CORPORATE SOCIAL RESPONSIBILITY

SECTOR POLICY – WOOD PULP

AUGUST 2016

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PREAMBLE

As part of its commitment to corporate social responsibility, the BNP Paribas Group (hereafter the Group) has developed a consistent policy regarding its financial services and asset management activities for the wood pulp industry.

The demand for paper product will increase in the coming decade and this development is likely to have impacts on the global world sustainable development. On the pulp and paper production chain, most of this impact is recognized by stakeholders to be concentrated in the forest management phase and the wood pulp production process. As a result this policy will focus on these two main steps.

The wood pulp market is expected to witness a CAGR of 3.78% during the forecast period (2021-2026)[1]. The development of new pulp mills is expected to concentrate in Southern countries and Russia. The development of this industry may have several adverse impacts on local communities, climate change, ecosystems and biodiversity mainly linked to the necessary industrial plantations to supply raw material and to the effluent of the pulp process. However, the environmental and social issues in the pulp sector mainly depend on the way the wood is produced and harvested and the pulp is milled. Responsible pulp production can indeed limit these impacts. By contrast, the pulp industry is a major source of income and provides a livelihood to millions of people in mature and emerging countries. Once transformed in paper or board, it is also an international support to transmit knowledge, allow creativity and protect goods and food from degradation and hygiene issues.

The Group, in accordance with stakeholders, identifies five main sustainable development issues linked to the wood pulp industry:

1. Environmental and biodiversity issues linked to the deforestation and the industrial wood plantations to supply wood resources to the pulp mills
2. Social issues linked to the development of a pulp mill or an industrial wood plantation project (respect of local people rights, involvement of local communities, job development...)
3. Water management and water pollution by the pulp process, particularly dioxin emissions in the bleaching process
4. Health and Safety management in the plantations and the pulp mills
5. Environmental management in the pulp mills (such as gazes emissions and waste management)

This policy is the Group answer to contribute to a more sustainable pulp industry in respect of these five main issues.

Responsible players and sustainability practices exist, and as a global financial institution The Group is convinced that they should be supported. Such an approach can bring long-term benefits to its customers and to the society at large. Several initiatives have indeed been launched in order to raise awareness and to mitigate environmental and social issues of pulp production. In mature countries, the industrial activity and forest management is largely under control of the legal framework or private certification initiatives. Emerging countries are also enforcing their legal framework and controls to address these issues.

Regarding forestry management/harvesting and the wood supply chain, the Forest Stewardship Council (FSC) and the Programme for Endorsement of Forest Certification Schemes (PEFC) are the two main international certification schemes. They provide assurance for the sustainable management of the forest. FSC or PEFC certification brings concrete answers to the main CSR issues related to plantation and forest management, but one has to take into consideration that today only 9% of the world's forests are certified by the two main forest certification organizations, PEFC and FSC2. The Group is aware that other certification schemes exist that contribute to sustainable forest management.

Regarding the wood pulp production process, The Group has noted that, as for all heavy industrial activities, the activity generates various polluting effluents in water, soil and air and may raise health and safety issues for the pulp mill workers and surrounding communities. Environmental Management System (EMS) and Health and Safety Management System (HSMS) are today a recognized way to manage such topics.

On these two points, The Group will consider new developments in these areas and might amend this policy to

[1] https://www.mordorintelligence.com/fr/industry-reports/europe-and-mena-pulp-market

take them into account.

Therefore, The Group will continue, under certain conditions set out in this document, to finance and invest in the wood pulp sector as it believes that it can be produced in a sustainable manner.

1. OBJECTIVE

This policy defines a set of rules and procedures regarding financing, asset management, and other financial services provided by the Group entities. They aim at encouraging pulp companies to develop the production of sustainable wood pulp.

2. SCOPE

2.1 GEOGRAPHY

Worldwide.

2.2 ENTITIES CONCERNED

BNP Paribas entities concerned: this policy applies to all business lines, branches, subsidiaries and joint ventures of which the Group has the operational control. When the Group establishes new joint ventures in which it has a minority stake, it strives to include its standards as part of the joint venture agreement.

Wood pulp companies concerned: this policy applies to companies directly involved in the upstream or downstream wood pulp value chain. Upstream refers to the industrial wood plantations and forest harvesting activity of pulp producers, whereas downstream refers to wood pulp producers, including for their own use, and traders. Other companies further up or down the value chain (paper making companies which do not produce their own pulp, chemicals manufacturers and machinery manufacturers as well as paper retailers and distributors) are not in the scope of such policy.

2.3 FINANCIAL AND PRODUCT SERVICES

This policy applies to all financing activities provided by the Group (lending, debt and equity capital markets, guarantees and advisory work, etc.). It covers all new pulp companies. For financing agreements with pulp companies that predate this policy, the rules and standards set out below will be applied as such agreements are due for review.

2.4 ASSET MANAGEMENT

This policy applies to all the Group entities managing proprietary assets and third-party assets, with the exception of index-linked products. External asset managers are actively monitored and encouraged to implement similar standards.

3. RULES AND STANDARDS OF THE POLICY

3.1 FOREST MANAGEMENT

3.1.1 Mandatory requirements

The Group requires that upstream pulp companies comply with existing social and environmental laws, at a local or state/provincial level, as well as with international regulations ratified by their operating countries. These include Convention on International Trade on Natural Species of Wild Flora and Fauna, Convention on Biological Diversity, International Labour Organization Convention 169 Concerning Indigenous & Tribal Peoples in Independent Countries, ILO (International Labour Organization) Conventions on Forced Labour and Worst Forms of Child Labour.

In order to ensure that basic social requirements are met and to limit negative impacts on climate change and biodiversity, The Group requires that upstream pulp companies:

- Do not use child or forced labour manpower;
- Will not develop a new plantation on land owned or occupied by local communities without having (and in line with the FSC or PEFC principles and criteria):
- conducted a free, prior and informed consultation process,
- achieved an acceptable compensation arrangement, and
- implemented an efficient grievance mechanism.
- Do not use illegally harvested wood[2].
- Do not convert UNESCO World Heritage Sites into industrial wood plantations;
- Do not convert Wetlands on the Ramsar list into industrial wood plantations;
- Conduct a High Conservation Value (HCV) assessment before developing a new plantation;
- Do not convert High Conservation Value forests (HCVF) into new plantations. In case a company's plantation is located on land formerly occupied by HCVF, the clearing must have occurred no later than 2001, and the company shall certify (and to the extent feasible demonstrate) that it is not responsible directly or indirectly for such conversion;
- Have a clear and stringent peat land management procedure in place for any new plantation located on peat land.
- Have a no-burn policy, in line with the recommendations of the ASEAN policy on zero burning or other regional best practice;
- Provide a monitoring plan of the workforce health & safety conditions on a regular basis.

3.1.2 Evaluation criteria

The Group encourages upstream pulp companies to move towards higher standards of sustainability. Concerning forest management, The Group believes FSC and PEFC are currently the best available set of criteria for sustainability in this industry and encourages upstream pulp companies:

- to become an active member of their national FSC or PEFC multi-stakeholders governance systems (or any equivalent forest management initiative that may emerge);
- in the case of pulp producers buying wood from external parties, to ask to their suppliers to have their forest or plantation FSC or PEFC certified or to design and implement action plans to have the forest or the plantation certified within a five-years period[3];
- in the case of forest and plantation managers, to have their forest or plantation FSC or PEFC certified or to design and implement action plans to have the forest or the plantation certified

[2] Illegal logging definition for this policy is the list of illegal logging acts given by the FAO Committee on Paper and Wood Products in their study *Defining illegal logging: what it is, and what is being done about it?* (2003).

[3] For new CIB clients, this five-year period will start at the date of signing of the first commercial contract (whatever its nature) with the Group.

within a five-years period[4].

The Group also encourages upstream pulp companies to present a clear and stringent environmental management procedure for existing plantations. This procedure will clearly indicate how the project is dealing with agro-chemicals, water and biodiversity management. In case of an external supply of wood for the pulp mill, the company must ask such procedure to its suppliers.

The Group strongly encourages upstream pulp companies to develop alternatives to plantations on peat lands, as peatlands are valuable for the various and crucial ecosystem services they provide. These functions and values include biodiversity maintenance, carbon and water storage, as well as water regulation and quality.

3.2 PULP PRODUCTION PROCESS

3.2.1 Mandatory requirements

The Group requires that pulp producers comply with existing social and environmental laws, at a local or state/provincial level, as well as with international regulations ratified by their operating countries.

Concerning wood supply, pulp producers must verify that their wood sourcing respect the mandatory requirements presented in section 3.1.1 of this policy.

The Group is aware that Absorbable Organic halogens (AOX) may be emitted in the water when the process uses a bleaching step. This particular type of pollution coming from pulp mills has been pointed out by NGOs and health organizations. Over recent years, chlorine and hypochlorite have largely been phased out as primary bleaching chemicals. Indeed, Elementary Chlorine Free (ECF) and Totally Chlorine Free (TCF) processes allow obtaining concentrations of dioxins and furans in the effluents that are under the detections limits. The Group believes that ECF and TCF are so far the best available techniques to manage sustainable bleaching.

As a result the Group requires that pulp producers:

- Will develop new pulp mills using ECF or TCF technology if the bleaching process is necessary;
- Will make the transition of their process towards ECF or TCF technology in case of already existing plants;
- Will present a management plan to monitor and control various water effluents level and air emission indicators listed by the applicable IFC Environmental, Health, and Safety (EHS) Guidelines for Pulp and Paper Mills. As of the publication date of this policy, these parameters are the followings: Flow, pH, TSS, COD, BOD5, AOX, Total N, and Total P[5] ;
- Provide a monitoring plan of the workforce health & safety conditions on a regular basis.

3.2.2 Evaluation criteria

The Group encourages downstream pulp companies to move towards higher standards of sustainability. The Group believes that FSC and PEFC are currently the best available set of criteria for fibre sourcing sustainability in the pulp industry and encourages downstream pulp companies (i.e. pulp producers and traders):

- to obtain the FSC or PEFC Chain of Custody (CoC) certification for their activities. They are also encouraged to set up policies requiring that their suppliers (i) have their own plantations FSC or PEFC certified within a five-year period as well as (ii) encourage the traceability of sources of wood for the pulp industry by securing FSC or PEFC CoC certification for their activities. In any case, downstream pulp companies should present a credible sourcing plan for wood (at the beginning of the project in case of new pulp mills); mentioning if needed an external supply of wood and specifying what is this external source;
- to become an active member of their national FSC or PEFC multi-stakeholders governance systems

[4] ibid

[5] More specifically, such indicators are listed in the Annex B "Effluents and Emissions Guidelines / Resource Use Benchmarks" of the IFC EHS Guidelines on Pulp and Paper Mills.

(or any equivalent forest management initiative that may emerge);

- Concerning water and air emissions, the Group encourages pulp producers:
  - to ensure that emission levels at all their pulp mills are under or equal to the levels presented in the IFC EHS Guidelines for Pulp and Paper Mills (Annex B on "Effluents and Emissions Guidelines"). In the case they are higher than such emission levels to develop efficient action plans to correct these deviations and decrease emissions until they are below the IFC's levels;
  - to present (at the beginning of the project in case of a new pulp mill) a credible energy sourcing plan and the impact of this energy mix on CO_2 emissions.
  - In relation to Environmental & Social Management Systems (ESMS) and Health & Safety Management Systems (HSMS), The Group believes that ISO 14 001 and OHSAS 18 001 are currently the best available sustainability certificates for industrial processes and The Group encourages pulp producers:
  - to set up and implement an EMS dealing with air, water emissions, waste management, soil and groundwater contamination and to develop a plan to have their activities ISO 14 001 (or equivalent EMS certification scheme) certified within a five-years period[6];
  - to set up and implement a HSMS and to develop a plan to have their activities OHSAS 18 001 (or equivalent HSMS certification scheme) certified within a five-years period[7].

4. GROUP-LEVEL IMPLEMENTATION MECHANISMS

The Group is aware that the process of implementing sustainable management standards and practices is challenging for pulp companies and takes time. The Group aims at implementing the policy consistently across financial products & services and asset management.

As necessary, the Group will seek an expert advice to carry out the analysis required. This information will be discussed with pulp companies. The Group will ultimately decide whether or not to provide financial products and services and/or to invest. In case of insufficient or conflicting information, a dedicated committee and if necessary the Group Executive Committee will be consulted.

Operational tools and awareness workshops are rolled out to ensure that Group's staff is able to implement this CSR sector policy.

4.1 FINANCIAL PRODUCTS AND SERVICES

The information related to the above requirements will be obtained from pulp companies by the Group' client relationship managers.

Where appropriate, the undertakings provided by the pulp company in relation to the mandatory requirements set out in section 3.1.1 and 3.2.1 of this policy will be reflected in the loan agreement (or any other applicable agreement) by way of ongoing representations and warranties (or any other form of applicable declaration).

The Group reserves the right to carry out further due diligence as it deems necessary. If the Group becomes aware that the statement or information provided by the client is incorrect or that a client operates outside the requirements of the policy, this will constitute a default under the agreement. If no acceptable solution is found with the client to improve the situation in a timely manner, a dedicated committee or the Group Executive Committee could decide to terminate the business relationship.

[6] For new CIB clients, this five-year period will start at the date of signing of the first commercial contract (whatever its nature) with the Group.
[7] ibid

4.2 ASSET MANAGEMENT AND SERVICES

The Group entities managing third-party assets will progressively implement all the relevant requirements of this policy. A transition is indeed necessary due to the fact that existing and potential investors have to be informed of the existence and implications of this policy.

5. POLICY DISCLOSURE AND FOLLOW-UP

The Group' stakeholders will be informed of the existence and the content of this policy. Such policy will be posted on the Group' website. Furthermore a copy will be systematically provided to our clients and potential clients as part of the due diligence process or upon discussion of any financial services to be provided subsequent to the official release date of this policy.

The Group will review this policy regularly and in the light of the prevailing circumstances it may update it to make sure it is in continued alliance with national and international regulations and best practices.

The Group welcomes any constructive feedback and comments on this policy. They can be channelled through the CSR teams of each Pole.

6. DISCLAIMER

In order to comply with regulations and to implement the principles defined in its internal procedures and sector policies, The Group does its best to gather information, particularly from wood pulp companies, on their sustainability policies and practices. The Group bases itself on the information gathered from wood pulp companies and its partners. However, it is dependent on the quality, accuracy and up-to-datedness of information.

7. SECTOR GLOSSARY

The following definitions apply in this policy:

AOX: Absorbable Organic halogen is a group of halogenated organic substances that are able to absorb onto activated carbon.

ASEAN (Association of Southeast Asian Nations) no burn policy: In response to the land and forest fires that affected the ASEAN region in 1997/98, the ASEAN Environment Ministers agreed to adopt the policy on zero burning at the 6th ASEAN Ministerial Meeting on Haze in April 1999, and to promote its application by plantations in the region. The guidelines for the implementation of this policy have been developed to provide advice to plantation owners, managers, supervisory staff and contractors on the application of the zero burning technique for development of wood plantations[8].

BOD5: Biological Oxygen Demand measures the amount of dissolved oxygen needed by aerobic biological organisms in a body of water to break down organic material.

COD: Chemical Oxygen Demand (COD) measures the amount of organic compounds in water.

ECF: Elementary Chlorine Free (ECF) process for bleaching the pulp. It allows obtaining concentrations of dioxins and furans in the effluents that are under the detections limits.

EMS: Environmental Management System. It can be recognized by an ISO 14 001 certification or equivalent.

[8] http://www.rspo.org/?q=page/864

FSC Principles and Criteria established in 1993 (as reported in the Sustainable Forest Finance Toolkit of the WBCSD) FSC is a system of national and regional standards consistent with 10 principles of SFM that cover the following issues:

1. Compliance with laws and FSC principles
2. Tenure and use rights and responsibilities
3. Indigenous people's rights
4. Community relations and workers' rights
5. Benefits from the forests
6. Environmental impact
7. Management plans
8. Monitoring and assessment
9. Special sites – high conservation value forests (HCVF)
10. Plantations

These principles were developed by a global partnership of stakeholders convened by FSC. The principles apply to all tropical, temperate and boreal forests and are to be considered as a whole. All national and regional standards are derived in-country from the 10 principles. The principles are expected to be used in conjunction with national and international laws and regulations, and in compatibility with international principles and criteria relevant at the national and sub-national level (FSC Policy and Standards; principles and criteria of forest stewardship) (FSC, 1996). There is variation in regional standards and in interim standards adopted by auditing bodies.

High Conservation Value Forests (HCVF): are defined as follows (from the Forest Stewardship Council, reported in the Sustainable Forest Finance Toolkit of the WBCSD[9]):

- Forest areas containing globally, regionally or nationally significant concentrations of biodiversity values (e.g. endemism, endangered species);
- Forest areas containing globally, regionally or nationally significant 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;
- Forest areas that are in or contain rare, threatened or endangered ecosystems;
- Forest areas that provide basic services of nature in critical situations (e.g. watershed protection, erosion control);
- Forest areas fundamental to meeting basic needs of local communities (e.g. subsistence, health);
- Forest areas critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in cooperation with such local communities).

HS: Health and Safety Management System. It can be recognized by an OHSAS 18 001 certification or equivalent.

Local community: broad group of people living in or near a forest or plantation, with significant level of dependence on it. The term includes forest dwellers, indigenous forest-adjacent populations and recent immigrants. (Source: IFC Operational Policy on Forestry).

Peatlands: Wetland in which substantial peat accumulation--at least one foot (30 cm) --has taken place[10]. The peatland substrate is an organic structure built by biological activity.

Peatlands are valuable for the various and crucial ecosystem services they provide. These functions and values

[9] https://www.pwc.co.uk/assets/pdf/forest-finance-toolkit.pdf
[10] Charman, D. 2002. Peatlands and environmental change. J. Wiley & Sons, London & New York, p. 301

include biodiversity maintenance, carbon and water storage, solute detention and water regulation and quality.

Firstly, undrained peatlands are unique natural resources forming distinct ecosystems of great biodiversity importance for the maintenance of genetic, species and habitat levels.

Peatlands are also water catchments. They modify water quality and quantity, act as sinks for some substances, produce others, and influence the temporal pattern of water supply to rivers and lakes. The role of peatlands in water regulation depends on maintaining the integrity of their unique hydrology that is independent of but linked to that of adjacent wetlands and the wider landscape.

Finally, peatlands have been major global carbon stores for millennia. Peatlands also emit CO_2 and CH4, the amounts being influenced by temperature and water level, both of which are likely to be affected by removal of vegetation, drainage and future climate change. Agriculture on drained peatlands leads to substantial emissions of carbon dioxide and nitrous oxide (N2O)[11].

PEFC Principles and Criteria established in 1999 (as reported in the Sustainable Forest Finance Toolkit of the WBCSD).

PEFC is a mutual recognition mechanism for national and regional certification systems. Endorsed certification systems are to be consistent with internationally agreed environmental, social and economic requirements such as the Pan-European Operational Level Guidelines (PEOLG), the African Timber Organization (ATO) and International Tropical Timber Organization's (ITTO) Guidelines, as well as intergovernmental processes on criteria and indicators for SFM. The elements of SFM covered by these requirements may vary to fit the circumstances of the areas for which they were developed. For instance, the Pan-European Operational Level Guidelines cover the following:

1. Maintenance and enhancements of forest resources and their contribution to global carbon cycles
2. Maintenance and enhancement of forest ecosystem health and vitality
3. Maintenance of productive functions of forest
4. Maintenance, conservation and enhancement of biodiversity
5. Maintenance and enhancement of protective functions in forest management
6. Maintenance of socioeconomic functions and conditions

Endorsed certification systems are expected to be consistent with international agreements such as ILO core conventions, as well as conventions relevant to forest management and ratified by the countries such as the Convention on Biological Diversity (CBD), CITES and others. There is variation among member certification standards, with some standards exceeding PEFC requirements (PEFC, 2006A).

pH: In chemistry, pH is a measure of the acidity or basicity of an aqueous solution.

Ramsar sites: "Sites containing representative, rare or unique wetland types" and "Sites of international importance for conserving biological diversity" listed in the Convention on Wetlands adopted in Ramsar, Iran in 1971 (Ramsar convention[12]).

TCF: Totally Chlorine Free (TCF) process for bleaching the pulp replace totally the chlorine by an oxygen bleaching process.

Total N: Total quantity of Nitrogen.

Total P: Total quantity of Phosphor.

[11] Sources: Assessment on Peatlands, Biodiversity and Climate change, UNEP-GEF 2007, Strategy for responsible peatland management, IPS 2010

[12] https://www.ramsar.org/fr

TSS: Total Suspended Solids is a water quality measurement, measuring the non-filterable solids concentration in the water.

UNESCO 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[13].

8. ILLEGAL LOGGING DEFINITION WITHIN THIS POLICY

This policy defines illegal logging as the list of followings acts, based on FAO study "*Defining illegal logging: what it is, and what is being done about it?*":

1. Logging protected species
2. Duplication of felling licenses
3. Girdling or ring-barking, to kill trees so that they can be legally logged
4. Contracting with local entrepreneurs to buy logs from protected areas
5. Logging in protected areas
6. Logging outside concession boundaries 7
7. . Logging in prohibited areas such as steep slopes, riverbanks and water catchments
8. Removing under-/over-sized trees from public forests
9. Extracting more timber than authorized
10. Reporting high volume extracted in forest concessions to mask the fact that part of the volume declared is extracted from non-authorized boundaries
11. Logging without authorization
12. Obtaining logging concessions through bribes.

[13] http://whc.unesco.org/en/list/

About this document

Sectoral policies are an integral part to the BNP Paribas risk management framework, which is critical to its long-term business interests and required by its regulators.

They reflect BNP Paribas' commercial and independent approach to managing, in particular, financial risks and potential impacts related to the activities of clients or investees in sectors that are of heightened sensitivity from an environmental and social perspective.

They also help direct the Group's financing and investment activities towards areas where it can deliver the best service to its clients.

Each client and transaction is assessed on a case-by-case basis in line with BNP Paribas' risk appetite, strategy and commercial interests.

The application of the provisions set out in this policy remains subject to compliance with applicable laws and regulations.