



**FSC Certification Report for the
2006 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 25-26, 2006
Date of Report: March 14, 2007**

**Scientific Certification Systems
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1.0 GENERAL INFORMATION

1.1 BACKGROUND INFORMATION

Mendocino Redwood Company
850 Kunzler Ranch Road, P.O. Box 996
Ukiah 95482
Contact: Sarah Billig, Stewardship Director
Web Page: www.mrc.com

1.2 General Background

This report covers the first annual audit of Mendocino Redwood Company (MRC) after its 2005 5-year re-certification as a well managed forest operation under the aegis of the Forest Stewardship Council (FSC). This annual audit was conducted pursuant to the FSC guidelines for annual audits as well as the terms of the forest management certificate initially awarded by Scientific Certification Systems in October 2000 (SCS-FM –00026N) and re-awarded in October 2005 (same certificate number). All certificates issued by SCS pursuant to the protocols and endorsement 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 228,800 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, 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 2005 Re-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 2005 Re-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, a substantial component 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 covered by this certificate are redwood and Douglas-fir, with minor amounts of other species such as grand 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 2005 Re-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. As with all annual surveillance audits, 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 and in conformance with FSC chain-of-custody requirements.

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 late September 2006 annual audit, there were 5 open Corrective Action Requests, the status of MRC’s response to which was a key 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. Bill Eastwood, who also served as co-team leader.¹ Dr. Hrubes has served as SCS lead auditor for all MRC audits since 2000; this is the first time that Mr. Eastwood has served on an MRC 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 over 30 years of professional experience in both public and private forest management issues. He served

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.

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. Bill Eastwood, Team Member: Bill Eastwood is a geologist with 25 years experience in various aspects of watershed restoration and sustainable forestry. He has a Master's degree in geology from the University of California at Berkeley. He is the co-director of the Eel River Salmon Restoration Project. Since 1983 he has directed watershed planning projects, stream habitat improvement projects, a wild broodstock salmon and steelhead rearing supplementation program, salmon in the classroom educational projects, and studies of fish. Bill is a founding member of the Institute for Sustainable Forestry (ISF) and served on the staff for ten years. He helped develop the Ten Elements of Sustainable Forestry and the ISF's Pacific Certified Ecological Forest Products forest certification program, which later was absorbed into the SmartWood program. He has participated in FSC-related 3 assessor trainings, 7 FSC certification assessments, 3 FSC reassessments, 11 FSC audits, one FSC scoping, and several FSC peer reviews.

2.2 Assessment Dates

The surveillance audit that is the subject of this report was conducted on September 25 and 26, 2006.

2.3 Assessment Process

Prior to the 2006 field surveillance audit, and over the course of the 12 months since the 2005 recertification audit, there was periodic contact between MRC personnel and Dr. Hrubes, focusing on issues such as progress on addressing open CARs, ongoing progress in completing the HCP/NCCP, and continued evolution in the company's silvicultural strategy.

On September 25th and 26th, 2006, the SCS audit team (Hrubes and Eastwood) 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 the morning of the first day of the audit, the audit team held an opening meeting in MRC's Ukiah forestry office and discussed the following topics:

- Overview of MRC's business activities in the prior year
- Overview of HCP/NCCP planning process and the additional overlay of a PTEIR (programmatic timber environmental impact report) as well as a Water Quality MOU
- Ongoing discussions with the resource agencies regarding rocked versus armor-filled fords

- Status of MRC’s responses to the open CARs
- Finalization of the field itinerary

The afternoon and evening of Day 1 was devoted to the following activities:

- Field reconnaissance visits to MRC’s Big River tract
 - North Face and Section 25 THPs, near Russell Brook
- Dinner meeting in Fort Bragg with 6 MRC employees
 - Discussion of wildlife management issues, special projects and monitoring programs
 - General overview of forestry activities on the coast side of the land base

Day 2 of the surveillance audit was comprised of the following activities:

- Opening discussion in the Ukiah forestry office, addressing the following topics:
 - Briefing to MRC of recent developments in the FSC pesticide use policy
 - Overviews presented by Mike Janie and Richard Higgenbottom
- Field reconnaissance visits to MRC’s Noyo River tract
 - Appleland THP: timber management prescription in “type 2” old growth, erosion control measures, interaction with neighbors, nearby road work under DFG grant program
- Exit meeting in the Ukiah forestry office
 - General findings of the audit
 - Disposition of the open CARs
 - Closure of the audit.

2.4 Guidelines/Standards Employed

For this annual surveillance audit, the SCS audit team evaluated the extent of conformance with the FSC Pacific Coast Regional Standard, which was endorsed by the FSC in June 2003. As with all annual surveillance audits, and pursuant to FSC protocols, this audit did not endeavor to assess conformance to the full scope of the certification standard.

For this surveillance audit, the following FSC Criteria were featured: C4.4, C6.6, C6.7, C6.9, C6.10, C7.2, C8.1, C8.2, C8.3, C8.4 and C8.5.

2.5 MRC Personnel Interviewed During this Annual Audit

Person interviewed	Position/Organization
Richard Higgenbottom	President
Mike Jani	Chief Forester/Vice-President
Tom Schultz	Timberlands Manager
Sarah Billig	Stewardship Director
Adam Steinbuck	Forest Science Manager

Mike Holley	Lead Wildlife Biologist, Inland
John Andersen	Area Forester
Robert Douglas	Senior Wildlife Biologist
Andy Armstrong	Reforestation Forester
Jon Woessner	Area Forester and HCP/NCCP Team Leader
Robb Rempel	Area Forester
Russ Shively	Area Forester
Jesse Weaver	Forester

2.6 Stakeholders Contacted

As part of this annual surveillance audit, a cross-section of North Coast stakeholders was contacted for purposes of soliciting comments on MRC's forest management operations. The list of contacted stakeholders is confidential but is maintained in the SCS project files at our offices in Point Richmond, California.

3.0 RESULTS, CONCLUSIONS, CORRECTIVE ACTION REQUESTS AND RECOMMENDATIONS

This section is divided in two sub-sections: Section 3.1 details the status of 4 Minor Corrective Action Requests that remained open at the commencement of the September 2006 annual audit and Section 3.2 presents new CARS, Recommendations and Observations from this audit.

As a result of the September 2006 annual surveillance audit, the team has:

- 1) closed out all open Minor CARs
- 2) issued no new CARs
- 3) issued no new Recommendations.

3.1 Status of Extant (Open) CARs as a Result of the September 2006 Surveillance Audit

Background/Justification: Maintaining a high level of stakeholder communication has always been of paramount importance to MRC. However, it was clear to the audit team that the level of public interaction has declined since the initial certification and needs to be augmented, especially in regards to keeping public information on the website current, staff outreach interested stakeholders, and offering input into land management planning.	
CAR 2005.1	<ul style="list-style-type: none"> • Complete an update of the company website • Analyze the capacity and training needs of the staff to consult with stakeholders and maintain public information. This analysis may be accomplished best through consultation with external experts in communications, public interaction, etc. • Develop a written strategy to provide information and opportunities for input to interested stakeholders regarding MRC management planning initiatives (e.g., HCP/NCCP, landscape planning)

Deadline	Within 90 days of re-certification
Reference	Indicator 4.4.a
MRC Actions in Response to this CAR: On February 16, 2006, MRC submitted materials via email that document actions taken in response to this CAR. On the basis of this submittal, SCS closed this CAR on February 23, 2006.	

Background/Justification: This CAR is issued in conjunction with CAR 2005.1 to allow for a separate timeline for implementing the stakeholder strategy required in that CAR.	
CAR 2005.2	Prior to the next annual audit, implement the stakeholder strategy for informing and receiving input on MRC's management planning initiatives.
Deadline	The first annual audit (2006)
Reference	Indicator 4.4.a
MRC Actions in Response to this CAR: During the September 25 th discussions in the MRC Ukiah forestry office, the SCS auditors were informed that MRC has developed and is implementing a documented strategy for affording interested stakeholders with opportunities for input into MRC management planning initiatives. As explained to SCS, the strategy includes guidance to appropriate MRC staff to determine when to seek stakeholder input and three methods for receiving such input. In the context of this discussion, it was brought to the attention of the SCS auditors that MRC, jointly with CDF, held two public scoping sessions for the development of the new Program Timber Environmental Report (PTEIR) overlay to the HCP/NCCP plan development. Notes and presentations from these scoping sessions are available on the MRC web site at: http://www.mrc.com/habitat_conservplan.html . We note further, on the basis of the overview of the company's web site during the September 25 th discussions, that the informational content on MRC's web site is truly exemplary, far exceeding the informational content found on any other private sector FSC-certified operation with which we are familiar.	
Disposition of this CAR as a Result of this Surveillance Audit: On the basis of the evidence presented during this surveillance audit, the SCS auditors conclude that MRC has responded adequately to this corrective action request. As such, this CAR is now closed.	

Background/Justification: MRC's current harvesting guidelines do not specifically preclude timber harvesting and road building on areas with extreme risk of landslides.	
CAR 2005.3	MRC shall develop and implement a policy that excludes timber harvesting and roading on any areas rated as "extreme" with respect to risk of landslides (mass soil movement). In order to implement this policy, MRC must develop a credible working definition of extreme landslide risk, and means of determining the presence of such areas on the MRC property, that is consistent with available methodologies.
Deadline	Prior to the beginning of the next harvesting season (2006)
Reference	Indicator 6.5.c
MRC Actions in Response to this CAR: During the September 25 th discussions in the MRC Ukiah forestry office, the SCS auditors were provided evidence that the company has now explicitly elaborated a policy that excludes timber harvesting and roading on any areas rated as "extreme" with respect to landslide risk.	
Disposition of this CAR as a Result of this Surveillance Audit: Based upon the evidence provided during the 2006 surveillance audit, the SCS audit team concludes that MRC has satisfactorily responded to this correct action request. As such, this CAR is now closed.	

Background/Justification: MRC is currently considering altering their silvicultural regime, and the forest managers need to demonstrate that the proposed system does not violate the Pacific Coast Regional Standard.	
CAR 2005.4	Prior to the next annual audit, MRC shall prepare a written assessment of all current and proposed silvicultural regimes. MRC shall consider whether a broad application of any silvicultural technique, especially variable retention (given the proposed retention levels and configuration) can maintain conformance with FSC

	Pacific Coast Regional Indicators 6.1.c, 6.1.d, 6.3.a, 6.3.c, 6.3.f, 6.6.b, 6.9.b.
Deadline	The first annual audit (2006 annual surveillance audit)
Reference	Indicator 7.2.a
MRC Actions in Response to this CAR: At this audit, the SCS auditors were informed that MRC has elected to not proceed with the silvicultural initiative presented in draft form during the 2005 audit. That is, MRC has elected not to pursue greater use of even-aged management/variable retention and, instead, will continue with its main emphasis on all age forest management.	
Disposition of this CAR as a Result of this Surveillance Audit: MRC has withdrawn the silvicultural initiative that was the trigger for this CAR. As such, this CAR is now closed.	

Background/Justification: The public summary of monitoring protocols and results does not currently address all required elements of the standard, and should be updated in conjunction with CAR 2005.5	
CAR 2005.5	Prior to the next annual audit, a written summary of monitoring protocol and non-confidential results (per 8.5.a) shall be made public.
Deadline	The first annual audit
Reference	Indicator 8.5.a
MRC Actions in Response to this CAR: During the opening discussion in the Ukiah forestry office on September 25 th , MRC staff presented to the SCS auditors a detailed overview of monitoring results that are now posted on the MRC web site (http://www.mrc.com/monitoring/monitoring_index.html). The overview included a “real time tour” through the MRC web site using a computer terminal set up in the conference room for that purpose.	
Disposition of this CAR as a Result of this Surveillance Audit: On the basis of the real time tour of the revised MRC web site, the SCS auditors conclude that MRC now has robust summary information of monitoring activities and results that are publicly available that demonstrate clear conformance with FSC Criterion 8.5. As such, this CAR is now closed.	

3.2 New CAR’s, Recommendations, and Observations

There were no new CAR’s or Recommendations issued as a result of the 2006 annual surveillance audit.

Observations:

1) MRC’s ongoing response to the CAR issued 6 years ago (and now closed) to develop an umbrella management plan has undergone many transformations over the intervening years. The initial intent included the possibility of developing a SYP; subsequently, a decision was made to develop a multi-species HCP and shortly thereafter a decision was made to add a NCCP to this effort. In the past year, a commitment has been made to also add a PTEIR. SCS has no issues with this current direction but we do wish to observe that this complex planning initiative is taking substantially longer than originally anticipated and that due effort should be invested to see that the initiative is completed at the earliest practicable time.

2) Chemical use remains a highly controversial issue both in the context of Mendocino County and broadly within the FSC system. The FSC environmental chamber is more vociferously pressing the FSC, for instance, to resist the requests of the CANZUS group of certificate holders to revise the list of highly hazardous (prohibited chemicals) and to grant derogations for the continued use of chemicals such as imazapyr. In this context, it would be helpful if MRC more

extensively documented the effectiveness of the hardwood removal, stand restoration program and to continue to provide publicly available information that documents the company's temporal progress in reducing overall chemical use.

3) A new web site, FSC-Watch, has been created upon which or posted very critical profiles of what are considered by a loose consortium of environmental activists as "controversial." This web site has been used by Mendocino County activists who have posted claims that MRC is harvesting virgin old-growth redwood forests. MRC should periodically monitor this web site and consider correcting the record through postings on the web site or other means, as needed.

3.3 General Conclusion of the 2006 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 further elaborated by the Pacific Coast Regional Standard. That is, the SCS audit team has concluded from this annual audit that MRC's forest management program is in solid overall 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 further annual surveillance audits.

The audit team would also like to note with appreciation the logistical and planning support provided by MRC Stewardship Director, Sarah Billig, who facilitated the scheduling and execution of this audit.