

Sector Guidelines: Forestry

Scope and purpose

Swedbank's sector guidelines are tools to enable better insights into the sustainability issues that various industries face.

The overall purpose of sector guidelines is to promote sustainability performance in our business relations and to give guidance on aspects that could be discussed with customers, suppliers and other stakeholders. The primary purpose of the guidelines is to support sustainability risk assessment and describe how Swedbank interprets sustainability risks in several sectors. Sector Guidelines are a set of recommendations that we would like to see our customers aim towards. They are relevant to all companies within the sector and in all stages of the value chain, such as production, processing and training.

Dependent on the size and maturity of the customers' businesses, we acknowledge that their transition journeys can be in different development phases and at any point of time satisfy different set of recommendations. However, we do not wish to see our customers going against the intention of our recommendations.

Sustainability impact

The forestry sector includes forestry management, including harvesting and planning. This sector guideline also includes pulp and the manufacture of wood fiber-based products such as paper, sanitary products, fuels and building materials.

Forests are among the most biodiverse and valuable terrestrial ecosystems on the planet. They play a major role in absorbing carbon emissions into their biomass and soils, in addition to providing physical protection of the landscape, soils and water quality through rainfall intervention, soil binding and erosion control. Forests influence and regulate local and regional climates, and indigenous peoples depend on forest ecosystems for their survival in many cases.

The Economic, Social and Governance (ESG) risks and impacts of the forestry sector includes deforestation, which is globally significant in terms of biodiversity impacts and carbon dioxide emissions to the atmosphere.

Water usage, raw material sourcing, toxic emissions & waste, health & safety and labour conditions are the key risks associated with downstream paper products manufacturing.

Well-managed forestry industries can protect these environmental and social values, and even make a positive contribution to biodiversity, global climate, livelihoods and cultures.

Expectations and recommendations

Swedbank expects clients, portfolio companies and suppliers to operate in accordance with relevant international norms, as well as regional and national laws, regulations and permits. We expect our business partners to manage material sustainability issues in a systematic manner within the field of human rights, labour rights, climate, environment and business ethics. We also recommend that companies involved in the forestry sector:

- Identify material sustainability aspects and adopt relevant policies, objectives and targets;
- Minimise impacts on land, water, air and biodiversity by implementing careful planning, and best practice waste management and emissions control systems;
- Responsible usage of fertilizers and pesticides; alternatives to pesticides, herbicides, and fertilizers in forestry management;
- Ensure sustainable management aspects in the manufacturing of pulp and paper, including water resources, waste water management, chemicals, air emissions, waste and sustainable sourcing (such as traceability system and fiber testing);
- Assess project impact on water resources with the aim of ensuring high standards of water quality and availability for local communities;
- Reduce resource use and recycle waste;
- Undertake community consultation early in project life cycles in order prevent negative impact and obtain social license to

operate;

- Respect customary land tenure and user rights of indigenous people by applying free, prior and informed consent (FPIC) principles;
- Leverage company influence in weak governance zones in order to minimise corruption risks and ensure benefit flows to local communities;
- Respect labour rights and ensure a safe and healthy workplace;
- Prevent discrimination and improve equal treatment of men and women;
- Apply relevant procedures for conservation of biodiversity and protection of vulnerable, endangered, critical endangered species; and invasive alien species;
- Prevent the introduction of invasive alien species into forest ecosystems;
- Prevent negative impact on High Conservation Value (HCV);
- Identify and protect High Carbon Stock (HCS) forests;
- Have a fire management plan in place to ensure safe forestry management;
- Certify production forests and timber plantations according to the criteria of the Forest Stewardship Council (FSC) forest management certification or other similar alternative forest sustainability certification systems;
- Observe zero tolerance of deliberate serious offsite environmental impacts, old growth logging, adverse impacts on IUCN Red Listed species, trading in illegal timber, child labour, and bribery & corruption;
- Report transparently on tax payments at group and country level in line with Publish What You Pay and the Extractive Industries Transparency Initiative;
- Conduct due diligence on supplier management of environmental, social and business ethics issues and integrate

sustainability criteria within procurement processes. Verify compliance with company standards on a regular basis;

- Report regularly on material sustainability issues in line with established reporting framework standards, such as GRI.

Relevant norms, guiding principles & standards

- ✓ The 10 principles of the United Nations Global Compactⁱ
- ✓ OECD Guidelines for Multinational Enterprisesⁱⁱ
- ✓ UN Guiding Principles on Business and Human Rightsⁱⁱⁱ
- ✓ The ILO Declaration on Fundamental Principles and Rights at work^{iv}
- ✓ IFC Environmental and Social Performance Standards and Guidance Notes^v
- ✓ UNESCO World Heritage Convention^{vi}
- ✓ National parks and nature reserves; or
- ✓ High conservation value forests (HCVF), including those depended on by indigenous people^{vii}
- ✓ The UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol^{viii}
- ✓ Forest Stewardship Council (FSC)^{ix}
- ✓ FSC Chain of Custody Certification^x
- ✓ CDP's Forest Programme^{xi}
- ✓ Programme for the Endorsement of Forest Certification^{xii}
- ✓ EU Timber Regulation (EUTR)^{xiii}
- ✓ Publish What You Pay^{xiv}
- ✓ Extractive Industries Transparency Initiative^{xv}

Implementation

Sustainability risk assessment is an integral part of Swedbank Group's risk assessment within corporate lending, investment and procurement. The sector guidelines are guiding the risk assessment. In order to comply with our existing sustainability framework Swedbank shall:

- Ensure understanding of existing and potential clients' and portfolio companies' activities and risks. This means that Swedbank may require relevant documentation such as certificates, impact

assessments, procedures and policies in order to understand the sustainability governance and performance;

- Evaluate suppliers' sustainability performance and integrate sustainability requirements as a mandatory part of supplier agreements. This means that Swedbank may terminate supplier relationships in the event of non-compliance with our supplier code of conduct;
- Continuously educate relevant Swedbank staff on general and specific Corporate Sustainability trends, issues and opportunities;

ⁱ The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

<https://www.unglobalcompact.org/about>

ⁱⁱ OECD Guidelines for Multinational Enterprises.

<http://mneguidelines.oecd.org/text/>

ⁱⁱⁱ The United Nations Guiding Principles on Business and Human Rights (UNGPs) are a global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity.

http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

^{iv} The ILO Declaration on Fundamental Principles and Rights at Work were adopted in 1998. The Declaration commits Member States to respect and promote principles and rights in four categories, whether or not they have ratified the relevant Conventions. These categories are: freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation.

<http://www.ilo.org/declaration/lang--en/index.htm>

^v Environmental and Social Performance Standards and Guidance Notes.

http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/performance+standards/environmental+and+social+performance+standards+and+guidance+notes#2012

^{vi} The United Nations Educational, Scientific and Cultural Organization (UNESCO) seeks to encourage the identification, protection and preservation of cultural and natural heritage. The UNESCO World Heritage List includes over 900 properties forming part of the cultural and natural heritage which the World Heritage Committee considers as having outstanding universal value, such as a forest, mountain, lake, desert, monument, building, complex, or city that is considered to be of outstanding importance to the common heritage of humanity.

<http://whc.unesco.org/en/list>

- Monitor our portfolios to mitigate risks, including sustainability risks;
- Report transparently on sustainability performance.

^{vii} High Conservation Value Forests (HCVF), are forests of outstanding and critical importance. This could be due to the presence of endangered wildlife, an unusually high number of rare plant species or areas that are in or contain rare, threatened or endangered ecosystems. It could also be because the forest is of critical importance to local people because it provides them with food, water, income or sites of cultural significance. It also includes forest areas that provide basic services of nature in critical situations (this includes: protection of watersheds, protection against erosion and destructive fire).

<https://ic.fsc.org/high-conservation-values-and-biodiversity.213.htm>

^{viii} UN Convention on Biological Diversity.

<https://www.cbd.int/>

^{ix} Forest Stewardship Council (FSC). The Forest Stewardship Council sets standards for responsible forest management. A voluntary programme, FSC uses the power of the marketplace to protect forests for future generations.

<https://us.fsc.org/>

^x FSC Chain of Custody Certification.

<https://ic.fsc.org/en/what-is-fsc-certification/chain-of-custody-certification>

^{xi} CDP Forest Programme provides a framework of action for companies to measure and manage forest-related risks and opportunities, transparently report on progress, and commit to proactive action for the restoration of forests and ecosystems

<https://www.cdp.net/en/forests>

^{xii} Programme for the Endorsement of Forest Certification

<https://www.pefc.org/>

^{xiii} European Union Timber Regulation.

http://ec.europa.eu/environment/forests/timber_regulation.htm

^{xiv} Publish What You Pay.

<http://www.publishwhatyoupay.org/>

^{xv} Extractive Industries Transparency Initiative.

<https://eiti.org/>