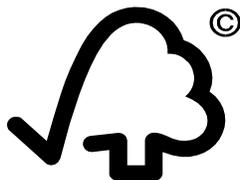


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FM-06 April 2007



**SmartWood**

*Practical conservation through certified forestry*

Forest Management  
**2007 Annual audit**  
Report for:

**Mendocino Redwood  
Company, LLC**  
in  
**Ukiah, California USA**

Certificate code:	SW-FM/CoC-000128
Auditors:	<b>Walter Smith, Robert Hrubes, Gary Dodge</b>
Audit Dates:	<b>July 31 - Aug. 1, 2007</b>
Report Finalized:	<b>August 19, 2008</b>
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### Standard Conversions

1 mbf = 5.1 m<sup>3</sup>  
1 cord = 2.55 m<sup>3</sup>  
1 gallon (US) = 3.78541 liters

1 inch = 2.54 cm  
1 foot = 0.3048 m  
1 yard = 0.9144 m  
1 mile = 1.60934 km  
1 acre = 0.405 hectares

1 pound = 0.4536 kg  
1 US ton = 907.185 kg  
1 UK ton = 1016.047 kg

# 1. INTRODUCTION

The purpose of this report is to document annual audit conformance of Mendocino Redwood Company, LLC (MRC), hereafter referred to as Forest Management Enterprise (FME). The report presents the findings of SmartWood auditors who have evaluated company systems and performance against FSC forest management standards and policies. Section 2 of this report provides the audit conclusions and any necessary follow-up actions by the company through corrective action requests.

SmartWood audit reports include information which will become public information. Sections 1-3 will be posted on SmartWood's website according to FSC requirements. All appendices will remain confidential.

Dispute resolution: If SmartWood clients encounter organizations or individuals having concerns or comments about Rainforest Alliance / SmartWood and our services, these parties are strongly encouraged to contact SmartWood regional or Headquarters offices directly (see contact information on report cover). Formal complaints or concerns should be sent in writing.

## 2. AUDIT FINDINGS AND RESULTS

### 2.1. Audit conclusion

<b>Based on Company's conformance with FSC and SmartWood requirements, the audit team makes the following recommendation:</b>	
<input checked="" type="checkbox"/>	<b>Certification requirements <u>met</u>, certificate maintenance recommended</b> Upon acceptance of CAR(s) issued below
<input type="checkbox"/>	<b>Certification requirements <u>not met</u>:</b> Conformance with Major CAR(s) required
Additional comments:	
Issues identified as controversial or hard to evaluate.	

### 2.2. Changes in the forest management of the FME

There have been no changes in the forest management since the last audit. The company is, however, updating their California State Law required "Option A". The Option A is a sustained yield plan and harvest permit document. The document will be submitted to the California Department of Forestry and Fire Protection for approval this fall. There are no plans to significantly alter forest management practices. The total area has not changed but the acres have been recalculated and revised to 228,775 acres.

The company's GIS Director resigned earlier this year. See Observation 04/07.

### 2.3. Stakeholder issues

The majority of the stakeholders interviewed believe that MRC is practicing quality forest management and forest stewardship. They cite the number of restoration projects MRC implements each year (which includes culvert replacement, stream habitat restoration, road decommissioning, improvement of habitat through silviculture), the extremely low forest practice regulation infractions, excellent cooperation with the regulatory agencies and the consistent harvest levels.

There are stakeholders who believe that MRC could still significantly improve their forest management practices, particularly by reducing the use of herbicides. There was also concern about MRC reducing the width of the current WLPZs (Water and Lake Protection Zones) after they get their Habitat Conservation Plan (HCP) and Natural Communities Conservation Plan (NCCP) approved. It is not clear whether the stakeholders understand that the WLPZs currently in effect on MRC’s lands are negotiated interim protection measures to be used until the HCP and NCCP are approved. Long-term WLPZ protection measures that will become part of the plans are being proposed to the agencies approving the plans.

A number of stakeholders also mentioned that they believed that MRC was very proactive in reaching out to the community about forest management or related issues. If there are community concerns that arise they are willing to discuss the concerns and make changes to forest management activities if necessary. They also said that MRC has an open door policy to anyone, including those outside the community.

Additionally, stakeholders were appreciative that MRC has also provided educational tours of their forestlands and allowed university student to observe and participate in the discussion of controversial forest management issues.

**2.4. Conformance with applicable corrective action requests**

The section below describes the activities of the certificate holder to address each applicable corrective action issued during previous evaluations. For each CAR a finding is presented along with a description of its current status using the following categories. Failure to meet CARs will result in non-conformances being upgraded from minor to major status with conformance required within 3 months with risk of suspension or termination of the SmartWood certificate if Major CARs are not met. The following classification is used to indicate the status of the CAR:

CAR Status Categories	Explanation
Closed	Certified operation has successfully met the CAR and addressed the underlying nonconformance.
Open	Certified operation has <u>not met</u> the CAR; underlying nonconformance is still present. CAR becomes a Major CAR with a 3 month deadline for conformance

There were no open CARs resulting from previous audits.

**2.5. New corrective actions issued as a result of this audit**

<b>CAR 01/07</b>		<b>Reference to Standard: 4.2.a</b>
<b>Non-conformance</b>		The auditors observed several safety issues: first aid kits were not on the job site, the loader operator did not put on a hardhat when he got out of the loader to speak with us, and another crew member was standing in a position between the loader and yarder where he was vulnerable to being hit by logs lifted from the yarder drop point to the log deck.
<b>Major</b>	<b>Minor X</b>	
<b>Corrective Action Request:</b> MRC shall require that contractors meet OSHA requirements and maintain safe work practices. MRC shall include of the review and evaluation of safety practices on the part of contract loggers and their employees during supervisory inspections of the job sites.		
<b>Timeline for conformance:</b>		Prior to next annual audit
<b>Evidence to close CAR:</b>		Pending
<b>CAR Status:</b>		OPEN
<b>Follow-up Actions (if app.):</b>		

<b>CAR 02/07</b>		<b>Reference to Standard: 6.1.c</b>
<b>Nonconformance</b>		Staff research information and reports on forest environmental conditions (e.g. terrestrial and aquatic wildlife, soils, and hydrology) are not adequately incorporated into forest management activities. For example, MRC has developed a protocol for the development of timber harvest plans that incorporates results from field research; however, it appears that the protocol is not being implemented.
<b>Major</b>	<b>Minor X</b>	
<b>Corrective Action Request:</b> MRC shall provide training or guidance to foresters regarding the use of environmental research and reports generated by other MRC staff while planning forest management activities.		
<b>Timeline for conformance:</b>		Prior to the next annual audit
<b>Evidence to close CAR:</b>		Pending
<b>CAR Status:</b>		OPEN

<b>CAR 03/07</b>		<b>Reference to Standard: 6.5.g and 6.5.p.</b>
<b>Nonconformance</b>		During the field visit the auditors observed two sites where unforeseen damage to the environment occurred (both sites were brought to the attention of the auditors by MRC staff). One was a relatively significant landslide and the other was inadvertent brush clearing and site preparation by the logger within the SMZ. At the time of the audit it did not appear that there was sufficient company guidance provided to the MRC staff for addressing and/or mitigating these kind of unforeseen developments (e.g. natural and management disturbances) in a timely fashion.
<b>Major</b>	<b>Minor X</b>	
<b>Corrective Action Request:</b> MRC shall develop and implement procedures and guidance for responding to unanticipated developments that compromise management goals and compliance with FSC standards.		
<b>Timeline for conformance:</b>		Prior to the next annual audit
<b>Evidence to close CAR:</b>		Pending
<b>CAR Status:</b>		OPEN
<b>Follow-up Actions (if app.):</b>		

## 2.6. Audit observations

**Observations** are very minor problems or 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 client. An observation may be a warning signal on a particular issue that, if not addressed, could turn into a CAR in the future (or a pre-condition or condition during a 5 year re-assessment).

<b>OBS 01/07</b>	<b>Reference Standard: 1.5.a. and 4.2.a.</b>
MRC has recognized an increase in illegal activities on the property, particularly marijuana cultivation on a relatively large scale that has resulted in an increased threat to employees. MRC has stated they have a clearly written and articulated policy and have initiated collaboration with authorities. This is an escalating threat to worker safety that merits an active approach by management and more thorough communication with employees.	
<b>Observation:</b> MRC should provide information, guidance, and training for employees and contractors addressing the escalating nature of the marijuana cultivation problem and on how to safely deal with potential encounters with illegal activities on MRC lands.	

<b>OBS 02/07</b>	<b>Reference Standard: 1.6.a, 7.3, 4.1.a.</b>
MRC has implemented a <i>Six Sigma</i> training program for employees generally focused on increased productivity and business efficiency. There are opportunities for MRC to utilize the training program to a greater extent to increase land stewardship and community benefit from the forest operations.	
<b>Observation:</b> MRC should explore utilization of the <i>Six Sigma</i> training program in alignment with FSC Principles and Criteria and forest stewardship, and should ensure that increased focus on productivity and efficiency does not come at the expense of stewardship.	

<b>OBS 03/07</b>	<b>Reference Standard: 1.6.a, 7.3</b>
MRC field employees demonstrated an incomplete understanding of forest stewardship and understanding of FSC goals and intent resulting in occasional management activities that were not aligned with goals of FSC-certified forest management.	
<b>Observation:</b> MRC, as a company that has demonstrated a long-term commitment to FSC Principles and Criteria, should explore training of new and continuing employees in the goals of FSC certification, how they relate to current forest management, and implications for on-the-ground activities.	

<b>OBS 04/07</b>	<b>Reference Standard: 6.1.a</b>
The current staff of environmental researchers is: <ul style="list-style-type: none"> <li>1) incomplete without a GIS director, resulting in the reduction of important activities addressing biological research and utilization of the research; and</li> <li>2) limited to addressing the compliance with state and federal regulations resulting in less than robust attention to non-listed species and general stewardship.</li> </ul>	
<b>Observation:</b> MRC should hire a GIS director with the capacity to fully direct and make better use of the information gathering and scientific operations in MRC, including studies of ecological processes, common and rare species and communities, water, and soil resources. MRC should investigate and implement ways to enable staff researchers to gather and apply	

<p>research on a broader array of environmental factors (e.g. plant communities) that will result in a more complete understanding of the landscape and management effects.</p>
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**3. AUDIT PROCESS**

**3.1. Auditors and qualifications:**

Walter Smith, SW Senior Technical Specialist. Walter has 17 experience in logging, training and forest resource management and 17 years experience in Forest Stewardship Council (FSC) forest management and chain of custody certification. He pioneered an FSC type certification system with the Institute for Sustainable Forestry before the establishment of the FSC in 1990. Walter became a founding delegate of the FSC and was on the original FSC Principles and Criteria Working Group. He was also a member of the FSC Pacific Coast Working Group and is considered a senior authority on certification. Walter has been a team leader on over 250-forest management and chain of custody pre-assessments, assessments, and audits for the Rainforest Alliance SmartWood Program in Canada, China, India, Indonesia, Japan, Korea, Laos, Malaysia, Nepal, Philippines, Singapore, Vietnam and all regions of the United States. He is a principal instructor for the SmartWood Assessor Training Program and has participated in over 30 training workshops in North America and Asia. He has ISO 14001 lead auditor training and is the co-author of a book on certification with ecologist Chris Maser.

Robert Hrubes, Ph.D., RPF, Forest Management and Economics - Robert is Senior Vice-President of Scientific Certification Systems (SCS). He is a California State Registered Professional Forester (RPF) and forest economist with 26 years of professional experience in both public and private forest management issues. He is the team leader for SCS' reassessment of MRC. He served as team leader for SCS for the initial MRC Forest certification evaluation in 2000. Before becoming Senior Vice-President of SCS, Robert worked in collaboration with SCS to develop the programmatic protocol that guide all their Forest Conservation Program evaluations. Robert 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, Solomon Islands, New Zealand, Australia and Japan. He also has professional work experiences in Brazil, Germany, Guam (U.S.), Hawaii (U.S.), and Malaysia. Robert is a founding member of the FSC and served on the first elected board of directors. He is a member of the FSC's Pacific Coast Working Group. He has a Ph.D. in Wildland Resource Science from the University of California, Berkeley.

Gary Dodge, Ph.D., SmartWood consulting biologist and ecologist. Gary is a founder and member of Trailhead Associates Consulting Group. He has approximately twenty years of professional experience as a biologist. For the past three years, he has been working as a consultant on projects addressing forest certification. Gary has worked closely with FSC, most recently in developing a role for FSC in carbon markets and bioenergy. Gary participated in development of the environmental components (HCVF and Conversion) of the new Controlled Wood standard and development of the FSC Controlled Wood Risk Registry. He recently directed a review of the nine FSC-US regional standards. Gary's holds an M.S. in Sustainable Development and Conservation Biology and a Ph.D. in Plant Ecology from the University of Maryland.

**3.2. Audit schedule**

Date	Location /Main sites	Principal Activities
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8/31/07	MRC headquarters in Ukiah	Review agenda; meet with MRC management; presentation on MRC Option A; discussion of finances.
8/31/07	Greenwood Creek	Site inspections and Interviews with foresters and MRC staff scientists.
8/31/07	South Navarro West	Site inspections and interviews with foresters and MRC staff scientists.
8/31/07	Dinner meeting in Fort Bragg	Meeting with area foresters and staff scientist.
9/1/07	Breakfast meeting in Fort Bragg	Interview with timberland manager.
9/1/07	North Navarro West	Interview with staff regarding management strategies.
9/1/07	Hedge Farm (tree nursery)	Interview with Reforestation Forester .
9/1/07	North Navarro East	Site inspection of replanting activities.
9/1/07	Ukiah District	Interview with Area Forester and site visit for recent management activities.
9/1/07	MRC headquarters in Ukiah	Closing meeting.

Total number of person days used for the audit:6 = number of auditors participating 3 times total number of days spent for the audit 2
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### 3.3. Sampling methodology:

Field sites were chosen to represent current and active management activities and interviews with pertinent MRC staff. Sites included multiple silviculture protocols including Alternative Transition, Restoration Variable Retention, and Alternative Selection. Also, sites involving reforestation efforts were included. Finally, a site chosen to meet with a biologist and address owl habitat was included.

Interviews with staff were conducted at formal meetings, during meals, at sites, and in vehicles between sites. Auditors separated and interviewed different staff between sites. The director of stewardship and the chief forester were with the audit team at all times.

### 3.4. Stakeholder consultation process

Stakeholder type (i.e. NGO, government, local inhabitant etc.)	Stakeholders notified (#)	Stakeholders consulted or providing input (#)
NGO	3	1
Regulatory Agency	2	2
University Extension	2	2
Neighbor	1	1
Industry	1	1

### 3.5. Changes to Certification Standards

Forest stewardship standard used in audit:	FSC Revised Final Pacific Coast Standard (version 9.0)
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Revisions to the standard since the last audit:	<input checked="" type="checkbox"/> No changes to standard. <input type="checkbox"/> Standard was changed (detail changes below)
Changes in standard:	
Implications for FME:	Not applicable - no new requirements