

Sustainability

A STRATEGIC ISSUE

The forest products industry is among the world's most sustainable industries, and today's retailers and consumers around the globe increasingly want to be sure that the products they purchase are not damaging the environment.

By Bruce McIntyre and Todd Stroup



Sustainability has become part of the business mainstream, and forest, paper and packaging companies are at the forefront of the increased focus on operating in a sustainable manner. Forest, paper and packaging companies are adjusting to a changing business and consumer environment, according to the 2008 edition of *CEO Perspectives*, published by PricewaterhouseCoopers (PwC). The survey of nearly 30 Forest, Paper & Packaging CEOs across the global industry's developed and emerging markets, identified four key trends: attaining the right business model, cost control, sustainability and leadership.

DEMONSTRATING SUSTAINABILITY

The forest industry is among the world's most sustainable industries; as one interviewee pointed out, it is the world's biggest producer and consumer of renewable energy, and a significant amount of the raw materials used in the paper and packaging sector are derived from recovered paper. Forests are also the biggest binder of carbon on the planet, and have the greatest potential to offset damage wrought by carbon emissions. Many executives recognize that climate change will enable the industry to leverage its existing assets and sustainable forest management skills more effectively.

One clearly emerging and significant development is the concept of total supply-chain, which is being driven by the climate-change and environmental agendas of industry stakeholders and consumers. Retailers and consumers around the globe increasingly want to be sure that the products they purchase are not damaging the environment. CEOs mentioned the increasing pressure to ensure that the entire supply chain is 'green' – i.e. paper and packaging manufacturers not only need to reassure customers about their own practices, they are also considered accountable for the practices of the suppliers from which they buy wood fiber and other inputs. Several CEOs also continue to express frustration that, while demand for 'green' products is increasing, customers are often reluctant to pay a premium for such goods.

However, CEOs interviewed by PwC generally agree that the industry must do more to raise awareness of its responsible approach to maintaining the health and viability of the world's forests. Many CEOs also see industry trade organizations as important catalysts in communicating what companies do right and representing the industry's interests as environmental and climate change regulations evolve. Forestry certification and promoting a life-cycle approach to the measurement of "carbon footprints" can likewise help to increase public awareness of the advantages of wood and paper products over other materials.

Executives also see investing in local communities as another critical element in achieving a sustainable business model. Emerging-market players and companies with interests in emerging markets are particularly sensitive to this aspect of sustainability, which is even more important in countries with high levels of social inequity. Collaboration—with other industries, governments, NGOs and trade bodies—will be critical in developing a strategic approach to problems the forest products sector cannot solve by itself.

CERTIFICATION

Customers generally accept that certification is the simplest way of ensuring that wood and paper products are derived from forests which are managed in a sustainable manner. However, competing certification standards have been the object of significant debate in recent years. An inclusive approach to forest certification standards is recommended to maximize flexibility while ensuring that forest products have been produced in a manner that is consistent with



sustainable forest management (SFM) standards that are internationally recognized and that have been developed through multi-stakeholder processes.

The main SFM Standards applied in North America include: the Sustainable Forestry Initiative® (SFI), Canadian Standards Association (CSA) and the Forest Stewardship Council (FSC). In addition, the SFI and CSA standards are recognized by the Programme for the Endorsement of Forest Certification schemes (PEFC), which is a global program for the assessment and endorsement of independent national forest certification systems.

Other standards, such as the ISO 14001 Environmental Management System Standard, are also being applied in timberlands and manufacturing operations.

KNOWING YOUR SUPPLY CHAIN

A key role in procurement has traditionally been to get the right product, at the right price and at the right time. Product safety, material content (e.g. product labeling) and logistics have also emerged as key criteria in sourcing decisions. Companies are also increasingly seeing corporate responsibility in the supply chain as an opportunity to support brand values and market differentiation. Several major U.S. retailers for example, have developed procurement policies aimed at sourcing environmentally preferable wood

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and paper products, including guidelines and scorecards for sustainable packaging.

Management systems and controls, such as third party certified Chain of Custody (CoC) programs, are a good approach to tracking product attributes, such as SFM certification and recycled content, through the supply chain. CoC certification provides a link between the certified forest and the certified product, adding credibility to product claims and labels. The FSC and PEFC have developed internationally accepted standards for Chain of Custody. The CSA has adopted the PEFC CoC standard and SFI has established CoC requirements that are based on the PEFC standard. In addition, independent certification standards, such as the PwC Independent Chain of Custody Standard™:2005 (PwC-ICoC™:2005) are also available to help ensure that organizations have the systems and controls in place to meet their stated environmental objectives.

To assist buyers with sustainable sourcing decisions, the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI) have produced a guide to Sustainable Procurement of Wood and Paper-based Products, consisting of an introductory document and a more detailed resource guide. The guide includes criteria that have been highlighted as important sustainability considerations for anyone looking to purchase wood and paper products, including:

- Sourcing and legality aspects; such as origin, information accuracy, and legality issues,
- Environmental aspects; including sustainable forest management, protection of special places and ecosystems, climate change impacts, environmental protection and controls, recycled fiber, and the use of other resources; and
- Social aspects, such as ensuring that the needs of local communities or indigenous peoples have been addressed.

CLIMATE CHANGE – A THREAT AND AN OPPORTUNITY

Most of the executives PwC surveyed regard climate change as both a threat and an opportunity. Some European CEOs are concerned that stricter climate change regulations will put European companies at a competitive disadvantage because developed countries could incur the largest share of the responsibility for reducing carbon emissions and new mills located in emerging markets might not be monitored as stringently. They also view the EU's proposals for a 20% improvement in energy efficiency and 20% use of renewable sources for primary energy production by 2020 with some trepidation. One CEO commented that forest



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products companies risk failing to grasp the opportunities implicit in woody biomass due to lack of vision, money or competition from more innovative organizations in (or entering) the energy value chain.

However, many executives recognize that climate change will simultaneously enable the industry to leverage its existing assets and sustainable forest management skills more effectively. North and South American executives commented that the growth potential offered by new uses of woody biomass and cooperation with energy providers could prove invaluable in this context.

In the U.S., companies with timber interests are becoming involved in joint ventures with energy companies to produce biofuels such as ethanol, by using the open space in managed timberlands to grow grasses for biomass, as well as exploring new technologies to enable the production of cellulosic ethanol from wood. Opportunities for biofuel production were discussed extensively at the recent Global Forest & Paper Industry conference, hosted by PricewaterhouseCoopers in Vancouver. More than one panelist noted that it may not be long before wood prices are linked to the price of oil.

REPORTING

An increasing number of stakeholders expect organizations to report on their performance in a comprehensive, understandable and timely manner. To satisfy this demand, successful organizations establish strong relationships with their stakeholders, relying on open and trustworthy communications. Many organizations now release non-financial performance information in the form of annual sustainability reports (also called corporate responsibility or triple bottom line reports). These reports help facilitate communication with stakeholders and provide both quantitative and qualitative information on the organization's social, environmental, health and safety, and economic performance.

In a recent PricewaterhouseCoopers survey of global forest and paper companies, it was found that nearly two-thirds of the top 100 companies globally are issuing sustainability reports. Although this reflects positively on the industry's willingness to disclose information regarding its performance, there is still room for improvement. Many companies only reported consolidated data and selected metrics, and less than 20% obtained third-party assurance on the data. Adoption of a consistent external reporting standard, such as the Global Reporting Initiative (GRI), could help to address many of the current weaknesses.

Third party assurance of a report is also a consideration. Having a qualified, independent, third-party firm provide assurance on your sustainability report can improve credibility, as an important component of your overall communication, risk and reputation management strategy. As green thinking becomes more mainstream, there will be increased pressure on companies to report more consistently and to adopt external reporting and assurance standards to increase transparency and reduce risk, which are important components of the sustainability agenda.

RESPONSIBLE LEADERSHIP = SUSTAINABILITY

For management in the Forest, Paper & Packaging sector, finding the right balance among competing economic, social, and environmental goals is the essence of "responsible leadership." In practice, responsible leadership means integrating ethical considerations into company decision-making, and managing on the basis of personal integrity and widely-held organizational values. Responsible leaders manage for the common good and gain authority and legitimacy in direct proportion to their success in serving others.

Is that kind of leadership readily achievable? Clearly, a perfect balance of all competing interests is difficult to achieve and managers are bound to make missteps in the



attempt. Nevertheless, most stakeholders are adamantly in favor of companies dealing with sustainability issues in an honest and open fashion. So, as a first step toward demonstrating responsible leadership, companies must establish trust between themselves and their various stakeholder communities. Sometimes, the process of establishing trust can be painstakingly slow. But it starts by understanding stakeholders' concerns and acknowledging their legitimacy. Only after you have mapped the spectrum of stakeholder issues can you start to prioritize them and develop strategic responses and outreach programs. ■

Bruce McIntyre is a partner and leader of PricewaterhouseCoopers' Forest, Paper & Packaging and Sustainable Business Solutions practices in Canada. He is based in Vancouver, B.C. Canada and can be reached at: bruce.mcintyre@ca.pwc.com.

Todd Stroup is a partner and leader of PricewaterhouseCoopers' Forest, Paper & Packaging practice in the United States. He is based in Atlanta, Georgia and can be reached at: todd.a.stroup@us.pwc.com

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