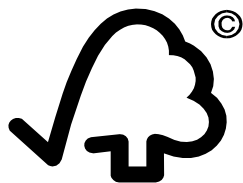


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FM-06 April 2007



SmartWood

Practical conservation through certified forestry

Forest Management
2008 Annual audit
Report for:

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

Certificate code:	SW-FM/CoC-000128
Auditors:	Foster Dickard, Robert Hrubes, Kyle Meister
Audit Dates:	September 30, October 1 st 2008
Report Finalized:	February 9, 2009
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Standard Conversions

1 mbf = 5.1 m³
 1 cord = 2.55 m³
 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 the second 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

Based on Company's conformance with FSC and SmartWood requirements, the audit team makes the following recommendation:	
<input checked="" type="checkbox"/>	Certification requirements <u>met</u>, certificate maintenance recommended Upon acceptance of CAR(s) issued below
<input type="checkbox"/>	Certification requirements <u>not met</u>: Conformance with Major CAR(s) required
Additional comments:	None
Issues identified as controversial or hard to evaluate.	None

2.2. Changes in the forest management of the FME

There have been no changes in the forest management practice since the last audit. The company has made personnel changes in management including a new President for the Company (Jim Holmes) and changes in Area Forester positions. A GIS analyst position has also been filled to support MRC's GIS program. The company has updated 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. There are no plans to significantly alter forest management practices. The plan was revised September 17, 2008.

Three tracts have been purchased totaling 240 acres: The 40 acre Rose Creek tract, the 120 acre Mill Creek tract and the 80 acre Bear Creek tract, all in Mendocino County Total land area is 92,362 hectares.

2.3. Stakeholder issues

The stakeholders interviewed believe that MRC is practicing responsible forestry management and that MRC has a positive image with their public. The exceptionally extensive 2008 wildfire season created an extended emergency situation for MRC and area landowners and state and local fire response agencies. State agencies interviewed gave the highest marks for MRC's efforts noting their quick response and professional manner of employees in response to the fire and their exceptional job of communication and cooperation with state and local fire response. Also noted was MRC's initiative to find and enlist contractors for fire suppression at their own expense to supplement the immediate shortage of public fire suppression resources from local and state agencies. MRC was noted to make special efforts to protect neighboring landowner's resources.

MRC is also noted by regulators to be doing a good job in post-fire prescriptions and salvage operations, particularly operating with a low impact manner to ensure post-fire operations are minimizing potential impact on the affected forest resource

Stakeholders also mentioned that they believed that MRC was very proactive in reaching out to the community about forest management or related issues including field.

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

CAR 01/07		Reference to Standard: 4.2.a
Non-conformance		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.
Major	Minor X	
Corrective Action Request: 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.		

Timeline for conformance:	Prior to next annual audit
Evidence to close CAR:	<p>Auditors observed MRC implementation of safety procedures and safety protocols were being followed by contractors. MRC requires all contractors to meet OSHA requirements and maintain safe work practices. All contractors are required to review MRC's Environmental Health and Safety Handbook and complete an Environmental Health and Safety Checklist before working on MRC lands. This requirement is documented in item 6b in MRC's logging contract and item 20 in MRC's independent contractor agreement.</p> <p>MRC employees who note non-compliance with safety and environmental protocols must report this to the contract administrator, who then contacts the job foreman to address these issues.</p> <p>Contract administrators and area foresters fill out an annual contractor review form (updated 2007 with sections added on safety and environmental compliance).</p>
CAR Status:	Closed
Follow-up Actions (if app.):	NA

CAR 02/07		Reference to Standard: 6.1.c
Nonconformance		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.
Major	Minor X	
Corrective Action Request: 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.		
Timeline for conformance:		Prior to the next annual audit
Evidence to close CAR:		<p>MRC has developed a checklist to ensure that rare species and species of special concern of aquatic and terrestrial systems are addressed in management activities. This process is to ensure that adequate biological expertise is applied when a rare or sensitive species may be affected by a proposed forest management operation. MRC annual reports also include a section evaluating the results from research conducted on MRC lands and their adaptive management implications. Findings that suggest a need for change in forest management are forwarded to the stewardship director, forest science director, and timberlands manager for further review and to determine their application and feasibility. Solicitation of peer-review from experts outside MRC may also be necessary and helpful in the decision-making process. MRC submitted evidence that the checklist process is being implemented by foresters in the China Gulch FMU on</p>

	November 12, 2008.
CAR Status:	Closed
Follow-up Actions (if app.):	Auditors will monitor the implementation of these new policies in the future.

CAR 03/07	Reference to Standard: 6.5.g and 6.5.p.	
Nonconformance		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.
Major	Minor X	
Corrective Action Request: MRC shall develop and implement procedures and guidance for responding to unanticipated developments that compromise management goals and compliance with FSC standards.		
Timeline for conformance:	Prior to the next annual audit	
Evidence to close CAR:	<p>For discovery of individual unexpected outcomes (e.g., a legacy slide is noted while doing a wildlife survey or a large hole in the road is discovered while reviewing areas for potential timber harvest plans) MRC has adopted this procedure:</p> <ul style="list-style-type: none"> i. For items that pose risk to ecological resources: <ul style="list-style-type: none"> a. If the unexpected occurrence will cause significant adverse impacts to aquatic or terrestrial resources, consult timberlands manager or stewardship director within 1 business day of discovering the occurrence. b. If the unexpected occurrence will not cause significant adverse impacts, consult the Forest Science Director and the Area Forester within 1 week of discovering the occurrence. Forest Science director will ensure that the GIS layer reflects any change in known conditions (i.e., new raptor nest site is located, etc.). ii. For items that pose a safety risk to employees and/or contractors: <ul style="list-style-type: none"> a. Take immediate action to eliminate hazard if possible, otherwise minimize the hazard. b. Notify the area manager of the hazard immediately so the hazard can be fixed or avoided and necessary communication can occur. <p>MRC has adopted this procedure as well: “For large catastrophic events (e.g., the floods of 2006 or the Mendocino Lightning Fire Complex of 2008) use a multi-staged</p>	

	assessment focused initially on ensuring the safety of individuals while the event is occurring. Initial restoration efforts should focus on areas with significant adverse impacts to aquatic or terrestrial resources. Area forester will coordinate with state, federal, and local agencies to determine priorities for restoration and mitigation. Significant disturbance events will be recorded on our GIS and road restoration updates and needs will be captured via our road inventory following road work”
CAR Status:	Closed
Follow-up Actions (if app.):	

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

CAR 01/08	Reference to Standard: 6.6g
Non-conformance	One of the permissible herbicides currently in use for invasive species control was not included in list of names and quantities of herbicides used on MRC property during the past year. Staff did not follow MRC protocols for herbicide use.
Major Minor X	
Corrective Action Request: Staff must follow MRC’s herbicide application protocols by reporting all applications of herbicide in management activities, including the name and quantity used, to the reforestation forester.	
Timeline for conformance:	Prior to next annual audit
Evidence to close CAR:	Pending
CAR Status:	Open
Follow-up Actions (if app.):	

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).

OBS 01/08	Reference Standard: 6.3.b.1, 6.3.c.4, 7.1.a., 7.2a. and 8.2
MRC has based its salvage logging protocols for Redwood (<i>Sequoia sempervirens</i>) on Douglas-fir (<i>Pseudotsuga menziesii</i>) salvage guidelines from literature published by the USDA Forest Service. All or some parts of said guidelines may or may not be appropriate for salvage and regeneration of Redwood and protection of soils and water resources.	
Observation: MRC should monitor the effectiveness of the its salvage logging protocols, and erosion mitigation and water resource protection efforts on areas recently burned in the 2008 Mendocino Lightning Fires. Peer-review of MRC’s methods by UC Extension Foresters and/or other experts may be helpful in these matters.	

OBS 02/08	Reference Standard: 6.5.t
A neighboring landowner's cattle are entering a riparian area deemed important for a federally listed threatened species, the California red-legged frog. Although MRC has made some attempts to deal with issues stemming from this landowner's cattle in the past, the results of efforts to date are not effective.	
Observation MRC should pursue and document stronger available control measures to protect this sensitive area from cattle intrusion to prevent the issuance of CAR at the next annual audit.	

OBS 03/08	Reference Standard: 6.7.b
MRC's fuel spill policy is clear and in conformance with FSC principles and local laws. However, interviews with a private contractor revealed that the contractor's work crew was not very clear on the proper procedures in handling fuel spills.	
Observation All incidents that occur under operations assigned to independent contractors should be reported to the appropriate MRC staff, as is required in MRC's contracts. MRC staff should perform follow-up investigations if necessary to ensure that contractors followed proper protocols in responding to and mitigating the potential harmful effects of incidences	

3. AUDIT PROCESS

3.1. Auditors and qualifications:

Mr. Foster Dickard, Co-Team Leader: Senior Forester, SmartWood program of Rainforest Alliance. B.S. Forestry, Mississippi State University (1978); Masters of Wildlife and Forestry in Extension Education Mississippi State University (1979), Certified Wildlife Biologist. Foster is qualified as a Forester and Wildlife Biologist with over 28 years professional experience in forestry and wildlife management including over 10 years experience in forest management standards and certification and auditing experience with 10 or more FSC forest management and Chain of Custody audits and assessments

Robert Hrubes, Ph.D., Co-Team Leader: 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.

Mr. Kyle Meister, Team Member: Mr. Meister is a new Certification Forester with Scientific Certification Systems. This was his first field audit with SCS. He has experience as an environmental educator and natural resource consultant in the U.S., Mexico, Ecuador, Costa Rica, and Colombia. He speaks Spanish and Portuguese.

3.2. Audit schedule

Date	Location /Main sites	Principal Activities
9/30/08	MRC headquarters in Ukiah, CA	Review agenda; meet with MRC management; review changed management staff and business structure, GIS implementation, HCP/NCCP, Sigma six project and CAR follow up from last audit, discussion of finances.
9/30/08	Navarro Road Division	Interviews with foresters and MRC staff for review of company fire response and coordination internally and with local and CAL Fires crews. Discussed fire preparedness and risk management for fire response.
9/30/08	Navarro Fire Area	Site inspections and interviews with foresters and MRC staff scientists. Review Fire impacts, Fire response impacts, salvage evaluations and harvesting.
9/30/08	Dinner meeting in Fort Bragg	Meeting with area foresters, and Wildlife Staff Training and projects tracking and accountability. Wildlife assessments – songbirds, carnivores, northern spotted owl, pacific mountain beaver, pre- and post-harvest evaluations, post-fire evaluations.
10/1/08	Breakfast meeting in Fort Bragg	Interview with area forester and rare plant coordinator timberland manager.
10/1/08	Slaughter house THP	Interview with staff regarding post-fire management and harvesting strategies.
10/1/08	Kimball Pass	Site inspection for rare plant management and monitoring.
10/1/08	Huckleberry Pass and Juan Creek	Site inspection of post-fire impacts, salvage operations and ecological impacts.
10/1/08	Fort Bragg Office Ukiah District	Interview with Staff and summary and Closing meeting.

Total number of person days used for the audit: 2.5 = number of auditors participating 1 times total number of days spent for the audit 2.5
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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 selected were primarily to review forest resource impacts from recent wide spread wildfires and the operational response during and after the fires. The FME was evaluated for meeting conformance with related Standard indicators potentially affected by widespread fires in summer of 2008.

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 president of MRC were with the audit team at all times.

3.4. Stakeholder consultation process

The auditors contacted stakeholders in order to gather evidence to ensure conformance with the FSC Principles and Criteria.

Stakeholder type (i.e. NGO, government, local inhabitant etc.)	Stakeholders notified (#)	Stakeholders consulted or providing input (#)
NGO	1	1
Regulatory Agency	2	2
University Extension	1	1
Neighbor	0	0
Industry	0	0

3.5. Changes to Certification Standards

Forest stewardship standard used in audit:	FSC Revised Final Pacific Coast Standard (version 9.0)
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