



Forest Stewardship Council

... because forests matter



ISSUES AND OPPORTUNITES FOR INVESTING IN NATURAL TROPICAL FORESTS

Assessing Risks and Returns in Natural Tropical Forests



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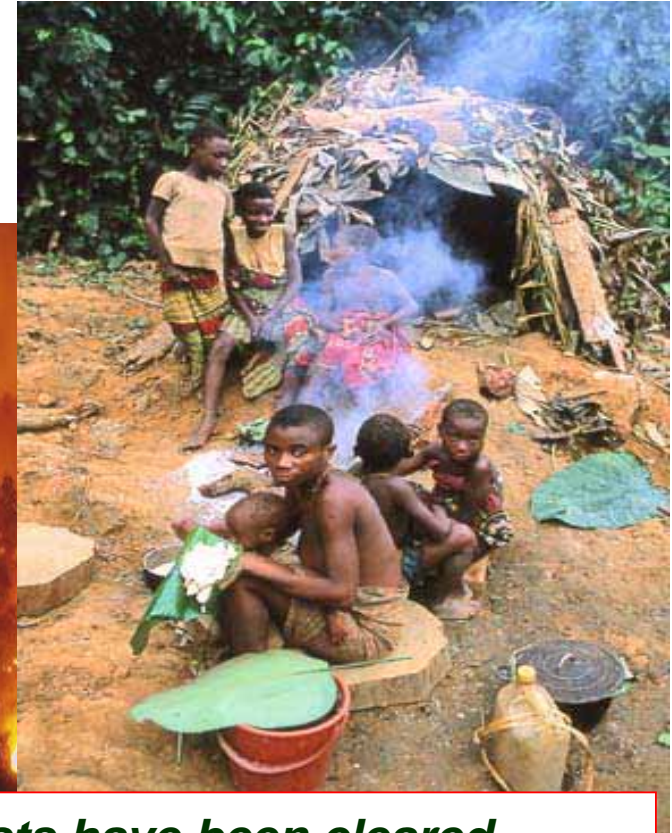
ISSUES AND OPPORTUNITES FOR INVESTING IN NATURAL TROPICAL FORESTS
Minimising Risks and Ensuring Returns in Natural Tropical Forests



Forests

Social and Environmental Issues ...

Over 90 percent of the 1.2 billion people living in extreme poverty depend on forests for some part of their livelihoods (World Bank)



- ***half of the world's forests have been cleared***
- ***a forest area the size of Belgium is lost every year***
- ***over 100 species disappear each day***
- ***deforestation causes 22% of anthropogenic emissions of carbon dioxide.***



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Economic Issues ...

Poor management of forests results in:

- ***billions of dollars in lost license fees, taxes, revenues and business opportunities in forestry, trade, processing, manufacturing and retailing and investment***
- ***distorted timber markets and depressed timber prices worldwide (7-16% lower prices, AF&PA)***
- ***additional cost for good businesses (esp. in marketing)***
- ***Loss of customer confidence and bad reputations for forest management and wood products in general***
- ***Negative environmental, economic and social impacts***



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Forests

Credibility Issues ...

Boycotts and campaigns have influenced business decisions, impacted markets and forced changes in these markets for products originating from forests



It takes 20 years to build a reputation and 5 minutes to ruin it (Warren Buffet)



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Challenges and risks ...

Poor or unsustainable forest management results in:

- Material risk – lack of social and environmental compliance adds costs to business
- Political risk – global civil society pressure, investor pressure especially in environmentally and socially conscious markets





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Socio-political impacts....

Case study – Solomon Islands

- Solomon Islands provides the most startling example of what can happen when poor forest management becomes 'institutionalized'
- SI is a small country - volumes of timber traded internationally are significant and form a high proportion of government revenue
- Harvesting progressively increased and reached non-sustainable levels in 1980s. Continued through 1990's and subsequently
- Logging practices consistently high impact and environmentally poor little or no attempt at regeneration
- Results: imbalance of wealth; promoted corruption; eroded traditional values; and undermined the traditional societal framework
- Led to exclusion of key stakeholders, a disaffected population, power imbalance
- Significant contributor that in 2000 led to the overthrow of a legitimate government, factional fighting, civil war and a total breakdown of law and order and economic life
- Law and order restored 2003 - RAMSI
- ***Longer term impacts - flight of long established companies; erosion of investor confidence; reluctance of new investors without guarantees and changed investment environment***
- ***Reliance on non-sustainable levels of timber extraction***



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FSC is a Global Action Network of private, public and corporate partners

To promote environmentally appropriate, socially beneficial, and economically viable management of the world's forests.



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FSC uses forest certification as a tool to help bring about improved forest practise, more responsible forest management and with reduced environmental and social risks



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Forest certification - a guarantee of good forest management?

- Forest certification is not inherently a 'good thing': certification is essentially 'neutral' – a process that compares a product or a process with a standard and then states whether the conditions of standard have been met or not
- Certification is a process that provides proof or evidence that an organisation has met these standards – and transmits this proof to another person or group
- Certification makes no distinction between a good standard or a bad standard
- There is no automatic linkage between forest certification and sustainable forest management, or good forest governance, or corporate responsibility



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- Forest certification - on its own - does not ensure sustainable forest management, good governance or responsible corporate behaviour
- If certification is to contribute genuinely to responsible or sustainable forest management then corporate responsibility, good practice and good governance have to be defined and embedded in the standards
- Additionally the auditing process has to be objective, rigorous, consistent and professionally competent



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FSC standards

- FSC standards provide one (internationally accepted) definition of good practice and responsible management
- Standards are widely accepted – broad acceptance of all stakeholders
- Standards are developed locally – but compatible internationally
- Process by which standards are formulated are as important as the technical content of the standards themselves



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10 FSC Principles & 56 Criteria ...

Standards based on 10 fundamental principles

1. ***Compliance with international, national and local laws and FSC Principles***
2. ***Compliance with basic tenure and use rights and responsibilities***
3. ***Respect for Indigenous Peoples' rights***
4. ***Maintenance of community relations and recognition of worker's rights***
5. ***Economic sustainability and generation of multiple benefits from the forest***
6. ***Active management and minimising environmental impact***
7. ***Completion and adherence to a management plan***
8. ***Regular monitoring and assessment of the impact of forest management activities***
9. ***Identification and maintenance of High Conservation Value forests***
10. ***Responsible plantation management - ensuring plantations comply with FSC principles***





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FSC certification/auditing process

- Certifications carried out by skilled, independent and professional auditors
- Certifications follow detailed, comprehensive, pre-determined protocols
- Certification process involves multiple stakeholders
- Certification process is credible, objective and transparent



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FSC Chain of custody

- Certification process ensures that managers possess a system for tracing the origin of the forest products – Chain of Custody
- With CoC systems it is possible to identify a product through the entire length of the supply chain



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Summary

- Well designed and comprehensive standards with built-in criteria covering: good forest management; sound forestry practice; minimised environmental impact; responsibility towards communities, indigenous peoples and workforce; and resource sustainability
- Reliable, credible and objective auditing system
- Process for ensuring traceability of the forest products – Chain of Custody

Together these make up FSC certification

Providing an assurance to investors, customers and general public that a company is operating with practises that are 'sound', responsible and environmentally and socially appropriate

Minimises risk and ensures that productivity is long term and sustainable



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Good Forestry needs good investment – FSC as an evaluation tool for Social and Environmental compliance



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FSC Certification – the solution

Certification CAN offer tangible benefits for business:

- ***An internationally recognised assessment tool to evaluate social and environmental compliance***
- ***An internationally recognised assessment tool to evaluate legal or political compliance***
- ***Annual monitoring and standards based on a global system***
- ***Clear indicators to evaluate impact***
- ***Customised solutions for financial investors***





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FSC Value Proposition ...

FSC's unique role brings together industries, businesses, organizations and people of the Global South and North to develop solutions that:

- ***employ market dynamics to respond to challenges created by poor management of forest resources***
- ***are used by governments, industries, businesses, organizations and people to engage markets and encourage responsible stewardship of forest resources worldwide***
- ***are supported by a consensus of social, environmental and economic stakeholders in the Global South and Global North alike***





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FSC Solutions ...

FSC builds and provides partnerships and services around developing and maintaining:

- **Standards based on agreed principles for responsible forest management - recognized by WSSN and compliant with WTO-TBT, ISO and ISEAL**
- **Accreditation and certification systems that monitor compliance with FSC standards – compliant with ISO 17011 and IAF and peer reviewed annually**
- **Product labelling systems that recognize responsible forest management in markets around the world**
- **Market places that recognize, appreciate and demand FSC certified products**





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10 FSC Principles & 56 Criteria ...

Any certified forest operation must :

1. *comply with international, national and local laws and FSC Principles*
2. *comply with tenure and use rights and responsibilities*
3. *respect Indigenous Peoples' rights*
4. *maintain community relations and worker's rights*
5. *generate multiple benefits from the forest*
6. *manage and limit environmental impact*
7. *compile and follow a management plan*
8. *monitor and assess forest management impact*
9. *identify and maintain High Conservation Value forests*
10. *ensure that plantations comply with FSC principles*





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FSC works – a social opportunity ...

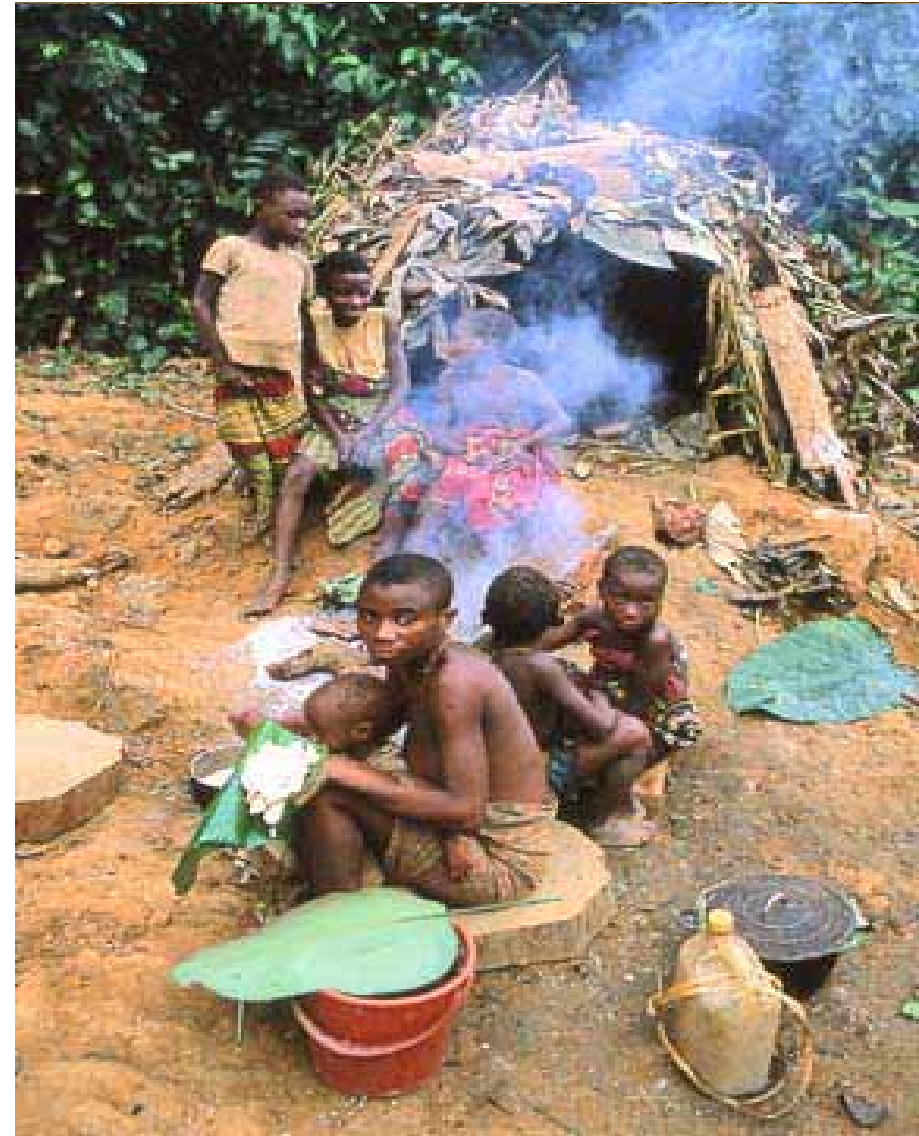
Promoting economic opportunity for communities (Brazil)

Providing local development opportunities (Bolivia)

Securing indigenous peoples rights and providing employment (Canada)

Ensuring workers rights (Russia, Guyana)

Ensuring indigenous peoples livelihood (Bolivia, Papua New Guinea, Congo)





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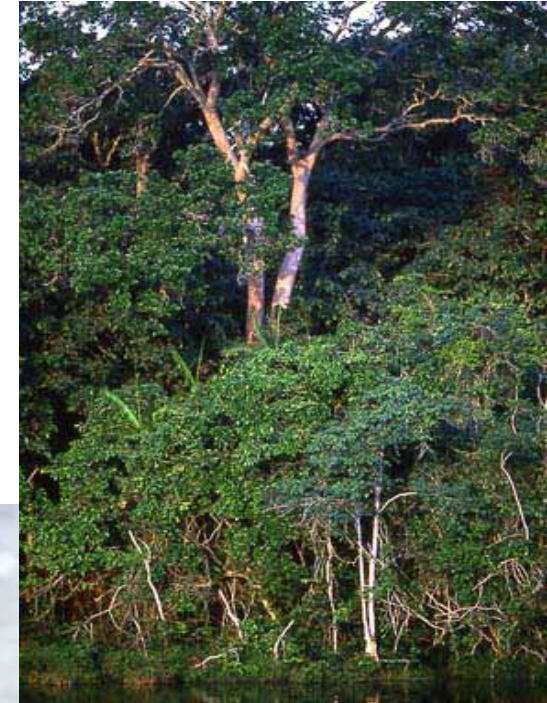
FSC works – an environmental opportunity ...

Preventing deforestation

Eliminating forest degradation & erosion

Avoiding forest conversion

Securing High Conservation Values





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FSC works – an economic opportunity ...

Building & Construction

Pulp & Paper

Finance & Investment

Furniture & Flooring

Rubber, Nuts & Guitars





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FSC works – a political opportunity ...

Civil Society Dialogue

Standard setting & policy making

Delegating responsibility

Reversing Proof & independent control

Government incentives





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FSC works – examples from the financial sector

Citi-bank

Environmental and Social Risk Management (ESRM) Policy states clearly FSC as the preferred option to support financially their costumers. In 2004 and 2005, Citigroup used paper certified by the Forest Stewardship Council (FSC) in their annual Citizenship Report.



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FSC works – examples from the financial sector

JP Morgan Chase

‘FSC is one of the most robust high conservation value assessment processes’. JP Morgan Chase prefers FSC certification when financing forestry projects that impact high conservation value forests. For operations that are not already certified, JP Morgan will introduce them to credible experts who can help establish a rigorous, time-bound, step-wise approach to achieve certification.



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FSC works – examples from the financial sector

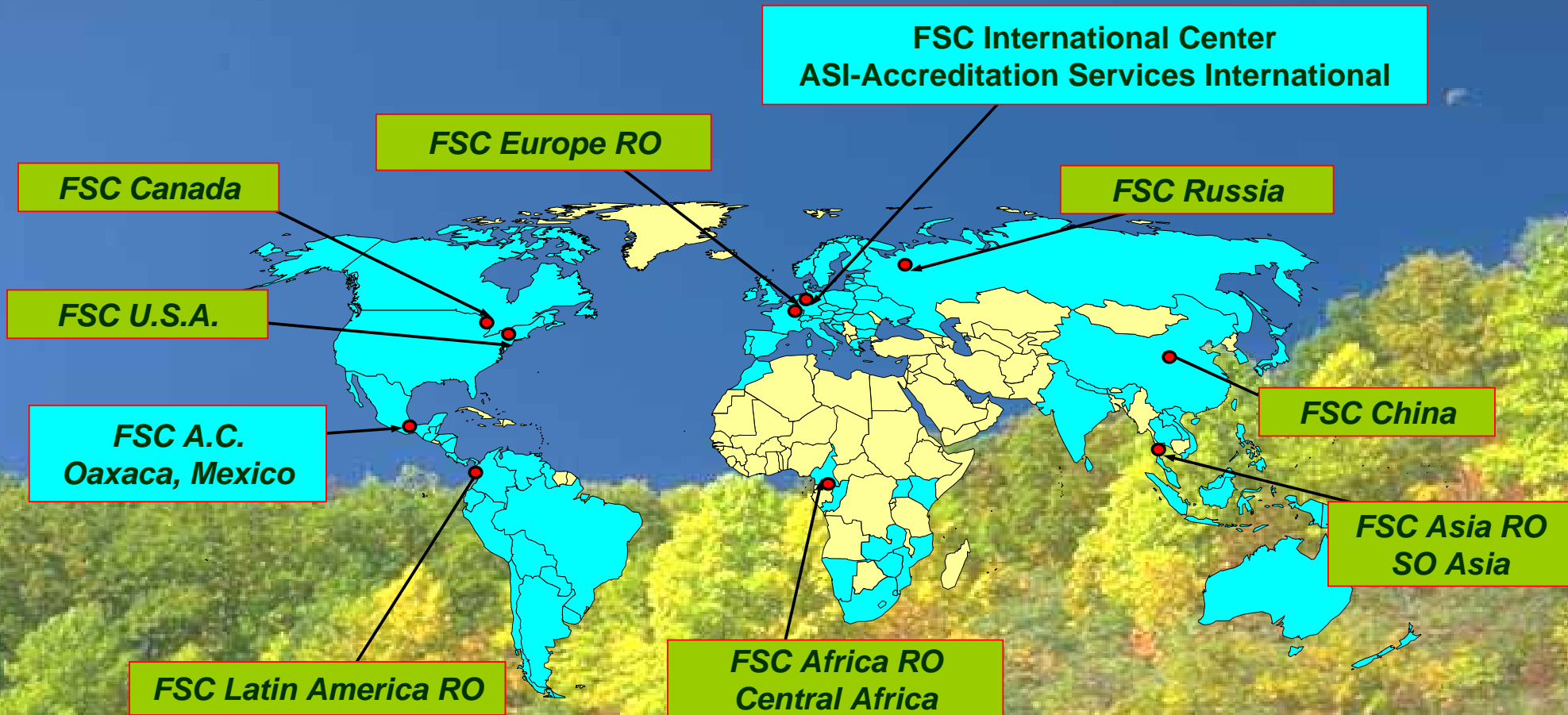
HSBC

- Sector Lending Standard: It is HSBC's preference to deal with customers in this sector that are either operating managed forests that are certified by the Forest Stewardship Council (FSC), or equivalent FSC recognised standard, or trade in products that are FSC certified or equivalent. This includes clients who are not FSC or equivalent certified but are following a credible path towards achieving compliance
- ... Where customers do not have FSC or equivalent certification and are not taking credible action to achieve this, we will consider measures to exit such relationships.



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FSC Global Network ...



- National Initiatives in 42 Countries + 5 Applicants
- 16 Certification Bodies + 6 Applicants
- 28 National Standards + 9 Applicants in 21 Countries
- 16 generic Global Standards by Certification Bodies
- 91'602'739 hectares certified in 6683 Certificates in 83 Countries

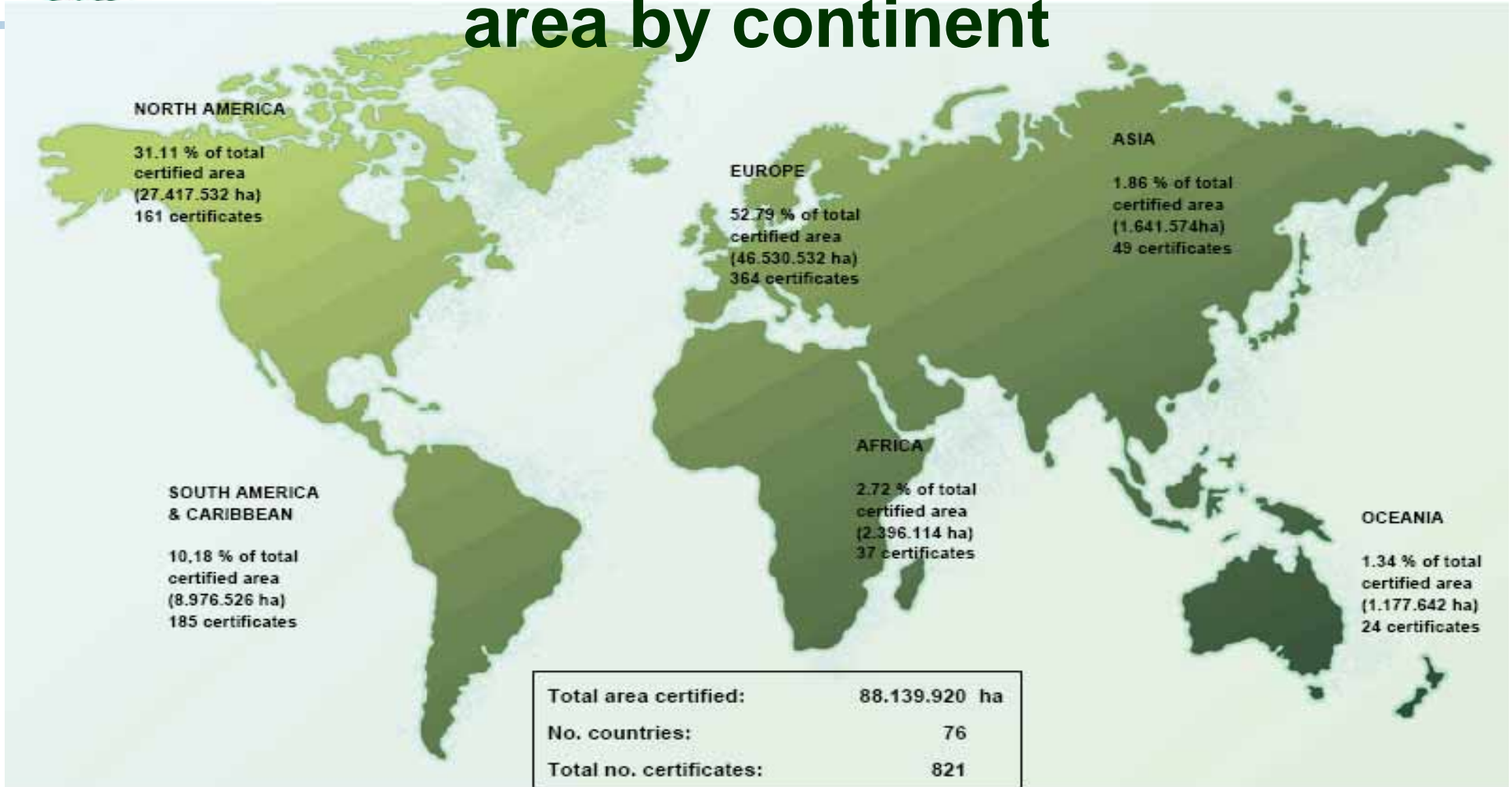


*... because forests
and people matter*





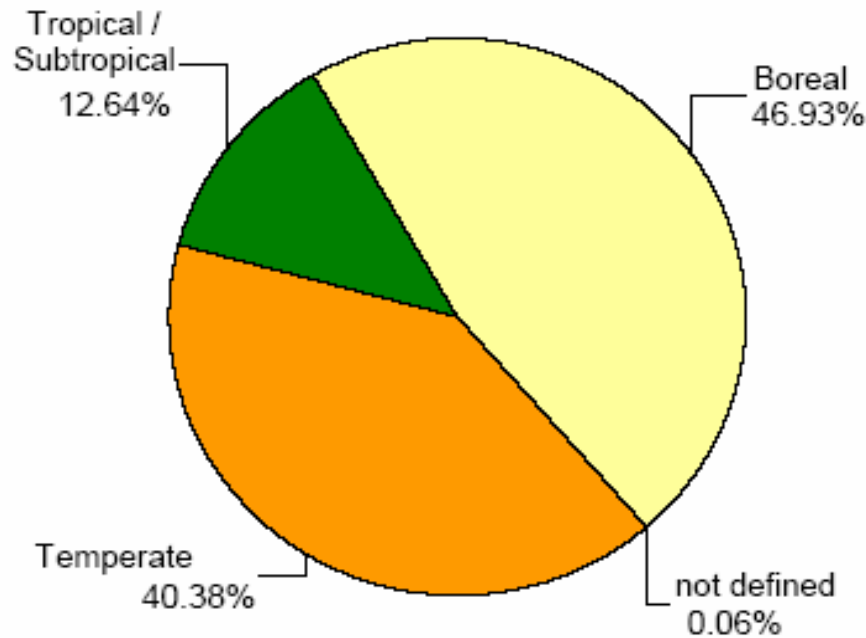
Percentage of total FSC certified area by continent





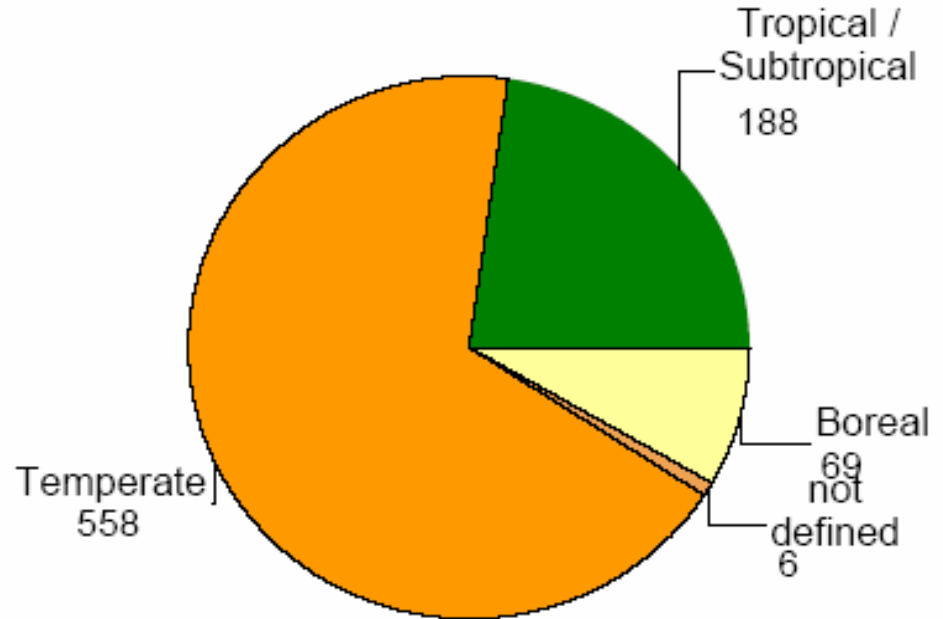
FSC certifications by biomes

Percentage of total FSC certified area (FM or FM/COC)



Area (million ha)	
Boreal	41.4
not defined	0.0
Temperate	35.6
Tropical / Subtropical	11.1
Total:	88.1

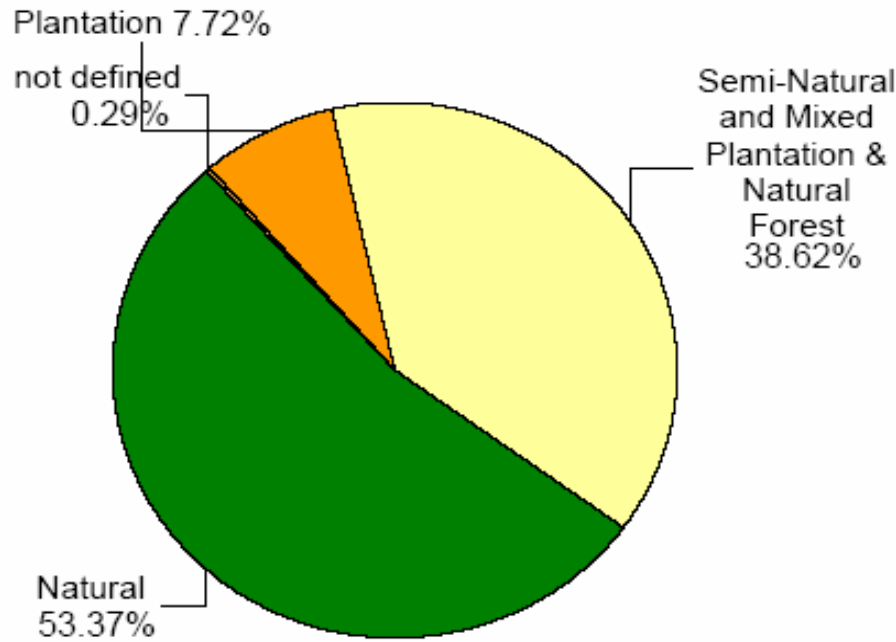
Number of FSC certificates (FM or FM/COC)





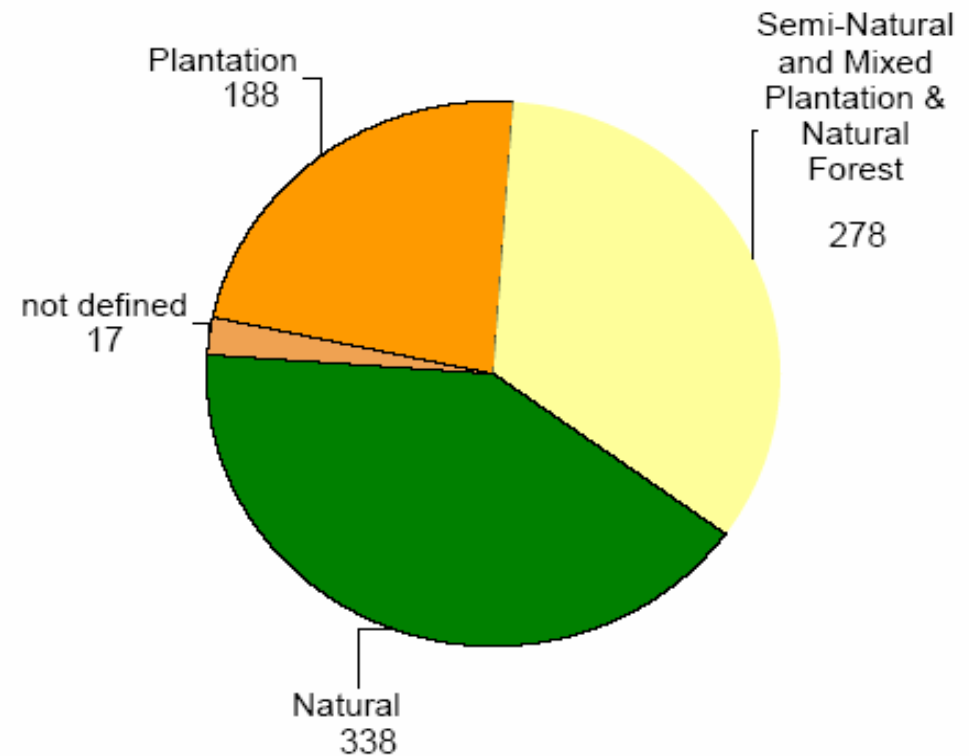
FSC certifications by forest type

Percentage of total FSC certified area (FM or FM/COC)



Forest Type	Area (million ha)
Natural	47.0
not defined	0.3
Plantation	6.8
Semi-Natural and Mixed Plantation & Natural Forest	34.0
Total:	88.1

Number of FSC certificates (FM or FM/COC)





Rate of increase of FSC endorsed forest over time (Jun '97 – Jun '07)

