

SUBJECT: **Grounds for Supporting Shareholder Proposal**
COMPANY: **Weyerhaeuser**
SYMBOL: **WY (NYSE)**
AGM DATE: **April 15, 2010**

This proxy alert provides grounds for supporting a shareholder proposal submitted to Weyerhaeuser by Ethical Funds, a division of Northwest & Ethical Investments L.P.

Proposal

The shareholder proposal asks Weyerhaeuser to:

Provide a report to shareholders by September 2010, prepared at reasonable cost and omitting proprietary information, describing the costs and benefits of incorporating FSC certified wood-products into Weyerhaeuser's North American corporate strategy.

The filer of this proposal is motivated by the growing market demand in North America for Forest Stewardship Council (FSC) certified wood products and the apparent absence of any strategy on Weyerhaeuser's behalf to tap into this market. We seek to understand how Weyerhaeuser is assessing the market trends relating to certified forest products, including the move towards procurement policies and building standards that favor FSC; and the rationale for the current approach to FSC certification in North America.

Weyerhaeuser's Response

In its proxy statement, Weyerhaeuser states in response to our proposal:

1. Weyerhaeuser believes that the SFI standard is the largest in the world and delivers unparalleled environmental protection throughout the supply chain and that the goal is to promote sustainable forest management and not to debate which certification is best.
2. The FSC standard applicable to Weyerhaeuser lands is not a commercially viable option.
3. The SFI standard is supported by Weyerhaeuser's customers including those in retail and government sectors. SFI also qualifies for government programs in Europe and North America.

We maintain,

1. We have not asked the company to compare the efficacy of the various certifications in achieving environmental goals nor have we questioned the effectiveness of the SFI standard in furthering sustainable forestry. We are asking for a rationale as to why the company is not taking advantage of the market opportunity that FSC presents.

2. The information provided by Weyerhaeuser is lacking in context and does not in itself represent a strategic assessment of FSC certification opportunities. Further, it does not address the potential for Chain of Custody certification or for the potential of new acquisitions.
3. We support Weyerhaeuser in meeting market demand for SFI. However, it still remains that company procurement policy preferences, green building standards, and third party support have created a market demand for FSC over and above the demand for SFI.

NEI's Arguments:

1. **We have not asked the company to compare the efficacy of the various certifications in achieving environmental goals nor have we questioned the effectiveness of the SFI standard in furthering sustainable forestry. We are asking for a rationale as to why the company is not taking advantage of the market opportunity that FSC presents.**

As noted in our proposal, Weyerhaeuser is committed to sustainable forestry and certification of its products to credible sustainable forestry standards. It appears the company has mistaken our proposal for one that is centered on comparing the environmental benefits of various certification standards.

We acknowledge Weyerhaeuser filed a letter to the US Federal Trade Commission raising issues of variability of FSC standards and false advertising. It is worth noting that one month prior to the filing from Weyerhaeuser, the NGO Forest Ethics filed administrative complaints with the Federal Trade Commission and the Internal Revenue Service challenging the credibility of the SFI label. The complaints, which challenge SFI's nonprofit status, accuse the certification program of lax standards and deceptive marketing intended to obscure the standards and the SFI's financial ties to the forest industry.

We suggest these developments are beyond the scope of the proposal and bear no significance on the merits of our ask; namely, to assess the market opportunities provided by FSC certification. We are not in a position to assess the environmental impact of either certification. We do note that the merits of sustainable forestry certification in regards to ensuring market access are clearly established. Our proposal is motivated by the apparent advantage that FSC certified products enjoy in the marketplace and our resolved clause asks for an assessment of how the company could capitalize on these opportunities.

2. **The information provided by Weyerhaeuser is lacking in context and does not in itself represent a strategic assessment of FSC certification opportunities. Further, it does not address the potential for Chain of Custody certification or for the potential of new acquisitions.**

The company states that "the FSC standards applicable to Weyerhaeuser lands – the Pacific and Southern standards – are not commercially viable." The company assessed the costs in excess of \$1 billion in net present value and near-term cash flow.

While it is heartening that the company has researched FSC certification, the figure requires a great deal more context in order to be useful to investors. At the moment, this information by

itself does not explain the rationale for the company's current approach to FSC certification in North America and in fact raises questions that need clarification.

FSC forest management standards are developed regionally to take into account specific properties of different forest types. FSC has approved 9 regional standards in the US¹ and 4 in Canada². The Southeast, Pacific Coast and British Columbia standards are similar because they all have mandatory provisions to designate areas for wildlife habitat protection³. Despite the resulting environmental protection, designation of wildlife habitat areas means that these areas are not available for harvesting purposes and as result the standards are considered onerous to meet.

Weyerhaeuser's statement above would lead investors to assume that all Weyerhaeuser lands are covered by either the FSC's Pacific or Southern standards. In fact, almost 60% of Weyerhaeuser's North American forestlands are outside these regional standards⁴. It is not at all clear if this has been accounted for in the company's analysis of FSC certification. Further, it is not clear if the company has in place a strategy that identifies potential opportunities in acquiring existing FSC certified operations or expanding into regions where the FSC standard is comparable to the company's current CSA or SFI certifications.

Also missing from the company's response is the role that forestlands external to the company play. Weyerhaeuser's forest products, pulp and paper, and cellulose divisions all procure wood from sources external to the company's forestlands. The FSC Chain of Custody certification allows companies to enjoy the benefits of FSC certification even if they don't own the entirety of the value chain. Therefore a company such as Weyerhaeuser could source wood and/or pulp from FSC certified forests and in turn market FSC products under their brand. It is not clear from Weyerhaeuser's disclosure why the company has not sought Chain of Custody certification and whether the company has plans for such certification in the future.

3. We support Weyerhaeuser in meeting market demand for SFI. However, it still remains that company procurement policy preferences, green building standards, and third party support have created a market demand for FSC over and above the demand for SFI.

The evidence gathered in the shareholder filing shows strong market uptake for certified wood products in general but our research points to clear preference for FSC certified products when available:

- Home Depot, started giving preferential treatment to FSC certified products in 1999 and has slowly transitioned many vendors to FSC certified wood.

¹ FSC regional standards for forest management in US include: Appalachian, Lake States, Mississippi Alluvial Valley, Northeast, Ozark-Ouachita, Pacific Coast, Rocky Mountain, Southeast, and Southwest.

² FSC regional standards for forest management in Canada include: National Boreal, British Columbia, Great Lakes St. Lawrence, and Maritimes.

³ Wildlife habitat area is an officially designated area that is set aside to protect the critical habitat of rare and endangered species of wildlife.

⁴ Approximately 12.9 million acres of Weyerhaeuser's 21.6 million acres of North American forestlands are located in the provinces of Alberta, Ontario and Saskatchewan. As such, 59.83 % of Weyerhaeuser's North American forestlands would be covered by either the National Boreal standards or the Great Lakes St. Lawrence standard.

- Home Depot's Canadian competitor, RONA, has gone even further with a corporate wood procurement policy that sets a target of 25% of lumber sold in RONA stores will be FSC certified by 2012.
- Lowe's wood procurement policy recognizes that the FSC certification system has the highest certification criteria standards and will be given preference over other schemes.
- IKEA recognizes FSC as the highest form of certification for its wood products.
- Major Banks in US and Canada have adopted policies limiting investment in companies and industries that negatively impact endangered forests. Both JP Morgan Chase's and Canada's TD Bank Financial Group have a stated preference for FSC certification when financing forestry projects⁵.

Green building certification bodies such as the US Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED) rating system has recognized FSC as the only eligible forest certification system. This recognition has served as one of the more important drivers for FSC market demand as well as new forest certification.

As stated before, we support the company's efforts to achieve sustainable forestry certification such as that provided by SFI. While it is true that many of Weyerhaeuser's customers and some building standards support SFI certified products, it is equally true that many of those same customers express an explicit preference for FSC certified products. This preference could translate into lost market share if Weyerhaeuser is competing directly against FSC certified products.

Weyerhaeuser's disclosure does not provide investors with the rationale for relying exclusively on the SFI and CSA standards in light of the apparent advantages that FSC certification can bring in the marketplace.

Beyond customer demand, it should also be noted that forest industry peers such as Tembec are aggressively pursuing the FSC market in North America. As of October 31, 2007, 100% of Tembec's FSC-commitment area was FSC certified, up from 57% in 2004.

Summary and Recommendation:

Our research has shown strong market uptake for certified products and both procurement and lending policies have shown a clear preference for FSC certified products when available.

Weyerhaeuser shows a strong commitment to forestry certification through support for SFI, CSA and ISO 14001 in North America. However, the company has failed to provide a compelling argument as to why FSC cannot be supported alongside other certification standards.

Weyerhaeuser's response is misleading and suggests that all Weyerhaeuser lands are covered by FSC's Pacific and Southern standards. Furthermore, it is not clear if the company has in place a strategy that

⁵ JP Morgan Chase's Environmental Policy states that FSC "is one of the most robust high conservation value assessment processes". The policy gives preference to FSC certification when they finance forestry projects that impact high conservation value forests. TD Bank Financial Group's Environmental Management Framework also includes the Canadian Standards Association's Sustainable Forest management Standard and SFI as comparable assessments.

identifies potential opportunities for growth in regions where the FSC standard is comparable to the company's current CSA or SFI certifications.

Also missing from the company's response is the opportunity for FSC Chain of Custody certification for forestlands external to the company since the Wood Products, Paper and Liquid Packaging, and Cellulose Fibers divisions all procure wood from sources external to the company's forestlands.

We recommend a vote **FOR** this shareholder proposal.