



**FSC Certification Report for the
2004 Annual Audit of:
Mendocino Redwood Company
Certificate Number: SCS-FM/COC-00026N**

**Under the
SCS Forest Conservation Program
(An FSC-Accredited Certification Program)**

**Date of Field Audit: August 17-18, 2004
Date of Report: October 1, 2004**

**Scientific Certification Systems
2000 Powell Street
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Emeryville, CA 94608**

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1.0 GENERAL INFORMATION

1.1 BACKGROUND INFORMATION

Mendocino Redwood Company
P.O. Box 390
Calpella, California 95418
Contact: Mike Jani, Chief Forester
Web Page: www.mrc.com

1.2 General Background

This report covers the fourth annual audit of Mendocino Redwood Company (MRC) pursuant to the FSC guidelines for annual audits as well as the terms of the forest management certificate awarded by Scientific Certification Systems in October 2000 (SCS-FM –00026N). All certificates issued by SCS under the aegis of the Forest Stewardship Council (FSC) require annual audits to ascertain ongoing compliance with the requirements and standards of certification.

1.3 Natural Forest Management System

The 232,000 acre MRC land base lies within two major forest types: the redwood forest type which occupies a thin band of land along the coast of California from Monterey County to the Oregon border and the Douglas-fir dominated type which lies to the east of the redwood zone and is characterized by drier site conditions. The MRC forests constitute a continuum of type conditions ranging from redwood dominated to mixed conifer/hardwood stands to Douglas-fir dominated stands. The most prevalent species composition is a mosaic of mixed conifer/hardwood stands that vary in composition in response to micro-site factors such as aspect, soil moisture and soil type as well as harvest history.

Hardwood species (principally tanoak, madrone and some black oak) are a significant component of the forested landscape on MRC and other properties in the region. Hardwoods are a challenging management issue for the company. While these hardwoods are native to the region and represent an important component of the natural ecology, their current distribution is a function of past timber harvesting practices that failed to assure adequate conifer reproduction. To a substantial degree across the ownership, sites capable of supporting conifers, and that were historically occupied by conifers, are now dominated by hardwoods.

Site productivity (for conifer growth) runs the full range across the MRC property, but the dominant classification is Site Class III (average productivity). Due to past (pre-MRC) harvesting practices and overall harvest intensities on the property, average conifer stocking across the ownership is well below the land's capacity, currently averaging approximately 10,000 board feet per acre.

The prior owner's management regime was based upon either clearcutting or other even-aged management methods (e.g., shelterwood systems). MRC has implemented a policy of moving to a broader mix of silvicultural systems with a long-term transition to exclusively un-even aged silviculture. MRC has a policy of no clearcutting, in favor of "variable retention" harvesting. This system is, by policy, employed in forest stands that have an over-abundance of hardwoods. MRC is employing variable retention silviculture with the extent and spatial patterns of retained trees varying in response to site-specific circumstances (10% to 40% of pre-harvest basal area), but with the average level of retention at approximately 20%. These high levels of retention are much more effective in maintaining diversity within harvest units and in transitioning the forest to multi-aged structure.

Uneven-aged management, which MRC believes best mimics natural systems in this region, is the preferred long-term silviculture on the ownership. Under Chief Forester Mike Jani, whose background is in un-even aged timber management in the Santa Cruz Mountains of California's central coast, MRC is on course towards un-even aged silviculture. This will occur over time as the backlog of stands with substantially unbalanced hardwood composition is treated with variable retention even-aged silviculture. The general approach is that variable retention harvesting will be prescribed on a stand only once, followed by subsequent entries employing selection silviculture.

See the 2000 Certification Evaluation Report for a more detailed description of the forest and management system.

1.4 Environmental and Socioeconomic Context

Mendocino County is one of the most challenging and contentious regions in the United States in which to practice industrial forest management. The county is increasingly within the influence of the San Francisco Bay Area metropolitan region and is increasingly within the "urban/rural interface," particularly in the southern half of the county. There is a very active, well-informed and vocal grass roots environmental community in the county that has been mobilized for at least the past two decades over commercial forestry issues. See the 2000 Certification Evaluation Report for a more detailed description of the environmental social context.

1.5 Products Produced

Mendocino Redwood Company produces and sells delivered logs, the majority of which are processed at the company's sawmill in Ukiah. This mill is owned and operated by Mendocino Forest Products Co., a sister company to MRC with essentially common ownership. The principal commercial conifer species harvested on the defined forest area are redwood and Douglas-fir, with minor amounts of other species, such as white fir. Tanoak is also occasionally harvested, primarily for biomass and firewood. The initiative to mill tanoak for flooring did not prove to be financially viable and was shut down in 2001.

A more detailed description is found in the 2000 Certification Evaluation Report.

1.6 Chain of Custody Certification

The chain of custody issue of concern to this audit report is the “stump to forest gate” link in the material flow chain. The audit team examined log handling up to the forest gate and found no changes in the certified procedures as compared to what was observed during the prior annual audit. That is, the evaluation team concludes that stump-to-forest gate chain-of-custody procedures are operating effectively.

The sawmill in Ukiah has already been FSC chain-of-custody certified, thereby assuring the continued integrity of the certified log supply, once the logs are unloaded for scaling and processing in the mills’ log yards.

2.0 ANNUAL SURVEILLANCE AUDIT ASSESSMENT PROCESS

Pursuant to FSC and SCS guidelines, annual/surveillance audits are not intended to comprehensively examine the full scope of the certified forest operations, as the cost of a full-scope audit would be prohibitive and it is not mandated by FSC audit protocols. Rather, annual audits are comprised of three main components:

- A focused assessment of the status of any outstanding conditions or corrective action requests
- Follow-up inquiry into any issues that may have arisen since the award of certification or prior audit
- As necessary given the breadth of coverage associated with the first two components, an additional focus on selected topics or issues, the selection of which is not known to the certificate holder prior to the audit.

At the time of the August 2004 annual audit, there were 3 open Corrective Action Requests, the status of MRC’s response to which was a major focus of the annual audit (see discussion, below for a listing of those CARs and their disposition as a result of this annual audit.

2.1 Assessment Personnel

For this annual audit, the team was comprised of Dr. Robert J. Hrubes and Mr. Walter Smith, who also served as co-team leader.¹ Both Dr. Hrubes and Mr. Smith were part of the 2000 full evaluation as well as the 2001, 2002 and 2003 annual audits, thus providing for good continuity. In addition, two observers from SCS accompanied the audit team.

Dr. Robert J. Hrubes, Team Leader: Dr. Hrubes is Senior Vice-President of Scientific Certification Systems. He is a registered professional forester and forest economist with 27 years

¹ As explained in prior MRC certification reports, MRC was initially evaluated and subsequently certified under a dual and coordinated format involving SCS and Smartwood, the two FSC-accredited certification bodies most active in the U.S. For this annual audit, a single joint audit team was convened that served in support of both SCS and Smartwood.

of professional experience in both public and private forest management issues. He served as team leader for the initial MRC Forest certification evaluation. Dr. Hrubes worked in collaboration with SCS to develop the programmatic protocol that guide all SCS Forest Conservation Program evaluations. Dr. Hrubes has led numerous SCS Forest Conservation Program evaluations of North American (U.S. and Canada) industrial forest ownerships, as well as operations in Scandinavia, Chile, and Japan. He also has professional work experience in Brazil, Germany, Guam (U.S.), Hawaii (U.S.), and Malaysia. Dr. Hrubes is the principal author of this audit report.

Mr. Walter Smith, Team Member:

Walter is Senior Technical Specialist for the Rainforest Alliance SmartWood certification program. Walter has 17 years experience in logging, training and forest resource management and 14 years experience in Forest Stewardship Council (FSC) forest management and chain of custody certification. He developed an FSC type certification system with the Institute for Sustainable Forestry before the establishment of the FSC. He is a founding member of the FSC and was on the original FSC Principles and Criteria Working Group. Walter began working with SmartWood in 1995. Since then he has been a team leader on over 120 forest management and chain of custody assessments and audits in Canada, China, Indonesia, Japan, Malaysia, Philippines, Singapore, Vietnam and all regions of the United States.

Dr. Michael Keyes, Observer:

Dr. Keyes is the Senior Auditor for Scientific Certification Systems. He is a forest ecologist with over 20 years of experience working with forest issues in the United States and Latin America. He has done extensive work in agroforestry and tropical forest systems as an academic researcher in Mexico and Costa Rica, as well as conducting resource evaluations for the World Bank. This was his first FSC field audit. Dr. Keyes holds degrees from the University of Washington and UC-Berkeley.

Mr. Brendan Grady, Observer:

Brendan is currently interning with Scientific Certification Systems. He received his B.S. in Forestry from the University of California, Berkeley, in 2004. His previous experience includes forestry work with the California Department of Forestry and Fire Protection and research on tropical plantations in Moorea, French Polynesia, with the Service du Developement Rurale. This was his first FSC field audit.

2.2 Assessment Dates

Prior to the 2004 field audit, and over the course of the 10 months since the 2003 annual audit, there was periodic contact between MRC personnel and Dr. Hrubes, focusing on issues such as progress on addressing open CARs.

On August 17-18, 2004, the SCS audit team (Hrubes and Smith with Keyes and Grady serving as observers) conducted the annual audit of MRC, including on-site inspections of field operations as well as extensive interviews with MRC management and field personnel.

On August 23, the audit team discussed the audit and considered the status of each of the open CAR's.

On August 24, a conference call was held with the audit team and Mendocino Redwood Company senior staff to discuss their performance in the audit.

2.3 Assessment Process

Surveillance audit activities undertaken over the course of 2004 included the following activities:

- Telephone interviews with MRC personnel
- Desk review of written materials supplied by MRC personnel
- Face-to-face interviews with a cross-section of MRC forestry and management personnel
- Two days of field audits, focusing on areas where recent timber management and herbicide activities have taken place
- Preparation of this 2004 annual certification audit report

The annual surveillance audit, conducted in August, 2004, included the following activities:

- Office interviews with senior MRC managers as well as forestry personnel
- Review of all outstanding Corrective Action Requests
- Review of documents
- Completion of a sample-based review of field operations, focusing on the following tracts:
 - Big River/Noyo
 - Albion
 - South Coast/Annapolis (Garcia River).

Documents that were reviewed as part of this surveillance audit included:

- 2003 Audit Report
- MRC Website
- MRC Annual Report to the certifiers
 - Harvest Summary for 2003/2004
 - Harvest Maps
 - Response to 2003 CARs
 - Herbicide use matrix

2.4 Guidelines/Standards Employed

For this annual audit, the SCS auditor team evaluated the extent of conformance with the FSC Pacific Coast Regional Standard, which was endorsed by the FSC in June 2003.

2.5 MRC Personnel Interviewed as part of this Annual Audit

Person interviewed	Position/Organization
Richard Higgenbottom	President
Mike Jani	Chief Forester/Vice-President
Tom Shultz	Timberlands Manager
John Nickerson	Inventory and Planning Manager
Adam Steinbuck	Director of Stewardship
Rob Rempel	Area Forester
John Anderson	Area Forester
Robert Douglas	Wildlife Biologist
Andy Armstrong	Reforestation Forester
Jon Woessner	Area Forester
Mike Powers	Forester
Russ Shively	Area Forester

3.0 RESULTS, CONCLUSIONS, CORRECTIVE ACTION REQUESTS AND RECOMMENDATIONS

This results section is divided in two sections: Section 3.1 details the status of 3 Corrective Action Requests that remained open at the commencement of the August 2004 annual audit and Section 3.2 presents new CARs, recommendations and observations from this audit.

As a result of the August 2004 annual audit, the team has:

- 1) closed out 1 of the 3 open Minor CARs
- 2) continued 2 Minor CAR's issued as part of the September 2003 audit
- 3) issued no new corrective action requests (CARs)
- 4) issued no new recommendations

3.1 Status of Extant (Open) CARs as a Result of the August 2004 Surveillance Audit

Corrective Action Request: Minor CAR 2003.1—Public Review of Reserve System
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In conjunction with and no later than the date of finalization of the HCP/NCCP, MRC managers must complete and make public the initial delineation and outside review of its reserve system that includes and integrates areas categorized as high conservation value forest. Outside review must include scientific peer review as well as opportunities for comment and input from the general public.

MRC's Actions/Auditor Observations:
Status of MRC's response to this corrective action request was thoroughly discussed during the office interview portion of the 2004 annual audit. Based upon that discussion, the team formed the following observations: As part of MRC's Habitat Conservation Plan/Natural Communities Conservation Plan (HCP/NCCP), the final delineation of their reserve system will occur. Scientific peer review is an integral part of the HCP/NCCP, and MRC has already convened a scientific panel, whose review is already available on the MRC website. Public comment is also mandatory in this process, so all elements of this CAR should be completed in the natural course of finalizing their HCP/NCCP. However, the HCP/NCCP is not yet completed, so closure of the CAR must wait until the project is finalized.
Status as a result of the August 2004 Annual Audit:
This CAR remains open, given that its due date is contingent upon MRC's completion of their HCP/NCCP.

Corrective Action Request: Minor CAR 2003.2—Herbicide Use
a) Within 30 days of receipt of the 2003 annual audit reports, MRC must update its public statements and commitments regarding chemical use, as found on the company web site, to more accurately reflect what the company now considers to be attainable yet aggressive goals for continued reduction in chemical use. The revised statements on the web site should provide explanation and justification for revisions from the current public commitments.
b) Over the next 3 months, MRC senior staff (Forest Manager and Resource Manager) must undertake an initiative of on-site field review and critique with all field staff involved in chemical use decisions, for the purpose of helping these staff to more selectively employ chemicals on a micro/patch/oak clump basis rather than a stand-wide basis.
MRC's Actions/Auditor Observations:
Based upon discussions held with MRC personnel during the 2004 annual audit, the audit team formed the following observations: a) The change in the company's herbicide use policy has been made on their website. The page also dates when the policy was updated as a point of reference to the reader. The current text under the Herbicide Use page (http://www.mrc.com/issues/herbicide.html) describes the companies earlier stated goals of a 60% percent reduction over 4 years. It further explains that the company now views those early targets as over ambitious and unrealistic. The current language on the website does not list any specific, qualitative goals, but instead states MRC's commitment to reducing chemical use gradually through selective application and changing the dominant silvicultural regime on their ownership to one that does not depend on herbicides. b) A formal meeting was held in order to introduce the policy of site specific herbicide application to the MRC staff, including area foresters and the regeneration forester. Later field visits also occurred between senior staff and other area foresters discussing focused herbicide application instead of general landscape scale application. The audit team toured several sites of recent herbicide application during the field audit. Examples of recent herbicide treatments showed that patches of mature oaks that were not in competition with dominant conifers were left untreated. In addition to these changes in herbicide application policy, MRC has created a database that tracks all vegetation management operations, including herbicide applications. The database already includes all vegetation management operations since MRC acquired the land, and they are beginning to reconstruct the past operations of the previous owner. During the closing phone call on August 24, MRC indicated that they had created new forms for the forestry staff to use in tracking all future vegetation management and herbicide applications.
Status as a result of the September 2003 Annual Audit:
This CAR is now closed.

Corrective Action Request: Minor CAR 2003.3—Public Distribution of Management Plan
Within 6 months of completion of the HCP/NCCP, MRC must complete and publicly distribute the umbrella management plan document.
MRC's Actions/Auditor Observations:
Based upon discussions held with MRC personnel during the 2004 annual audit, the audit team formed the following observations: MRC has begun work on the umbrella management plan document, but only limited progress has occurred since it relies on the yet to be completed HCP/NCCP. The staff of MRC indicated that they were focusing their efforts on the HCP/NCCP rather than the umbrella management plan. MRC estimates the HCP/NCCP will be finished by the end of 2005.
Status as a Result of the September 2003 Annual Audit:
This CAR remains open, given that its due date is contingent upon MRC's completion of their HCP/NCCP.

3.2 New CAR's, Recommendations, and Observations

There were no new CAR's or recommendations issued as a result of the 2004 annual audit. We offer, however, the following observations:

Observation re Logo Use:

MRC is incorrectly using the FSC logo on off-product promotional materials, including brochures and their website. The logo must consist of 5 parts:

- the FSC logo
- copyright symbol
- off-product statement
- FSC copyright claim
- certificate number.

In a brochure made available to the audit team and on its web site, MRC's off-product use of the logo presently does not include the FSC copyright claim "FSC Trademark © 1996 Forest Stewardship Council A.C." nor MRC's unique certificate number (SCS-FM/COC-00026N). Because MRC is dual FSC certified by both SCS and Smartwood, MRC is free to employ both certificate numbers. These two missing components do not need to be placed in a specific location next to the logo; they can be oriented at the discretion of MRC. Also, they do not need to be repeated every time the logo is used in one piece of promotional material (e.g. web page, brochure, etc.); one mention is sufficient.

Note that SCS has opted not to issue a CAR over this matter, at this point of time. The main reason why it was not felt that a CAR was needed is that, since the field audit, MRC (through Adam Steinbuck) has been in active consultation with SCS about the off-product use of the FSC and SCS logos. Provided that prompt adjustments are made to the manner in which the FSC

logo is being utilized in on-product contexts and provided that MRC continues to appropriately consult with SCS on logo use matters, there will not be a need to issue a CAR.

Observation re Next Year's Re-Certification Evaluation:

Next year, Mendocino Redwood Company is scheduled to undergo their five-year re-certification evaluation. This audit will be similar to the initial certification audit and more intense in scope than the annual audits. MRC's new certificate must be issued before their current certificate expires, on November 30, 2005. Thus, the field evaluation component of the re-certification should take place no later than July in order to ensure that all stages of the certification process are complete before November 30th so that MRC's certification is not disrupted.

MRC is also advised that, starting January 1, 2005, the FSC has revised the mandatory certification decision rule. Whereas to this point in time, the award of certification was contingent upon a finding of general conformance to each of the 10 FSC Principles of Forest Stewardship, the new decision rule requires a finding of conformance to each of the FSC Criteria. So, at the time of the 2005 re-certification audit of MRC, any Criterion-level non-conformances will require the specification of a Major Corrective Action Request (CAR) and the suspension of the MRC certificate until all Major CARs are closed. In the past, and under the SCS protocols that have been employed for the past 10 years, non-conformance at the Criterion level is associated with an assigned performance score less than 80 points. With the institution of the new certification decision rule, SCS will cease use of the scoring protocols.

3.3 General Conclusion of the 2004 Annual Audit

Based upon information gathered through site visits, interviews, and document reviews, the SCS audit team concludes that MRC's management of its forest estate in Mendocino County, California continues to be in strong overall conformance with the FSC Principles and Criteria, as now further elaborated by the Pacific Coast Regional Standard. That is, and while there remains two active Corrective Action Requests, the SCS audit team has concluded from this annual audit that MRC's forest management program is in general conformance with FSC Principles 1 through 9 (Principle 10 is not applicable as MRC's operations are classified as "natural forest management" under the FSC definitions). As such, continuation of the certification is warranted, subject to ongoing progress in closing out the two open Minor CARs and subject to next year's 5-year re-certification audit.

The audit team would also like to note with appreciation the well-prepared briefing folder prepared by Adam Steinbuck and provided to the audit team at the kick-off meeting. This compendium of documents provided the audit team with a concise and efficient summary of MRC's progress in addressing the CARs and the status of other key aspects of the overall management program.