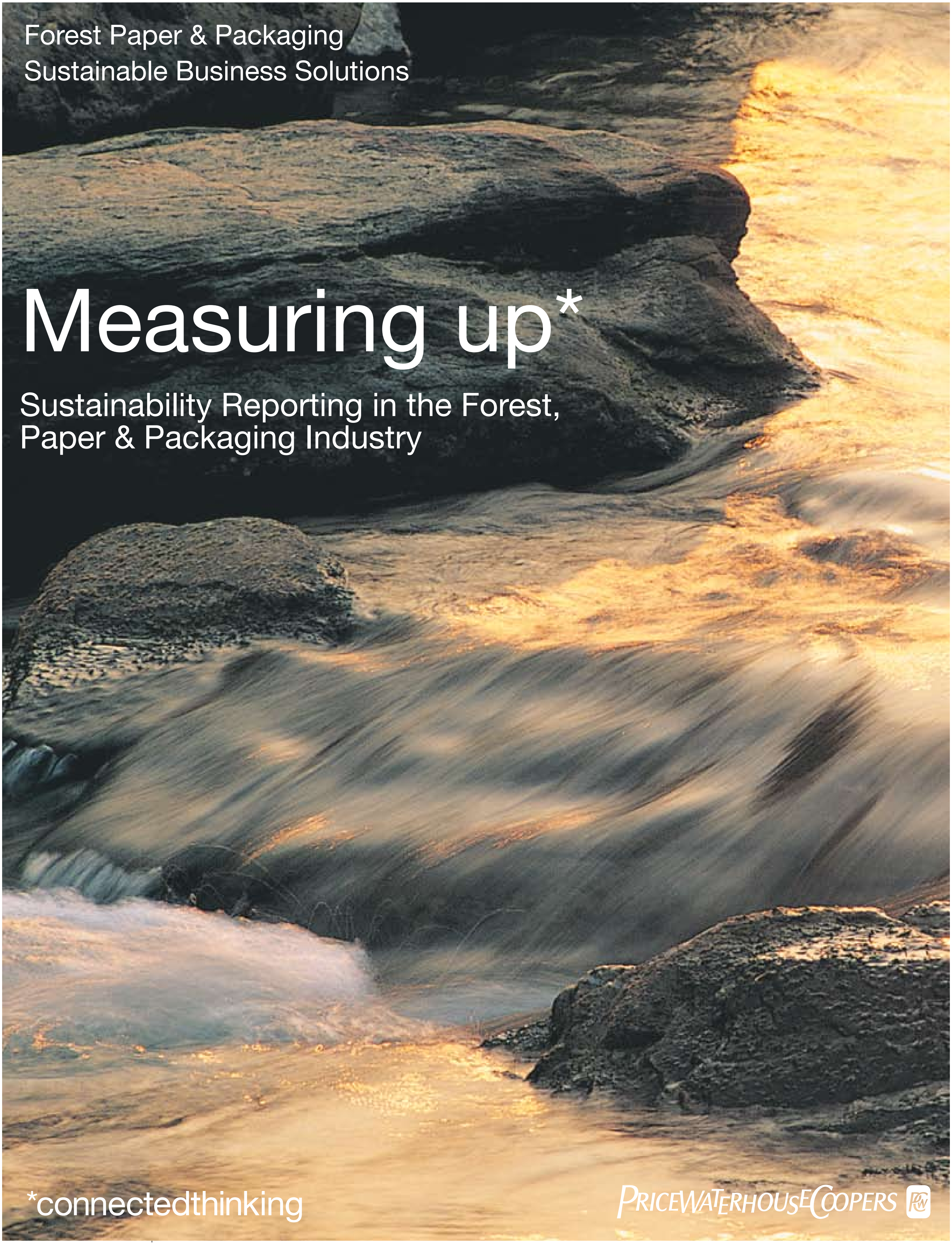
Forest Paper & Packaging
Sustainable Business Solutions



Measuring up*

Sustainability Reporting in the Forest, Paper & Packaging Industry

*connectedthinking

PricewaterhouseCoopers

PricewaterhouseCoopers (PwC) has been providing Sustainable Business Solutions to the forest, paper and packaging industry for over twenty years, during which time the issue of sustainability has gone from the peripheries of the corporate mindset to centre stage. Reporting on environmental, social and economic sustainability performance is a relatively new phenomenon that has attracted significant attention in recent years. For an industry like forest, paper and packaging that has often been the focus of negative media attention and public scrutiny for its environmental performance, sustainability reporting would seem to offer an ideal opportunity to improve transparency and demonstrate the industry's commitment to the broader suite of sustainability issues – but has this happened? PwC undertook a high-level review of the sustainability reporting practices of the PwC Top 100 to assess the current status.

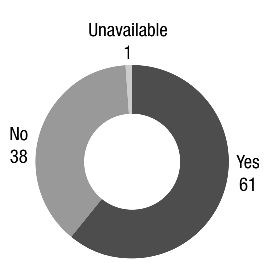
Findings

Of the PwC Top 100, 61 companies have produced some kind of sustainability report.

Scope of Reporting Detail

Most forest, paper and packaging sustainability reports are published annually. 79% of companies provide corporate-level detail on their sustainability activities, where only 39% provide site-level detail, 25% provide geographic detail, and 21% provide division or business unit detail. While company-level information is an important indicator of overall performance, a further breakdown, whether by geography, division, or site, adds value to the sustainability report by allowing the reader to ascertain the relative performance of the different components of the company.

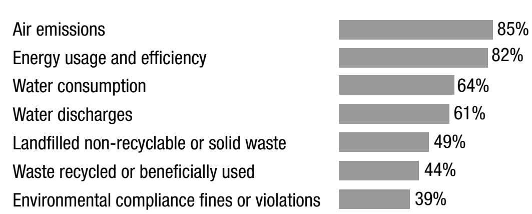
Figure 1: Number of Companies Publishing Sustainability Reports in the PwC Top 100



Reporting on Environmental Sustainability Indicators

Environmental sustainability indicators examine company impacts on the natural environment as well as describing environmentally friendly operational practices. Environmental indicators were more likely to be reported than either social or economic indicators, with air emissions and energy consumption as the most commonly reported metrics, provided by 85% and 82% of reporters respectively. Water consumption and discharges to water were the next most likely environmental indicators to be provided by companies, with 64% and 61% respectively offering this information. The least likely environmental metrics to be reported related to non-recyclable or landfilled waste (49%), recycled or beneficially reused waste (44%), and compliance with environmental regulations or related fines (39%). These results may reflect where companies have focused their environmental improvement efforts to date.

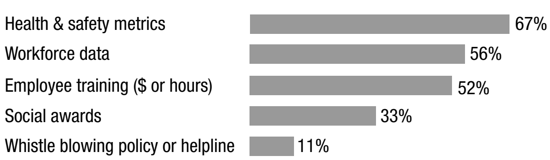
Figure 2: Percentage of Reporters Providing Environmental Sustainability Data



Reporting on Social Sustainability Indicators

Social sustainability indicators examine the conduct of companies relative to their employees and other stakeholders. The most frequently cited social indicator was health and safety metrics, with over two-thirds (67%) providing information in this area. Workforce characteristics such as gender and diversity were the next most frequently reported (56%), followed by employee training (52%). Thirty-three percent of companies indicated they received awards related to their social initiatives. Only 11% of companies indicated that whistleblower policies or programs were in place. In many organizations, environmental and health and safety functions were combined, which may explain the predominance of reporters of health and safety metrics relative to other social indicator

Figure 3: Social Sustainability



Reporting on Economic Sustainability Indicators

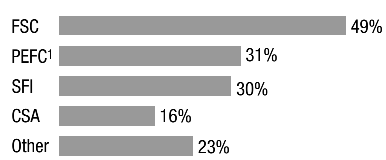
Economic sustainability indicators examine the financial impact of companies on their communities and operations. Forest, paper and packaging companies are less likely to report on economic than environmental or social sustainability indicators in their reports, suggesting some reluctance to provide detailed economic sustainability information related to their operations beyond regulatory requirements. Although 77% of companies reported their number of employees, only 44% provided information related to payroll or salaries. Forty-four percent of companies reported the amount of taxes paid. Forty-one percent reported their annual charitable giving while 39% of companies reported their sustainability-related capital expenditures.

Figure 4: Economic Sustainability

Reporting on Forestry Certification

Over half of reporters indicate the percentage of their lands that are certified to a sustainable forest management (SFM) standard or the percentage of certified fiber procured. Forty-nine percent of companies have achieved certification of one or more operations to the Forest Stewardship Council (FSC) certification standard, 31% are certified to the PEFC (Program for the Endorsement of Forest Certification schemes) standard[1], 30% are certified to the Sustainable Forestry Initiative (SFI) standard, 16% to the CSA (Canadian Standards Association) standard, and 23% are certified to other certification schemes. Forty-six percent of reports indicate that companies have chain of custody certification in place in at least some of their operations. Seventy-seven percent of reporters indicate that environmental management systems are in place in at least some of their operations. These results reflect the industry's focus on achieving environmental and SFM certification over the past decade.

Figure 5: Achieved Forest Management Certification



1. Excluding SFI and CSA, which were recognized by PEFC in 2005, making the PEFC standard the most widely adopted forest certification standard in the world.

External Assurance

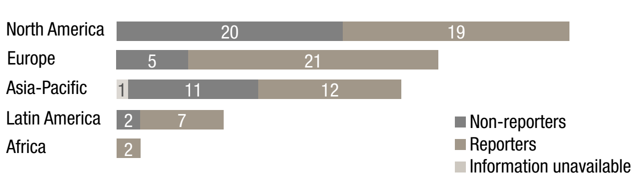
Our analysis reveals a growing acceptance of external reporting standards and independent third party assurance as a means of external validation to improve the credibility of sustainability reports. While a minority of the 61 sustainability reporters (18%) have received independent third-party assurance of their reports, nearly half (44%) have developed their performance metrics to align with the Global Reporting Initiative (GRI) reporting standard to varying degrees.

Sustainability Indexes

A number of investment indexes have developed sustainability sub-indexes to help identify corporate leaders in sustainability performance. Inclusion within such an index is considered a prestigious accolade. While most of our analysis focused on what and how sustainability issues were being reported, we also looked at the presence of forest, paper and packaging sustainability reporters within two sustainability indexes, the Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index. The findings indicate that relatively few companies – 17 out of the 61 reporters – are members of either set of indexes: 13% are part of the Dow Jones Sustainability Index and 15% are part of the FTSE4Good Index.[2]

Figure 6: External Assurance and Reporting Standards Utilized by Sustainability Reporters

Figure 7: PwC Top 100 Sustainability Reporters versus Non-reporters by Region



2. However, it should be noted that the number of companies for a particular sector are limited for the indexes (e.g. the DJSI captures the top 10% of performers based on the biggest 2,500 companies worldwide and limits each economic sector to 20%. Forestry and paper is part of the basic materials economic sector.

Results by Region

EU-based companies followed by North American companies represent the two largest regional groups of sustainability reporters.

Certain regional reporting trends are evident and are discussed below.

North America

North America represents the largest regional grouping within the Top 100 (39 companies) and is the second largest grouping of sustainability reporters (19 companies). However, North American companies produced relatively fewer sustainability reports than EU-based companies.

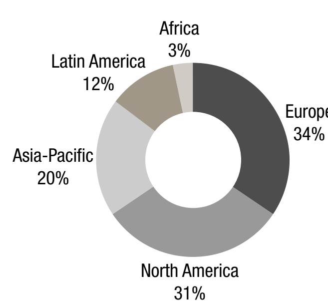
North American sustainability reports had the lowest frequency of utilizing external validation either in the form of third-party independent assurance (0%) or use of the GRI standard (33%).

Over three-quarters (78%) of North American reporters provided data related to their health and safety performance, and two-thirds (67%) provided data related to their environmental regulatory compliance. This group provided the least information related to workforce makeup (30%).

Europe

Over three-quarters (80%) of EU-based companies in the PwC Top 100 produced sustainability reports. These results are not surprising in light of mandatory environmental reporting legislation in several European countries such as Norway, Sweden, the Netherlands and France. EU-based companies were more likely than other regional groupings to obtain third-party assurance of their sustainability reports, although they had the lowest frequency of presenting information related to environmental regulatory compliance.

Figure 8: Regional Breakdown of Sustainability Reporters



Asia-Pacific

Asia-Pacific companies were the most frequent reporters of having a whistle blowing policy (18%). Reporters from this region were also strong users of the GRI standard, yet they had the lowest frequency of reporting on social or economic sustainability metrics compared to other regional groupings.

Latin America

Latin America represents a strong region for sustainability reporting, both in terms of numbers of reports and metrics included in those reports. Latin American companies had the highest frequency of the regional groupings of utilizing external validation, with 43% using an independent third-party assurance provider and 57% publishing a GRI-based report. 100% of companies from this region reported their operational air emissions, while 86% reported water consumption statistics. Latin American companies also reported on economic sustainability metrics, with 86% reporting both their charitable giving and payroll information and social sustainability metrics, with 71% providing both workforce and health & safety information.

Relationship between Ranking within PwC 100 and Reporting

Companies that ranked higher on the PwC Top 100 list were more likely to produce a sustainability report. As the rankings descend, companies were less likely to produce a sustainability report.

There are several possible explanations for this result:

- Companies with strong financial performance may pay greater attention to overall strategy, including environmental and communication strategy, or may have a more comprehensive risk management strategy.
- Larger companies or those with strong financial performance may simply have more funds and staff resources to deal with sustainability and CSR issues.

Financial ranking does not, however, necessarily impact the scope or quality of the reporting. For example, of the 61 reporters within the Top 100, 18% have obtained third-party assurance, compared with 23% of reporters within the Top 25 and 25% of reporters ranked 76 to 100.

Large and small companies had a similar frequency of reporting certain metrics such as environmental data, but not in others, such as social data.

Figure 9: Sustainability Reporters, by Position on Survey

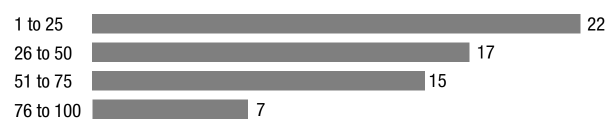


Figure 10: External Reporting and Assurance
Largest versus smallest reporters in PwC Top 100

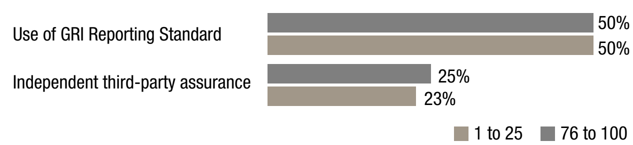


Figure 11: Environmental Sustainability Metrics
Largest versus smallest reporters in PwC Top 100

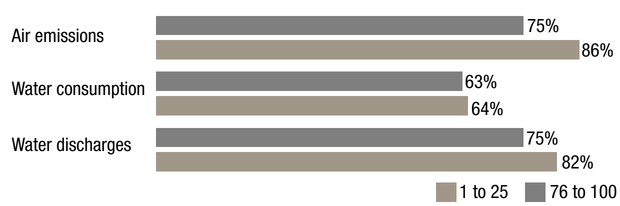
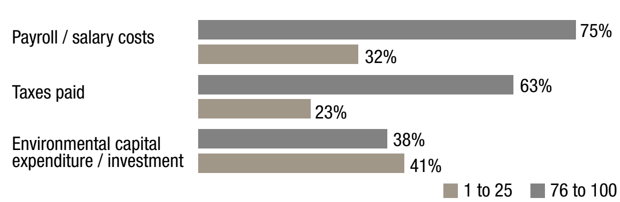


Figure 12: Social Sustainability Metrics
Largest versus smallest reporters in PwC Top 100



Conclusions

With nearly two-thirds of companies in the PwC Top 100 producing a sustainability report, the majority of forest, paper and packaging companies are now reporting on their sustainability performance to varying degrees. This is a positive reflection on the industry's willingness to disclose information regarding its performance, a change for an industry that has historically found itself on the defensive regarding its environmental track record and which has often been wary of publicizing information relating to operations. Since most Top 100 companies are headquartered in jurisdictions that do not require the publication of environmental information, the high number of companies reporting suggests that companies find value in reporting on their environmental performance and other aspects of sustainability.

Of course, quantity and quality are two very different things. The value of the sustainability report as a communication tool is dependant upon a number of factors such as external validation; appropriate metrics; and a meaningful level of detail. While the companies in the Top 100 have come a long way, companies tend to report data at the consolidated corporate level for selective rather than a full range of metrics, and a minority obtain third-party assurance on the data presented. An opportunity therefore exists for companies to more fully demonstrate their sustainability achievements, particularly North American companies who were not only less likely to publish a report than companies in other regions, but are also not as strong in reporting certain indicators.

Adoption of a consistent external reporting standard such as the GRI could help to address many weaknesses currently seen in reporting. In almost every case, the most comprehensive and meaningful reports assessed during this research were developed with reference to the GRI guidelines.

While the numbers of reports published indicate that the forest, paper and packaging industry is becoming more transparent regarding the sustainability of its operations, there is still room to improve the content and credibility of those reports. 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.

Methodology

An internet search was conducted to locate publicly available sustainability reporting documents and other information published by the companies and made available on their respective Web sites. For the purposes of this research, the definition of what constitutes a sustainability report includes several different forms of reporting: a separate environmental or CSR reporting document; environmental or CSR reporting included within the company annual report; and web-based environmental or CSR reports. Report titles that were examined included CSR reports, Sustainability Reports, Environmental Reports, Environment, Health and Safety Reports, Annual Reports, or reports by any other title that included discussion and/or quantitative analysis of the company's environmental or sustainability performance and initiatives.

The most recent report available for each company was examined where data for the years 2004 through 2006 was presented. Where the last published sustainability report provided data for 2003 or prior, the report was excluded from analysis.

Some companies classified as non-reporters may in fact have produced environmental or sustainability reports that were distributed internally or among stakeholder groups, but these reports were not readily available via the company Web site or other public databases.

To assess the quality of sustainability reporting, a template of reporting metrics was developed against which each company's report was evaluated to assess the scope and depth of reporting. Specific metrics in the following categories were assessed:

- External validation of reporting
- Coverage of data
- Environmental sustainability indicators
- Social sustainability indicators
- Economic sustainability indicators
- Forest management certification programs
- Inclusion in external sustainability indexes (FTSE4Good, DJSI)

Rankings or gradings were not prepared for individual company reports – a company report either provided or did not provide data related to the established criteria for at least some of its operations.

For the purposes of this analysis, the Asia-Pacific region includes Australia and New Zealand, Europe includes Russia, North America includes Canada and the US, and Latin America includes Chile, Brazil and Mexico.

PricewaterhouseCoopers helps clients develop and implement a range of strategic programs to manage business conduct, risks to reputation and corporate responsibility.

Our comprehensive CSR services include:

- CSR strategy
- Program development and improvement
- Stakeholder engagement
- Performance metrics
- CSR reporting and assurance

PricewaterhouseCoopers has developed a systematic approach to help companies implement and improve their CSR programs.

Our performance improvement methodology provides clients with a framework to help them identify and select those change and improvement initiatives that deliver the most CSR and organization gain. It is also designed to optimize the benefits from CSR projects by ensuring that processes used to realize benefits are an integral part of the organization's activities.

PwC's objective is to improve your organization's performance by helping you define, realize, measure, and sustain benefits of CSR.

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