FSC Forest Management
Certification
Third surveillance
Report for:
Open Bay Timber Ltd
in
Kokopo, East New Britain, New Guinea Islands (PNG)

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Report Finalized: 16 October 2019
Audit Dates: 22–26 July 2019
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Type of certificate: FM/CoC
Certificate code: NC-FM/COC-005600
Organisation Contact: Mr Yasutaka Nakai
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# TABLE of CONTENTS

INTRODUCTION........................................................................................................................................... 3

1 AUDIT CONCLUSIONS ............................................................................................................................... 4

2 AUDIT PROCESS ........................................................................................................................................ 38

3 COMPANY DETAILS ............................................................................................................................... 43

4 AUDIT AND NON-CONFORMITY FINDINGS ......................................................................................... 46
INTRODUCTION

This report presents the findings of an independent certification audit conducted by a team of specialists representing NEPCon. The purpose of the audit was to evaluate the ecological, economic and social performance of Open Bay Timber Ltd (OBT) forest management as defined by the Principles and Criteria established by the Forest Stewardship Council™ (FSC®).

This report contains various sections of information and findings and several annexes. Sections 1 to 4 will become public information about the forest management operation and may be distributed by NEPCon or the FSC to interested parties. The remainder of the annexes are confidential, to be reviewed only by authorized NEPCon and FSC personnel bound by confidentiality agreements. A copy of the public summary of this report can be obtained on the FSC website at http://info.fsc.org/.

Dispute resolution: If NEPCon clients encounter organisations or individuals having concerns or comments about NEPCon and our services, these parties are strongly encouraged to contact relevant NEPCon regional office. Formal complaints and concerns should be sent in writing.

Impartiality commitment: NEPCon commits to using impartial auditors and our clients are encouraged to inform NEPCon management if violations of this are noted. Please see our Impartiality Policy here: http://www.nepcon.org/impartiality-policy
1 AUDIT CONCLUSIONS

1.1 Audit Recommendation and certification decision

Based on Organisation’s conformance with certification requirements, the following recommendation is made:

☒ Certification approved: Upon acceptance of NCR(s) issued below

☐ Certification not approved:

Additional comments, including issues identified as controversial or hard to evaluate and explanation of the conclusion reached: N/A

1.2 Non-conformity Reports (NCRs)

Note: NCRs describe evidences of Organisation non-conformities identified during audits. NCRs include defined timelines for the Organisation to demonstrate conformity. MAJOR NCRs issued during assessments/reassessments shall be closed prior to issuance of certificate. MAJOR NCRs issued during annual audits shall be closed within timeline or result in suspension.

☐ Check if no NCR(s) have been issued

| NCR: 01/19 | NC Classification: Minor
| Standard & Requirement: | FSC-STD-PNG-01-2010 National Forest Management Standards for Papua New Guinea V1.1: 4.2.4 For large and medium scale operations; all equipment is subject to periodic inspection, testing and maintenance with regard to safety, as appropriate, and only equipment which has passed such tests is used.
| Report Section: | Annex I
| Description of Non-conformance and Related Evidence: | The FME’s Manager: Reforestation provided the Audit Team with a procedure entitled Guide for Daily Check-up/ Maintenance of Heavy Equipment, which includes the policy statement “It is OBT policy to keep all heavy equipment machineries in good condition to perform effectively and efficiently their functions/ usage.” While the Audit Team considered this procedure to represent an important component of the FME’s approach to keeping its equipment maintained and safe, it does not represent a system operating across the organisation and leading to periodic (i.e. regular) inspection, testing and maintenance with regard to the safety of the FME’s equipment.
| Corrective action request: | Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. |
Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

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<th>Timeline for Conformance:</th>
<th>By the next annual surveillance audit, but not later than 12 months from report finalization</th>
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<td>Standard &amp; Requirement:</td>
<td>FSC-STD-PNG-01-2010 National Forest Management Standards for Papua New Guinea V1.1: 4.2.5 For large and medium scale operations; hazardous areas and hazardous substances are identified, documented and demarcated.</td>
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<tr>
<td>Report Section:</td>
<td>Annex I, Criterion 4.2</td>
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<td>Description of Non-conformance and Related Evidence:</td>
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<td>During the evaluation, the Audit Team inspected a number of hazardous areas and sites, including the Workshop and the waste disposal areas, noting that the waste disposal areas were either not sign-posted, or poorly sign-posted, such that it was possible that waste would be disposed of in the wrong waste pit; or that accidents could occur with people accessing the area without realising the purpose of the site.</td>
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FSC FM Report
For large scale operations the forest manager shall ensure (re)training for key workers and landholders in first aid and community health awareness is done at least once a year.

Report Section: Annex I, Criterion 4.2

Description of Non-conformance and Related Evidence:

The Audit Team reviewed records relating to First Aid Training, provided to Reforestation personnel by the East New Britain Branch of the PNG Red Cross on 11-13 March 2019. The records included photographs taken during the training course; and copies of the certificates of attendance provided to participants. Other documentation reviewed by the Audit Team included a pre-test questionnaire, post-test questionnaire, and course evaluation form.

The Audit Team also reviewed training records showing that a selection of Open Bay Timber Ltd workers – those identified as OHAS representatives – had received first aid training during the audit period; and this was confirmed through interviews with workers in the field (e.g. at Block 13 on Tuesday 23 July). However, the Manager: Reforestation confirmed that the last community training in first aid and community health had been conducted at village level by the Public Relations Officer in 2017.

Corrective action request:

Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

Timeline for Conformance:

By the next annual surveillance audit, but not later than 12 months from report finalization

NCR Evaluation Type: On-site ✔ Desk Review ☐

Evidence Provided by Organisation:

PENDING

Findings for Evaluation of Evidence:

PENDING

NCR Status:

OPEN

Comments (optional):

NCR: 04/18 NC Classification: MAJOR

Standard & Requirement: FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 4.3.4

Report Section: Annex I, Criterion 4.3

Description of Non-conformance and Related Evidence:

4.3.4 A mechanism exists in which grievances related to working conditions (pay, accommodation, health, safety and training) are being recorded and that facilitates an appropriate resolution mechanism.

OBT have grievance resolution mechanism. This is implemented through placing complain box at strategic locations at Open Bay Base Camp facilities. This is communicated to the workers and surrounding local communities and reminded through weekly foremen meetings and regular community awareness meetings. The audit team reviewed the
complaint register and evidence record of array of request and grievances. Evidence pertinent to workers housing repair and maintenance, supply of timber for workers own housing and related facilities were recorded and responded. The OBT management responded that addressing workers housing is on priority list, however, due to its current financial constraints experienced it cannot fully meet the workers housing requests. However, the issue has been registered dating back 2-3 years with no significant improvement. The audit team site visit to single quarters housing has evidenced the deteriorated condition and associated toilet and bathing facilities need urgent maintenance. Water supply for drinking, bathing and toilet facilities have deteriorated and posed health risk for residents. The workers interviewed confirmed that request for OBT maintenance and improvement on housing and its facilities no positive response.

### Corrective action request:
Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

### Timeline for Conformance:
3 months from report finalization

### NCR Evaluation Type
On-site [ ] Desk Review [x]

### Evidence Provided by Organisation:
**Sept 2018** Evidence of corrective actions undertaken by OBT presented during report writing phase:
- OBT Management will continue to provide housing maintenance in married and single quarter. Carpentry section initiated the repair of single quarter (photos provided).

**July 2019 evidence:**
- Audit Team visit to single quarters (observations of facilities, interviews with workers) on Wednesday 24 July 2019
- Verbal advice from Senior Management and Manager: Reforestation as to what progress had occurred and how the FME was intending to proceed (summary provided in Opening Meeting, including photographs)
- Interview with 2iC of Carpentry Team (see details below)

### Findings for Evaluation of Evidence:
**September 2018 findings:** As documented in the photos, OBT has taken concrete steps in addressing condition of the single housing infrastructure. The completeness and effectiveness of these corrective actions will need to be evaluated in the field during the next surveillance audit.

**July 2019 findings:** The Audit Team inspected the single workers’ housing facility on Wednesday 24 July. The FME has assigned one of its Carpentry/ Civil Team workers to the task of building a new cookhouse, which the Audit Team observed to be only partially complete but taking shape in the centre of the single workers’ compound.

The FME reported that – regarding the single workers’ accommodation – carpentry work had occurred since the 2018 audit, including repainting and construction of a balustrade along one side of the workers’ rooms.
With regard to the facilities, the Audit Team confirmed the following through observations and interviews with single workers residing in the housing compound and a subsequent interview with the 2iC of the Carpentry Team:

- the rainwater/drinking water tank was being fed by rusty gutters, with discoloured water leaching from the sides of the water tank;
- there were no working showers: four showers on one side of the compound having been dismantled prior to their future reconstruction; and workers are therefore having to bathe and wash their clothes in the nearby creek (with, presumably, potential offsite impacts including eutrophication and contamination of downstream users’ drinking water);
- of six potentially useable toilets, only two were operable during the Audit Team inspection: one of the three on one side of the compound did not flush when the Audit Team members inspected it; and the three on the other side of the compound were not operable, being (as with the showers in the same room) in a state of repair. The Audit Team was advised that there are currently 27 occupants in the single workers’ quarters.

The Audit Team concluded that – while progress had been made in terms of the cookhouse, the painting and balustrade construction – the washing and bathing facilities available to the workers were potentially in a poorer state of repair than they had been during the 2018 audit; and it was possible that fewer facilities were available given the decommissioning of the showers and half of the toilets. Having only one Carpentry Team member involved in these works does not, in the Audit Team’s opinion, demonstrate an appropriate level of effort to address this issue, which the FME should have been aware of due to an OBS raised against the same requirement of the Standard (4.3.4) in 2017 (OBS 01/17).

Given the findings described above – and the requirement of the Standard (through this indicator) for a mechanism in which grievances related to working conditions are being recorded, with facilitation of appropriate resolution – the Audit Team concluded that the FME’s grievance procedure and its implementation have not at this stage facilitated an appropriate outcome.

**NCR Status:** OPEN

**Comments (optional):** NCR 04/18 is upgraded to major

**NCR: 04/19**

**NC Classification:** Minor

**Standard & Requirement:** FSC-STD-PNG-01-2010 National Forest Management Standards for Papua New Guinea V1.1: 4.4.3, 4.4.4

4.4.3: There are on-going, pro-active consultations, communications and meetings with stakeholders on social impact. For all scales of operations these actions should
focus on the village level and include general village meetings.

4.4.4: Corrective actions are taken, in consultation with stakeholders, to prevent and mitigate any negative social impacts.

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<th>Report Section:</th>
<th>Annex I, Criterion 4.4</th>
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<td><strong>Description of Non-conformance and Related Evidence:</strong></td>
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<td>During the evaluation, stakeholders provided feedback to the effect that the level of input to stakeholder consultation by the FME had decreased over the past year or two (possibly associated with a change in staffing of the Public Relations/ General Affairs Manager position); such that community members considered the consultation to be relatively ineffectual and of low priority to the Open Bay Timber Ltd. Furthermore, community members’ feedback is that the FME schedules community feedback sessions at inappropriate times and/or attends scheduled sessions at the wrong times. The FME was unable to provide the Audit Team with any documentation as evidence that community consultation activities had occurred during the audit period, or indeed the year prior to the audit. In reviewing the FME’s complaints files, the Audit Team also noted that – apart from one response relating to a serious medical issue – there were no recorded responses to complaints in the complaints folder. The Audit Team also observed that the complaints process appears to lack effectiveness such that – while the Manager: Reforestation responds to complainants, she then refers the complaint to the relevant OBT manager/staffer with a request that he or she follows up with the complainant – but no one appears to have the overall responsibility for ensuring that that follow-up action has occurred; and such action is not currently recorded.</td>
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<td><strong>NCR Evaluation Type</strong></td>
<td>On-site ☑️ Desk Review ☐</td>
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<td><strong>Evidence Provided by Organisation:</strong></td>
<td>August 2019: Prior to the Closing Meeting, the Manager: Reforestation and the Public Relations Manager provided the Audit Team with a document in tabular format summarising the outcomes of the complaints process, i.e. for each complaint received, which staff member handled the complaint following the initial response (in all cases provided by the Manager: Reforestation), the method used (e.g. meeting) and timing.</td>
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<td><strong>Findings for Evaluation of Evidence:</strong></td>
<td>August 2019: The Audit Team reviewed the information provided and confirmed that the record formed an important element of the requirements relating to community consultation and communications. However, a critical component of the process is consultation of the relevant stakeholders regarding the effectiveness and appropriateness of the corrective actions proposed to be taken to prevent and mitigate any negative social impacts.</td>
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The NCR therefore remains OPEN, to be evaluated at the next annual surveillance audit.

**NCR Status:** OPEN

**Comments (optional):**

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<td>Standard &amp; Requirement:</td>
<td>FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 5.5.2</td>
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<td>Report Section:</td>
<td>Annex I, Criterion 5.5</td>
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**Description of Non-conformance and Related Evidence:**

5.5.2 Forest management practices are planned and implemented so as to minimize negative impacts on services and resources.

5.5.2.1 Prescriptions in management plans and operational guidelines aimed at minimizing impact.

5.5.2.2 Field inspections of harvesting areas, log ponds and milling sites confirm prescriptions and guidelines are followed

OBT has approved (28/2/18) 5 year forest working plan (CY2015-2019) and Annual Operations Plan CY2017-2018 (approved 24/2/18). The 5 year FWP prescribe forest management activities at a landscape level, while Annual Operations Plan prescribe the management activities at 1 year operational level. Annual accomplishment report for 2017 has been approved by PNGFA which validates both levels of plan were in compliance with prescribe plan. However, based on audit team field observations in the field found important weaknesses in both the harvest planning and inconsistent implementation of approved plans resulting in violations of the PNG logging code of practice and risk of environmental damage to soil and water resources in harvest sites; The following examples were noted:

- FMU Loi LP, Block 5B, Compartment 4, evidence of existing main hauling track approximately 156m was re-opened into a protected area designated as greenbelt. The FME responded that the hauling track was built to ease transport of machinery for harvesting operation. Another main hauling track was indicated on the harvesting map that runs through a green belt in Loi Block11B, Comp.52b and provides alternate option for transport and accessibility. This track could have been used to avoid further degradation of the greenbelt. Unplanned skid trails and harvesting on the edges of that same green belt were noticed. There was clear overlap with the available operational maps used for harvesting. Given the biodiversity importance of the greenbelts (identified HCV) OBT should use the precautionary approach in relation to management activities in and around these areas to ensure that the value of these areas are enhanced rather than negatively impacted.

- In the same FMU, Loi LP, BLK 8A, Comp.39, evidence of skid trails on high slopes and consequent soil erosion was eminent due to absence of preventive measures, such as water bars were not erected after completion of harvesting operation.

- Harvesting and extraction of first rotation (*Eucalyptus deglupta*) were observed in defined buffer areas. The audit team verified with PNGFA approval letter and correspondences authorizing harvesting in buffer and annual accomplishment report to verify legal compliance. However, as per OBT long term commitment to uphold FSC certification under any circumstance as directed under Criterion 1.6 and related criteria, and forest management planning prescription and PNG logging code of practice, it does not conform accordingly to its management principles.
• In other areas it was observed that temporary culverts were not removed on creeks upon completion of harvest and plantation maintenance activities. This removal is necessary to allow free flow of water as per PNGLCOP.

• The harvesting plan document reviewed had errors and inconsistency in field implementation with construction of skid trails and log landing areas not approved in the harvesting plan.

The above mentioned deficiencies were found in specific areas and not reflective of practices across the FMUs, consequently the non conformance was graded as minor.

**Corrective action request:** Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:** 3 months from report finalization

**NCR Evaluation Type**

| Evidence Provided by Organisation: | Sept 2018 Evidence of corrective actions undertaken by OBT presented during report writing phase: OBT submitted an action plan for reducing harvesting impacts. The plan includes seven objectives with associated proposed actions, indicators of completion, target dates and persons responsible. OBT also provided the following summary of corrective actions:

1. Operation Senior Manager revised the Procedure Prior to Harvesting of Compartment in a Block on 20th July 2018. The portion added is paragraph # 3 and in paragraph # 9, third sentence: “Once some soil erosion or possibility of erosion is found, the Foreman/Supervisor will instruct actions to avoid any damage. If there is some change of plan of skid trail or landing, this shall be informed to Foreman/Supervisor, and the map shall be updated based on the actual operation”. The procedure serves as a guiding principle in operation area. See attached file.

2. Company will continue to improve its harvesting plan and implementation on the field.

3. Management decided to stop harvesting in buffer zone and continue to restore and enhance the area and the other HCV areas.

The decommissioning of temporary bridge built prior to harvesting of a compartment will be done 4-5 years later once the reforestation activities such as site preparation, picketing, planting and maintenance activities (ring weeding, tending, vine cutting) is completed. All these reforestation activities take 4-5 years to maintain. Depending on the area, the accessibility of a newly harvested compartment will be impossible if the temporary bridge will be removed immediately right after harvesting operation. Management takes into consideration the time, effort and cost of installation of bridge and other reforestation activities. Management will
check the built bridges in harvested compartments from previous years whether it is alright to remove or not

July 2019 evidence:
The Senior Manager: Operations/Reforestation/FSC provided copies of harvesting plans for the operational sites visited by the Audit Team during the evaluation. Otherwise, the evidence provided was based on field site visits, and interviews with workers and FME management.

Findings for Evaluation of Evidence:

September 2018; OBT identified corrective actions reflect analysis of some of the root causes of the negative impacts behind this NCR. The implementation and effectiveness of these corrective actions will need to be evaluated in the field during the next surveillance audit before the NCR can be closed.

July 2019:
The Audit Team visited an approved active harvesting site at Loi FMU, Blocks 13, 14 and 15; salvage logging and rehabilitation site Block 11B (Otley, Loi LP); and new planting site at Makolkol FMU, Block 7D, Compartment 9 (harvesting completed in May 2019). The sites were inspected and workers interviewed regarding the PNGFA approved plan; however, the Audit Team noted the following issues:

- Log landing in compartment 14 was not as defined in the approved plan, but constructed on the HCV boundary-buffer (Lake Toriu/Swamp).
- The minimum buffer on the HCV (Lake Toriu/Swamp) was not defined on the map which meant further risk of encroachment on the HCV despite creation of a 10–15m wide clearing to allow movement and visibility.
- In Makolkol FMU (Block 7D, Compartment 9) excessive siltation and inundation were noted downstream on a nearby creek and lower plains due to lack of water bars and diversion tracks having been created on the main skid trails on an erosive hill.

In September 2018, OBT committed to revising its operational procedures and stated that approved operation plans will be corrected in the field during actual harvesting operations. The buffer zone and skid trails were corrected during actual operations on the ground as per this statement. While this may correct the deficiency in the harvesting plan and lead to improvement in forest management practices, it does not represent conformity with requirements included in PNG LCOP and forestry regulations for pre/post harvest planning and commitment to addressing the root cause of the problem. Despite PNGFA’s approving the plan, the Audit Team concluded that the long-term maintenance of soil, water and High Conservation Values, and appropriate socio-economic outcomes, are not guaranteed.

| NCR Status: | OPEN |
| Comments (optional): | Upgraded to Major |
**NCR: 05/19**  |  **NC Classification: minor**  
**Standard & Requirement:** FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, Criterion 6.2  
6.2.2.a For large and medium scale operations employees, surrounding communities and contractors are trained in recognizing rare, threatened and endangered species of fauna and flora and are made aware of areas or zones set aside for their protection.  
6.2.2.1 Training records for employees, surrounding communities and contractors, and knowledge of protected areas, both verified by interviews.  
6.2.5 Measures are taken to prevent hunting, trapping, fishing, poaching or collecting of rare, endangered or threatened species of fauna and flora.  
6.2.5.1 Evidence of awareness given to employees, surrounding communities and contractors, confirmed by interviews.  
6.2.5.2 Corrective action taken on reported breaches.  

**Report Section:** Annex I, Criterion 6.2  

**Description of Non-conformance and Related Evidence:**  
Based on reviewing of records, and interviews with workers and community members at Open Bay Camp Market (23 July 2019), the Audit Team concluded that OBT has conducted training and awareness-raising focussing on RTE and HCV. The public noticeboards and sign boards have been erected and maintained to facilitate knowledge and encourage enhancement of RTE populations.  
The Audit Team confirmed – through interviews with OBT staff, and document review – that OBT maintains regular monitoring on all HCV sites based on management planning and conditions described in the FWP and annual operations plans. However, stakeholders interviewed confirmed that there is a lack of effective and regular awareness-raising provided to local communities and, as such, a lack of knowledge and adherence to this requirement from community members. The Audit Team confirmed that OBT training and awareness on HCV was last conducted in 2014.

**Corrective action request:** Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.  
Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:** By the next annual surveillance audit, but not later than 12 months from report finalization

**NCR Evaluation Type**  
On-site ☒  
Desk Review ☒

**Evidence Provided by Organisation:** PENDING

**Findings for Evaluation of Evidence:** PENDING

**NCR Status:** OPEN

**Comments (optional):**
### NCR: 06/19  
**NC Classification:** Major

#### Standard & Requirement:

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<tr>
<td><strong>6.7.1</strong> All non-organic waste products are identified and categorised.</td>
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<tr>
<td><strong>6.7.2</strong> All non-organic wastes (such as oil, tires, containers etc) are reused, recycled or disposed off as described under 6.7.3. Their production is kept to the lowest possible level</td>
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<tr>
<td><strong>6.7.3</strong> Environmentally appropriate methods for the disposal of non-biodegradable wastes that cannot be reused or recycled, are set out at identified appropriate locations. The methods as described in the PNG LCOP are used or if feasible methods of a higher environmental standard.</td>
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<tr>
<td><strong>6.7.5</strong> Waste disposal activities and practices are monitored.</td>
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<tr>
<td><strong>6.7.5.1</strong> Checks on waste disposal activities and practices are incorporated in the monitoring and review process as defined in Principle 8, and field inspections to evaluate their impact are part of this process.</td>
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#### Report Section:

**Annex I, Criterion 6.7**

### Description of Non-conformance and Related Evidence:

OBT has a waste management and monitoring plan: *Environmental Management, Monitoring and Waste Management Plans of Open Bay Timber Ltd (OBT) (Timber Permit No. 15-53) for the OBT Consolidated State Land Purchased (LP) areas of Kaboku, Makolkol, Loi, Memvelo; and Timber Rights Purchased (TRP) Areas of Aghaghat, Dengnagi, Kaboku, Loi, Makolkol, Sulka-Mengen, Simbali and Tomoip; January 2016;* and interviews conducted by the Audit Team confirmed that workers have received training on waste management.

There are three waste disposal pits at Loi FMU (Block 8A, Compartment 7; and Block 11B), which the Audit Team inspected on Tuesday 23 July.

Adjacent to the main Workshop, the Audit Team – during their inspection on Wednesday 24 July – identified three 44-gallon drums filled with unsegregated oily soil and sawdust, traces of metal, plastics, oily carton boxes, etc., ready for disposal (according to Workshop staff) at the waste pit in Loi FMU. The single quarters’ residence (also inspected by the Audit Team on 24 July) was also observed to have been provided with waste bins; however, inadequate implementation of the FME’s requirement to correctly identify and categorise wastes was observed.

During the inspection of the main Workshop, the Audit Team also observed piles of broken-down machines and equipment. The workers confirmed that parts of these machines and equipment were reused. No recycling specialists operate in PNG; and the Workshop and OBT management staff confirmed that attempts were made to ship waste metal products overseas but these failed due to high freight charges.

In addition to the observations described above regarding the FME’s established waste disposal pits, and the requirement that environmentally appropriate methods are used for the disposal of non-biodegradable wastes that cannot be reused or recycled:

- The Audit Team observed unsegregated waste materials (plastics, tires, sawdust, tins, oily soil, organic waste) at the waste pit designated for metals and tires at Loi FMU Block 8A;
• The same was noted in the domestic waste pit at Loi FMU Block 8A, Compartment 7, where unsegregated metals, plastic, papers/cartons, tires, and metal products had been disposed of;

• The oil waste pit (Loi FMU, Block 11B) had no fence and was covered with overgrown vegetation – so that it was obscured to traffic and posed a danger such that wildlife and people could fall into it. In addition, the oil waste pit was located a few meters’ distance from the main hauling road and was exposed to the potential risk of spill/overflow from future widening of the East–West New Britain Highway;

• The management of liquid waste derived from the main Workshop was not according to the methods described in the PNG LCOP, Section E (page 54). The Audit Team observed that the stormwater and washwater were contaminated with oil and fuel and were being channeled behind the main Workshop without the required collection point and flow breakers.

• In the generator shed, the Audit Team observed that the distance between the oil separator and final discharge was approximately 5 meters. As a result, inundation and backflow were evident and risked overflow in the oily water separator. The same situation was noticed in the oily water separator located at the main Workshop, which posed a risk of oil overflow into the mangrove swamp behind the Workshop.

Based on field observations and interviews with workers and OBT management staff, it was evident to the Audit Team that the FME was not implementing, monitoring and enforcing its own waste management procedures.

Corrective action request: Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

Timeline for Conformance: 3 months from report finalization

NCR Evaluation Type

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Findings for Evaluation of Evidence: PENDING

NCR Status: OPEN

Comments (optional): See also findings in relation to 6.7.5, and CEPA’s requirement that the FME review and update its Waste Management Plan and submit for approval; see 6.7.5, Annex I below.

NCR: 07/19

NC Classification: minor


6.9.2 Measures are taken to avoid the unintentional invasion of exotic species through ensuring any equipment arriving from other forest regions is thoroughly clean and free of soil, seed and vegetative matter.
6.9.2.1 Procedures for checking and cleaning arriving equipment.
6.9.2.2 Staff specifically trained for and assigned to this task

Report Section: Annex I, Criterion 6.9

Description of Non-conformance and Related Evidence:
The Audit Team verified that OBT has a procedure (OBT Procedure on Discharging Cargoes) designed to guide appropriate discharge of cargoes and ensure invasive species are not introduced in the waters adjacent to the FME’s logpond. There are two management staff (Operation Manager, and Log Pond Manager) recognised as having responsibility for the implementation of the procedure. However, since 2017, an increase in operations by other logging companies has been noted in the vicinity of OBT FMUs. OBT management staff confirmed that the FME has engaged with KCL Ltd, allowing this company to use OBT logging roads in Kaboku and Makolkol FMUs for hauling of natural forest logs; while VJ Ltd has established a logpond next to OBT’s logpond. In addition, the East–West New Britain Highway has recently been opened, connecting the two provinces and running through Open Bay FMUs.

The Audit Team consider that these changes already pose a risk of introduction of potential invasive species within OBT FMUs. Audit Team members interviewed OBT management staff and reviewed the procedure for checking and cleaning the arriving equipment and cargoes; and concluded that the procedure had not been updated to cater for these changes described above.

Corrective action request: Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

Timeline for Conformance: By the next annual surveillance audit, but not later than 12 months from report finalization

NCR Evaluation Type: On-site ✗ Desk Review ✗

Evidence Provided by Organisation: PENDING

Findings for Evaluation of Evidence: PENDING

NCR Status: OPEN

Comments (optional):
In the field on 23 July 2019, the Audit Team reviewed the relevant harvesting plan, which included the correspondence (and approval) from the PNG Forest Authority; as well as field level topographic maps that had been prepared by the FME prior to logging.

While topographic maps are prepared prior to logging or road construction, the Audit Team noted some issues with the level of detail of maps as well as their accuracy – including in relation to the positioning of roads, reserve areas contiguous with roads, and other assets; and road construction following approval of the operation and prior to the commencement of harvesting. As the FME’s mapping system appears to be generally reliable, and its Geographic Information System (GIS; reviewed on the first day of the evaluation) appears robust, a minor NCR is raised.

| Corrective action request: | Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.  
Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance. |
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NCR: 09/19  
NC Classification: Minor

| Standard & Requirement: | FSC-STD-PNG-01-2010 National Forest Management Standards for Papua New Guinea V1.1: 7.3.1, 7.3.4  
7.3.1: FMP revised at least every five years; with procedures for incorporation of monitoring data into the MP process  
7.3.4: Ongoing socio-economic information and research results are, incorporated into management planning. |
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<tr>
<td>Report Section:</td>
<td>Annex I, Criterion 7.3</td>
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| Description of Non-conformance and Related Evidence: | The FME’s current Forest Management Plan covers the period 2015–2019, and so will be due for revision within the next six months. (The requirement for the Plan’s review every five years is described in section 8.1 (Periodic review) of the Forest Management Plan.)  
Open Bay Timber Ltd’s Manager: Reforestation advised the Audit Team that revision of the FMP had already commenced through discussions with the senior management team.  
However, the FME was unable to provide the Audit Team with any procedures describing the incorporation of monitoring data into the management planning process. In addition, the Audit Team verified that not all monitoring results are included in annual management plan update.  
Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. |
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<tr>
<td>Report Section:</td>
<td>Annex I, Criterion 7.4</td>
</tr>
<tr>
<td>Description of Non-conformance and Related Evidence:</td>
<td>There are up-to-date records of all training provided to forest workers, with individual training records for each employee.</td>
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<td>Corrective action request:</td>
<td>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</td>
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<td>7.5 While respecting the confidentiality of information, forest managers shall make publicly available a summary of the primary elements of the FMP, including those listed in Criterion 7.2.</td>
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<td>Report Section:</td>
<td>Annex I, Criterion 7.5</td>
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<tr>
<td>Description of Non-conformance and Related Evidence:</td>
<td>The Audit Team reviewed examples of the public summaries (in both English and Pidgin language) of the FME’s Forest Management Plan (Forest Work Plan) and confirmed that they do not include all the requirements described in Criterion 7.2. For example, plans for the identification and protection of RTEs are not included. This finding was confirmed by the Manager: Reforestation.</td>
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<td>Corrective action request:</td>
<td>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</td>
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<td>8.1.1a: For large and medium scale operations: A written monitoring and assessment plan shall be implemented and kept up to date. The long-term objectives of monitoring and assessment, the means of achieving them, and the justification for its frequency and intensity shall be clearly stated. Monitoring and assessment is done at least once every year.</td>
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<td>8.1.4: Records of monitoring activities are available.</td>
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**Report Section:** Annex I, Criterion 8.1  
**Description of Non-conformance and Related Evidence:**

OBT provided the Audit Team with its Monitoring and Evaluation Plan (MEP), which includes objectives, key strategies (means of achieving the objectives) and indicators (with verifiers for achieving them) for the following administrative/operational areas: carpentry/civil works, administration, main Workshop, Log pond, roads, trade store, logging, sawmill, and reforestation. Parameters monitored by the FME include monitoring records for safety, HCV, pre- and post-harvest activities, soil parameters including soil hardness, rainfall data, Open Bay Camp Market sellers, water quality, rainfall data, health (Clinic) statistics, waste management, PPE, PSPs, machinery and civil works, degraded site restoration, Chain of Custody, and some household census and socio-economic condition (SEIA) data are kept and updated in the management plan and these were provided to the Audit Team as part of the MEP.

In the context of the requirement to justify the frequency and intensity of monitoring, the Audit Team noted that relevant details are included in the Environmental Management, Monitoring and Waste Management Plans of Open Bay Timber Ltd (2006).

Following their review of the MEP, however, Audit Team concluded that:

- The socio-economic survey forms used by the FME lack the key change element as required in Indicator 8.2.6, as follows:
  - population and demographic changes
  - educational status
  - social structures
  - equity and distribution of any benefits
  - level of employment and training received.
  
  i.e. these elements were not updated and implemented.

  The Audit Team determined, therefore, that the socio-economic data collected via the census forms in CY 2018 was incomplete, with relevant elements on the forms having been skipped and inconsistently completed.

- Training focusing on monitoring and evaluation was conducted by OBT in 2014 for all sections of the FME; with records of initial monitoring and evaluation for the sawmill and carpentry sections available in 2014 – but not for the succeeding years to 2019.

- The Audit Team noted inadequate practices and lack of monitoring and enforcement resulted in a failure to maintain appropriate waste categorization and disposal at the OBT waste pits at Loi FMU, main Workshop and single quarters’ residence. (Refer major NCR 06/19.)

- According to the Monitoring and Evaluation Plan (MEP) and related procedures, the relevant monitoring database is maintained at OBT Camp. The Audit Team reviewed various records relevant to this requirement, including various monitoring records as described against 8.1.1a. While most of the requirements of this indicator are met, the Audit Team noted a gap in that household census survey data for CY 2018 was incomplete, with inconsistency noted in use of the forms despite some relevant information being collected.

- CEPA conducted an independent audit (December 2018); and provided the FME with Environment Compliance Inspection Report for the inspection conducted in January 2019. The CEPA report requires OBT to review and update its Waste Management Plan including its monitoring mechanisms, then re-submit, and maintain timely performance reporting. Since the CEPA report was received in July 2019, OBT has not addressed the report recommendations.

The Audit Team concluded that OBT demonstrates that its Monitoring and Evaluation Plan (MEP) is implemented, leading to input to and improvement of forest management practices.
activities in all FMUs; however, there are gaps in its procedures and issues with the timely implementation of the monitoring programme; and a minor NCR is therefore raised.

**Corrective action request:**
Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.
Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:**
By the next annual surveillance audit, but not later than 12 months from report finalization

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| **Standard & Requirement:** | FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 8.2.6  
*Socio-economic changes in local communities within the forest management unit or directly affected by the operation are surveyed and assessed. These include:*  
- population and demographic changes  
- health status  
- educational status  
- social structures  
- economic status, including household income and economic activities  
- equity and distribution of any benefits  
- level of employment and training received.  
*When the FMU comprises of a large number of communities a risk based selection of communities may be used* |
| **Report Section:** | Annex I, Criterion 8.2 |

**Description of Non-conformance and Related Evidence:**
Through a third-party consultant, Barefoot Community Service Ltd, OBT has conducted a baseline SEIA report (2010). This study provides baseline information on the livelihood patterns and income generation, access to social services, infrastructure and environmental impact. The sellers’ survey has been conducted on a fortnightly basis at Open Bay Camp Market, with OBT having appointed several community representatives in various local communities to carry out community census surveys, and monitor daily access and use of health services at the Clinic.
The Audit Team noted (primarily through interviews) that engagement is facilitated through the appointment of a full-time Public Relations Officer; and OBT maintains a complaints box – the inputs to which are used as input to the FME’s community socio-economic management plan. However, the Audit Team concluded that the OBT census/SEIA forms were inadequately designed to assess the following socio-economic elements:

- population and demographic changes
- educational status
- social structures
- equity and distribution of any benefits
- level of employment and training received.

**Corrective action request:** Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:** By the next annual surveillance audit, but not later than 12 months from report finalization

**NCR Evaluation Type**
- On-site [ ]
- Desk Review [x]

**Evidence Provided by Organisation:** PENDING

**Findings for Evaluation of Evidence:** PENDING

**NCR Status:** OPEN

**Comments (optional):**

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**Standard & Requirement:** FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 8.2.7

*Monitoring of environmental impact includes waste management*

**Report Section:** Annex I, Criterion 8.2

**Description of Non-conformance and Related Evidence:**

Based on the OBT Waste Management Plan (2006), OBT completed a logging waste assessment for CYs 2018 and 2019; with this reviewed by the Audit Team. The waste collection datasheet has been maintained for the following OBT sections: reforestation, Main Camp area, and disposal pits for 2018 and 2019. The Audit Team confirmed that OBT submitted a summary of its Environment Performance Compliance Report (CY 2018) to CEPA, with this highlighting key performance indicators as follows: buffer, erosion control, operations, waste management and rehabilitation.

CEPA conducted an independent audit (December 2018); and provided the FME with Environment Compliance Inspection Report for the inspection conducted in January 2019. The CEPA report requires OBT to review and update its Waste Management Plan including its monitoring mechanisms, then re-submit, and maintain timely performance reporting. Since the CEPA report was received in July 2019, OBT has not addressed the report recommendations. The Audit Team finding against Indicator 8.1.1a (above)
endorses the finding that the requirement of this indicator (i.e. 8.2.7) is inadequately addressed.

**Corrective action request:**

Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.  
Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:**

By the next annual surveillance audit, but not later than 12 months from report finalization

**NCR Evaluation Type**

On-site ✔ Desk Review ☐

**Evidence Provided by Organisation:**

PENDING

**Findings for Evaluation of Evidence:**

PENDING

**NCR Status:**

OPEN

**Comments (optional):**

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**NCR: 15/19**

**NC Classification:** minor

**Standard & Requirement:**

FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 8.4.1, 8.4.2

8.4.1 Monitoring data is analyzed, reviewed and resulting action to mitigate the negative impacts and reinforce the positive impacts of forest management activities and harvest of forest products must be demonstrated.

8.4.1.1 There is evidence in the field that alterations in the management plan have been implemented.

8.4.2 The management plan includes a list of all alterations made.

**Report Section:**

Annex I, Criterion 8.4

**Description of Non-conformance and Related Evidence:**

OBT provided its five-year FMP/Forest Work Plan (CY 2015–2019), Annual Operations Plan for CY 2019, and its monitoring records. The Audit Team verified that monitoring has been implemented for various parameters (see findings against 8.1.1a and 8.1.4, above.

The Audit Team noted that some monitoring data (Clinic data, Open Bay Camp Market seller survey, rainfall, soil hardness test, and water quality test, and summary of the evaluation of the data) has been incorporated in the FWP and Annual Operations Plan. In addition, the FME has established PSPs and is using data collected to determine the growth yield, pre-commercial thinning, and invasiveness of exotic species; with rehabilitation efforts improved through monitoring of post-harvesting operations.

However:

- OBT’s Waste Management Plan and monitoring mechanism require revision and update as per CEPA Environmental Compliance Inspection Report (refer findings against indicators 8.2.7, 6.7.1, 6.7.2, 6.7.3 and 6.9.2)
- OBT census/ SEIA forms were inadequately designed to assess changes in population and demographic changes, education status, social structures, equity and distribution of any benefits, level of employment and training received (refer findings relating to indicators 8.1.1a and 8.2.6)

- Within the pre-harvest planning and post-harvest procedures, the Audit Team noted inadequate practices. Monitoring and evaluation outcomes do not feed back to mitigate negative impacts within the Annual Operations Plan and actual field implementation (findings relating to indicator 5.5.2; and see NCR 02/18 which is upgraded to major).

The five-year Forest Work Plan (FMP; CY 2015–2019) and Annual Operations Plan (CY 2019) do not include the list of all alterations made.

The Audit Team concludes that – although OBT demonstrates significant efforts in its monitoring of key elements of its forest management operations and improvement of its practices – the requirements of these indicators are only partially met.

**Corrective action request:** Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:** By the next annual surveillance audit, but not later than 12 months from report finalization

**NCR Evaluation Type**

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**NCR Status:** OPEN

**Comments (optional):**

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**NCR: 16/19**

**NC Classification:** minor

**Standard & Requirement:**

FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1

8.5.1 An additional public summary is not required if the main monitoring report itself is made publicly available.

8.5.2 For medium and large scale operations the public summary is updated at least annually

8.5.4 The summary shall have either a Tok Pisin or a Hiri Motu translation, or there should be a translation into another widely used regional language such as Kuanua or Dobuan.

**Report Section:** Annex I, Criterion 8.5

**Description of Non-conformance and Related Evidence:**

The FME’s monitoring data analysis and summary report was provided in the five-year Forest Work Plan (FMP; CY 2015–2019) and Annual Operations Plan (CY 2019), with the information included described above. The report including some of the data was posted on the OBT noticeboard in the main office. However, the Audit Team noted a lack of
consolidation of all monitoring data for OBT forest management activities and they were not publicly available.

During the report-writing phase, OBT undertook actions to address the identified non-conformities by providing the following:

- Summary of CY 2018 Annual Accomplishment Report (English and Tok Pidgin versions)
- CY 2018 Summary of Monitoring for respective sections (English version)

The Audit Team evaluated the evidence provided and noted that the above documents were posted on the public noticeboard and dated 30 July 2019. The CY 2018 Summary of Monitoring emphasised OBT annual productivity in reforestation and the target to be harvested and exported (timber volume) in CY 2018. It stated that it provided other support and community services (including health-related) but did not specify the main socio-economic services the FME provided.

The Audit Team concluded that the evidence provided was insufficient because the specific requirement in Criterion 8.5 – to include the monitoring indicators described in Criterion 8.2 (for example, cost of production, socio-economic impact, and PSPs for plantation growth and yield) – was not met.

Based on the findings described against Indicator 8.5.1, the requirement of Indicator 8.5.2 is inadequately addressed.

In addition, the Audit Team was not provided with a Tok Pisin or a Hiri Motu translation of the summary; nor the summary translated into another widely used regional language such as Kuanua or Dobuan, as required by Indicator 8.5.3.

**Corrective action request:** Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:** By the next annual surveillance audit, but not later than 12 months from report finalization

**NCR Evaluation Type**

- On-site
- Desk Review

**Evidence Provided by Organisation:**

**August 2019:**

During the report-writing phase, OBT undertook actions to address the identified non-conformities by providing the following:

- Summary of CY 2018 Annual Accomplishment Report (English and Tok Pidgin versions)
- CY 2018 Summary of Monitoring for respective sections (English version) (posted on public noticeboard)

**Findings for Evaluation of Evidence:**

**August 2019:**

The Audit Team evaluated the evidence provided and noted that the above documents were posted on the public noticeboard and dated 30 July 2019. The CY 2018 Summary of Monitoring emphasised OBT annual productivity in reforestation and the target to be harvested and exported (timber volume) in CY 2018. It stated that it provided other support and community services (including health-related) but did not specify the main socio-economic services the FME provided.
The Audit Team concluded that:

- in relation to requirement 8.5.2, the evidence is sufficient and this part of the NCR can be closed;
- in relation to indicators 8.5.1 and 8.5.4, the evidence provided was insufficient because the specific requirement in Criterion 8.5 – to include the monitoring indicators described in Criterion 8.2 (for example, cost of production, socio-economic impact, and PSPs for plantation growth and yield) – was not met.

**NCR Status:** OPEN

**Comments (optional):** NCR 16/19 to be addressed during next annual surveillance audit now relates only to indicators 8.5.1 and 8.5.4.

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**NCR: 17/19**

**NC Classification:** Minor

**Standard & Requirement:** FSC-STD-PNG-01-2010 National Forest Management Standards for Papua New Guinea V1.1

10.6.4 Evidence of a protection strategy for water and soil resources, including erosion and pollution control, and monitoring of any impacts.

**Report Section:** Annex I, Criterion 10.6

**Description of Non-conformance and Related Evidence:**

While the Audit Team noted that Open Bay Timber Ltd generally works to the requirements and recommendations of the *PNG Logging Code of Practice*, as well as internal Forest Work Plan (FMP) and associated procedures, an inconsistent approach taken by the FME in relation to erosion control was identified during the audit; such that soil and water resources were being adversely impacted. The Audit Team observed, for example, sub-optimal site and soil management practices on Block 7D, Compartment 9 on 23 July 2019, with excessive siltation and inundation caused downstream in an adjacent creek and lower plains, due to lack of water bars and diversion tracks on the main skid trails on an erosive hillside. (See also MAJOR NCR 02/18, regarding Indicator 5.5.2.)

**Corrective action request:** Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:** By the next annual surveillance audit, but not later than 12 months from report finalization

**NCR Evaluation Type**

On-site [X] Desk Review [ ]

**Evidence Provided by Organisation:** PENDING

**Findings for Evaluation of Evidence:** PENDING
<p>| NCR Status: | OPEN |
| Comments (optional): | |
| NCR: 18/19 | NC Classification: minor |
| Standard &amp; Requirement: | FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 10.8.3 Monitoring of socio-economic impacts covers the communities within or adjacent to the plantation and directly affected by the operation. Specific attention is paid to user and access rights and distribution of benefits associated with the plantation. |
| Report Section: | Annex I, Criterion 10.8 |
| Description of Non-conformance and Related Evidence: | As described elsewhere in this report, the FME engaged Barefoot Community Services Ltd to conduct the SEIA (2010). The OBT Public Relations Officer focusses on community engagement and partnerships. The FME and has put up complaints boxes at its camp sites, receiving grievances and evaluating respective requests. Based on these initiatives, OBT have developed a Community Management Plan and Guidelines with clear long-term and short-term goals, key outputs, budget and timeframe. Records evaluated by the Audit Team provided evidence that OBT is following the Plan to deliver community services. The monitoring of socio-economic benefits has been provided through the records of health services received at the Clinic, fortnightly market sellers survey, and annual census conducted through community representatives. Also, OBT has supported sporting activities at Open Bay as well as Kokopo, and provides banking facilities for the workers and local community. The communities have confirmed through interview that local tenure and user rights to access and use forest and services are well respected and allowed. However, the Audit Team evaluated the census forms used to assess SEIA and concluded that they lacked relevant elements on assessing the distribution of benefits associated with, for example, royalty payments, short-term contract employment for individuals and groups, and employment of its workers. The census forms do not address the relevant requirements in findings 8.2.6. |
| Corrective action request: | Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance. |
| Timeline for Conformance: | By the next annual surveillance audit, but not later than 12 months from report finalization |
| NCR Evaluation Type | On-site ☒ Desk Review ☐ |
| Evidence Provided by Organisation: | PENDING |
| Findings for Evaluation of Evidence: | PENDING |
| NCR Status: | OPEN |
| Comments (optional): | |</p>
<table>
<thead>
<tr>
<th>NCR: 19/19</th>
<th>NC Classification: minor</th>
</tr>
</thead>
</table>
| **Standard & Requirement:** | NEPCon Chain of Custody Standard for Forest Management Enterprises  
1.3: FME procedures/work instructions shall provide effective control of FSC certified forest products from standing timber until ownership is transferred at the forest gate |
| **Report Section:** | Annex II, Part C |
| **Description of Non-conformance and Related Evidence:** | The Audit Team verified that the FME’s Chain of Custody documentation describes the procedures for physical separation of FSC-certified from non-FSC-certified logs, and the means of identification of logs from the harvesting site to the Log pond and then loading on the vessel. Part B of the FME’s Chain of Custody procedures (Annex 2: Procedural System/ Policy Statement: FSC FM/COC) describes the requirements for the FSC certificate registration code and the FSC claim (as FSC 100%) to be included on the sales and shipping documentation; as well as procedures to ensure that non-FSC-certified material is not represented as FSC-certified. Part C, #7 of Annex 2 includes the statement that all relevant documents shall be maintained for a minimum period of five years. An addendum to the COC Policy Statement (item C) describes in detail the ‘ground rules’ for use of FSC labels and FSC trademark (for both on-product and promotional use). However, the Audit Team noted that appropriate procedural requirements – relating to Transaction Verification and fiber testing – are missing from the FME’s Chain of Custody procedures. |
| **Corrective action request:** | Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.  
Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance. |
| **Timeline for Conformance:** | By the next annual surveillance audit, but not later than 12 months from report finalization |
| **NCR Evaluation Type** | On-site ☐ Desk Review ☒ |
| **Evidence Provided by Organisation:** | PENDING |
| **Findings for Evaluation of Evidence:** | PENDING |
| **NCR Status:** | OPEN |
| **Comments (optional):** | |

<table>
<thead>
<tr>
<th>NCR: 20/19</th>
<th>NC Classification: Minor</th>
</tr>
</thead>
</table>
| **Standard & Requirement:** | Requirements for use of the FSC® trademarks by certificate holders, FSC-STD-50-001 V2-0:  
1.5 The organization shall either have an approved trademark use management system in place or submit all intended uses of FSC trademarks to its certification body for approval. |
5.5 When referring to FSC certification without using FSC logo or ‘Forests For All Forever’ marks, the license code shall be included at least once per material.

Report Section: Annex II, Part 5

Description of Non-conformance and Related Evidence:

Prior to the evaluation, the Audit Team noted that the FME was mentioned in a press release (downloadable from the Sumitomo Forestry (Singapore) Ltd site; http://www.sfspore.com.sg/) dated October 2011 regarding Open Bay Timber Ltd’s successful certification to FSC FM/COC; which uses, several times, two versions of the FSC trademark. The FME confirmed that it does not have approval for this use; and nor is the FME's FSC license code included as required by V2-0 of the Trademark Standard.

Corrective action request: Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

Timeline for Conformance: By the next annual surveillance audit, but not later than 12 months from report finalization

NCR Evaluation Type

Evidence Provided by Organisation:

Prior to the Closing Meeting, the Senior Manager: Operations/ Reforestation/ FSC, removed the press release from Sumitomo Forestry (Singapore) Ltd’s website (http://www.sfspore.com.sg/).

Findings for Evaluation of Evidence:

The Audit Team reviewed the Sumitomo website and verified that the press release was no longer available. Prior to the Closing Meeting, the Senior Manager: Operations/ Reforestation/ FSC submitted a request for use of the press release to NEPCon’s FSC Trademark approval agent based in Bali (copying the Auditor) and, at the time of the Closing Meeting, was awaiting approval for the trademark use.

NCR Status: CLOSED

Comments (optional): Not applicable.

1.3 Observations

Note: Observations are issued for the early stages of a problem which does not of itself constitute a non-conformance, but which the auditor considers may lead to a future non-conformance if not addressed by the organization; observations may lead to direct non-conformances if not addressed.
### OBS: 01/19

**Standard & Requirement:**
FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1: 4.2.8a For large scale operations the forest manager shall ensure (re)training for key workers and landholders in first aid and community health awareness is done at least once a year.

**Description of findings leading to observation:**
One of the attendance record sheets relating to the FME’s March 2019 First Aid Training was filled in by one person, with no signatures provided.

**Observation:**
The FME should ensure that its training records are appropriately completed.

### OBS: 02/19

**Standard & Requirement:**
FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1: 10.7.2 Where pesticides and fertilisers are required preference should be given to those approved by international ‘organic’ standards.

**Description of findings leading to observation:**
While the FME does not use chemical pesticides and uses fertilizer only in its nursery, the fertiliser is not a type approved by an international ‘organic’ standard.

**Observation:**
Open Bay Timber Ltd should ensure the fertiliser used in its nursery is a type approved by an international ‘organic’ standard.
1.4 Stakeholder consultation

The purpose of the stakeholder consultation strategy was threefold:

- To ensure that the public is aware of and informed about the assessment process and its objectives;
- To assist the field assessment team in identifying potential issues; and,
- To provide diverse opportunities for the public to discuss and act upon the findings of the assessment.

This process is not just stakeholder notification, but to the maximum extent possible, detailed and meaningful stakeholder interaction. The process of stakeholder interaction does not stop after the field visits, or for that matter, after even a certification decision is made. NEPCon welcomes, at any time, comments on certified operations and such comments often provide a basis for field assessment.

In the case of Open Bay Timber Ltd, prior to the annual audit, a public consultation stakeholder document was developed and distributed by email. This list also provided a basis for the assessment team to select people for interviews (in person or by telephone or through email). Public meetings were also held prior to the annual surveillance audit; in Port Moresby and Kokopo, on Friday 19 July and Saturday 20 July 2019, respectively.

<table>
<thead>
<tr>
<th>Stakeholder Type</th>
<th>Stakeholders Notified (#)</th>
<th>Stakeholders consulted directly or provided input (#)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National/International NGOs</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Local/Regional NGOs</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Local Community members</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Government Agency</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Labor Union</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certified Companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Individuals</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principle/Subject Area</th>
<th>Stakeholder comment</th>
<th>NEPCon response</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1: FSC Commitment and Legal Compliance</td>
<td>At a stakeholder meeting at Kokopo on 20 July 2019, a stakeholder raised the issue of OBT being in arrears regarding its land rental payments for current year(s).</td>
<td>Regarding rental payments, the Audit Team was provided with documentation as evidence that Open Bay Timber Ltd was up-to-date with all payments to PNG Forest Authority; with the latest payment (approx. 50,000 kina) paid in January 2019 and representing back payments for 2017, and annual rental payments for 2018 and 2019. The Managing Director, Mr Yasutaka Nakai, confirmed that all rental payments to PNG Forest Authority, were up-to-date.</td>
</tr>
<tr>
<td></td>
<td>At stakeholder meetings at Port Moresby on 19 July 2019, and</td>
<td>Regarding OBT’s annual monitoring,</td>
</tr>
</tbody>
</table>
Kokopo on 20 July, participants raised the following issues in relation to P1:

- Completion of annual monitoring by PNG Conservation and Environment Protection Authority (CEPA) on FME environment impact assessment performance;

- Concessions adjacent to OBT posing a potential threat to the FME’s State Government lease, and the dispute that developed as a result of the presence of another company operating in this area.

Based on the summary of annual environment compliance reports for 2013–2016 and 2017–2018, submitted by the FME, the PNG Conservation and Environment Protection Authority (CEPA) conducted an environment compliance inspection site visit on 10 January 2019; with the report (Conservation and Environment Protection Authority (CEPA): Environment Compliance Inspection Report for Open Bay Timber Operations, East New Britain Province, 8–13 January 2019; Compliance Officer: Robert Sine) being received by OBT on 12 July 2019.

The Audit Team determined that KCL Ltd is carrying out natural forest logging in the forest area adjacent to OBT’s operations. According to PNG Forest Authority (the permit issuing agency), the operation has no compliance issues in relation to OBT FMUs.

According to interviews with OBT management, Open Bay Timber Ltd and KCL Ltd have agreed to a sublease arrangement for road access, with KCL Ltd paying K0.50/m³ (hauled log volume) to OBT.

VJ Ltd is another company operating adjacent to OBT FMUs, establishing a logpond next to OBT’s logpond. The land dispute issue has been settled through the land dispute settlement process; and VJ Ltd has agreed to operate respecting OBT’s operation in Open Bay.

Mevelo FMU is not included in the scope of the certificate, and therefore not of the audit.

However, OBT advised the Audit Team that it intends to develop OBT as per the Project Development Agreement. There was a court injunction from 2013–2017 between OBT and Tzen Niugini, resulting from boundary intrusion and, now that it is resolved, OBT’s intention was to develop Mevelo by 2018 but has been hindered by its current...
positive management decision has been received. This situation is affecting benefits for the State (PNGFA as State lease holder) as well as landowners. According information presented at the interview, PNGFA intends to request that OBT management explains – through a ‘show cause notice’ – why the Mevelo FMU has not yet been developed. Forfeiture of Mevelo FMU would be considered based on the outcomes of the ‘show cause’ process.

**P2: Tenure & Use Rights & Responsibilities**

- No issues raised
- N/A

**P3 – Indigenous Peoples’ Rights**

- No issues raised
- N/A

**P4: Community Relations & Workers’ Rights**

During stakeholder consultation in Port Moresby (20 July 2019), staff from PNG Forest Certification Inc. raised the issue of OBT’s needing to educate and raise awareness – with local communities – of FSC certification and related benefits, taking an inclusiveness approach.

On 23 July 2019, PNGFA field officers were interviewed at Open Bay and raised the following concerns:

- An increase in migration due to Open Bay area being declared by Government a ‘proposed town area’; as well as the opening of the East–West New Britain Highway. As such, there is a need for basic services in Open Bay (e.g. health, education) and it is challenging for OBT to meet this expectation;

- Community reports of regular instances of child deaths in the Open Bay Sub-Health Centre (Clinic) due to unqualified health workers.

OBT maintains an FSC Department and Public Relations Officer, with the latter conducting regular education and awareness-raising activities.

Open Bay Timber Ltd has a Social Management Plan (2018) which has been developed and implemented based on community engagement, including through the Public Relations Officer and feedback received via the OBT complaints box.

The Audit Team OBT no longer permits East New Britain PG Health workers to be based in Open Bay Sub-health Centre (Clinic). There are five registered Community Health Workers (CHWs) and three unregistered CHWs in the Clinic. These latter need to do on-the-job training as a prerequisite to CHW registration. There is also a Health Extension Officer (HEO) based in the Clinic, working as Officer in Charge of the Clinic.

OBT provides medicines to complement support provided by
▪ OBT has not social management plan to control these increasingly common social issues/concerns/challenges.

▪ Communication infrastructure issue in Open Bay area: network signal through Digicel tower is poor, and is adversely affecting external communications. OBT should support communication with Digicel to fix the network and coverage in Open Bay area.

▪ Community concerns are increasing due to lack of effective engagement. OBT should renew its engagement including social activities and community development programs.

On 24 July 2019, local communities were interviewed at Open Bay Camp Market; and raised the following concerns:

▪ OBT’s complaints box is not effective and community members are not aware of its as a communication mechanism.

▪ Workers’ housing requires improvement as it is old and deteriorating. Request for timber for housing has not been met.

▪ Low wages are insufficient for families to sustain the cost of living.

▪ Local landowner businesses need to be supported; for example, the OBT store should be closed and local

East New Britain Province Health Department.

OBT is aware of human rights issues; and does have a Social Management Plan (2018).

OBT has communicated regularly with Digicel requesting that the (readjusted) network tower be restored. The matter has been reported, and Digicel is aware of the concerns raised.

Despite facilitating community engagement through its Public Relations Officer and FSC Department, the Audit Team considered that OBT is lacking effective and efficient community engagement. Refer NCRs 11/19 and NCR 12/19.

OBT maintains complaint register box at OBT Main Camp and Warakina Nursery, Kaboku FMU. OBT’s Social Management Plan (2018) is implemented. Addressing issues associated with workers’ housing is part of this Plan. Refer NCRs 11/19 and NCR 12/19.

The Audit Team verified that OBT has an approved minimum wage exemption for PNG Labour Office.

OBT trade store is an important element of the provision of basic goods and services that are difficult to access from Open Bay. OBT agreed that Portion 188 could be allocated for local companies to set up business.
landowners allowed to provide this service.

- Transport service to garden areas has ceased due to transport break-down.

- Cutting of buffer has been observed and is ongoing. Communities access buffer areas to harvest NTFP and to gather other forest products for local needs, whilst respecting protection of OBT HCV and the buffer.

- Basic community services (health/ education/ church) focus on only one community, with less consideration of other local communities.

- Local training/ localisation is not occurring.

OBT provides a daily transport service for workers as a first priority; and – for non-workers – based on the schedule.

Cutting of buffer is addressed in findings against Indicator 5.5.2 (Major NCR 02/18).

OBT attempts to address social needs through its Social Management Plan (2018). However, a gap is identified in relation to effective community engagement, as presented in the findings in 8.2.6 and 10.8.3. (Refer NCRs 11/19 and NCR 12/19; and NCR 17/19 in relation to socio-economic monitoring).

Ratio of expatriate staff to local staff is 8:274 workers (230 male, 44 female)

### P5: Benefits from the Forest

At the stakeholder meeting at Port Moresby on 19 July 2019, participants raised a question about alternative income sources for the FME (and diversification of the forest products derived from Open Bay Timber Ltd FMUs), specifically regarding cocoa and its establishment as a means of providing an alternative income source, as well as progress with this initiative.

An issue related to community benefits from the forest/ FSC certification is that of communities being encouraged to establish trees on their own land, with Open Bay Timber Ltd ultimately planning to purchase

As described against Indicator 6.9.1, the FME has established species other than the plantation species of *Eucalyptus deglupta* and *Terminalia brassii* – namely cocoa (*Theobroma cacao*) and *A. mangium* – in relatively small, trial plots. The aims of these trials, as advised by OBT’s management staff, include deriving short-term income to balance costs associated with the investment in long-term tree crops; reduce the risk of dependency on monocultures; and investigate the use of species faster-growing than *E. deglupta* and *T. brassii*. Local farmers are involved in agroforestry training, local processing of cocoa/chocolate through engagement of AGMARK Ltd in Kokopo.

Community woodlots were harvested in 2017 through landowner engagement with KCL Ltd. OBT advised the Audit Team that the FME will re-engage in supporting woodlot farmers.
those trees from landholders as FSC-certified. However, the recent experience has been that (a) the trees were too small and (b) distances too great/plantings too highly ‘distributed’ [e.g. equipment had to be moved long distances for small volumes to be harvested], that the project was uneconomic. Stakeholders in Port Moresby enquired as to whether this issue is ongoing.

PNGFA field officers and community members raised concerns during onsite interviews in Open Bay (24 July 2019) that OBT Ltd has been paying a reduced stumpage rate of K5/m³ (from K10/m³) in the period 2000–2019. (During the period 1984–2000, the stumpage payment was at the higher level.) This reduced stumpage payment leads, indirectly, to a reduction in landowner benefits.

As per the Project Development Agreement (PDA), the stumpage rate is as follows: K10/m³ for the first rotation and K5/m³ for the second rotation. OBT’s Senior Manager (Operations/Reforestation/FSC), much of the current harvesting is under second rotation; therefore, the stumpage payment is as according to the PDA.

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### P6: Environmental Impact

At the stakeholder meeting at Port Moresby on 19 July 2019, a stakeholder queried whether another company operating in the same area as Open Bay Timber Ltd, with “disastrous” environmental outcomes, was operating within or outside the OBT concession area.

During interviews at Open Bay Camp Market (24 July 2019) community members raised issues regarding damage to buffer at Sai Creek, Matanakunai Village (2016 or 2017). A resolution was achieved for compensation through community service and infrastructure. The community members were not aware of the compensation.

Refer findings relating to P1 (disputes as potential threat to State government lease)

The Audit Team confirmed that – through its FSC Department and Public Relations Officer – OBT has developed a Community Management Plan and Guidelines, and implemented social services, including Matanakunai Church and primary school building, road maintenance, housing repairs, sports sponsorship activities, daily transport services, etc.

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### P7: Management Plan

No issues raised  

N/A

### P8: Monitoring & Assessment

No direct issues raised; however, some issues raised (e.g. within Principle 4) have a bearing on Monitoring and Assessment  

N/A

### P9: Maintenance of High

No direct issues raised; however, some issues raised (e.g. within Principle 4) have a bearing on Monitoring and Assessment  

N/A
<table>
<thead>
<tr>
<th>Conservation Value Forests</th>
<th>Principle 4) have a bearing on HCVs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>P10 - Plantations</strong></td>
<td>No direct issues raised; however some issues raised (e.g. within Principle 4) have a bearing on plantation management</td>
</tr>
</tbody>
</table>
2 AUDIT PROCESS

2.1 Certification Standard Used

<table>
<thead>
<tr>
<th>Standards Used:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• FSC-STD-PNG-01-2010 National Forest Management Standards for Papua New Guinea v1.1</td>
</tr>
<tr>
<td>• NEPCon Chain of Custody Standard for Forest Management Enterprises (December 2014)</td>
</tr>
<tr>
<td>• FSC-STD-50-001 (V2-0): Requirements for use of the FSC® trademarks by certificate holders</td>
</tr>
</tbody>
</table>

Local Adaptation: N/A

2.2 Audit Team and accompanying persons

<table>
<thead>
<tr>
<th>Name</th>
<th>Role and qualifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malory Weston</td>
<td>Malory is Audit Team Leader, and works in NEPCon’s South-East Asia Regional Office – in both Malaysia and Australia. Her work focuses on coordination of forest accreditation in the region, providing support for certification services, and coaching and training NEPCon's local auditing team. She is also actively involved in NEPCon's FSC Expert training courses, providing training in Forest Management, Controlled Wood and Chain of Custody in Asia and Europe. She is a Senior FSC Chain of Custody Auditor, and Forest Management Auditor, as well as a PEFC Chain of Custody and LegalSource Auditor; and has carried out audits and project work in various countries including Vietnam, Philippines, Poland, New Zealand, Australia, Thailand, Indonesia, Solomon Islands, Czech Republic, Estonia, Latvia, Lithuania and Malaysia. Malory has also successfully completed Lead Auditor training in RSPO Principles and Criteria; MTCS Forest Management certification; Health, Safety &amp; Environment; and SAN; and works for NEPCon as a technical editor.</td>
</tr>
<tr>
<td>Kafuri Yaro</td>
<td>Kafuri Yaro as Local Expert, Programme Development Manager for WWF Pacific, PNG Country Programme, B.Sc. in Forestry from the University of Technology, PNG. He has 18 years’ experience in natural resource and environment management, biodiversity protection and conservation areas management, and developing sustainable livelihoods and community development programmes. He has conducted 9 FSC FM/COC &amp; CW and RA Verification of legal Compliance audits as local expert and as a lead auditor in Open Bay Timber Ltd full assessment (2016). He is also a local expert for SAN Farm Certification Audit and involved in 5 audits in Coffee and Palm Oil in PNG. He has 7 years’ experience developing community eco-forestry group certification scheme in Madang Province PNG, and successful certification by SCS. His has wide range experience in FSC &amp; SAS SAN audit for the Rainforest Alliance.</td>
</tr>
</tbody>
</table>
2.3 Audit Overview

*Note: The table below provides an overview of the audit scope and auditors. See standard checklist annex for specific details on people interviewed and audit findings per site audited.*

<table>
<thead>
<tr>
<th>Site(s)</th>
<th>Date(s)</th>
<th>Main activities</th>
<th>Auditor(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port Moresby, PNG</td>
<td>Friday 19 July 2019</td>
<td>Stakeholder consultation</td>
<td>MW, KY</td>
</tr>
<tr>
<td>Kokopo</td>
<td>Saturday 20 July 2019</td>
<td>Stakeholder consultation</td>
<td>MW, KY</td>
</tr>
<tr>
<td>Open Bay Timber Ltd (OBT), Open Bay, East New Britain Province (ENBP), New Guinea Islands, Papua New Guinea: OBT office</td>
<td>Monday 22 July 2019</td>
<td>Opening Meeting, NCR review, documentation review, staff interviews</td>
<td>MW, KY</td>
</tr>
<tr>
<td>OBT office Field sites</td>
<td>Tuesday 22 July 2019</td>
<td>Documentation review, field site visits, staff and worker interviews</td>
<td>MW, KY</td>
</tr>
<tr>
<td>OBT office Field sites</td>
<td>Wednesday 23 July 2019</td>
<td>Documentation review, field site visits, staff and worker interviews</td>
<td>MW, KY</td>
</tr>
<tr>
<td>OBT office Field sites</td>
<td>Thursday 24 July 2019</td>
<td>Documentation review, field site visits, staff and worker interviews</td>
<td>MW, KY</td>
</tr>
<tr>
<td>OBT office Field site</td>
<td>Friday 25 July 2019</td>
<td>Documentation review, field visit, staff interviews, Closing Meeting</td>
<td>MW, KY</td>
</tr>
</tbody>
</table>

Note: Heavy rain on Monday and Tuesday hampered Audit Team efforts to access some sites, e.g. Block 2 in Loi FMU. Alternative sites were, as far as possible, inspected instead.

Total number of person days used: 14

= numbers of auditors participating 2 x number of days spent in preparation, on site and post site visit follow-up including stakeholder consultation 7.
### 2.4 Description of Overall Audit Process

The Audit Team arrived in Port Moresby on the afternoon of Thursday 18 July 2019 and had an Audit Team preparatory meeting that evening at their hotel. On Friday morning, 19 July, Audit Team members met with five stakeholders for a two-hour stakeholder meeting at the hotel in Port Moresby. In the afternoon, Audit Team members flew to Rabaul in East New Britain Province (ENBP). The following morning, Saturday 20 July, the Audit Team members met with three stakeholders in Kokopo, ENBP. (Two other stakeholders were not available, either because it was Saturday, or they were called away on work matters. The Audit Team followed up with these stakeholders later in the week, by email.)

Early on Sunday 21 July, the Audit Team – accompanied by Open Bay Timber Ltd staff – travelled by vehicle to Keravat; and from there travelled by boat to Open Bay, arriving mid-afternoon.

The Opening Meeting took place from 9:00AM on Monday 22 July 2019 at the Open Bay Timber Ltd offices in Matanakunai, attended by senior management staff including the Managing Director, Senior Managers, and the Manager: Reforestation. During the Opening Meeting the Audit Team Leader (ATL) spoke to a PowerPoint presentation and discussed the audit objectives, relevant standards and mandatory evaluation criteria, proposed audit plan (confirmed during the Opening Meeting), requirements for confidentiality, audit method (including triangulation and sampling), existing NCRs, and time and place of the Closing Meeting. The ATL also provided brief background to the recently released National Forest Stewardship Standard (NFSS) for PNG, which will become effective on 1 September 2019. Following the Opening Meeting formalities, proposed sites were discussed and agreed; and the Manager: Reforestation gave two presentations: the first with background on OBT Ltd and its operations, and the second relating to the four open NCRs and evidence presented by the FME.

For the remainder of Monday, the Audit Team reviewed documentation and interviewed various staff in the OBT offices in Matanakunai, departing for the guest accommodation in the early evening; and continuing to work on document review after dinner. On Tuesday 23 July (a public holiday), the Audit Team accessed a number of field sites including a harvesting site, waste management sites (3), *Acacia* growth trial and PSP (Block 4A), *Eucalyptus delegupta* (Kamarere) thinning trial and PSP (Block 7A); and post-planting site (block 9). On Tuesday evening, the Audit Team provided a feedback session to OBT’s senior management team, with this finishing at about 7PM. This session included an update on potential NCRs and progress with evaluating the 2018 NCRs; as well as issues raised during stakeholder consultation sessions. In the evening, Audit Team members continued document review and reporting.

On Wednesday 24 July (when OBT workers had returned from the public holiday), the Audit Team members undertook community consultation at the local market, Open Bay Camp Market (KY); and inspected the Logpond and two log yards (MW, discussing Chain of Custody and Controlled Wood procedures). Following a short lunch break, the Audit Team inspected the main Workshop areas (focussing on waste management including management of stormwater and runoff from the Workshop site). On Wednesday afternoon, the Audit Team, accompanied by the Senior Manager: Operations/ Reforestation/ FSC and the Manager: Reforestation, inspected the single workers’ housing. In the early evening, the Audit Team provided a debrief session to the senior management team; continuing with documentation review and reporting in the evening.

On Thursday 25 July, Audit Team members continued with documentation review and staff interviews, as well as undertaking field inspections of the main OBT nursery and Chemical Store, accompanied by the Senior Manager: Operations/ Reforestation/ FSC and the Manager:
Reforestation. On Friday 26 July, one auditor (KY) returned to a field site to do some further ground-truthing and inspection of Block 11A. Documentation review and staff interviews continued until mid-afternoon, at which time the Audit Team finalised their findings and presented those findings at a preliminary meeting involving the Managing Director, Senior Manager: Operations/ Reforestation/ FSC, and Manager: Reforestation. In addition – throughout Thursday and on Friday morning – Audit Team members discussed preliminary findings with the Senior Manager: Operations/ Reforestation/ FSC, and the Manager: Reforestation.

At 3:15PM on Friday 26 July, the formal Closing Meeting was held, involving the above OBT personnel as well as several other staff. The ATL presented the preliminary findings and certification recommendation, as well as reconfirming various issues presented in the Opening Meeting (scope of the audit, confidentiality, auditing method, etc.), and thanking the FME for its support and hospitality during the course of the evaluation. Following presentation of the preliminary findings, the ATL described the process that would be taken to finalise the draft report, including report review and approval (RRA, through which the final certification decision would be confirmed). The Closing Meeting finished at 4:45PM; with Audit Team members departing Open Bay and returning to Kokopo on Saturday 27 July.

2.4.1 Changes in FMEs’ forest management and associated effects on conformance to standard requirements

The Manager: Reforestation confirmed that there have been no changes to the FME’s forest management, boundaries, FMUs, etc. since the last annual audit. There has been a significant change in OBT staffing, however, with a new Managing Director appointed about a month prior to the audit. (Mr Yoshihiko Tsukihara has been replaced by Mr Yasutaka Nakai).

2.4.2 List of FMUs selected for evaluation

<table>
<thead>
<tr>
<th>FMU Name</th>
<th>Rationale for Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loi LP</td>
<td>Active harvesting operation: skidding, log landing, scaling</td>
</tr>
<tr>
<td></td>
<td>High Conservation Value Forest (HCVF)</td>
</tr>
<tr>
<td></td>
<td>Buffer restoration and salvage cutting (part forest)</td>
</tr>
<tr>
<td></td>
<td>Planning and field implementation (PNG LCOP requirements)</td>
</tr>
<tr>
<td></td>
<td>Waste management</td>
</tr>
<tr>
<td>Makolkol LP</td>
<td>Permanent sample plot</td>
</tr>
<tr>
<td></td>
<td>Thinning trial</td>
</tr>
<tr>
<td></td>
<td>Workers’ housing (NCR 02/18)</td>
</tr>
<tr>
<td></td>
<td>Waste management in residential areas</td>
</tr>
<tr>
<td></td>
<td>Post-harvest operation including new plantings</td>
</tr>
<tr>
<td>Kaboku LP</td>
<td>Acacia mangium species trial</td>
</tr>
<tr>
<td></td>
<td>Permanent sample plot</td>
</tr>
<tr>
<td></td>
<td>Main Workshop including waste management</td>
</tr>
<tr>
<td></td>
<td>Main nursery including chemical management and application</td>
</tr>
</tbody>
</table>

2.4.3 Review of FME Documentation and required records

a) All certificate types

<table>
<thead>
<tr>
<th>Required Records</th>
<th>Reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaints received by FME from stakeholders, actions taken, follow up communication</td>
<td>Yes ☒ No ☐</td>
</tr>
</tbody>
</table>

Comments: The Organisation provided their complaints files (i.e. complaints received through OBT’s complaint box), including letters and records covering the audit period (July 2018 to July 2019). The auditors reviewed the correspondence with the various complainants which – for one complaint regarding a serious
medical issue – includes a memorandum written by the Managing Director (Yasutaka Nakai) regarding the rules and regulations relating to the issuance of medicines and the treatment of patients in the OBT Clinic.

The Audit Team noted that there were no recorded responses to complaints in the folder, except the one relating to the Clinic. Prior to the Closing Meeting, the Manager: Reforestation, and OBT’s Public Relations Officer, provided a table summarising the outcomes of the complaints process, i.e. for each complaint received, which staff member handled the complaint following the initial response (in all cases provided by the Manager: Reforestation), the method used (e.g. meeting) and timing. Refer NCR 04/19.

<table>
<thead>
<tr>
<th>Accident records</th>
<th>Yes ☒ No ☐</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comments: The Manager: Reforestation, provided the Audit Team with accident records relating to the audit period; and provided feedback to the Audit Team Leader as to some additional detail concerning two or three of the accidents.</td>
<td></td>
</tr>
<tr>
<td>Training records</td>
<td>Yes ☒ No ☐</td>
</tr>
<tr>
<td>Comments: OBT staff provided training records, including those relating to</td>
<td></td>
</tr>
<tr>
<td>• Training and Awareness Plan for calendar year 2019 (updated 1 January 2019); with this including skilled training (chainsaw felling, security, first aid, CRP, log scaling, wood identification, PNG Logging Code of Practice, cocoa (grafting), bookkeeping, workshop training, operator training (skidder and excavator); non-skilled training (in-house training on FSC Chain of Custody and Controlled Wood); awareness training (awareness of company rules and regulations including FSC and HCVs; fire awareness; general meeting, consultation forum and stakeholders meeting). Note that some of the training sessions were ‘to be scheduled’; with the Manager: Reforestation advising that (because the FME is in a very remote location) it was difficult to attract appropriate trainers to the Open Bay Timber site to deliver training courses.</td>
<td></td>
</tr>
<tr>
<td>• In relation to FSC Chain of Custody and Controlled Wood training, and FSC awareness training: An additional file was provided that included details of sessions held in February and March 2019, and which focussed on employee awareness of the annual logging plan, company rules and regulations, and FSC – in particular Principle 4, and the Controlled Wood Standard. According to the attendance sheets, 107 employees attended these sessions. (FSC COC and CW awareness training had also been conducted on 22 May 2018, with 12 FME staff attending according to the attendance sheet provided to the Audit Team.)</td>
<td></td>
</tr>
<tr>
<td>• Other training recorded by the FME (in the Controlled Wood Annual Audit Report CY 2019) was security training delivered by ANITUA Security Firm, 14–18 January 2019, and 21–25 January 2019; attended by 17 OBT staff (although attendance records not sighted);</td>
<td></td>
</tr>
<tr>
<td>• REDD+ Expert Training (21-25 May 2018 in Kokopo) attended by the Manager: Reforestation;</td>
<td></td>
</tr>
<tr>
<td>• First Aid training (provided by the Red Cross), 11-13 March 2019;</td>
<td></td>
</tr>
<tr>
<td>• a village consultation on bush fire awareness (held on 25 November 2015 at Matanakunai Village);</td>
<td></td>
</tr>
<tr>
<td>• in-house training on forest fire techniques (8 June 2017).</td>
<td></td>
</tr>
<tr>
<td>Operational plan(s) for next twelve months</td>
<td>Yes ☒ No ☐</td>
</tr>
</tbody>
</table>
| Comments: The FME provided its calendar year 2019 Annual Operations Plan, which it submitted to the Regional Area Manager of the PNG Forest Authority in
January 2019; as well as its 2019 production plan which specifies the volumes of Controlled Wood and FSC 100% to be harvested per month.

Inventory records

Comments: Utilising its GIS, the FME produces targetted maps and inventory information relating to proposed harvesting sites. The Audit Team reviewed the GIS inventory information as well as the relevant printed maps prior to site visits.

Harvesting records

Comments: The Audit Team reviewed, with members of the Logpond Team, the very detailed harvesting records that are submitted by the harvesting teams. (Refer Annex III, section 3.2 for more detail.)

3 COMPANY DETAILS

3.1 Client specific background information

3.1.1 Scope Details1

Reporting period: Previous 12 month period Dates 14 July 2018–19 July 2019

A. Scope of Forest Area

☒ No changes since previous report

B. FSC Product categories included in the FM/CoC scope

☒ No changes since previous report

C. Species and Sustainable Rate of Harvest (AAC)

<table>
<thead>
<tr>
<th>Latin name</th>
<th>Common trade name</th>
<th>Annual allowable cut (m3)</th>
<th>Actual harvest (m3) 2018</th>
<th>Projected harvest for next year (m3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eucalyptus deglupta</td>
<td>Kamarere</td>
<td>33,000</td>
<td>32,645</td>
<td>33,000</td>
</tr>
</tbody>
</table>

Total AAC 33,000

Total annual estimated log production (m3):

Total annual estimates production of certified NTFP: N/A

(list all certified NTFP by product type): N/A

D. FME Information


---

1 Data presented in the reports shall be in metric system units
<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>E. Forest Area (ha) Classification</td>
<td>No changes since previous report</td>
</tr>
<tr>
<td>F. Forest Regeneration</td>
<td>No changes since previous report</td>
</tr>
<tr>
<td>G. High Conservation Values identified via formal HCV assessment by the FME and respective areas</td>
<td>No changes since previous report</td>
</tr>
<tr>
<td>H. Pesticide Use</td>
<td>FME does not use pesticides.</td>
</tr>
<tr>
<td></td>
<td>FME has a valid FSC derogation for use of a highly hazardous pesticide □ YES ☒ NO</td>
</tr>
<tr>
<td>FSC highly hazardous pesticides used in last calendar year</td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Quantity</td>
</tr>
<tr>
<td>NIL</td>
<td></td>
</tr>
<tr>
<td>Non FSC highly hazardous pesticides used in last calendar year</td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Quantity</td>
</tr>
<tr>
<td>Fertilizer (NPK)</td>
<td>200g applied per week but only in dry periods</td>
</tr>
</tbody>
</table>
3.1.2. Exclusion of areas from the scope of certificate

<table>
<thead>
<tr>
<th>X</th>
<th>Applicability of FSC partial certification and excision policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>☐</td>
<td>All forest land owned or managed by the FME is included in the scope of this evaluation.</td>
</tr>
<tr>
<td>☒</td>
<td>FME owns and/or has management involvement in other forest land/properties (forest management units) not being evaluated. <strong>If yes, complete all sections below.</strong></td>
</tr>
</tbody>
</table>

| ☐ | Is any portion of the forest management unit(s) under evaluation for certification being excised from the scope of the evaluation? **If yes, complete all sections below.** Conformance with FSC-POL-20-003 The excision of areas from the scope of certification shall be documented. |

**Comments / Explanation for exclusion/excision:**

A condition of the lease relating to Mevelo Land Purchase (LP) FMU, between PNG Forest Authority and Open Bay Timber Ltd, is that the FMU be developed for plantation. The FMU is currently excluded from scope due to clearing of natural forest in the FMU post-1994. So far, according to OBT management staff, the FME has not made any progress towards the requirement described in the lease/ Project Development Agreement. (PNG Forest Authority staff provided feedback on this lack during a stakeholder meeting in Kokopo on 20 July; stating that the Mevelo LP remains part of the State sub-lease agreement for plantation development.) Any conversion within the FMU would jeopardise the FME's FSC certification through the Policy for Association.

NB: FME’s 2019 Controlled Wood procedure states that “Mevelo LP, on the other hand, is natural forest area currently undergoing development by conversion into new plantation” suggesting that the FME continues to consider converting this FMU to plantation.

**Control measures to prevent contamination**

As described elsewhere in this audit report (see Annex III), to prevent the mixing of non-FSC-certified materials with FSC-certified materials, the FME uses both physical segregation and identification of FSC-certified materials. The FME’s arrangements were verified through interviews with OBT personnel (including on harvesting sites and in the Logpond), observations, and review of relevant FME documentation.

<table>
<thead>
<tr>
<th>Other Forest area</th>
<th>Location</th>
<th>Size (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mevelo LP (Land Purchase) FMU</td>
<td>Open Bay, East New Britain Province, New Guinea Islands</td>
<td>11,340ha</td>
</tr>
</tbody>
</table>
4  AUDIT AND NON-CONFORMITY FINDINGS

4.1  Audit Background

<table>
<thead>
<tr>
<th>Has the management system changed since the previous evaluation:</th>
<th>Yes ☒ No ☐</th>
</tr>
</thead>
<tbody>
<tr>
<td>If yes, briefly review the changes:</td>
<td>The FME has put in place some changes in personnel over the past 12 months, including replacement of OBT’s previous Managing Director, Mr Yoshihiko Tsukihara, being replaced – in the past month – by Mr Yasutaka Nakai.</td>
</tr>
<tr>
<td>Have there been any complaints, disputes, or allegations of non-conformity with the standards raised against the Organisation during the audit period:</td>
<td>Yes ☐ No ☒</td>
</tr>
<tr>
<td>If yes, reference standard and criteria where corresponding findings are found in report:</td>
<td>N/A</td>
</tr>
</tbody>
</table>

4.2  Evaluation of Open Non-conformity Reports (NCRs)

Note: this section indicates the Organisation’s actions to comply with NCRs that have been issued during or since the last audit. Failure to comply with a minor NCR results in the NCR being upgraded to major; the specified follow-up action is required by the Organization or involuntary suspension will take place.

<table>
<thead>
<tr>
<th>Status Categories</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLOSED</td>
<td>Operation has successfully met the NCR</td>
</tr>
<tr>
<td>OPEN</td>
<td>Operation has either not met or has partially met the NCR</td>
</tr>
</tbody>
</table>

☐ Check if N/A (there are no open NCRs to review)

NCRs related to the certificate NC-FM/COC-005600:

**NCR: 01/18**

| Standard & Requirement: | FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 4.2.3 |
| Report Section: | Appendix II, Criterion 4.2 |

**Description of Non-conformance and Related Evidence:**

4.2.3 All employees will have access to appropriate health and safety training and equipment.

Based on document reviewed, field visits and interview with forest workers, the audit team found that OBT has conducted first aid training regularly from 2015-2017. PNG Red Cross has been engaged to provide First Aid and community health awareness training for workers and local community members in 2018. In liaison with ENBP Provincial government the YWAM medical ship was hosted from 14-25th May 2018 to conduct outreach programme in Open Bay area. And OBT has issued PPE between 23rd March to 6th May 2018 for its workers. However, according safety inspection in June 2018, OBT found inconsistency in workers wearing PPE at work place (Sawmill: 50%, FSC Resources: 75%, Road: 86%). No management action was taken based on this
assessment as per OBT management pledged in its Memo signed by MD (2014) to take disciplinary action on staff not wearing PPE. While field visit and interview with staff at Kaboku FMU the supervisory staff lacked wearing safety helmets and vests while active harvesting operation was ongoing. The audit team also found no First Aid Kits were available for planting crew at new planting site. And Incident of knife cuts on workers feet and lack of communication and transportation for injured worker complicated health and safety of worker. Though, the FME has established OH&S procedures, appointed respective staff, and provide appropriate training on F/Aid, there is inconsistency in implementation, enforcement and monitoring to ensure effectiveness of its OH&S systems and procedure.

| Corrective action request: | Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. 
Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance. |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Timeline for Conformance:</td>
<td>By the next annual surveillance audit</td>
</tr>
<tr>
<td>NCR Evaluation Type</td>
<td>On-site ☑ Desk Review ☐</td>
</tr>
</tbody>
</table>
| Evidence Provided by Organisation: | Evidence of corrective actions undertaken by OBT presented during report writing phase:  
1. OBT conducted In-house training on First Aid to Reforestation Supervisors (both planting and maintenance). Evidence included: training manual, attendance sheet and photos during training.  
2. Issuance of First Aid Kit to all Reforestation Supervisors. The kit materials (gauze, alcohol swab, plaster, band aid) will be replaced upon the request of supervisor or once the stock is out. Evidence provided: first aid kit issuance form and photos of kit.  
3. OBT Management issued a Notice of Requirement to Wear Safety Gear to all employees. The notice set an example of employee from different section wearing an appropriate safety gear (e.g. Chainsaw feller, log pond worker, sawmill operator, machinery operator.) The notice was posted on notice boards. Evidence provided: photos of notice board posting of safety requirements.  
4. Company commitment to continue to implement the wearing of safety gear during working hours and will continue to conduct daily inspection. 

Additional evidence presented by the FME during the July 2019 evaluation:  
As further evidence provided to the Audit Team, Open Bay Timber Ltd staff:  
• designed a procedure entitled Monitoring procedure in the issuance of first aid kit, which was partially implemented by the time of the Closing Meeting on 26 July 2019: the procedure describes the Administration Manager’s assuming responsibility for purchasing the required first aid kit items and ensuring that they are distributed as required to the various OBT team first aid kits. As well as the procedure, the Audit Team was
provided with a list of all OBT teams, with sign-off (indicating receipt of the first aid kit items) from the person responsible for that team. For the harvesting teams, the Senior Manager: Operations/Reforestation/ FSC, signed on behalf of the teams. The procedure also requires the Administration Manager to order first aid kit materials twice-monthly to ensure that all first aid kits contain the required items; and to monitor first aid kit contents once monthly. The procedure records the required first aid kit items as being the following:

- alcohol or alcohol swab
- bandage
- band-aid
- guaze
- plaster
- cream or ointment for cuts
- medicine (Amoxicillin and Panadol)

At the time of the Closing Meeting, the Manager: Reforestation, confirmed that, as of 24 July, all first aid kit materials were re-issued to the various OBT departments;

- created a risk assessment relating to all its workers, defining the types of risks the workers were likely to encounter during the course of their duties; and, on the basis of the resulting risk, defining the PPE that workers were required to wear and with which the FME would issue the particular workers;
- re-issued the Notice of Requirement to Wear Safety Gears memo requiring workers to use the PPE they had been issued;
- provided records demonstrating that team managers and the Senior Manager: Operations/Reforestation/ FSC were undertaking daily inspections of PPE worn by workers.

### Findings for Evaluation of Evidence:

**September 2018 findings:** OBT has taken concrete steps in addressing identified nonconformities related to training on first aid, provision of first aid kits to reforestation teams and use of PPE by workers. The effectiveness of these corrective actions will need to be evaluated in the field during the next surveillance audit.

**July 2019 findings:**

A major focus of the field component of the audit was the evaluation of the FME’s PPE system, as well as its implementation in the field. Workers were interviewed at Block 13 (Compartment 14) on 23 July, as well as the Logpond and Workshop on 24 July. While at Block 13 (a harvesting site), the Audit Team noted that – while scaling and skidding staff, as well as the foremen – were wearing hard hats, log labelling staff (working close to the skidder) were not wearing hard hats; with OBT staff advising that these workers were not required to do so.

In addition, the first aid kid inspected by the ATL while on Block 13 did not contain all of the items that the FME
required to be included. (While it contained gauze and plaster or rolled bandages, it did not contain alcohol swabs nor band-aids.) The worker who provided the first aid kit to the ATL did not appear to realise that it did not contain all of the required items (there was no itemisation list contained in the kit); and nor did administrative staff appear to have a process in place such that it was clear who was to replace spent or missing items.

Following this site visit, and prior to the Closing Meeting, the Senior Manager: Operations/ Reforestation/ FSC, provided the Audit Team with the risk assessment described above, which included the requirement for all workers on harvesting sites to be provided with and wear hard hats (as well as the hi-viz vest and boots already assigned; and additional items depending on the worker’s role). Also provided was the procedure described above, which established the Administration Manager as being responsible for ensuring that all first aid kits were stocked with required items.

NCR Status: CLOSED

Comments (optional): Given the level of effort demonstrated by the FME prior to and during the evaluation, and the high level of implementation of the policy and procedures observed in the field (particularly in relation to PPE), the Audit Team determined that the FME had addressed the root causes of this non-conformity and implemented appropriate corrective actions. The NCR is therefore considered closed.

NCR: 02/18
NC Classification: Minor

Standard & Requirement: FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 5.5.2

Report Section: Appendix II, Criterion 5.5

Description of Non-conformance and Related Evidence:

5.5.2 Forest management practices are planned and implemented so as to minimize negative impacts on services and resources.

5.5.2.1 Prescriptions in management plans and operational guidelines aimed at minimizing impact.

5.5.2.2 Field inspections of harvesting areas, log ponds and milling sites confirm prescriptions and guidelines are followed

OBT has approved (28/2/18) 5 year forest working plan (CY2015-2019) and Annual Operations Plan CY2017-2018 (approved 24/2/18). The 5 year FWP prescribe forest management activities at a landscape level, while Annual Operations Plan prescribe the management activities at 1 year operational level. Annual accomplishment report for 2017 has been approved by PNGFA which validates both levels of plan were in compliance with prescribe plan. However, based on audit team field observations in the field found important weaknesses in both the harvest planning and inconsistent implementation of approved plans resulting in violations of the PNG logging code of practice and risk of environmental damage to soil and water resources in harvest sites; The following examples were noted:
• FMU Loi LP, Block 5B, Compartment 4, evidence of existing main hauling track approximately 156m was re-opened into a protected area designated as greenbelt. The FME responded that the hauling track was built to ease transport of machinery for harvesting operation. Another main hauling track was indicated on the harvesting map that runs through a green belt in Loi Block11B, Comp.52b and provides alternate option for transport and accessibility. This track could have been used to avoid further degradation of the greenbelt. Unplanned skid trails and harvesting on the edges of that same green belt were noticed. There was clear overlap with the available operational maps used for harvesting. Given the biodiversity importance of the greenbelts (identified HCV) OBT should use the precautionary approach in relation to management activities in and around these areas to ensure that the value of these areas are enhanced rather than negatively impacted.

• In the same FMU, Loi LP, BLK 8A, Comp.39, evidence of skid trails on high slopes and consequent soil erosion was eminent due to absence of preventive measures, such as water bars were not erected after completion of harvesting operation.

• Harvesting and extraction of first rotation (*Eucalyptus deglupta*) were observed in defined buffer areas. The audit team verified with PNGFA approval letter and correspondences authorizing harvesting in buffer and annual accomplishment report to verify legal compliance. However, as per OBT long term commitment to uphold FSC certification under any circumstance as directed under Criterion 1.6 and related criteria, and forest management planning prescription and PNG logging code of practice, it does not conform accordingly to its management principles.

• In other areas it was observed that temporary culverts were not removed on creeks upon completion of harvest and plantation maintenance activities. This removal is necessary to allow free flow of water as per PNGLCOP.

• The harvesting plan document reviewed had errors and inconsistency in field implementation with construction of skid trails and log landing areas not approved in the harvesting plan.

The above mentioned deficiencies were found in specific areas and not reflective of practices across the FMUs, consequently the non conformance was graded as minor.

**Corrective action request:**

Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:**

By the next annual surveillance audit

**NCR Evaluation Type**

On-site [x] Desk Review [ ]

**Evidence Provided by Organisation:**

Sept 2018 Evidence of corrective actions undertaken by OBT presented during report writing phase: OBT submitted an action plan for reducing harvesting impacts. The plan includes seven objectives with associated proposed actions, indicators of completion, target dates and persons responsible. OBT also provided the following summary of corrective actions:

4. Operation Senior Manager revised the Procedure Prior to Harvesting of Compartment in a Block on 20th July 2018. The portion added is paragraph # 3 and in paragraph # 9, third sentence: “Once some
soil erosion or possibility of erosion is found, the Foreman/Supervisor will instruct actions to avoid any damage. If there is some change of plan of skid trail or landing, this shall be informed to Foreman/Supervisor, and the map shall be updated based on the actual operation”. The procedure serves as a guiding principle in operation area. See attached file.

5. Company will continue to improve its harvesting plan and implementation on the field.

6. Management decided to stop harvesting in buffer zone and continue to restore and enhance the area and the other HCV areas.

The decommissioning of temporary bridge built prior to harvesting of a compartment will be done 4-5 years later once the reforestation activities such as site preparation, picketing, planting and maintenance activities (ring weeding, tending, vine cutting) is completed. All these reforestation activities take 4-5 years to maintain. Depending on the area, the accessibility of a newly harvested compartment will be impossible if the temporary bridge will be removed immediately right after harvesting operation. Management takes into consideration the time, effort and cost of installation of bridge and other reforestation activities. Management will check the built bridges in harvested compartments from previous years whether it is alright to remove or not.

July 2019 evidence:
The Senior Manager: Operations/ Reforestation/ FSC provided copies of harvesting plans for the operational sites visited by the Audit Team during the evaluation. Otherwise, the evidence provided was based on field site visits, and interviews with workers and FME management.

Findings for Evaluation of Evidence:

September 2018; OBT identified corrective actions reflect analysis of some of the root causes of the negative impacts behind this NCR. The implementation and effectiveness of these corrective actions will need to be evaluated in the field during the next surveillance audit before the NCR can be closed.

July 2019:
The Audit Team visited an approved active harvesting site at Loi FMU, Blocks 13, 14 and 15; salvage logging and rehabilitation site Block 11B (Otley, Loi LP); and new planting site at Makolkol FMU, Block 7D, Compartment 9 (harvesting completed in May 2019). The sites were inspected and workers interviewed regarding the PNGFA approved plan; however, the Audit Team noted the following issues:

- Log landing in compartment 14 was not as defined in the approved plan, but constructed on the HCV boundary/buffer (Lake Toriu/ Swamp).
- The minimum buffer on the HCV (Lake Toriu/ Swamp) was not defined on the map which meant further risk of encroachment on the HCV despite
creation of a 10–15m wide clearing to allow movement and visibility.

- In Makolkol FMU (Block 7D, Compartment 9) excessive siltation and inundation were noted downstream on a nearby creek and lower plains due to lack of water bars and diversion tracks having been created on the main skid trails on an erosive hill.

In September 2018, OBT committed to revising its operational procedures and stated that approved operation plans will be corrected in the field during actual harvesting operations. The buffer zone and skid trails were corrected during actual operations on the ground as per this statement. While this may correct the deficiency in the harvesting plan and lead to improvement in forest management practices, it does not represent conformity with requirements included in PNG LCOP and forestry regulations for pre/post harvest planning and commitment to addressing the root cause of the problem. Despite PNGFA’s approving the plan, the Audit Team concluded that the long-term maintenance of soil, water, and High Conservation Values, and appropriate socio-economic outcomes, are not guaranteed.

NCR Status: OPEN

Comments (optional): Given the above findings, NCR remains open and has been upgraded to Major

NCR: 03/18  NC Classification: minor

Standard & Requirement: FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 6.1.2

Report Section: Appendix II, Criterion 6.1

Description of Non-conformance and Related Evidence:

6.1.2 For large scale operations the Environmental Impact assessment is independently audited.

In compliance with EIA & environment management and monitoring plan, OBT has engaged third party external consultants to conduct assessment on certain elements of this plan;

- Barefoot Community Services Ltd was engaged and conducted socio-economic impact assessment in 2010.
- Two HCV assessment and monitoring conducted in 2010, 2014 by Mr. Ted Mamu & Biatus Bito from FCES Ltd via WWF PNG, & review and consolidation of HCV management plan in 2016.

Since 2011, all 5 yr. FWP & annual logging plans have incorporated elements of EIA & management and monitoring plan, and the HCV and SEIA report findings. PNGFA conducts regular monitoring on forest management operations to ensure OBT operation is in compliance with EIA & management planning for road, logging operation, reforestation, log pond, sawmill, infrastructure, workshop, and general camp facilities. Record of PNGFA approved annual accomplishment report also verified that OBT forest management operation is in accordance with its planning and PNG LCOP. However, as per Environment Act 2000, and OBT environment management & monitoring plan (section 6) and Environment Permit Conditions (Reporting: Clause 39) the FME environment impact assessment had never being independently audited for 11 years.
According to the interview with PNG Conservation Environment Protection Authority (CEPA) it was confirmed that “Environment Compliance Inspection” from CEPA or third-Party consultants was long overdue. The audit team review the FME reports on annual environment compliance report submitted to CEPA for 2013-2014 and 2015-2016. Evidence of email correspondence between CEPA officers has taken place, independent audit of OBT EIA & management plan is yet to be conducted against its annual compliance reports. The efforts of OBT to set up the audits and lack of response by CEPA was central to the decision to rate this NCR as minor despite the amount of time without CEPA auditing.

Corrective action request:
Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

Timeline for Conformance:
By the next annual surveillance audit

NCR Evaluation Type
On-site ☑ Desk Review ☒

Evidence Provided by Organisation:

**Sept 2018** Evidence of corrective actions undertaken by OBT presented during report writing phase:

- OBT Management submitted a request letter to conduct Environment Compliance Inspection to CEPA. Evidence included copy of correspondence, request letter and response from CEPA.

**July 2019:** The Audit Team was provided with evidence that PNG Conservation Environment Protection Authority (CEPA) had undertaken the required field audit following receipt of the OBT Environment Performance Report for the period 2013–2018. The following reports were provided to the Audit Team during the 2019 annual audit:

- Conservation and Environment Protection Authority (CEPA): Environment Compliance Inspection Report for Open Bay Timber Operations, East New Britain Province, 8–13 January 2019; Compliance Officer: Robert Sine
- OBT Environment Performance Report for CEPA, December 2018

Findings for Evaluation of Evidence:

**September 2018 findings:** OBT has undertaken actions to address the identified nonconformities as evidenced by copies of the correspondence with CEPA (dated July 17, 2018) and CEPA’s response (July 18, 2018). As the CEPA inspection is still in planning and not yet conducted the NCR will remain open until evidence is presented. The NCR is to be evaluated in the field during the next surveillance audit.

**Findings from July 2019:**

Based on the summary of annual environment compliance reports for 2013–2016 and 2017–2018, submitted by the FME, the PNG Conservation and Environment Protection Authority (CEPA) conducted an environment compliance inspection site visit on 10 January 2019; with the report being received by OBT on 12 July 2019. The report,
pictures and correspondence were made available, and were reviewed by the Audit Team during the July 2019 audit. Based on the evidence provided, the Audit Team concluded that the requirement of this indicator is adequately addressed, with the NCR considered closed.

NCR Status: CLOSED

Comments (optional):

| NCR: 04/18 | NC Classification: minor |
| Standard & Requirement: | FSC-STD-PNG-01-2010; National Forest Management Standards for Papua New Guinea v1.1, 4.3.4 |
| Report Section: | Appendix II, Criterion 4.3 |

**Description of Non-conformance and Related Evidence:**

4.3.4 A mechanism exists in which grievances related to working conditions (pay, accommodation, health, safety and training) are being recorded and that facilitates an appropriate resolution mechanism.

OBT have grievance resolution mechanism. This is implemented through placing complain box at strategic locations at Open Bay Base Camp facilities. This is communicated to the workers and surrounding local communities and reminded through weekly foremen meetings and regular community awareness meetings. The audit team reviewed the complaint register and evidence record of array of request and grievances. Evidence pertinent to workers housing repair and maintenance, supply of timber for workers own housing and related facilities were recorded and responded. The OBT management responded that addressing workers housing is on priority list, however, due to its current financial constraints experienced it cannot fully meet the workers housing requests. However, the issue has been registered dating back 2-3 years with no significant improvement. The audit team site visit to single quarters housing has evidenced the deteriorated condition and associated toilet and bathing facilities need urgent maintenance. Water supply for drinking, bathing and toilet facilities have deteriorated and posed health risk for residents. The workers interviewed confirmed that request for OBT maintenance and improvement on housing and its facilities no positive response.

**Corrective action request:**

Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.

Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:**

By the next annual surveillance audit

**NCR Evaluation Type**

On-site [x]  Desk Review [ ]

**Evidence Provided by Organisation:**

Sept 2018 Evidence of corrective actions undertaken by OBT presented during report writing phase:

- OBT Management will continue to provide housing maintenance in married and single quarter. Carpenter section initiated the repair of single quarter (photos provided).

July 2019 evidence:

- Audit Team visit to single quarters (observations of facilities, interviews with workers) on Wednesday 24 July 2019
**FSC FM Report**

- Verbal advice from Senior Management and Manager: Reforestation as to what progress had occurred and how the FME was intending to proceed (summary provided in Opening Meeting, including photographs)
- Interview with 2iC of Carpentry Team (see details below).

### Findings for Evaluation of Evidence:

| September 2018 findings | **As documented in the photos,** OBT has taken concrete steps in addressing condition of the single housing infrastructure. The completeness and effectiveness of these corrective actions will need to be evaluated in the field during the next surveillance audit. |
| July 2019 findings | The Audit Team inspected the single workers’ housing facility on Wednesday 24 July. The FME has assigned one of its Carpentry/ Civil Team workers to the task of building a new cookhouse, which the Audit Team observed to be only partially complete but taking shape in the centre of the single workers’ compound. The FME reported that – regarding the single workers’ accommodation – carpentry work had occurred since the 2018 audit, including repainting and construction of a balustrade along one side of the workers’ rooms. With regard to the facilities, the Audit Team confirmed the following through observations and interviews with single workers residing in the housing compound and a subsequent interview with the 2iC of the Carpentry Team: |
| | • the rainwater/ drinking water tank was being fed by rusty gutters, with discoloured water leaching from the sides of the water tank; |
| | • there were no working showers: four showers on one side of the compound having been dismantled prior to their future reconstruction; and workers are therefore having to bathe and wash their clothes in the nearby creek (with, presumably, potential offsite impacts including eutrophication and contamination of downstream users’ drinking water); |
| | • of six potentially useable toilets, only two were operable during the Audit Team inspection: one of the three on one side of the compound did not flush when the Audit Team members inspected it; and the three on the other side of the compound were not operable, being (as with the showers in the same room) in a state of repair. The Audit Team was advised that there are currently 27 occupants in the single workers’ quarters. |

The Audit Team concluded that – while progress had been made in terms of the cookhouse, the painting and balustrade construction – the washing and bathing facilities available to the workers were potentially in a poorer state of repair than they had been during the 2018 audit; and it was possible that fewer facilities were available given the decommissioning of the showers and half of the toilets. Having only one Carpentry Team
member involved in these works does not, in the Audit Team’s opinion, demonstrate an appropriate level of effort to address this issue, which the FME should have been aware of due to an OBS raised against the same issue and requirement of the Standard (4.3.4) in 2017 (OBS 01/17).

Given the findings described above – and the requirement of the Standard (through this indicator) for a mechanism in which grievances related to working conditions are being recorded, with facilitation of appropriate resolution – the Audit Team concluded that the FME’s grievance procedure and its implementation have not at this stage facilitated an appropriate outcome.

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<td>Comments (optional):</td>
<td>Given the above findings, NCR 04/18 remains open and is upgraded to MAJOR.</td>
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