3 minor non-conformances were however identified during the course of our investigation, two of which relate to ISO 14001 requirements and one of which relates to the requirements of the SFI standard.

NB: There are actually only 2 issues that gave rise to these 3 non-conformances. These include: (1) operational controls that were insufficient to ensure that the FDP for the North Jervis portion of Forest License A19220 adequately addressed the management of Identified Wildlife and red listed species, and (2) the lack of a mechanism in the Environmental Management System (EMS) to formally address planning related non-compliance issues that are identified by third parties.

a) ISO 14001

Non-conformances

1. ISO 14001 Element 4.4.6 – Operational Control

Our investigation determined that a minor non-conformance exists in relation to the requirements of element 4.4.6 of the ISO 14001 standard. Interfor’s EMS Instruction Note 5 (INS-05) requires that all new FDPs list the Identified Wildlife that may be present within the plan area and identify measures for their protection (NB:

INS-05 was developed in part to address a non-conformance identified during the fall 2000 SFI audit conducted by KPMG PRI, the action plan for which included a commitment to actively consider the management of Identified Wildlife and red listed species in all new FDPs). However, amendments to existing FDPs (such as the recent major amendment to the FDP for the North Jervis portion of Forest License A19220) are not addressed in INS-05. As currently written, INS-05 is insufficient to ensure that the Company's FDPs meet regulatory requirements with respect to Identified Wildlife and red listed species.

NB: It is important to note that INS-05 has been implemented by the Company as required. However, notwithstanding this fact, the evidence suggests that as written, INS-05 is insufficient to ensure that the Company's FDPs meet regulatory requirements with respect to Identified Wildlife and red listed species.

2. **ISO 14001 Element 4.5.1 – Monitoring and Measurement**

Our investigation determined that a minor non-conformance exists in relation to the requirements of element 4.5.1 of the ISO 14001 standard. The current EMS lacks a mechanism to formally address planning related non-compliance issues that are identified by third parties (such as that identified by the Administrative Review Panel in relation to the FDP for the North Jervis portion of Forest License A19220). Although regulatory compliance is evaluated for a sample of operational plans as part of the Company's internal EMS audit, this approach to periodically monitoring compliance with regulatory requirements is insufficient to address situations such as the findings of the Administrative Review Panel.

Opportunities for improvement

1. **ISO 14001 Element 4.3.3 – Objectives and Targets**

The Company's Sustainable Forest Management (SFM) plan includes a variety of indicators intended to facilitate monitoring of the impact of the Company's forest management activities on wildlife habitat and biodiversity values. However, indicator #34 (percent of new forest development plans that address the management of Identified Wildlife, red/blue listed species and federally listed threatened and endangered species) appears insufficient to ensure that the Company's FDPs adequately address these issues. For example, although the Company's stated target is that 100% of all new FDPs will contain the required text, the 2003 major amendment to the FDP for Forest License A19220 prepared by the Company's Campbell River office does not describe how the Company will manage for Identified Wildlife in the absence of approved Landscape Unit Plans and WHAs.

This is also the case for the current FDPs for a number of other Company operations. Further, now that all existing FDPs have been extended until 2005 under the new Forest and Range Practices Act, the future utility of this indicator (at least as it is currently worded) has been significantly compromised. **As such, an opportunity exists for the Company to revise indicator #34 to improve it's utility for monitoring the impact of the Company's forest management activities on wildlife habitat and biodiversity values.**

2. **ISO 14001 Element 4.4.6 – Operational Control**

The Company relies in part upon the efforts of third parties (e.g., the District Manager, representatives of the Ministry of Water, Land and Air Protection (MWLAP), etc.) to review operational plan submissions and identify potential non-compliance issues prior to plan approval. This reliance is seen as a weakness in the current design of the EMS, particularly given the impending transition to a results-based Code. **An opportunity for improvement exists for the Company to develop formal internal operational controls over the planning function (e.g., peer reviews of operational plans, etc.) as a means to help ensure that they comply with regulatory requirements.**

b) SFI

Non-conformances

1. **SFI Performance Measure 4.1.4.1.1**

Our investigation determined that a minor non-conformance exists in relation to the requirements of SFI Performance Measure 4.1.4.1.1. A number of core (e.g., #1 – programs to protect federally listed threatened and endangered species) and regional SFI indicators (e.g., #3 – provisions are made in management plans to address the needs of susceptible forest dependent species or communities which are red listed at the regional level) require that Company plans address the management of Identified Wildlife and red listed species. However, the FDP for the North Jervis portion of Forest License A19220 (and potentially other Company FDPs as well) does not.

NB: The SCCA complaint did not include an allegation of non-conformance in relation to this SFI Performance Measure. However, the above minor non-conformance was identified during the course of our investigation, and is therefore included in our findings.

Opportunities for improvement

1. **SFI Performance Measure 4.1.6.1.1**

Our investigation of the issues surrounding the proposed extension to

the Ambrose Lake Ecological Reserve found that the Company was sufficiently responsive to the concerns raised by the Pender Harbour & District Wildlife Society (PHWS) to meet the requirements of this SFI Performance Measure. **However, it is also clear from our review of the Ambrose Lake issue (and the SCCA complaint of which it forms a part) that there is an opportunity for improvement in the level of communication and cooperation between Interfor and the SCCA.**

E. Required Corrective Actions

The Company is required to develop an action plan to address the above noted non-conformances within 30 days, and ensure that it has been fully implemented within 3 months. The implementation of this action plan will be evaluated during the next assessment visit, which is scheduled for fall 2003. In addition, while a formal action plan is not required to address the opportunities for improvement noted, these issues will also be reviewed in detail during the next site visit to verify that the Company is taking steps to address the issues noted.