

ANZ Social & Environmental Management Policies and Guidelines

Forests and Biodiversity

1. Background

Both native and plantation forests are considered important livelihood and ecosystem resources which support economic development and communities at a number of levels. Forestry is an important economic sector in itself as are other related sectors such as timber products, pulp and paper, recreation and tourism. Forests are also increasingly being recognised for their essential ecosystem services including, carbon sequestration, nutrient recycling, biodiversity, critical habitats, freshwater (purification) and clean air.

The Australian Department of Agriculture, Fisheries and Forestry reports that forest industries are Australia's second largest manufacturing sector with an annual turnover of more than A\$18B. The industry contributes around 1% to Australia's GDP and 7% of manufacturing output. The New Zealand government reports that in 2005, the forestry sector contributed over 3% to NZ's GDP and represents about 11% of their total exports.

Australia's forest production includes paper and paper products (45%), wood panels and laminates (32%), sawn and dressed timber (19%) and woodchips (4%). Global demand for forest products is expected to increase markedly in response to China's domestic consumption and global demand for low-cost wood products manufactured in emerging economies. Similarly, forests represent a major natural resource in many Asia Pacific countries and are recognised as major opportunities for socio-economic development.

ANZ has significant business relationships with companies involved in forestry activities and industrial processes carried out in or adjacent to forests as well as downstream processing. ANZ acknowledges the socio-economic value of the forest industries and is committed to supporting businesses in their efforts to meet customer demands for responsibly produced timber and associated products. There is no one globally accepted standard of sustainable forest management yet there is a growing requirement from the users of forest products for greater assurance that timber-based products are sourced from well managed forests. Forest management certification has emerged as a widely accepted assurance process to confirm operating practices are consistent with a recognised forest management standard.

The Australian Forestry Standard¹ has been developed as the basis for certification of native and plantation forestry in Australia. The National Standard for Environmental Certification of Well-Managed Plantation Forests in New Zealand² has been developed as a voluntary industry standard to ensure responsible plantation management. At the international level, the Forest Stewardship Council³ and the Programme for the Endorsement of Forest Certification schemes (PEFC – refer endnote 1) are the most widely recognised accrediting processes. The Australian Government is promoting a voluntary set of measures to reduce imports of illegally sourced forest products without adversely affecting legitimate imports⁴.

ANZ acknowledges the concerns of some stakeholders about the social and environmental impacts of forestry operations in jurisdictions where there are weak regulatory frameworks, limited institutional capacity for enforcement and an increasing demand for economic development. ANZ is committed to supporting clients and engaging relevant stakeholders in understanding and contributing where possible to improved forest management outcomes in the various countries in which we operate, and in particular the Asia Pacific region.

Therefore, this policy has been developed to enable ANZ to support businesses in the forestry and related sectors that are committed to continuously improving their social and environmental performance. To achieve this effectively, it defines the core standards which will be used in ANZ's client assessment, engagement and decision-making. The policy also provides guidance in terms of how these standards will be interpreted and implemented by ANZ. The policy should also provide the necessary clarity and certainty to all stakeholders regarding ANZ's approach to business activities and decision-making in the future.

2. Objectives

To define ANZ's approach to establishing decision-making criteria regarding sustainable forest management and the conservation of forest biodiversity with relevance to:

- 1) ANZ's financial products and services provided to clients in the forest industries, related sectors and activities which impact forests; and
- 2) ANZ's sourcing of forest products for its business operations (eg. construction materials, furniture and paper).

3. Definition /Scope

- a. The standards contained in this policy are directly applicable to all ANZ financial products and services that involve material exposures to client activities in forests⁵ and which potentially impact on biodiversity⁶. This includes but is not limited to: native forest management; plantation establishment and management (including palm oil and rubber); timber harvesting and down-stream processing; forest and timber products trading; the conversion of forests to plantations and other land uses; and activities carried out by ANZ clients in forests that have significant impacts on the environment and biodiversity.
- b. This policy should be read and applied in conjunction with other ANZ complementary social and environmental management policies and guidelines.

4. Core Standards

In the absence of a generally accepted global standard for sustainable forest management and an associated certification scheme, ANZ commits to achieve the following:

- a. Sustainable forest management – ANZ's will encourage and support well managed client activities in forests based on internationally recognised standards and frameworks of good practice. ANZ will also engage clients involved in large-scale forestry activities to advocate certification or an agreed process and plan to achieve certification consistent with the requirements of this policy. Irrespective of the certification scheme adopted by the client, ANZ recognises the following characteristics as international good practice.
 - Employing independent third-party professional verifiers to evaluate and attest achievement of the various elements of certification.
 - Demonstrating transparency in the certification process and disclosing relevant and appropriate information regarding the standards applied and the assessment, monitoring and verification outcomes.
 - Engaging stakeholders who raise legitimate issues and taking all the reasonable steps to resolve outstanding disputes.
- b. Exclusion zones – ANZ will not knowingly support client activities which impact on the following areas and circumstances; World Heritage Areas⁷, designated national parks and conservation areas⁸, activities that threaten species listed in CITES⁹ or relevant national legislation, activities that result in the broad-scale conversion of Critical Habitat¹⁰ and High Conservation Value Areas¹¹, and/or activities which are illegal and which threaten established traditional rights.
- c. Project Finance – ANZ will apply the Equator Principles¹² in its decision-making processes involving project finance transactions. We will evaluate any activities seeking project finance support to demonstrate conformance with Equator Principles requirements and to agree appropriate mitigation measures, where necessary. We will also collaborate with other lenders in this process.

- d. Activities in Critical Habitat and High Conservation Value Forests - ANZ may support client operations in these areas where we are satisfied activities: will not result in broad-scale conversion to plantations and other land uses; will not have a material impact on biodiversity and threatened species; that the economic benefits are justified based on a comprehensive Environmental and Social Impact Assessment (we will require independent expert advice as part of the assessment process); that alternative areas have been fully investigated; adequate mitigation and management/monitoring plans and standards (as defined in 4a above) are provided for; and that the client has the capacity to carry out the proposed activities in keeping with the approved management and monitoring plan.
- e. Forest conversion – the conversion of large areas of native forests to plantations or other land uses as a management practice is not in keeping with emerging industry standards or ANZ’s commitments above and will therefore be avoided. In circumstances where the conversion of small areas is unavoidable (e.g. provision of infrastructure etc.), this may be carried out in keeping with core standards outlined in this policy including a comprehensive alternatives analysis.
- f. Social Issues – ANZ expects any significant social impacts associated with a client’s proposed activities to be fully addressed and mitigated. It is now considered good practice for social aspects to be integrated and fully addressed in the formal impact assessment and approval process including socio-economic considerations.
- g. Product Processing – ANZ will engage clients involved in down-stream forest products processing and manufacturing activities with the intent to:
 - Establish the nature of the technology proposed or in use relative to best available feasible technologies and support efficiency improvements, and;
 - Encourage the use of forest products for processing, including timber, sourced from well managed forests as defined above.

5. Implementation Guidelines

- a. Transition Processes - We acknowledge that not all ANZ clients and their operations will necessarily meet the requirements outlined in this policy and therefore we will work with these clients over an agreed period to enable a demonstration of continuous improvement in keeping with the core standards outlined above. More specifically, the following transitional arrangements will be considered:
 - In respect of all new forestry activities (existing and new clients), as from 1 April 2007, ANZ will support client activities where the client is willing to collaborate with ANZ in the achievement of this policy’s core standards.
 - In respect of existing forestry activities (initiated prior to 1 April 2007 by existing or new clients), ANZ will engage clients in the progressive achievement of this policy’s core standards within a five year period (to be defined on a case by case basis).
 - In respect of new and existing clients carrying out downstream processing and or manufacturing activities using forest products, ANZ will engage and agree to individual commitments and timeframes with respect to validating origin and responsible production of their inputs, ideally through chain of custody certification.
 - In respect of new and existing clients carrying out activities that impact on forests and biodiversity, ANZ will engage with the intent of demonstrating progressive achievement of the relevant standards and requirements in this policy.

- b. Due Diligence – For any activities and transactions considered controversial, an independent technical specialist may be required to assess the current and/or proposed practices relative to the core standards identified above. This will provide the basis for subsequent client engagement and agreement of any mitigation plans and timeframes in which to demonstrate continuous performance improvement.
- c. Policy Deviations – If ANZ becomes aware that a client is operating outside the requirements of this policy, we may engage with the client, relevant stakeholders and appropriate authorities to clarify and resolve the situation to ANZ's satisfaction. In a situation where a client is operating outside the requirements of this policy and unable to demonstrate a commitment to continuous improvement, ANZ may consider discontinuing the business relationship.
- d. Sustainable Procurement - ANZ will pursue a Sustainable Procurement Policy and purchasing practices that are in keeping with the requirements of this policy. We may engage and collaborate with organisations that promote the sustainable procurement of forest products.

6. Stakeholder Engagement

ANZ encourages stakeholder engagement as a means for its clients to assess and develop sustainable approaches to managing forest activities and reducing biodiversity impacts. Consistent with ANZ's commitment to stakeholder engagement outlined in ANZ's corporate responsibility strategy, we will engage relevant stakeholders to achieve the following:

- Seek broad perspectives on the social and environmental impacts of specific industry or sector activities and proposals in relation to implementation of this policy;
- Increase ANZ's understanding of developments relating to sustainable forestry management practices and their certification to international standards; and
- Obtain input to the review of ANZ forests and biodiversity policy and guideline.

Notes & Glossary

¹ **Australian Forestry Standard** - provides forest managers and owners with economic, social, environmental and cultural criteria and requirements that support the sustainable management of forests for wood production. The Standard is intended for use by forest owners and managers who are seeking independent, third-party certification of their forest management and in response to market demands from the purchasers of their wood (<http://www.forestrystandard.org.au/files/4708.pdf>).

The Standard is an important element of the Australian Forest Certification Scheme, which is administered by Australian Forestry Standard Limited - a not-for-profit public company that owns the standard development functions and manages the elements of the Certification Scheme (<http://www.forestrystandard.org.au/12about.asp>).

This approach has achieved recognition under the Programme for the Endorsement of Forest Certification schemes (PEFC) which provides mutual recognition of national forest certification schemes (http://www.pefc.org/internet/html/about_pefc.htm).

² **The National Standard for Environmental Certification of Well-Managed Plantation Forests in New Zealand** - developed by the New Zealand Forest Owners Association (NZFOA) following consultation with stakeholders as a voluntary industry code. The Association plans that this Standard will be accredited under the requirements of the Forest Stewardship Council (FSC – refer 3 below).

It is estimated by NZFOA that approximately 42% of NZ's total plantation area is already certified under the FSC process (http://www.nzfoa.org.nz/file_libraries/standards_guidelines/national_standard_for_sustainable_plantation_forest_management).

The New Zealand Government effectively banned logging activities in native forests on Crown Land in 2001. Some logging of native forests on private land is possible, but this is considered minimal. The vast majority of logging activity in New Zealand is conducted on privately owned plantations.

³ **Forest Stewardship Council (FSC)** – is an international network promoting responsible management of the world's forests. FSC principles and criteria are based on consultative processes that set international standards for responsible forest management.

FSC accredits independent third party organizations who can certify forest managers and forest product producers to FSC standards. The FSC trademark provides international recognition to organizations that support the growth of responsible forest management (http://www.fsc.org/en/about/policy_standards/princ_criteria).

⁴ The Department of Agriculture, Fisheries and Forestry has consulted with Australian timber importers, wholesalers and retailers, other government agencies and non-government organisations, including conservation groups, to examine issues and options, consistent with Australia's international obligations, to ensure timbers are sourced from legal and sustainable forest practices (<http://www.daffa.gov.au/forestry/international/illegal-logging>).

⁵ **Forests** – an area, incorporating all living and non-living components, that is dominated by trees having usually a single stem and a mature or potentially mature stand height exceeding 5 metres, and with existing or potential projective cover of over-storey strata about equal to or greater than 30 per cent. This definition includes Australia's diverse native forests and plantations, regardless of age. It is also sufficiently broad to encompass areas of trees that are sometimes described as woodlands (as defined in the Australian National Forestry Policy Statement <http://www.affa.gov.au/content/output.cfm?ObjectID=D2C48F86-BA1A-11A1-A2200060B0A03139>).

⁶ **Biodiversity** – is the diversity within each species, variety of species and ecosystem diversity which is formed by living organisms and the relations between them - as defined in the Australian National Forestry Policy Statement (http://www.affa.gov.au/corporate_docs/publications/pdf/forestry/rfa/national/nat_nfps.pdf).

⁷ **World Heritage Areas** – Designated cultural and natural heritage areas around the world that are considered of outstanding value to humanity and which are listed under the World Heritage Convention (<http://whc.unesco.org/>).

⁸ **Designated conservation areas** – areas set aside under national or state legislation to achieve various levels of conservation of biodiversity, natural and cultural values.

⁹ **CITES** - The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) is an international agreement between governments aiming to ensure that international trade in specimens of wild animals and plants does not threaten their survival (www.cites.org).

¹⁰ **Critical Habitat** - the whole or any part(s) of the area(s) of land comprising the habitat of an endangered species, population or ecological community that is critical to the survival of the species, population or ecological community and as provided for in *Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)* – see 18 below. (Australian Federal Government department of Environment and Heritage - <http://www.deh.gov.au/biodiversity/threatened/critical-habitat/index.html>).

¹¹ **High Conservation Value Forests** – those forest areas containing or providing globally, regionally or significant concentrations of biodiversity values; including rare, threatened and endangered species; basic nature services in critical situations e.g. watershed protection, erosion control; fundamental to meeting basic community needs and critical to traditional cultural identity (adapted from FSC Principles and Criteria for Forest Stewardship).

¹² **Equator Principles** – are a voluntary environmental and social policies and guidelines developed and adopted by a small group of international banks in June 2003 based on the International Finance Corporation (IFC) requirements. The Principles apply mainly to project finance activities in developing countries and to new transactions greater than US\$10M. Following a review, an updated version of the Equator Principles was launched in July 2006 with 43 banks adopting to date (<http://www.equator-principles.com/principles.shtml>).