

REPORT Forest Certification



Bowater Southeastern Woodlands

October 2006

In October 2006, an audit team from KPMG Performance Registrar Inc. carried out a third party surveillance audit under the Sustainable Forestry Initiative® (SFI) Program on Bowater Incorporated's Southeastern Woodlands Operations. This Certification Summary Report provides an overview of the process and KPMG's findings.

Background

The implementation of an SFI® system assures the public that the Southeastern Operations are conducting sustainable forest management to the standards defined by the Sustainable Forestry Board. These standards consist of 13 broad forest management and wood procurement objectives, each of which has a number of indicators that must be met in order to achieve verification requirements.



The Southeastern Woodlands Operations

Bowater Incorporated's Southeastern Woodlands Operations encompass both company land management and wood procurement. At the time of the 2005 audit, Southeastern Woodlands managed approximately 364,900 acres of fee and long-term lease forestland, primarily in Tennessee (89%) and Alabama (8%), with additional minor holdings in Georgia and North Carolina. Since that time, the Operation has been engaged in a timberlands monetization process that has resulted in a substantial reduction in the amount of land under management. At the time of our 2006 surveillance audit land under management had reduced to approximately 210,000 acres of fee and long-term lease forestland, primarily in Tennessee.



Southeastern Woodlands Procurement Operations are responsible for providing fiber for the company's pulp and paper mills located in Catawba, SC, Calhoun, TN, Coosa Pines, AL and Grenada, MS and sawmills located in Westover and Albertville, AL. Wood purchases are made through private suppliers, direct purchases from private landowners and transfer of Bowater owned or controlled fee stumpage.

The Surveillance Audit

- *Surveillance Audit approach* – Surveillance audits are designed to provide evidence of continuing implementation of SFI requirements without requiring a full re-assessment of performance against all elements of the standard. On an annual basis select elements of the SFI standard are assessed along with any topical issues and previous areas of non-conformity.
- *Audit Team* – The surveillance audit was conducted by a two-person audit team including one member of the Society of American Foresters and a



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biologist (both of whom are Environmental Management System lead auditors).

- *On-site Audit* – The audit involved an on-site assessment of continuing forestry operations as well as processes in place to maintain conformance with the SFI standard during the timberlands monetization process.
- *Audit Focus Areas* – In addition to assessing actions taken to close non-conformities raised in 2005 and actions to maintain SFI conformance during the timberlands monetization process, the audit assessed performance against the following SFI objectives:
 - Objective 4: Wildlife Habitat and Conservation of Biological Diversity
 - Objective 8: Wood Procurement
 - Objective 11: Compliance with Legal and Regulatory Requirements
 - Objective 13: Management Review and Continual Improvement
- *Audit Sample* – The audit involved document review, interviews and inspection of 13 roads and harvesting sites, 5 silviculture sites and 2 procurement sites.

Overall Findings

The surveillance audit results indicated that Bowater Incorporated’s Southeastern Woodlands Operations land management and procurement functions continue to meet the requirements of the 2005-2009 version of the SFI Standard (SFIS).

Good Practices

- The Operation had successfully revised its Environmental Management System and developed additional formal procedures to ensure SFI conformance during timberlands monetization.
- The Operation had implemented significant enhancements to its procurement monitoring programs to provide improved data on BMP conformance and improved indirect supplier information.
- The Operation had made significant enhancements to the monitoring information that is formally reviewed as part of the annual steering committee review of SFI conformance.
- Field inspections indicated very strong performance in protection of residual trees during thinning operations.
- While reforestation data related to procurement sites remains an area with limited data, significant enhancements have been made during 2006 in the Operation’s ability to capture and track reforestation information through

<u>2006 Audit findings</u>	
New Major non-conformities	0
Remaining open non-conformities from previous assessment	0/2
New Minor non-conformities	1
New Opportunities for Improvement	6

<u>Types of audit findings</u>
<p>Major non-conformities:</p> <p>Are pervasive or critical to the achievement of the SFI Objectives.</p> <p>Major non-conformities must be addressed immediately or registration cannot be achieved / maintained.</p>
<p>Minor non-conformities:</p> <p>Are isolated incidents that are non-critical to the achievement of SFI Objectives.</p> <p>All non-conformities (major and minor) require an action plan within 30 days and must be addressed by the operation.</p>
<p>Opportunities for Improvement:</p> <p>Are not non-conformities but are comments on specific areas of the SFI program where improvements can be made.</p>

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the implementation of the verified fiber tracking system and changes to the data fields included within the Operation's settlement system.

Minor Non-conformities

The two minor non-conformities raised during the re-verification audit in 2005 were closed based on the completion of action plans or changes in operations.

One new minor non-conformity was identified as part of the 2006 audit. The non-conformity was isolated in nature and had been satisfactorily addressed by revised procedures prior to the surveillance audit.

- Performance Measure 2.1 of the SFI standard requires that Program Participants reforest after final harvest, unless delayed for site-specific environmental or forest health considerations, through artificial regeneration within two years or two planting seasons, or by planned natural regeneration methods within five years. Our assessment determined that approximately 1,000 acres of 2005 harvest areas originally planned for artificial reforestation were affected by the lack of a site preparation program in 2006. The elimination of the program could reduce the ability to meet SFI reforestation requirements in a timely manner on some of these areas. NB: Natural regeneration is expected to be satisfactory on the majority of these sites. Additional reforestation actions are expected to be taken on any sites where natural regeneration is insufficient.

The action plans for the above non-conformities were reviewed by KPMG and approved as appropriate prior to completing the re-verification.

Opportunities for Improvement

Six opportunities for improvement were also identified during the audit. These were:

- The assessment identified significant improvements in the design of the management review process for assessing overall conformance with SFI requirements. However, it was also noted that while the number of steering committee meetings was consistent with the Operation's commitments the Steering Committee's assessment of the overall performance data for 2005 has not to date taken place. Timely assessment of performance data significantly improves the overall utility of the program.
- While a comprehensive internal audit of the aerial chemical application program found strong performance overall, our field inspection identified isolated weaknesses in spray programs:
 - Two instances of incursion into an SMZ (in one of these cases the timber along the SMZ was almost all dead prior to spraying due to Southern Pine Beetle).

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- One site where a) little or no buffer was left along a road, and b) the practices with respect to avoiding a hardwood island and a buffered draw through the site were inconsistent (buffers were maintained during site preparation but not during a release treatment).
- Review of programs put in place to address the Memorandum of Understanding (MOU) signed with NRDC and the Dogwood Alliance indicated good overall progress in addressing the requirements of the MOU. Opportunities for improvement were noted in relation to the following:
 - Methods for tracking agricultural field origination and variable retention hardwood harvests are not yet implemented at Catawba.
 - Section 3.b. of the MOU requires Bowater to “enforce” contracts with wood suppliers requiring them to practice BMPs, observe threatened and endangered species protection regulations and use loggers trained in such techniques. Currently, evidence of BMP use and training is effectively captured by the Operation. However, compliance with threatened and endangered species protection regulations is not explicitly assessed in either the Operation’s own Marketwood BMP field audit questions or the South Carolina courtesy BMP exams relied on by the Catawba mill.
- Overall, post harvest inspections and supplier exit inspections were found to be satisfactorily completed. In an isolated instance, weaknesses were noted in the documenting of post harvest inspection reports:
 - On a Post Harvest Inspection Report, the items for rutting and for skid trails were left blank.
 - On a Supplier Exit Inspection Report, it was incorrectly noted that special sites and mast trees did not apply for the block.

NB: It should be noted that field inspection identified that excessive rutting had not occurred, skid trails had been stabilized, and the special site and mast trees had been protected.
- In 3 instances post-harvest slash disposal around landings was found to be less effective than historic practice, increasing the potential for patchy natural regeneration.
- Substantial progress has been made across all operations in the implementation of a verified fiber tracking system. However, the audit noted that there is currently no “other” category within the system. This appears to be leading to some misclassification of the small proportion of fiber sources without sufficient data.

Contacts:

Mike Alexander, CEA (604) 691-3401
 Chris Ridley-Thomas, CEA (604) 691-3088

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