



**FSC Certification Report for the
2003 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: September 24-25, 2003
Date of Report: December 2003**

**Scientific Certification Systems
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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 third 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 Calpella¹. This mill is owned and operated by Mendocino Forest Products, 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.

¹ Since the 2002 annual audit, MRC closed its sawmill in Ft. Bragg.

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 Calpella 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 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 September 2003 annual audit, there were 9 open Corrective Action Requests², 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.³ Both Dr. Hrubes and Mr. Smith were part of the 2000 full evaluation as well as the 2001 and 2002 annual audits, thus providing for good continuity.

² The list of open or active CARs was substantially modified during a special mid-year update audit that resulted in a special report issued on August 10, 2003.

³ 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 active in the

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 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:

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 12 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 70 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.

2.2 Assessment Dates

Since the 2002 annual audit, there were audit activities undertaken on the following dates:

- On December 5, 2002, John Nickerson of MRC submitted (via email) a written description of actions taken by MRC in response to a CAR 2002.6.
- On May 2, 2003, Hrubes and Smith conducted a conference call interview with MRC's Mike Jani, John Nickerson and Tom Schultz. The purpose of the conference call was to provide MRC with an opportunity to brief the auditors as to the actions taken by MRC in response to the CARs
- In late May, 2003, Robert Hrubes and Walter Smith both received telephone briefings from Tom Schultz regarding the closure of the Fort Bragg mill
- In June, 2003, Robert Hrubes conducted a phone interview with Nancy Budge, now a consultant to MRC and previously and senior employee of MRC
- In June, 2003, MRC's John Nickerson emailed to the SCS auditors additional materials
- In June, 2003, auditors Hrubes and Smith both perused the MRC web site to review pertinent documents and data

U.S. For this annual audit, a single joint audit team was convened that served in support of both SCS and Smartwood.

- In June, 2003, Hrubes and Smith conferred with each other via two lengthy conference calls, for the purpose of determining the status of the CARs in light of the information gathered since the 2002 annual audit.
- On September 24-25, an SCS audit team (Hrubes and Smith) conducted the annual audit of MRC, including on-site inspections of field operations as well as extensive interviews with MRC management and field personnel

2.3 Assessment Process

Surveillance audit activities undertaken in 2003 including the following activities:

- Telephone interviews with MRC personnel
- Telephone interviews with interested stakeholders
- 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 activities have taken place
- Preparation of a Mid-Year certification audit report
- Preparation of this 2003 annual certification audit report

The annual surveillance audit, conducted in late September, 2003, 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 Big River watershed, South Fork of the Albion River and the Greenwood Unit.

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. Notably, the Pacific Coast Regional Standard was endorsed in June 2003. Per FSC protocols, all existing certificate holders Pacific Coast region have one year from the date of endorsement to be found in conformance with the regional standard.

Accordingly, the September 2003 annual audit was conducted against the new standard, so as to provide ample and early notification to MRC of any non-conformances.

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	Forester/GIS Specialist
Sarah Billig	Biologist
Andy Armstrong	Reforestation Forester
Chris Surfleet	Biologist Supervisor
Robert Douglas	Biologist
Matt Goldsworthy	Biologist
John Woessner	Area Forester
Rob Rempel	Area 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 9 Corrective Action Requests that remained open at the commencement of the September 2003 annual audit and Section 3.2 presents new CARS issued as a result of this annual audit.

As a result of the September 2003 annual audit, the team has:

- 1) closed out 8 of the 9 open CARs
- 2) continued 1 CAR (renumbered as CAR 2003.3) from the special mid-year audit (completed in August, 2003)
- 3) stipulated 2 new corrective action requests (CARs)
- 4) Issued no new recommendations

3.1 Status of Extant (Open) CARs as a Result of the September 2003 Surveillance Audit

As noted above, a special mid-year update audit (and report) was completed during the summer of 2003. One of the principal reasons for this update audit was to review and consolidate the existing Corrective Action Requests. As a result of this update audit, there were 9 CARs still open at the time that the September 2003 annual audit was commenced. As detailed below, the 2003 annual audit team concluded that 8 of these 9 CARs merit closure as part of issuance of the 2003 annual audit report, based upon actions taken by MRC in response to those CARs.

Corrective Action Request: CAR 2002.2--Umbrella 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:
The SCS auditors are satisfied that MRC remains committed to the completion of the HCP/NCCP at the earliest practicable time. This process has been undergoing for the last two or three years and completion date is still unpredictable given the complexities of the review and approval process.
Status as a result of the September 2003 Annual Audit:
This CAR is closed and replaced by CAR 2003.3.

Corrective Action Request: CAR 2002.3--Ecological Reserves

By the end of 2003, a reserve system (including areas designated as HC VF) must be completed that has an ecological basis and that provides for connectivity, over time, between habitats across the landscape. The reserve system will be peer reviewed by a scientific panel.

MRC's Actions/Auditor Observations:

Satisfactory and significant progress is being made in developing the reserve system. Descriptions, including spatial locations, of elements of the reserve system are presented on MRC's website. MRC managers have assured the auditors that the completed reserve system will be peer reviewed as a part of the HCP/NCCP process. A science panel, facilitated by UC Berkeley Forestry Extension, was convened for the peer review and they are in the process of completing a report.

It is the auditors' sense that the HCP/NCCP process is proceeding at a measured but steady pace. The auditors are satisfied with the manner in which MRC is responding to this CAR. To update the requested actions, this CAR is being closed and replaced with a new CAR.

Status as a Result of the September 2003 Annual Audit:

This CAR is now closed. A new CAR is stipulated that addresses the same subject area (see below).

Corrective Action Request: CAR 2002.5--HC VF Consultation

Within 6 months of receipt of this annual audit report, MRC must consult with community members and other appropriate stakeholders, in the definition and interpretation, on the ground, of high conservation value (HCV) forests.

The HC VF definitions and areas identified as HC VF, as a result of the stakeholder consultations, will be documented and made public. Final designations of HC VF must be incorporated into the landscape plan(s) and be made public.

MRC's Actions/Auditor Observations:

The audit team concludes that the approach taken by Mendocino Redwood Company to this issue is appropriate and thorough. During the month of December 2002, all of the current information regarding HCFV was posted on the MRC website for stakeholder to review and comment. Compared to other certified operations, the information provided on the MRC web site is on the leading edge of FSC public disclosure. As well, MRC is currently developing a Habitat Conservation Plan (HCP) and Natural Communities Conservation Plan (NCCP). Both of these planning processes are government agency long-term biodiversity and endangered species conservation plans. In that they are granted by public agencies pursuant to state and federal legislation, there is a substantial public input component. Although MRC has been engaged in these planning processes for the last two or three years, the public review component and completion date is still unknown due to the complexities of the approval process. As has been stated earlier, scoping sessions with the public have taken place during 2002 (soliciting and gathering public input while developing the plan) and public input will be sought again, to discuss the alternative conservation scenarios analysis of the HCP/NCCP. Finally, MRC continues to meet with community watershed groups and individuals concerning HC VF and other issues.

MRC's approach to completing the HCV planning process hinges upon, first, completing the HCP and NCCP. At

that point, MRC will be able to compare their designations of HCVF with the public's expectations. Although this CAR is not completed, the auditors feel justified to close this CAR and combine the unfinished elements with CAR 2003.1

Status as a result of the September 2003 Annual Audit:

This CAR is now closed.

Corrective Action Request: CAR 2002.7—Chemical Use

At the time of the next annual audit (roughly at the end of the 2003 operating season), MRC must be able to preliminarily demonstrate that it has reduced chemical use to less than 40% of 1999 levels, per the public commitments made at the time of award of certification and presently posted on the MRC web site. Final demonstration that MRC has met its public commitment can wait until the 2003 year-end data on chemical use is tabulated.

MRC's Actions/Auditor Observations:

MRC presented their 2003 chemical use data to the auditors for review during the September 2003 audit. Indeed, the data show reductions of chemical use to 40% of 1999 levels. Those reductions have not been in acres treated, but in volume of chemicals used. Part of the reduction can be attributed to more targeted and effective (not necessarily more toxic) chemicals. However, the use rate may increase again in the next few years given the condition of MRC's forest. The self-imposed chemical use reduction targets are now viewed by MRC as not necessarily prudent. A better approach is looking take a longer-term approach and aim for benchmarks as suggested by their timeline discussed below. The auditors are satisfied with the validity of MRC's current views on continued efforts to reduce chemical use over the long run. Accordingly, the auditors consider this condition as warranting closure. However, because chemical use is likely to fluctuate, possibly exceeding the 40% reduction level in the next few years, the auditors have issued a new CAR (2003.2).

Status as a result of the September 2003 Annual Audit:

This CAR is now closed. However, a new CAR (2003.2) has been issued that pertains to the same topic.

Corrective Action Request: CAR 2002.8—Chemical Use

Within 4 months of receipt of this annual audit report, MRC must submit to SCS a written report as to accomplishments made in following up on a commitment presently posted on the company's web site:

“Goal: To determine a longer-term strategy to provide for the eventual elimination of chemicals per the Forest Stewardship Council guidelines. This strategy will utilize the concepts of integrated pest management and will include a landscape view of total vegetation management needs, continued evaluation of the efficacy of alternatives, and the design of harvesting practices to end the need for any routine chemical use. This strategy will be reviewed by outside experts and be made available to the public by the end of 2001.”

MRC's Actions/Auditor Observations:

As presented to the audit team, MRC has categorized vegetation treatments into the following categories:

1. 'A' projects: Post 1998 projects that need treatment to avoid losing the site to hardwoods.
2. 'A Legacy' projects: Pre 1998 projects that need treatment to avoid losing the site to hardwoods.
3. 'B' projects: Designed to release and enhance conifer stocking.

An analysis has been conducted which shows the treatments anticipated for 2003 have been categorized by Financial Tract and category type. The amount of active ingredient has been summed by category to estimate the anticipated percent reduction from the 1999 base year.

MRC is designing a process to create an algorithm that will serve as a guideline for determining which stands should receive vegetation management treatments. The process employs data from MRC's inventory and produces summary statistics for a set of selected stands. These same stands are displayed using visualization software. Foresters will be asked to assign a prescription to each stand given MRC silviculture policies and herbicide reduction goals. The results will be used to develop logic that will enable landscape planning tools to assess the amount of land subject to various forms of vegetation management. Using landscape-planning tools, MRC will also be able to assess the demand for vegetation management in the future. However, a field review of the herbicide application practices revealed that stand-wide analysis might be too coarse of a decision filter. The auditors witnessed areas where stands had multiple vegetation management issues. Stands were viewed where the tanoak was treated with herbicides, although conifers had already dominated nearly half of the stand. In the view of the auditors, these areas did not need an herbicide application. Other areas, in the same stand, were dominated by tanoak and the treatment was appropriate. MRC's has made an excellent effort to reduce herbicide use; however, instances like these indicate that more could be accomplished without extraordinary additional effort.

MRC silviculture is based on strategies to move forested stands toward a more conifer-dominated condition. These stands are to eventually be managed using uneven aged techniques. Once this objective is realized, it is anticipated that the routine use of herbicides should be eliminated.

The strategies have not been memorialized in a cohesive document and have not been reviewed by outside experts or been made publicly available. However, in light of the information provided as part of the September 2003 audit, it appears that MRC's strategies have evolved since their original public statements in 1999 and 2000. Therefore, the auditors conclude that closure of this CAR is warranted, given MRC's honest effort attempt to make good on their public commitments and reduce chemical use. But to assure that chemical use reduction remains a priority for MRC, a new CAR is stipulated and directed at changing strategies and updating MRC public statements.

Status as a result of the September 2003 Annual Audit:

This CAR is now closed. However, a new CAR pertaining to the same subject area has been issued as part of the 2003 annual audit (see below).

Corrective Action Request: CAR 2002.9—Chemical Use

By the next annual audit, a definitive, empirically-based timeline for the reduction and long-term elimination of herbicides, as a standard management tool, must be completed, documented and incorporated into the management plan. As part of the documentation of this strategy and timeline, MRC must specify in its management plan the general prioritization scheme that will determine when and where chemicals will be used.

MRC's Actions/Auditor Observations:

MRC has developed a model to assist in estimating future herbicide requirements, with the intent that the model will help reduce hardwood competition (mostly tanoak) allowing the development of denser and larger conifer stands. The model assumes that herbicide treatments are an option to assist in achieving reforestation objectives only when associated with certain silviculture regimes. Monitoring levels of past herbicide usage associated with silvicultural treatments provided the basis for developing average herbicide application rates for the silvicultural treatments used by MRC. Because MRC's Landscape Planning Model predicts silvicultural treatments into the future, MRC can therefore predict herbicide use. The model predicts herbicide usage (gallons per acre and pound of active ingredient per acre) per silvicultural treatment and location of the stand (herbicide rates will change if, for example, the stand is next to a stream where, according to their herbicide policy, herbicides would not be used).

MRC management is moving toward uneven-aged silviculture over time. The underlying assumption is that those stands treated with uneven-aged silviculture require less herbicide to ensure satisfactory conifer stocking than those stands treated with even-aged silviculture. Application rates, therefore, should decline on a per acre basis as MRC shifts toward uneven aged management on a larger proportion of its ownership. It is expected that most of MRC's lands will be managed using uneven-aged silviculture by 2020.

MRC has identified four scenarios as potential management courses of action to address vegetation competition problems. The results defined a range of potential herbicide use into the future. All scenarios showed significant reduction of herbicides over the next 47 years (to 2050). Scenario IV showed total elimination of herbicides by the year 2021.

The model, timeline and scenarios are, in the judgment of the audit team, very well conceived. The data used for the model was empirically based; the scenarios are realistic and achievable.

Status as a result of the September 2003 Annual Audit:

This CAR is now closed but a new CAR (2003.3) pertains to the same topic.

Corrective Action Request: CAR 2002.10—Training of MRC Personnel

Within 3 months of receipt of this audit report, MRC must design and begin to implement procedures for more effectively training professional staff so as to:

- **Identify gaps or strengths in the collective knowledge base of the staff**
- **Articulate the company's goals, objectives and philosophy to all staff in a way that they understand what MRC is trying to achieve on the ground**
- **Improve the professional field staff's (e.g., area foresters) working knowledge of the FSC Principles and Criteria and the corrective action requests presently attached to MRC's certification**
- **Improve the professional field staff's working knowledge of key MRC policies such as the Old Growth Policy**
- **Assure a higher level of consistency in the effectiveness of area foresters in manifesting a commitment to the FSC Principles and Criteria and the MRC "Purpose and Principles", in the field and in their interactions with outside stakeholders such as agency personnel, neighbors, activists and members of the regional forestry community**

MRC's Actions/Auditor Observations:

MRC Chief Forester Mike Jani met individually in May of this year with each company forester, to reiterate the company's commitment to FSC certification and sustainable forest management. It was especially emphasized that MRC is committed to Principle #4, *Community Relations and Worker's Rights*. The Chief Forester expressed to each of the area foresters why MRC must go above and beyond what other companies might have to do in this arena to overcome distrust built up over many years of forest management under the former owner. In addition, all MRC employees have received the FSC pocket guide that explains the FSC Principles & Criteria for forest management. During the field audit on September 24th and 25th, the auditors observed that several of the area foresters had the FSC pocket guide in their possession. As an example of their heightened understanding, issues involving high conservation value forests and FSC old growth definitions, in the context of MRC management, were discussed between the auditors and MRC foresters and biologists in the field.

New employee performance reviews have been developed (see below). Weaknesses found in the employee performance will determine (to some degree) areas where training/education could be beneficial. Additionally, MRC has developed a stewardship checklist that is reviewed during the planning of a project and at the project's

conclusion. The checklist is intended to ensure that the project is planned and conducted in a manner that is consistent with MRC stewardship policies and is part of the employee review process.

The foresters are attending short-courses, seminars and workshops that provide training in specific areas of forest management, ecology, archeology, geology, etc. The purpose is for both the company and the individual to fill identified gaps in their knowledge of forest management and/or regulatory issues.

Additionally, MRC has been currently interviewing a candidate for Director of Stewardship⁴. This person will be responsible for making sure that MRC staff continues to upgrade their knowledge base, particularly with regards to forest stewardship issues.

Status as a result of the September 2003 Annual Audit:

This CAR is now closed.

Corrective Action Request: CAR 2002.14—Tribal Interactions

At the time of the next annual audit, MRC must be able to demonstrate to the audit team that it has made significant progress--beginning now and continuing over the next year--in fostering more active and affirmative lines of communication and interaction with neighboring rancherias. This will require direct personal contact between MRC staff and rancheria representatives, to explain and receive input on MRC's management practices and policies.

MRC's Actions/Auditor Observations:

MRC foresters have been personally contacting tribal rancherias about archeological sites, have been inviting tribal members to participate in the protection of such areas, and have been offering them the opportunity to utilize the MRC forest for traditional purposes. For example, MRC forester John Anderson contacted the Sherwood Valley Rancheria in an effort to seek tribal review of the protection measures proposed for an archeological site found on MRC land near the Rancheria. Tribal members went out to the site and were satisfied with the protection measures. During the exchange, the tribal member asked if the elders could gather acorns on MRC lands and MRC gave them permission. Additionally, John Ramaley, MRC forester has been assigned to work with the local tribes and has volunteered to be a member of Mendocino County's archeological review committee. He has had meetings with some of the local tribes.

These examples signify, in the judgment of the SCS auditors, a substantial improvement in the overall company efforts to improve interactions with tribal rancherias. Accordingly, closure of the CAR is warranted.

Status as a result of the September 2003 Annual Audit:

This CAR is now closed.

Corrective Action Request: CAR 2002.15—Performance Evaluations

Within 6 months of receipt of this audit report, MRC must reinstate and implement a performance evaluation program that:

- **Measures staff and contractor field performance—and interactions with external entities such as regulatory agencies and the general public--in terms of conforming with MRC's philosophy, goals and objectives**
- **Measures the success of the training program**

⁴ Prior to completion of this audit report, SCS was informed that the Stewardship Director position was filled internally. The ramifications of that redirection of personnel effort will be a focus of the 2004 annual audit.

- **Appropriately recognizes staff and contractors for exemplary performance**

MRC's Actions/Auditor Observations:

A new employee performance review system has been developed. All employee performance reviews have been standardized. Performance reviews for the forestry and biology department staff occur bi-annually. The performance reviews include evaluating staff interactions with agencies and the public and adherence to MRC's philosophy, goals, and objectives. The performance reviews will also enable supervisors to determine whether workshops, seminars and training programs attended by staff is having a positive impact on performance.

MRC hired a third party to research the wage ranges for employees in the timber industry as a way to establish fair value for employee compensation. They then developed a process for ensuring that all employees are at, or will come within over time, the market value for their position. The further an employee is from market value, the more frequent the pay raise intervals. The design of a new salary structure includes an incentive portion that enables exemplary performance to be rewarded. The emphasis for employee performance is more a measure of completing quality work and conforming to MRC's mission rather than meeting financial targets.

In addition, the contractor performance reviews have been reinstated. Foresters complete a contractor performance evaluation at the end of the season. In December of last year they gave gift certificates to all of their contractors' employees.

Status as a Result of the September 2003 Annual Audit:

This CAR is now closed.

3.2 New CARS

Based upon the 2003 annual audit and a focused examination of the progress made by MRC in response to the 9 CARs that remained open at the time of this audit, the SCS team concludes that the re-statement/update of one of those 9 CARs and issuance of 2 new CARs is warranted:

Background/Justification:

While MRC has made considerable progress in designing and laying out a system of reserve areas, there remains some key tasks to be completed before the reserve system can be considered to be in full conformance with the Pacific Coast Regional Standard

CAR.2003.1	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.
Reference	FSC Criteria 6.4
Deadline	Upon completion of the HCP/NCCP; to be reviewed at the next annual audit

Background/Justification:

As part of the 2003 annual audit, MRC personnel made a compelling case that a recalibration of the company's chemical use reduction targets was justified by developments since the time when those targets were originally established. The SCS audit team accepts these arguments supporting revised use reduction targets. However, it is very important that the public is

adequately informed as to the revision of the chemical use reduction targets and the reasons for the changes.

The audit team is also satisfied that MRC continues to actively pursue options and strategies for reducing use of chemical herbicides. The team concludes, however, that even greater effort should be devoted towards moving to even more site specific decisions as to the application of herbicides.

CAR.2003.2	<p>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.</p> <p>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.</p>
Reference	FSC Criterion 6.6
Deadline	For part a): end of January, 2004. For part b): end of March, 2004.

Background/Justification:

As MRC has not yet completed the HCP/NCCP that it has been working on for over 2 years, the audit team concludes that the completion of an umbrella management plan is logically not yet due.

CAR.2003.3	Within 6 months of completion of the HCP/NCCP, MRC must complete and publicly distribute the umbrella management plan document.
Reference	FSC Criterion 7.1
Deadline	Upon completion of the HCP/NCCP; to be reviewed at the next annual audit

Recommendations:

No new recommendations are issued as part of this annual audit.

3.3 General Conclusion of the 2003 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 compliance with the FSC Principles and Criteria, as now further elaborated by the Pacific Coast Regional Guidelines. That is, and while there remains aspects of the management program that are deficient relative to the standard of certification, 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 three open CARs and subject to subsequent annual audits.