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SFI Standard [2005-2009 Edition]

Test Evaluation Report

Allegheny National Forest

June 15, 2007

Report Distribution:

SmartWood US Region: Mr. Dave Bubser
PricewaterhouseCoopers, Vancouver: Client File 70-08-63142-72-004

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June 15, 2007

Private and Confidential

Mr. Dave Bubser
SmartWood US Region
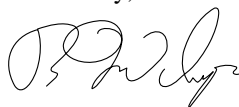101 East Fifth Street, Suite 208
Northfield, MN 55057

Dear Mr. Bubser:

Subject: SFI Standard [2005-2009 Edition] Test Evaluation

Enclosed please find our report on the Test Evaluation of the Allegheny National Forest.

Don Taylor (864 675 9146) or I (604 806 7595) would be pleased to discuss any questions or comments, at your convenience.

Yours truly,

Bruce I. McIntyre
Leader, Forest, Paper & Packaging Practice

cc: Don R. Taylor – PricewaterhouseCoopers LLP
        Bruce Eaket – PricewaterhouseCoopers LLP
        Dr. Chris Nowak - SmartWood

Enclosures

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Introduction

This report provides a summary of the PricewaterhouseCoopers LLP (PwC) independent third party test evaluation of the Allegheny National Forest (ANF) forest management activities to the Sustainable Forestry Initiative Standard® (SFI) [2005-2009 Edition] (the "SFI Standard") in accordance with the contract between Rainforest Alliance, Inc. (the "Client") and PricewaterhouseCoopers LLP ("PwC") dated October 26, 2005. Only the ANF forest management activities within the National Forest boundaries were evaluated. The SFI evaluation was conducted in conjunction with a Forest Stewardship Council (FSC) evaluation conducted by SmartWood, who will be issuing a separate report.

The project sponsor is the Pinchot Institute for Conservation. Our findings are based on a review of ANF's forest management policies and plans as well as forest level documents and practices. This report is not intended to result in a certification to the SFI Standard, but is a test evaluation.

Pinchot Institute for Conservation Disclosure

"The findings contained in this report are the results of an independent evaluation of the management of a National Forest, which has been commissioned by the Pinchot Institute for Conservation (PIC). The findings are not determinations of conformance with the Sustainable Forestry Initiative® (SFI) requirements as would be reported for a landowner qualified to seek certification under the SFI standard. The Forest Service and any other party may not: (a) use the names, logos, seals, certification marks or trademarks, or audit systems or procedures of PricewaterhouseCoopers and the SFI certification programs for any purpose whatsoever, including, without limitation, the marketing, sale or promotion of any forest products; or (b), make any claim of conformity or near conformity with SFI requirements or any portion thereof, or any other operation, until and unless a certificate is awarded by an SFI accredited firm."

Evaluation Elements and Dates

Test Evaluation Objectives

Within the limitations outlined under the Assessment Scope, Approach and Sampling section below, the primary objectives of the joint FSC/ SFI test evaluation was to provide a detailed examination of the current practices and documentation of the USDA Forest Service Allegheny National Forest to determine conformance with the two certification standards. Good Management Practices and Opportunities for Improvement were also identified where appropriate.

To achieve such objectives, detailed protocols were developed by PricewaterhouseCoopers and used to facilitate the collection of sufficient, appropriate evaluation evidence. The evaluation was conducted in a manner that simulated the process utilized for a certification audit as if the organization were seeking certification. This was done so the US Forest Service, in cooperation with the Pinchot Institute for Conservation, can make internal evaluations pertaining to the applicability of sustainable forestry certification to the US Forest Service forest practices. Don R. Taylor, CF, EMS (LA) of PricewaterhouseCoopers LLP (PwC) was the SFI Lead Evaluator in coordination with Dr. Chris Nowak, CF of SmartWood who was the FSC Lead Evaluator and the overall project leader. Dr. Steve Grado, CF/CFA (economic and social aspects) and Dr. Dave DeCalesta (wildlife/biodiversity) served as technical experts on the joint evaluation team. The project was conducted from June 11 through June 16, 2006. The test evaluation concluded with a closing meeting and a verbal presentation of the preliminary report held on June 16, 2006 at the ANF Supervisor's Office in Warren, PA.

Evaluation Scope, Approach and Sampling

Key documents were examined in advance of the on-site test evaluation. Additional documents were reviewed on-site, along with extensive interviews with the ANF staff to obtain an understanding of operating procedures and how plans and policies were being administered on the ground. A list of the interviewees and documents reviewed during the test evaluation is located in the PwC evaluation working papers.

Reporting

This report provides the findings from both the pre-evaluation conducted from October 31 to November 1, 2005, and the full test evaluation which was conducted June 11 through June 16, 2006. The findings are detailed in the body of the report below and categorized as follows:

Conformance With the SFI Standard

This report contains a listing of the 13 SFI objectives and conclusions on whether or not ANF was found to be in conformance with these objectives. The following is a description of the various classifications of findings for the SFI Program.

Major Non-Conformance Findings – One or more of the SFIS performance measures or indicators has not been addressed or has not been implemented to the extent that a systematic failure of a Program Participant's SFI system to meet an SFI objective, performance measure or indicator occurs. . If this were a full certification audit, corrective action would be required prior to issuance of the audit opinion, and may require re-performance of selected audit procedures by one or more members of the audit team.

Minor Non-Conformance Findings/Gaps –An isolated lapse in SFIS program implementation which does not indicate a systematic failure to consistently meet an SFI objective, performance measure or indicator. If this were a full certification audit, an acceptable action plan must be documented and agreed to, prior to issuance of the audit opinion.

Opportunities for Improvement – identifies opportunities for improvement in the management practices of ANF. These issues do not indicate non-conformance with the SFI Standard, but could indicate potential for non-conformance in the future, if not addressed.

Good Management Practices – identifies forest management and procurement practices that are considered to be above average.

Test Evaluation Summary

Allegheny National Forest staff are highly qualified professionals that are dedicated and resourceful in carrying out the Forest Plan and managing the forest in a sustainable manner. The Forest Plan is currently under revision and many findings that are recorded in this report have been addressed in the "new" Forest Plan that should be implemented over the next few months. However, for the purpose of this test evaluation, the team used the current 1985 Forest Plan, along with subsequent Forest Plan amendments and current applicable federal regulations.

Overall, the ANF has met or exceeded many SFI Standard requirements with some Opportunities for Improvement. Non-conformances were also identified, but most of them fell into the category of "Programmatic Non-Conformances" which were not addressed by ANF because they were not SFI participants. The team found one minor non-conformance that they classified as "Operational Non-Conformance". Several Good Management Practices were cited in areas in which the team found ANF had exceeded the SFI standard requirements.

An executive summary of the test evaluation findings along with an expanded commentary on the Operational Non-Conformance is noted in the table below. Appendix A contains the detailed findings.

SFI Objectives Found In Conformance:

SFI Objective #1 *Broaden the implementation of sustainable forestry by ensuring long-term harvest levels based on the use of best scientific information available*	**In Conformance**
Opportunities for Improvement	One OFI
Good Management Practices	None

SFI Objective #3 *Protect water quality in steams, lakes, and other water bodies*	**In Conformance**
Opportunities for Improvement	Two OFIs
Good Management Practices	Two GMPs

SFI Objective #4 *Manage the quality and distribution of wildlife habitats and contribute to the conservation of biological diversity by developing and implementing stand- and landscape - level measures that promote habitat diversity and the conservation of forest plants and animals, including aquatic fauna.*	**In Conformance**
Opportunities for Improvement	One OFI
Good Management Practices	None

SFI Objective #5 *Manage the visual impact of harvesting and other forest operations.*	**In Conformance**
Opportunities for Improvement	None
Good Management Practices	Two GMPs

SFI Objective #6 *Manage Program Participant lands that are ecologically, geologically, historically, or culturally important in a manner that recognizes their special qualities.*	**In Conformance**
Opportunities for Improvement	None
Good Management Practices	None

SFI Objective #7 *Promote the efficient use of forest resources.*	**In Conformance**
Opportunities for Improvement	One OFI
Good Management Practices	None

SFI Objective #8 *Broaden the practice of sustainable forestry through procurement programs*	**Not Applicable**
Opportunities for Improvement	N/A
Good Management Practices	N/A

SFI Objective #9 *Improve forestry research, science, and technology upon which sound forest management decisions are based.*	**In Conformance**
Opportunities for Improvement	None
Good Management Practices	One GMP

SFI Objective #11 *Commitment to comply with applicable federal, provincial, state, or local laws and regulations.*	**In Conformance**
Opportunities for Improvement	None
Good Management Practices	None

Non-Conformance to SFI Objectives:

Programmatic Non-Conformances

There were three objectives within the SFI standard related to SFI Program Participants. Program participants must be members of the SFI Program. Since the ANF, USFS or USDA Forest Service are not currently SFI Participants, the following objectives were not addressed:

Objective #10 *Improve the practice of sustainable forest management by resource professionals, logging professionals, and contractors through appropriate training and education programs*	**Non-Conformance**
Rationale One of the performance measures (10.1) for this objective has a requirement to (1) communicate the SFI Program commitments to the staff, and (2) assign SFI Program roles and responsibilities within the organization. The ANF is not a participant of SFI and, therefore, had not addressed this requirement.	**SFI Reference** PM 10.1 Indicators 1-2
Opportunities for Improvement	Two OFIs
Good Management Practices	None

Objective #12 *Broaden the practice of sustainable forestry by encouraging the public and forestry community to participate in the commitment to sustainable forestry and publicly report progress.*	**Non-Conformance**
Rationale Performance measure (12.6) has a requirement to complete an annual progress report for designated SFI activities and submit it to the Sustainable Forestry Board. Although ANF has many practices and programs in compliance with this objective, it does not complete and submit an SFI annual progress report because they are not SFI participants.	**SFI Reference** PM 12.6 Indicators 1-3
Opportunities for Improvement	None
Good Management Practice	One GMP

Objective #13 *Promote continual improvement in the practice of sustainable forestry and monitor, measure, and report performance in achieving the commitment to sustainable forestry.*	**Non-Conformance**
Rationale Performance measure (13.1) outlines a specific set of continual improvement processes for review of the Participants SFI Program on a periodic basis, for examining their progress and implementing improvements. Since ANF is not an SFI participant and has yet to implement an Environmental Management System, it does not directly address these requirements.	**SFI Reference** P.M. 13.1 Indicators 1-3
Opportunities for Improvement	None
Good Management Practices	None

Operational Non-Conformances

There is one operational non-conformance that was identified by the test evaluation team for the SFI standard as noted below:

Objective #2 *Ensure long-term forest productivity and conservation of forest resources through prompt reforestation, soil conservation, afforestation, and other measures.*

- ***Performance Measure (2.4)*** *Program Participants shall manage so as to protect forests from damaging agents such as environmentally or economically undesirable wildfire, pests, and diseases, to maintain and improve long-term forest health, productivity, and economic viability.*

  Indicators:
  1. *Program to protect forests from damaging agents.*
  2. *Management to promote healthy and productive forest conditions to minimize susceptibility to damaging agents.*
  3. *Participation in, and support of, fire and pest prevention control programs.*

Minor Non-Conformance Rationale

Significant forest health problems were well documented through the ANF Forest Health Monitoring system as far back as 1994. The "Analysis of Forest Health Monitoring Surveys on the Allegheny National Forest 1998-2001 GTR NE-3339" clearly identifies and provides metrics for tracking forest health issues. Those issues were confirmed by on-site observations made by the FSC/SFI evaluation team and need to be addressed as they have developed over the last decade. Declining conditions of parts of the forest threaten not only its sustainability but also the economic viability of the forest and the wood industry dependent on ANF timber sales. ANF has attempted to address all of these issues in a timely manner through careful monitoring and subsequent forest science-based action plans designed to mitigate forest health decline and improve forest health conditions in its Mortality II Project (1997) and the East Side Project FEIS (2000). Unfortunately, implementation of its plans were challenged and delayed for almost a decade due to administrative challenges and subsequent legal actions. Ultimately the USDA Forest Service has prevailed in court and is currently implementing its planned actions with some modifications. However, extended delays have resulted in the following conditions:

1. Continued degradation of forest health,
2. A delay in actions to enhance biodiversity in the forest composition,
3. A delay in critically needed regeneration treatments,
4. A delay in obtaining desired future stand structures, and
5. Negative economic impact by reducing its harvest levels to less than one third to one half of its annual planned harvest for almost 10 years.

It is clearly understood that during the last decade, ANF staff had done everything they could to address the forest health issues in a timely and professional manner consistent with Performance Measure 2.4, Indicator #1. However, the prolonged legal process caused extended delays resulting in a progressive decline of forest health and related economic viability, hence the Minor Nonconformity rating. .

Confidentiality Statement

This Test Evaluation report is considered part of the Confidential Information described in the contract between PricewaterhouseCoopers LLP and Rainforest Alliance Inc./SmartWood US Region ("SmartWood").

PricewaterhouseCoopers will not disclose this report to any third party without SmartWood's prior written consent, and this report may not be released without the prior written consent of PricewaterhouseCoopers.

This report is intended for the use of management of SmartWood, Pinchot Institute for Conservation, and the USDA Forest Service, Allegheny National Forest, and is not to be referred to or distributed to any person who is not a member of management of these entities without our express written permission, in advance.

We expressly disclaim any responsibility or accountability to any third parties who may gain access to this report, in whole or in part.

Evaluation Limitations

There were no limitations that impacted the completion of the Test Evaluation. Responsibility for the implementation of recommendations or action plans rests with the Client. PwC assumes no responsibility to update the report for events and circumstances occurring after the date of the report.

Appendix A – Conformance with SFI Objectives

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SFIS Objectives for Land Management

Objective 1. **To broaden the implementation of sustainable forestry by ensuring long-term harvest levels based on the use of the best scientific information available.**

Conformance: ☒ Yes   ☐ No

*Major Non-Conformance***:**   None identified

*Minor Non-Conformance***:**   None identified

*Opportunities for Improvement***:**

A. The ANF may want to consider utilizing periodic inventory updates to ensure adequate updating and validation of its inventory projection system. (P.M. 1.4#4)

Although the ANF measures its FIA plots periodically, it does not have a definitive schedule and process to keep its inventory updated. One example of a possible check on inventory accuracy would be to compare pre-harvest cruises with current volume estimates in the inventory database.

Objective 2. **To ensure long-term forest productivity and conservation of forest resources through prompt reforestation, soil conservation, afforestation, and other measures.**

Conformance: ☐ Yes   ☒ No

*Major Non-Conformance***:**   None identified

*Minor Non-Conformance***:**

B. Over the last decade, administrative appeals and litigation have delayed the management plans of the ANF. The results have been that the ANF has not been able to adequately address forest health, forest age/species diversity, and economic viability issues through sound forest management. (P.M. 2.4)

The current ANF Forest Plan and management activities address the forest health, regeneration, and economic viability of the forest. The ANF staff intent has been to carry out the plan through numerous public input processes. However, the staff has

been unable to implement the plan due to administrative appeals and litigation which has delayed their actions.

Opportunities for Improvement: None identified

Good Management Practices:

- **ANF's procedures for determining regeneration success include clear criteria and a periodic sampling process, which exceeds the basic requirements for sound forestry practices. [PM 2.1 - I#1, 2, and 4]**

- **ANF's policies and procedures for the use of forest chemicals provide a model of how these tools can be used responsibly and effectively. [PM 2.2 - I#1, 2, 3, 4, 5, and 6]**

- **ANF's in depth forest health analysis and resulting action plans are comprehensive, science-based, and provide a sound basis for both short- and long-term management. [PM 2.4 I#1, 2 and 3]**

Objective 3. **To protect water quality in streams, lakes, and other water bodies.**

Conformance: X Yes   ☐ No

Major Non-Conformance: None identified

Minor Non-Conformance: None identified

Opportunities for Improvement:

C. **ANF may wish to consider taking measures to gain more control over the placement, road construction, and road maintenance of roads constructed and maintained by oil and gas (O&G) development companies. [P.M. 3.2 #5]**

It is understood that the USDA Forest Service has limited legal control on the O&G development and O&G designated roads within the ANF. However, it was clear that the expanding road system has the potential to significantly impact water quality without enhanced and enforced BMPs. (Note - We have a document titled ANF O&G&Minerals Management Draft dated 5-18-06 that partially addressed this OFI.)

D. On older roads, ANF could accelerate the correction of instances where road drainage ditches empty directly into perennial streams. (P.M. 3.1#3)

ANF has an excellent road system which is well maintained, however, on older roads the process of correcting instances of road ditches draining directly into perennial streams has not yet been fully completed.

Good Management Practices:

- **ANF is to be commended on its limestone road surfacing for its perennial stream crossings designed to reduce sedimentation. (P.M. 3.2 #3)**

- **ANF is to be commended for its excellent and well maintained forest road system. (P.M. 3.1, 3.2)**

Objective 4. **To manage the quality and distribution of wildlife habitats and contribute to the conservation of biological diversity by developing and implementing stand- and landscape-level measures that promote habitat diversity and the conservation of forest plants and animals including aquatic fauna.**

Conformance: X Yes   No

*Major Non-Conformance***:**   None identified

Minor Non-Conformance: None identified

*Opportunities for Improvement***:**

E. ANF may wish to consider incorporating available data from ownerships adjoining the Allegheny National Forest into the ANF forest planning assessment process for the management of biological diversity planning. [PM 4.1 – I#1 and 5]

ANF conducted comprehensive landscape-level planning as an element of its 1985 Forest Plan but has not specifically obtained data from significant adjoining land bases that may be an extension of the same ecosystems. It should be noted, however, that this has been corrected in the current forest planning process.

Objective 5. **To manage the visual impact of harvesting and other forest operations.**

Conformance: $\boxed{\text{X}}$ Yes $\boxed{}$ No

Major Non-Conformance: None identified

Minor Non-Conformance: None identified

Opportunities for Improvement: None identified

Good Management Practices:

- **ANF has developed a forest-wide visual impact zoning system that is incorporated within its GIS mapping system along with guidelines to maintain visual quality (P.M. 5.1 #1)**

- **ANF has done excellent visual quality management on a timber harvest adjacent to the North Country Trail (P.M. 5.1 #2)**

Objective 6. **To manage Program Participant lands that are ecologically, geologically, historically, or culturally important in a manner that recognizes their special qualities.**

Conformance: $\boxed{\text{X}}$ Yes $\boxed{}$ No

Major Non-Conformance: None identified

Minor Non-Conformance: None identified

Opportunities for Improvement: None identified

Objective 7. **To promote the efficient use of forest resources.**

Conformance: $\boxed{\text{X}}$ Yes $\boxed{}$ No

Major Non-Conformance: None identified

Minor Non-Conformance: None identified

***Opportunities for Improvement*:**   See below

F. ANF may wish to consider developing clear guidelines for determining when exceptions to normal utilization specifications are granted. (P.M. 7.1 #1e.)

On several completed harvesting operations, incomplete utilization to the 5" top requirement was not enforced. Many of the reasons given for this were that the logger was granted approval to leave pulpwood on the ground or in the landings. There were practical reasons for these exceptions, however, there are no clear guidelines as to the conditions under which exceptions are allowed.

SFIS Objectives for Procurement

Objective 8. **To broaden the practice of sustainable forestry through procurement programs.**

Non-Applicable – ANF does not procure fiber.

SFIS Objective for Forestry Research, Science, and Technology

Objective 9. **To improve forestry research, science, and technology, upon which sound forest management decisions are based.**

Conformance: ☒ Yes   ☐ No

***Major Non-Conformance*:**   None identified

***Minor Non-Conformance*:**   None identified

***Opportunities for Improvement*:**   None identified

Good Management Practices:

- **ANF has an excellent working relationship with the Northeastern Research Station in nearby Irvine, Pennsylvania, to cooperatively develop projects that yield results that are then quickly adapted into its forest management practices. (P.M. 9.1, 9.2)**

SFIS Objective for Training and Education

Objective 10. **To improve the practice of sustainable forest management by resource professionals, logging professionals, and contractors through appropriate training and education programs.**

Conformance: ☐ Yes   ☒ No

*(Programmatic) Major Non-Conformance***:**

G. **ANF has not met the SFI training requirements to: (1) communicate the SFI Program commitments to the staff, and (2) to assign SFI Program roles and responsibilities within the organization. [10.1 – I#1-2]**

ANF has not been a participant of the SFI Program in the past and is currently not a participant, therefore they do not comply with these requirements.

*Minor Non-Conformance***:**   None identified

*Opportunities for Improvement***:**

H. **ANF may wish to consider requiring that trained and certified Pennsylvania or New York Master Loggers operate on all timber sales of the ANF. [PM 10.1-I#4]**

ANF has thorough contracts and contract administration requiring compliance with all USFS and USDA Forest Service regulations and BMPs. However, the ANF does not require that loggers operating on ANF timber sales are trained by the state professional Master Logger Program.

I. **ANF may wish to consider establishing regular communication with the USDA Forest Service representative on the SFI State Implementation Committee for the coordination of issues. [PM 10.2 – I#1]**

The USDA Forest Service (Northeastern Research Station) has very active representation on the State SFI Implementation Committee for Pennsylvania, but the ANF does not have direct input into various activities for that committee.   The ANF has not been an SFI participant.

SFIS Objective for Legal and Regulatory Compliance

Objective 11. **Commitment to comply with applicable federal, provincial, state, or local laws and regulations.**

Conformance: ☒ Yes   ☐ No

*Major Non-Conformance***:**   None identified

*Minor Non-Conformance***:**   None identified

Opportunities for Improvement: None identified

SFIS Objective for Public and Landowner Involvement in the Practice of Sustainable Forestry

Objective 12. **To broaden the practice of sustainable forestry by encouraging the public and forestry community to participate in the commitment to sustainable forestry and publicly report progress.**

Conformance: ☐ Yes   ☒ No

*(Programmatic) Major Non-Conformance***:**

J. **ANF does not have a system to prepare an annual SFI report nor has it ever prepared a report. [PM 12.6 - I#1,2, and 3)]**

The USDA Forest Service is not a participant in SFI and therefore has never filed an annual SFI report.

*Minor Non-Conformance***:**   None identified

Opportunities for Improvement: None identified

Good Management Practices:

- **ANF has a comprehensive process for public involvement. (PM 12.3)**

SFIS Objective for Management Review and Continual Improvement

Objective 13. **To promote continual improvement in the practice of sustainable forestry and monitor, measure, and report performance in achieving the commitment to sustainable forestry.**

Conformance: ☐ Yes   ☒ No

*(Programmatic) Major Non-Conformance***:**

K. **ANF does not have a formal method of continual improvement for their SFI program. [PM 13.1 - I#1, 2, and 3]**

The SFI Standard requires a formal management review system to examine the annual progress of the organization in meeting its SFI objectives.

*Minor Non-Conformance***:**   None identified

Opportunities for Improvement: None identified