

Forestry and Tree Plantations Policy

Why does ABN AMRO have a Forestry and Tree Plantations Policy?

The bank believes that clients who responsibly manage the Environmental, Social and Ethical (ESE) aspects of their business are more successful in the longer term. Therefore, it is the bank's policy to closely manage the ESE impacts associated with the forestry and tree plantations sector through thorough identification, mitigation, management and monitoring, governed by sustainability risk management and decision-making processes.

ABN AMRO recognises that clients in the forestry and tree plantations sector (such as companies in the paper industry) face several sustainability issues, including:

- *Unsustainable forestry practices:* Unsustainable forestry practices cause profound damage to the ecosystem.
- *Illegal logging:* Illegal logging and the international trade in illegally logged timber is a major problem for many developing countries. Besides causing environmental damage, illegal logging leads to revenue loss for governments, promotes corruption, undermines the rule of law, and may fund armed conflict.
- *Ecosystems and biodiversity:* Loss of biodiversity in managed natural forests (e.g. as a result of burning practices), as well as in forest plantations (e.g. planting of monoculture species).
- *Climate change:* Cutting down or burning forests removes a 'carbon sink' and leads to the release of carbon dioxide. The wood-processing industry is very energy-intensive and generates greenhouse gas emissions.
- *Health and safety:* Occupational health and safety of employees (e.g. physical hazards) and potential impacts on local communities (e.g., impact on water supplies).
- *Local community:* Issues concerning local communities may arise, with many people living in poverty depending on forests for their livelihoods. These issues include conflict over usage of land and resources, and the rights of indigenous people.

What is the purpose and scope of this policy?

For both the bank and its clients, ABN AMRO aims to promote sustainable practices that will mutually enhance the profitability and minimise any negative environmental, social and reputational impacts of our financing activities.

This policy covers all transactions and clients with a potential impact on forests. This may include but is not limited to financing of companies or projects related to timber, pulp and paper, agricultural plantations (see also the [Agri Commodities Policy](#)), mining and metals (see also the [Metals & Mining Policy](#)) and/or oil and gas (also see the [Oil & Gas Policy](#)).

What standards does ABN AMRO apply to this sector?

ABN AMRO requires that the ESE risks associated with the forestry and tree plantations sector are adequately addressed through a risk management process of identification, mitigation, management and monitoring.

Excluded activities

The following practices from the bank's [Exclusion List](#) bear special relevance for the forestry industry:

- Trade in wildlife or wildlife products regulated under [CITES](#);
- Logging of or trade in illegally harvested or uncertified timber as well as logging in primary/growth forest of ecological significance;
- Activities resulting in significant conversion or degradation of a critical habitat;
- Resettlement of indigenous and/or vulnerable groups without free prior and informed consent (FPIC).

In addition, ABN AMRO excludes the following activities in the forestry industry:

- Projects or operations resulting in resource extraction from, or the clearing of, either primary¹ or high conservation value forests²;
- Companies or projects that are involved in, collude with or purchase timber from illegal logging³ operations;
- Companies that do not demonstrate an explicit policy and practice of respecting human or indigenous rights related to forest resource extraction or plantation management;
- Companies or projects that contravene any relevant binding international environmental agreement (examples of such international agreements are [CITES](#), [ILO Conventions](#) and the [Convention on Biological Diversity](#)) to which the member country concerned is a party, or that violates local, state or national environmental, labour or social laws;
- Companies without an explicit policy and practice against the uncontrolled and/or illegal use of fire in their forestry or plantation operations.

¹ Relatively intact natural forest that has been essentially unmodified by commercial-scale human activity for the previous 60 years.

² High conservation value forests are defined as those that possess one or more of the following attributes: (i) forest areas containing globally, regionally or nationally significant concentrations of biodiversity values, e.g. endemism, endangered species, refugia; and/or large landscape level forests, contained within, or containing the management unit, where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance; (ii) forest areas that are in or contain rare, threatened or endangered ecosystems; (iii) forest areas that provide basic services of nature in critical situations, e.g. watershed protection; and/or (iv) forest areas fundamental to meeting basic needs of local communities, e.g. subsistence, health, and/or critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in co-operation with such local communities).

³ Illegal logging is defined as logging: (i) outside a concession area; (ii) in excess of quota; (iii) in a protected area; (iv) without appropriate permits; (v) without complying with bidding regulations; (vi) without submission of required management plans; (vii) in prohibited areas such as steep slopes, river banks, and water catchments (viii) impacting protected species (as defined by CITES or other international law); (ix) with duplicate felling licenses; (x) using girdling or ring-barking to kill trees so they can be logged legally; (xi) that contracts with local entrepreneurs to buy logs from protected areas; (xii) removing of under or over sized trees from public forests; (xiii) reporting high volumes extracted from forest concessions to mask that part of the volume is from non-authorized areas outside of the concession boundaries; (xiv) using bribes to obtain logging concessions; (xv) using deceptive transfer pricing and other illegal accounting practices to distort prices, volumes, cash flows and debt service levels (for example some companies will inflate the price of imported inputs such as machinery and deflate prices and volumes of their exports to reduce nominal profits, their tax liability with the host country and to illegally transfer funds abroad.); (xvi) that engages in the illegal transport and trade of timber or the smuggling of timber; and/or (xvii) that is processed with out the required licences and that is not in compliance with environmental, social and labour laws.

How does ABN AMRO put its standards into practice?

In accordance with its [Sustainability Risk Policy for Lending](#) and [Sustainability Risk Policy for Investment](#), ABN AMRO puts its sustainability standards into practice through the following four steps: screening and risk determination, assessment, approval, and monitoring.

The first step consists of screening and risk determination. The transaction and the client's activities are screened for "embargoed matters" on the bank's Exclusion List. Following the standard compliance procedure, the client is also screened for anti-corruption, tax, and good governance issues. In addition, clients are checked following the standard Know Your Client procedure.

Subsequently, the sustainability risk level (low, medium, high) is determined based on the business activity (the "what") and location (the "where") of the transaction, using the bank's Global Sustainability Risk Index. In forestry, environmental risks such as floods and landslides and social risks such as dangerous working conditions due to the use of heavy machinery are considered.

The second step is the assessment of the client's sustainability performance by means of due diligence procedures. The purpose of this step is to assess whether the sustainability risks are adequately mitigated and managed by the client, and to identify any gaps that need to be addressed. The intensity of the due diligence process depends on the sustainability risk level. As the forestry and tree plantation sectors generally have a high risk level, ABN AMRO carries out extensive and in-depth sustainability performance assessments for these sectors.

ABN AMRO has a client questionnaire in place to assess the sustainability performance of existing and potential clients. For all financing decisions for companies or projects involved in the extraction of forest resources or the establishment or management of tree plantations, ABN AMRO assesses whether a company:

- Has undertaken a proper assessment of the environmental and social impacts of a project;
- Can prove legal title to the land and has acquired all relevant permits and approvals;
- Can prove a project is on already denuded or degraded land;
- Has policies and procedures in place to minimise and monitor the proper use and disposal of chemicals, biological control agents and liquid, air and solid non-organic wastes⁴. (predominantly for pulp and paper operations⁵, vegetable oil operations⁶, wood product operations⁷ and plantations⁸);

⁴ Chemicals, biological control agents and solid non-organic wastes include among other things: nitrogen oxides (NOx), volatile organic compounds (VOCs), total reduced sulphur (TRS), absorbable organic halogens (AOX), biochemical oxygen demand (BOD), chemical oxygen demand (COD), chlorine dioxide and elemental chlorine, polychlorinated biphenyl (PCB), and chromated copper arsenate (CCA).

⁵ Policies and procedures in place to reduce the level of wastes in pulp and paper operations would include among others: (i) the use of dry debarking processes; (ii) prevention and control of spills of black liquor; (iii) the preference of total chlorine-free processes but at a minimum the use of elemental chlorine-free bleaching systems; (iv) reduction of the use of hazardous bleaching chemicals by extending cooking and oxygen delignification; (v) aiming for zero effluent discharge where feasible and reducing wastewater discharges to the extent feasible; (vi) incineration of liquid effluents from pulping and bleaching process; (vii) de-watering and properly managing sludge; and/or (viii) reducing the odour from reduced sulphur emissions by collection and incineration and by using low-odour recovery boilers fired at over 75% concentration of black liquor.

⁶ Policies and procedures in place to reduce the level of wastes in vegetable oil operations would include among others: (i) the preference for citric acid to phosphoric acid in degumming operations; (ii) the preference for physical refining over chemical refining; (iii)

- Has a forestry management plan, a biodiversity action plan, and soil and water management plans;
- Provides adequate documentation to enable monitoring and certifying organisations to trace the origins of each product, known as the "chain of custody";
- Has performed an independent third-party monitoring or external certification of the plantation or forest management operation;
- Recognises and respects the legal and customary rights of indigenous local peoples to own, use and manage their lands, territories and resources;
- Provides opportunities for employment, fair compensation and exercise of the right to organise, as well as adequate health and safety measures for employees (including day labourers and migrant workers).
- Respects human and indigenous rights, and cares for the health and wellbeing of potentially affected local communities within or adjacent to the plantation or forest management area;
- Provides informed consultation with affected local peoples and, in the case of relocation, provides adequate compensation;
- Has engaged with any groups such as non-governmental organisations (NGOs) or local groups that are in opposition to the project or company's activities, and taken steps to resolve these disputes.

The third step is the approval of the transaction from a sustainability risk management perspective. If certain gaps have been identified in the client's sustainability performance, it is the bank's policy to agree on measures that enhance this performance or to require more intense monitoring by the bank. These measures are formalized in an action plan that focuses on bridging the gap between the client's current sustainability performance and the required performance within two years.

The fourth step is monitoring. ABN AMRO's monitoring focuses on clients with a sustainability risk performance that is subject to improvement. The bank monitors the client's compliance with its conditions and mutually agreed measures, for as long as the bank maintains a financial interest in the transaction.

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maintenance of hexane levels, if used, below 150 mg/m³; (iv) recirculation of cooling waters; and or (v) collection of wastes for use in by-products (animal feed) or as fuel.

⁷ Policies and procedures in place to reduce the level of wastes in wood operations would include among others: (i) non-use of pentachlorophenol, lindane, tributyltin and copper chrome arsenate as preservatives given that less toxic alternatives are available for wood treatment; (ii) use of pressurised treatment processes (iii) recycling of solvent vapours where feasible or destroying them in a combustible device or a bio-oxidation system; and/or (iv) managing contaminated soil and sludge as hazardous wastes.

⁸ Policies and procedures in place to reduce the level of wastes plantations would include among others: (i) a no-burn policy or practice; (ii) disposal of all hazardous materials, process residues, solvents, oils and sludge from raw water, process wastewater and domestic sewage treatment systems in a manner to prevent the contamination of soil, groundwater and surface waters; (iii) non-use of transformers or equipment containing polychlorinated biphenyl; (iv) preference for biological and non-chemical pest control systems, e.g. barn owls for rat control.