
SOUTHERN FORESTS
AND BOWATER, INCORPORATED

PROGRESS REPORT

JULY 2005 TO JULY 2006



DOGWOOD
ALLIANCE

Background and Highlights

June 29, 2006 marked the one-year anniversary of the signing of an historic Memorandum of Understanding (MOU) between the Dogwood Alliance, Natural Resources Defense Council (NRDC) and Bowater, Incorporated – the largest newsprint manufacturer in the U.S. The MOU set the standard for improved management of the Southern United States' working forest landscape. The understanding, which includes specific commitments on the part of Bowater to identify and protect endangered forests, end the conversion of natural forests to plantations, restrict the aerial spraying of chemical fertilizers and herbicides and the use of large-scale clearcutting and to increase the use of recycled fiber, serves as a model for all other paper companies operating in the South. This is the first in a series of annual reports intended to document Bowater's progress in meeting the specific commitments outlined in the MOU as well as its improvements to forestry practices in the South more generally.

In the United States, Bowater has owned or maintained a long-term interest in approximately 365,000 acres of forestland, primarily located in Tennessee. Overall, Bowater conducts intensive plantation management on approximately 67% of this forestland with the remaining 33% of this acreage consisting of managed hardwood, natural pine and mixed

hardwood/pine forest (31%) and non-productive land (2%). Like other forest products companies, company-owned land is not sufficient enough to support the company's wood fiber needs. Bowater purchases additional wood from private suppliers as well as from 3rd party private landowners.

As set forth in more detail below, some provisions of the MOU apply to lands Bowater owns and other provisions apply to Bowater's procurement of wood fiber from third parties. In

addition, some commitments in the MOU contain specific benchmarks and timelines that are conducive to measuring progress within one year while others are ongoing and may take several years to implement.

Though there is still work to be done, after a thorough review of an extensive report provided to Dogwood Alliance and NRDC by Bowater, we conclude that Bowater's actions over the past year amount to substantial compliance with the specific commitments contained in the MOU. In addition, more generally, Bowater's actions over the past year reflect a good faith effort on the part of the company to improve forestry practices on the ground in the Southern US. We encourage other large paper producers in the South to take similar action.

HIGHLIGHTS OF BOWATER'S ACTIONS OVER THE PAST YEAR INCLUDE:

- Incorporation of the terms of the MOU into Bowater's annual auditing process as a means of verifying compliance
- Verification of compliance with 300 ft buffer zones for aerial spraying of chemical herbicides and fertilizers through state-of-the art GPS tracking
- Documented protection of ephemeral ponds on the Cumberland Plateau
- Documentation that from 2004 to 2006 Bowater decreased its annual rate of conversion from 500 acres/year to 363 acres/year in preparation for a complete phase out of conversion by the end of 2007
- Documentation that approximately 518 acres of plantations were restored to natural stands from 2004 to the present
- Revision of its Environmental Management System (EMS) which sets forth company policy and procedures for its employees to reflect the terms of the MOU
- Distribution of 453 Landowner Resource Management Packets that included Bowater's policy not to purchase pine fiber from pine plantations established on natural forest sites converted after 2007



Additional Issues

Verification of Compliance

The MOU does not contain any specific requirements regarding the methodology for verifying compliance. However, Dogwood Alliance will assess Bowater's overall progress in meeting the commitments contained in the MOU based on the degree to which compliance can be demonstrated through transparent and thorough documentation that is independently and objectively verified.

In recent years, independent verification of compliance with various environmental and other standards has become standard practice within the business community as a way to ensure corporate accountability. We are therefore pleased that the commitments contained in the MOU have been incorporated into Bowater's annual auditing process as a means of verifying compliance. However, audits, which are based on an informed sample, do not assess compliance on every acre of forest. We understand that currently, it is not economically or operationally feasible for Bowater's audit to analyze 100% of its fiber sourcing for compliance with the terms of the MOU. Over the next few years, additional methodologies that can provide an added layer of verification of compliance should be developed where possible to supplement Bowater's third-party audits. For example, satellite imagery can be used to supplement Bowater's chain of custody tracking methods and annual audits to provide additional data to verify its reporting on forest conversion to plantations.

Sale of Bowater Timberlands in the South

Over the past several years, the wood products industry in the South has undergone major transformation, selling millions of acres of commercial timberland across the region. Bowater is no exception, announcing late last year its plans to sell virtually all of its forest lands in the Southern US (approximately 300,000 acres, most of which is in the Cumberland Plateau in Tennessee) by the end of 2006.

Bowater has been working with the state of Tennessee and land trust organizations to identify ecologically significant lands that should be sold for conservation. The state of Tennessee has identified approximately 55,000 acres of Bowater's

landholdings as having conservation value. Bowater is currently under contract to sell approximately 12,500 acres to the state of Tennessee. This land deal will enable the Tennessee Department of Environment and Conservation to complete a portion of the Cumberland Trail and develop a corridor between the Bridgestone/Firestone Wildlife Management Area, Bledsoe State Forest, and Fall Creek Falls State Park. Bowater also has donated to the state approximately 3,000 acres to help complete the Cumberland Trail through the North Chickamauga Creek gorge, Stinging Fork and Piney River Pocket Wilderness areas, and the upper Piney River gorge. The sale of additional acres for conservation seems likely.

Although Bowater's land management operations will significantly diminish in the South, the company will remain a key player impacting Southern forests as one of the region's largest paper producers and the largest paper producer operating within the Cumberland Plateau. Specifically, Bowater plans to maintain wood supply agreements on a significant portion of the land it is selling to ensure continued fiber supply for its paper mills. To its credit, Bowater attached a copy of the MOU outlining the commitments it made to improved forestry practices to the packet of information given to all prospective buyers. Because some of the commitments outlined in the MOU apply exclusively to Bowater lands, the new landowners should be encouraged to comply with these commitments and to discuss progress on such undertakings with Dogwood Alliance and NRDC.

To that end, working together, Dogwood Alliance and NRDC have acquired satellite imagery of the bulk of Bowater's Tennessee forestland holdings and have begun the process of creating baseline data regarding current on-the-ground forest conditions for future monitoring. As this methodology develops Dogwood Alliance and NRDC will use it to monitor compliance in future years.

We believe that taken together, the forward-looking terms of the MOU, Bowater's demonstrated progress over the past year to comply with the terms of the MOU and the quality of our existing relationship with the company will continue to serve as a foundation for further protection of the Southern forest landscape even though Bowater will no longer own substantial acreages of land in the region.



**BROAD
CATEGORY**

**SPECIFIC
COMMITMENT**

**DOCUMENTATION
OF PROGRESS**

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**Conversion of
Natural Forests
to Plantations**

Bowater will phase-out of conversion on Bowater's forestland and will terminate the practice entirely at the end of 2007. During this phase-out, there will be no acceleration of conversion beyond the current rate of approximately 500 acres per year.

From 2004 to 2006 Bowater's annual rate of conversion was 363 acres/year

During the same period, Bowater restored 518 acres of plantations to natural stands

(source: Bowater management plans; verified via annual audit)

Satisfies limit of "approximately 500 acres/year)"

Will the new industrial landowner comply with the 500 acre limit in 2007 leading up to a complete phase out in 2008?

Within three years, Bowater will phase out procurement of pine fiber from areas converted from natural forestland to pine plantations after 2007.

Bowater's Environmental Management System (EMS) contains MOU requirements

Landowner Resource Management Packets (RMPs) were revised to include relevant MOU language (audited)

453 RMPs distributed in 2005

Bowater attached MOU to land sale prospectus

Satellite imagery should be used, where possible, to supplement chain of custody tracking methods for verifying future compliance

**Forests of
Ecological
Significance**

Bowater is in the process of studying, with the State of Tennessee, approximately 7,000 acres of gulf and cove areas on Bowater property to identify those that are of exceptional ecological, geological or historical significance. Bowater will work with the State of Tennessee, the Dogwood Alliance and NRDC and a reasonable number of other entities, which may include governments, conservation organizations, universities and research institutes.

Field assessment to identify G1, G2 and note occurrences of S1 and S2 species on schedule for completion this year

Field assessment to identify special archeological sites complete; final study on track to be completed this year

Preliminary findings presented to Dogwood and NRDC by Bowater

Bowater will neither sell nor harvest in such gulf and cove areas while the study is underway.

7,000 acres within the study area are not listed for sale in current Bowater land sales



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**Forests of
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Significance**

Bowater will assess and implement appropriate protective measures and/or transactions for such gulf and cove areas acknowledged as having exceptional ecological or historical significance as these areas are identified.

Awaiting completion of studies

Bowater will identify and map ephemeral ponds on its land on the Cumberland Plateau in Tennessee during the pre-harvest planning phase of its forest management cycles. Bowater will implement appropriate conservation measures for these areas, such as providing “EP Management Zones” around ephemeral ponds, inside of which no harvesting will be allowed.

The following language was added to Bowater’s EMS directing forest managers to identify and map ephemeral ponds and stating “No harvesting will be conducted within ephemeral ponds or within SMZs associated with ephemeral ponds, even though BMPs may permit limited harvesting in such areas.”

Will the new industrial landowner(s) continue to protect ephemeral ponds on this land?

Audited; example of verification via photograph provided

Bowater recognizes the value of studying the Southeastern United States to identify forests of exceptional ecological, geological or historical significance. As exceptional areas are properly identified by scientifically credible sources, Bowater will take appropriate action to support the protection of these areas consistent with Bowater’s economic conditions and landowners’ objectives and desires.

Ongoing

Bowater should demonstrate meaningful action on this commitment within the next few years



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**Chemical
Spraying**

Bowater's contract aerial applicators will provide public notice of aerial application activities prior to commencement, using local media outlets. Such notice will include information about general regions of application, time-frame for expected application, applied substances, safety, and contact numbers.

Public notification as drafted by Bowater required in new contract for aerial applicators (audited)*

Exclusive use of helicopters from 2005 to present (audited)

Will the new industrial landowner(s) provide similar notification to communities before the aerial application of chemicals?

Bowater will establish 300-foot buffer zones around schools, daycare centers and residential developments for all chemical applications.

300ft buffer zones required in contract with aerial applicator (verified via audit)

GPS tracking of compliance with buffer zone required by contract (verified via audit)

Example of GPS tracking documentation as required by contract provided by Bowater to Dogwood Alliance and NRDC

Will the new industrial owner(s) adhere to the same buffer zone requirements and require contractors to verify compliance via GPS tracking?

Bowater will not apply fertilizer to a pine plantation during the first year after its planting.

Verbal assurance
No documentation

Bowater should document and verify that from July 2005 through December 31, 2006 fertilizer was not applied to any of its plantations during the first year of planting



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**Hardwood
Management**

After three years, Bowater will develop hardwood management plans on Bowater's forestland that utilize variable retention methods and other hardwood management practices consistent with the 2002 SE US FSC standard (6.3.A.8).

N/A until 2008 at which time Bowater will no longer own significant acreages of forestland

Will the new industrial landowner(s) manage hardwood stands consistent with the FSC SE US standard for variable retention?

Bowater will add an "Agricultural Field Origination" and "Variable Retention Hardwood Harvests" category to its verifiable Fiber Tracking System in order to give preference to it, subject to economic considerations.

Progress confirmed verbally
No documentation

In the future Bowater should provide documentation that these categories were incorporated into its fiber tracking

In addition, it will also be important for Bowater to inform landowners of its commitment to give buying preference to variable retention hardwood harvests in its Landowner Resource Management Packets (RMPs) and to include a definition of "variable retention" in its RMPs.

Fiber Tracking

Bowater will closely monitor its supply chain so that it can provide reliable information to its customers about the sources and management of its wood supply. Bowater's practice is to track the source of such fiber to the landowner, county and state of origin. Bowater will work to continuously improve its supply chain monitoring in an effort to eventually be able to track fiber sources and management practices to the forest of origin.

Documentation of fiber tracking analyzing the percentage of all Bowater fiber originating from various categories that reflect forest management practices ranging from certified, industrial lands to evidence of management plans to unknown sources. (verified via annual audit)



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**Best
Management
Practices**

Bowater will continue to enforce contracts with all of its wood suppliers requiring them to practice BMPs during harvesting activities, observe threatened and endangered species protection regulations, and use loggers trained in such techniques.

Bowater supply contracts require BMP conformance (verified via annual audit)

BMP conformance verified via random inspections on non-company lands (91% BMP harvest conformance verified via annual audit)

Known non-conformance requires site inspection by Bowater Field Supervisor, BMP non-compliance report and follow-up required to bring site into conformance

**Recycled
Fiber Use**

Consistent with its existing infrastructure, Bowater will strive to increase the use of recycled content in manufacturing of its product lines taking cost, quality, performance and customer expectations into consideration. Bowater is committed to using recycled fiber, including post-consumer recycled fiber, and will continue to look for additional recycling opportunities within the company.

Bowater's use of recycled fiber increased from 1,508,000 tons in 2004 to 1,519,000 tons in 2005 (verified via annual audit)

Bowater is working with the City of Chattanooga to improve economies of scale related to its curbside recycling program

Public notification as drafted by Bowater required in new contract for aerial applicators*

* Specific language is as follows: "Under a contract with Bowater, Inc., Woodlands Specialists, Inc. will be aerially applying herbicides to portions of Bowater's forestlands in Hamilton County during the period July 15, 2005 through October 30, 2005. Applications are scheduled for the Bakewell, Sale Creek and Soddy-Daisy areas. All application work will be done using helicopters. The contractor is licensed by the Tennessee Department of Agriculture to operate within the state. The purpose of the application is to reduce brush and other competing vegetation prior to the establishment of a new forest. The herbicides to be used are approved by the U.S. Environmental Protection Agency for this purpose and may include Chopper®, Accord®, Oust®, Escort®, or Velpar® and a surfactant. For more information contact Woodlands Specialists at (334) 872-6001 or Bowater at (423) 336-7078."



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