

16 February 2016

Forest Stewardship Council
FSC Dispute Resolution Centre

Via Email: dispute.resolution@fsc.org

To Whom It May Concern:

COMPLAINT ABOUT THE OPERATION OF THE FSC CERTIFICATIONS SYSTEM.

This Letter of Complaint is submitted on a confidential basis due to the small size of the local forestry industry in the Gisborne, New Zealand area, and concern over possible personal and professional ramifications as a result of raising these concerns.

In terms of the observance of the principles of natural justice, we have also emailed a copy of this letter to the Samling Group of Companies, based in Malaysia.

We seek an investigation of the complaint by the relevant certification body of the FSC.

BACKGROUND

We have been retained by a client who has expressed concern about the Forest Management FSC Certification of Hikurangi Forest Farms Limited (HFF) in Gisborne, New Zealand.

HFF manages about 25,000 hectares or 16 per cent of the 154,300 hectares of the stocked forest area of the East Coast region of New Zealand's North Island. During the 2013-2014 year HFF had a harvested volume of 780,000 tonnes. HFF states that approximately 97 per cent of logs are exported via Gisborne Port, with the remaining 3 per cent a portion of the pruned log volume sold domestically.

HFF is a member of TreeOne (NZ) Ltd which is wholly owned by Lingui Developments Berhad. Lingui in turn is a subsidiary of the Samling Group of companies. HFF became FSC Certified in August 2005.

Specifically, we are aware of local stakeholder concerns about the forest management certification of HFF in respect of its current refusal to support the local stakeholder-backed initiative of a wood processing 'cluster' and centre of excellence at the Prime Sawmill site.¹

As a result of this, local stakeholders are concerned that HFF may be in breach of its Forest Management Certification in terms of its ability to fully comply with the 10 internationally agreed FSC Principles and associated criteria of Responsible Forest Management.²

Further, these local stakeholders are aware that the FSC principles and criteria dictate that everyone in a certified company, from senior management to field workers, act responsibly in their jobs from **social** (emphasis added), environmental and financial perspectives.

¹ <http://www.ect.org.nz/assets/Uploads/ECT-ad-08PRINT.pdf>

² <http://www.hff.net.nz/about.aspx>

While HFF publicly states that it 'is committed to maintaining FSC certification in its business and management practices... it will ensure that management of its resources is carried out under FSC principles'³ this letter submits that HFF may well be in breach of Principle 4 and Principle 5 and its associated criteria as published by the Rainforest Alliance under their interim standard for assessing forest management in New Zealand.

BREACH OF PRINCIPLE 4 – Community relations and worker’s rights – to maintain or enhance forest workers’ and local communities’ social and economic wellbeing.

We submit that HFF may well be in breach of Principle 4, specifically;

4.1. The communities within, or adjacent to, the forest management area should be given opportunities for employment, training, and other services.

4.1.5. The forest manager shall identify opportunities and implement actions appropriate to support regional industry and regional communities having due regard to the role of forestry in rural and regional development and the economic, social, environmental and cultural requirements of the FSC.

Comment: HFF owns and operates a land parcel of 30,000 square metres opposite Prime Sawmill for which it intends to utilise as a 'temporary log storage of a maximum of 12,000 ton of logs'.

In September 2015, the local Gisborne District Council’s Eastland Community Trust made its biggest investment decision in its history by approving a NZ\$7.4 million purchase of the Prime Sawmill with a view to developing a wood processing cluster that could create as many as 120 jobs and inject up to NZ\$7.7 million into the local economy over the next three years.

Gisborne has the second lowest personal income (NZ\$20,600) and the lowest household income (only 12% earn over NZ\$50,000). The ultimate goal of the wood processing centre of excellence is to train local workers in the technical trades to operate this site.

The Hon. Jo Goodhew, Associate Minister for Primary Industries said “greater communication will be one of our key drivers in ensuring the industry can pull together and take advantage of the opportunity for engineered timber... Greater onshore processing has the potential to provide a significant boost to regional economies.”⁴

However, disappointingly HFF has to date refused to publicly and or actively support the wood processing centre of excellence at the Prime Sawmill site thereby risking compliance with this associated criteria.

4.2.7. Relevant policies, plans, records and operational procedures are in place: (1.a) ‘Managers, employees and contractors understand their responsibilities.

Comment: Local stakeholders have questioned HFF’s commitment to these associated criteria due to the lack of public support for what many believe to be a very valuable development and support for the role of forestry in the regional development of the Gisborne region. This

³ <http://www.hff.net.nz/downloads/HFFManagementPlanPublicSummaryMay2015.pdf>

⁴ <http://www.ect.org.nz/economic-development/prime/what-do-industry-leaders-say/>

is particularly relevant in light of the 16 per cent of the forestry block that HFF manages in the Gisborne surrounds.

4.4. Management planning and operations shall incorporate the results of evaluations of social impact. Consultations shall be maintained with people and groups directly affected by management operations.

Comment: HFF have stated in their HFF Management Plan – Public Summary⁵ that it 'is committed to maintaining FSC certification in its business and management practices on all lands and/or forest resources owned and/or managed by the Company.

Local stakeholders have questioned how HFF could maintain FSC certification when its public engagement is not only limited, but also note HFF has not published any 'results' of its social impact in terms of its log storage operation directly across the road from the Prime Sawmill site that requires the support of, and supply from, forestry companies operating in the Gisborne region including HFF.

4.4.1 In conjunction with local stakeholders and other interested parties, the FME shall evaluate socio-economic impacts associated with forest management activities. The evaluation shall be in accordance to the scale and intensity of operations.

Comment: Due to the size of HFF's operations in the Gisborne region (25,000 hectares/16 per cent of the 154,300 hectares stocked forest area/harvesting 780,000 tonnes on an annual basis) the company is considered a key player in the local forestry sector.

As such, local stakeholders have raised questions about HFF's commitment to 4.4.1 as its socio-economic impact associated with forest management activities would be well aware of local stakeholders seeking and requiring FME support for, and commitment to the success of the Prime Sawmill as a wood processing centre of excellence and its positive economic contribution to the local economy from which it sources its workforce.

4.4.2 FME shall demonstrate that input from community participation was considered and/or responded to during management planning and operations.

Comment: Local stakeholders are very disappointed at the lack of response from HFF about supporting the Prime Sawmill as a high-value, innovative wood processing cluster. This is even more relevant considering the location of a HFF wood storage site directly across the road from the Prime Sawmill site as shown in the image below.

⁵ <http://www.hff.net.nz/downloads/HFFManagementPlanPublicSummaryMay2015.pdf>



Further to this, HFF states that it currently exports 97 per cent of its logs via the local Gisborne Port, which from the image below shows the port facilities being located on the other side of the bay area.



To have HFF management decide to located a log storage site across the road from one of the most positive economic development initiatives to occur in the Gisborne region, without any

demonstration of considering, or responding to wider community or local stakeholder input is incredulous.

4.4.5.FME has documented in writing formal (required for large operations) and/or informal processes (acceptable for other operations) that it will use to assess social issues and consult with affected stakeholders and adjoining landowners before, during and after forest management planning.

Comment: Local stakeholders would welcome HFF publicising the process the company uses to assess social issues around its consultation with affected stakeholders during and after forest management planning, particularly in respect to its position regarding the Prime Sawmill initiative.

We would also question that while associated criteria 4.4.5 is a positive aspect of the FSC and its principles of responsible forest management, the principles of transparency around stakeholder consultation as it affects both parties could be enhanced through the publication of HFF's assessment of how the company has assessed its social issues and consultation with affected stakeholders.

4.4.6. The forest management shall facilitate and encourage meaningful participation of stakeholders in the development of the forest management plans or equivalent instruments.

Comment: There are significant concerns about HFF's commitment to this associated criterion. Local stakeholders have expressed significant frustration at HFF's seemingly intransigent position over its willingness to actively support the Prime Sawmill as a wood processing centre of excellence and its positive economic contribution to the local economy from which it sources its workforce.

While stakeholders respect that HFF is a privately owned company, the company is wholly owned by Lingui Developments Berhad – a company listed on the Malaysia stock exchange, and a subsidiary of the Samling Strategic Corporation Sdn Bhd a publicly listed entity, part of the Samling Group of companies.

We note that Samling's corporate website states that "stakeholder engagement is the cornerstone of our communication policy" and that "...we spare no effort in cultivating goodwill among forest communities, not only for business sustainability but also to assist them to break free from the cycle of poverty..."⁶

The company's website has also highlights Hikurangi's successful recertification by FSC⁷, indicating that the ultimate parent company is well aware of and interested in the HFF business in New Zealand.

We would submit that this letter of complaint is considered as a Corrective Action Request (CARs) where improvements are required.

4.4.9.FME shall effectively record and respond constructively to community or other stakeholder complaints or requests.

⁶ <http://www.samling.com/sthe.php>

⁷ <http://www.samling.com/certification.php>

We note this associated criterion and would challenge HFF to actually ‘respond constructively to community of other stakeholder complaints or requests’ particularly around a positive response to support the Prime Sawmill as an as a high-vale, innovative wood processing cluster.

Considering the fundamental tenant of Principle 4 is to maintain or enhance forest workers’ and local communities’ social and economic well-being, we believe HFF ability to currently meet this criterion would be challenging.

4.5. Appropriate mechanisms shall be employed for resolving grievances and for providing fair compensation in the case of loss or damage affecting the legal or customary rights, property, resources, or livelihoods of local peoples. Measures shall be taken to avoid such loss or damage.

Comment: Local stakeholders would be interested in comments from HFF regarding what mechanisms are in place to resolve grievances arising from the current position of HFF in respect to support the Prime Sawmill, particularly as has operations directly across the road from the Prime Sawmill site.

Further to this, as associated criteria 4.5 indicates that ‘providing fair compensation in the case of loss or damage affecting... livelihoods of local peoples’. Local stakeholders would be interested in understanding what measures HFF have taken to avoid such loss or damage, particularly due to the significant effort and costs (NZ\$7.4 million) on the part of the Gisborne District Council, the Eastland Community Trust and Activate Tairāwhiti have expended to progress the development of a high-vale, innovative wood processing cluster at Prime Sawmill.

BREACH OF PRINCIPLE 5 – Benefits from the forest – to maintain or enhance long term economic, social and environmental benefits from the forest.

We submit that HFF may well be currently in breach of Principle 5, specifically;

5.2. Forest management and marketing operations should encourage the optimal use and local processing of the forest's diversity of products.

Comment: Local stakeholders believe that HFF may well be in breach of Principle 5.2 in respect of ‘encourage the optimal use and **local processing...**’ (emphasis added).

As highlighted above in the commentary to 4.5, Gisborne District Council, the Eastland Community Trust and Activate Tairāwhiti have invested NZ\$7.4 million to progress the development of a high-value, innovative wood processing cluster at Prime Sawmill.

It is estimated that the cluster could create as many as 120 jobs onsite and inject NZ\$7.7 million into the local economy over the next three years. In that time, there is the potential to create as many as 300 jobs off site with supporting businesses. In the short term, the site is expected to create at least 50 jobs, and inject around NZ\$1 million into the local economy.⁸

⁸ <http://www.ect.org.nz/assets/Uploads/ECT-ad-08PRINT.pdf>

Gisborne has the second lowest personal income and lowest household income in New Zealand. The Prime Sawmill site seeks to increase the average wage of local people living in the community in which HFF has a licence to operate.

Additionally, the development of the Prime Sawmill site seeks to strengthen the local community as a high proportion of those employed in wood processing are younger people with technical skills. A younger workforce helps communities retain their sports clubs, schools, retail services and other facilities.

The forestry related industry in Gisborne is one of the top sectors driving the local economy, with 9.7 per cent of the local employment attributed to the forestry industry. It also is amongst the higher revenue multipliers – in 2013 along it had a NZ\$466 million impact on the Gisborne economy – both directly and through its support businesses.⁹

However, HFF current approach to supporting what is one of the biggest economic initiatives in the Gisborne region, is best described as uncooperative.

To make this Prime Sawmill a success, it is our understanding is that Prime Sawmill would process 450 tonnes of logs per 10-hour shift. Working on a 5 day 10-hour shift basis, the site would process 2,250 tonnes per week.

It has been intimated to us that to achieve this target of 2,250 tonnes per week, HFF has been approached to support this initiative, and based on HFF's published figures¹⁰, a contribution of 750 tonnes per week represents about 5 per cent of HFF's weekly harvest of 15,000 tonnes. A HFF contribution of 5 per cent would represent about 33 per cent of the Prime Sawmill's requirements. The balance would be sourced from other forest owners in the region.

5.4.2.FME shall support local value added processing.

Comment: Local stakeholders believe that HFF is at direct risk of being in breach of associated article 5.4.2 by not supporting the development of a high-value, innovative wood processing cluster at Prime Sawmill.

There is a high expectation among key local stakeholders, including the Gisborne District Council, Eastland Community Trust, Activate Tairāwhiti that forest owners who have benefited from operating in the Gisborne region should contribute back to the region.

There is also a strong argument that as HFF has a temporary log storage site directly across the road from the Prime Sawmill holding a maximum of 12,000 ton of logs on that site, HFF has the ability to relatively easily supply on a weekly basis 750 ton/representing 6.25 per cent of the logs potentially stored on that site.

It needs stating that both our client and local stakeholders recognise that HFF should be compensated at market rates for the supply of logs to the Prime Sawmill.

It is also recognised that HFF is a commercially driven entity and is certainly entitled to manage its supply chain of logs to its customer base. However, a review of the FSC Principle 4 and 5 of the Responsible Forest Management strongly indicates that the intent of the forest

⁹ ibid

¹⁰ <http://www.hff.net.nz/downloads/HFFManagementPlanPublicSummaryMay2015.pdf>

management FSC certification is to work constructively with local stakeholders for mutual benefits.

We believe a complaint against HFF in terms of Associated criteria 5.4.2 is warranted.

CONCLUSION

We understand that HFF underwent its first major five-year Forest Stewardship Council (FSC) audit in early 2010. HFF successfully passed the major audit completed by the Smartwood program of the Rainforest Alliance with only two minor CARs, and regained FSC certification for the following five years.¹¹

We have also seen that the Rainforest Alliance conducted a forest management and chain of custody Annual Audit of Hikurangi Forest Farms Ltd in 2013.¹²

We are also aware that the Rainforest Alliance FSC Forest Management Reassessment of Hikurangi Forest Farms Ltd in Gisborne occurred during 2015.¹³

Local stakeholders would certainly welcome visibility on this 2015 Reassessment and an understanding of what stakeholder consultation was conducted before, during and after the June 2015 field work.

HFF should be congratulated on achieving its Forest Management Certification, as well as its operations in New Zealand. Where we depart from that support is when local stakeholders actively seek the support of an FSC certified company yet find the response does not live up to (in their view) the FSC Principles of Responsible Forest Management.

It should also be noted that the development of a high-vale, innovative wood processing cluster at Prime Sawmill was announced in September 2015, and so the reassessment by Rainforest Alliance may not have been in a position to assess HFF's relationship with local stakeholders over the Prime Sawmill initiative.

Despite the timing of the announcement, local stakeholders are concerned about the integrity of the FSC Principles in light of HFF's position which appears to be diametrically in conflict with a number of the Principles' associated criteria, as well as the Mission of the FSC itself.

It is therefore with some regret that based on the information and commentary provided in this Letter of Complaint to the FSC, we seek an investigation into HFF and its compliance with associated criteria of Principle 4 and Principle 5.

Yours sincerely,



Carrick Graham
Managing Director.

¹¹ <http://www.samling.com/certification.php>

¹² <https://au.fsc.org/preview.fsc-forest-management-and-chain-of-custody-annual-audit-of-hikurangi-forest-farms-ltd-.a-596.pdf>

¹³ <https://nz.fsc.org/en-nz/policies/seeking-comment/other-consultations>