

ANZ Social and Environmental Management Policy and Guideline for Forests

ANZ Forests Policy

1. Background

ANZ is committed to the implementation of 'Social and Environmental Management Policies and Guidelines' (Policies) to inform its business decision-making for sectors and issues associated with significant environmental and social impacts. This will enhance consistency across the different legal and regulatory jurisdictions in which ANZ operates. These Policies relate directly to ANZ's Environment Charter intent and commitments and are integral to achieving ANZ's responsible financing objectives. They also support ANZ's internal Wholesale Credit policies which define the customer and transaction review and approvals process.

ANZ has adopted a principles-based approach to support the continuous improvement of our customers' social and environmental performance as a key business consideration across relevant sectors, products and geographies. These Policies will define key aspects and standards for each sector and issue to clarify the basis for ANZ's decision making processes, performance expectations and customer engagement to explore business opportunities.

Necessarily, the overall policy approach recognises two different circumstances. The first is where ANZ is financing new business activities or major expansions of existing operations. In these cases, ANZ will apply the Policies as a condition of its involvement. The second area is where ANZ is financing existing business activities. In these cases, ANZ will apply the Policies to support customers' continuous improvement in their social and environmental performance. While legislative and regulatory requirements will be the starting point, ANZ will engage customers on industry good management practices and new business models.

However, ANZ will deny or withdrawal financial support where customers are unwilling to engage on the basis of these Policies and unable to commit to the necessary continuous improvement objectives or demonstrate reasonable progress against agreed time-bound actions. Given the potential impact a decision to withdraw ANZ financial support could have on a business's adjacent communities, employees and government revenues, ANZ would consult with relevant government agencies and other directly-affected third parties before reaching a final decision, with the intention of mitigating consequences as far as possible.

2. Context

ANZ's first Policy focuses on forests as they represent a major social and economic resource in many countries where ANZ operates and are recognised as a source of livelihood for dependent communities as well as for their natural resource values. ANZ acknowledges the importance of diverse and well managed forest ecosystems and is committed to supporting their sustainable use and management for long term benefit.

Both native and plantation forests are considered important resources which support economic development and communities at many levels. Forestry is an important economic sector in itself as are other economic sectors operating in forest regions; such as, mining, agriculture, oil & gas, timber products, pulp and paper, non-timber forest products, recreation and tourism. Forests also provide essential ecosystem services including, erosion and flood mitigation, carbon sequestration, nutrient recycling, biodiversity, unique habitats, freshwater (purification) and clean air. These ecosystem services have significant economic and societal value, while impairment can result in substantial costs. The role of forests' carbon profile and carbon cycle in climate change mitigation is now increasingly recognised.

ANZ has significant business relationships with companies involved in forest activities and industrial processes carried out in or adjacent to forests as well as downstream processing. ANZ recognises the impacts of these activities as well as their socio-economic value and is committed to supporting businesses that embrace environmental sustainability in their efforts

ANZ Forests Policy

to meet their customer demands for responsibly sourced products, while at the same time minimising financial risks. There is a growing requirement from users of forest products for greater assurance that forest-related products are sourced from well managed operations. Forest management certification has emerged as a widely accepted assurance process to confirm operating practices are consistent with a recognised forest management standard.

Credible certification can also provide assurance to financiers, as well as others in the supply chain, that forest management meets internationally recognised standards and frameworks, thereby minimising exposure risks. ANZ acknowledges external concerns regarding the social and environmental impacts on forests in various countries in which ANZ operates, and in particular the Asia Pacific region. Through this policy, ANZ seeks to support customers committed to continuous improvement in their performance and willing to engage external groups in understanding and contributing to effective natural resource management.

The forests policy has been approved following external consultation on an initial draft and follow-up engagement with a number of external groups to ensure the development of an effective and practical policy. Therefore, this policy includes the standards ANZ will apply in customer assessment, engagement and decision-making along with guidance in terms of how these will be interpreted and implemented by ANZ. The policy aims to improve clarity and certainty for all stakeholders in the future regarding ANZ's approach to business activities involving forests, but it is recognised as an initial version that will require periodic revision.

3. Objectives

The objective of the policy is to ensure ANZ's products and services support successful business models in forests¹ and/or which potentially impact on forest biodiversity², and to improve clarity and certainty for stakeholders in terms of our business decision-making.

The policy defines ANZ's approach to strengthening our decision-making processes by;

- 1) identifying a set of standards to guide and inform our due diligence processes,
- 2) outlining how these standards will be interpreted/implemented across ANZ; and,
- 3) providing a basis to engage customers on new business opportunities/models.

4. Definition and Scope

- a. This policy applies to all ANZ financial products and services involving material and direct exposures to businesses carried out by ANZ customers that involve significant activities in forest environments and/or associated communities.
- b. To ensure effective application of this policy, its scope has been defined as follows according to business activity, customer details and ANZ products and services.

Business Activity	Customer Details	ANZ Products & Services
<p>ANZ products/services known to be used by customers to support business activities in <u>logging and primary processing industries</u>.</p> <p>Includes the following sectors (ANZSIC³): forestry; log sawmilling; logging; wood chipping; pulp, paper & paperboard manufacturing; timber re-sawing & dressing.</p>	<p>Customers in all jurisdictions where logging and primary processing activities constitute a material business line of the corporate entity.</p> <p>Includes holding companies, subsidiaries, and joint ventures where ANZ's customer is a controlling shareholder and/or the operating entity.</p>	<p>ANZ banking products and services, including:</p> <ul style="list-style-type: none"> • lending and financing • capital raising • equity investments • corporate advisory, and • capital markets

ANZ Forests Policy

<p>ANZ product/services known to be used by customers for business activities that have 'significant adverse impact'⁽¹⁾ on forests.</p> <p>Include activities such as construction of dams, roads, pipelines, railways along with mining, oil & gas, agriculture and industrial or urban development.</p> <p>⁽¹⁾ Those projects would be classified as Category A under the Equator Principles (projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented).</p>	<p>Customers in all jurisdictions where there is a direct connection between ANZ and the customer's business activity impacting forests.</p> <p>Includes holding companies, subsidiaries, and joint ventures where ANZ's customer is a controlling shareholder and/or the operating entity.</p>	<p>ANZ banking products and services, including:</p> <ul style="list-style-type: none"> • lending and financing • capital raising • equity investments • corporate advisory, and • capital markets
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- c. This policy should be read and applied in conjunction with other ANZ complementary social and environmental management policies and guidelines.

5. Standards

ANZ commits to the following standards of practice:

- a. Natural resource management – ANZ will evaluate customer business practices and specific management activities in forests by taking into account relevant and meaningful natural resource management principles and industry frameworks of good practice in its due diligence processes. ANZ expects customers to recognise such broader principles and frameworks with a view to defining their consequence at an operating level and implications for an ongoing successful business model.
- b. Legality and compliance – ANZ requires all customers and their business activities to be legal and to comply with all of their necessary approvals and permits as a condition of financing. ANZ will not knowingly finance illegal logging and supports major international efforts to improve the chain of custody and transparency in the trade of forest products. While this policy does not extend to downstream users of forest products, ANZ includes supply chain considerations in its credit approvals.
- c. Areas to be avoided – ANZ will not knowingly support customer activities which impact on the following areas and circumstances; World Heritage Areas⁴, designated national parks and conservation areas⁵, activities that threaten species listed in CITES⁶ or relevant national legislation, activities that result in the broad-scale conversion of intact native forests and High Conservation Value Areas⁷, or activities which are in breach of agreed international treaties and agreements.
- d. Degradation and conversion – While avoiding activities that significantly degrade or convert intact native forests and high conservation value areas, ANZ acknowledges the rights of Governments and communities to pursue socio-economic outcomes. Therefore, ANZ may support such activities if the socio-economic benefits can be demonstrated based on a comprehensive integrated assessment of cost-benefit and/or the customer willingly commits to meet internationally recognised industry or third-party standards of best practice.
- e. Integrated impact assessment – In all cases, ANZ will require an environmental and social impact assessment to be undertaken and to inform the operational environmental and social management requirements. For large scale projects,

ANZ Forests Policy

ANZ expects an integrated impact assessment to address the economic, social and environmental aspects of the proposal and for the conclusions and implications of such an assessment to be included in the bankable feasibility study and a customer's operational management plans and performance management system.

- f. Issues management – ANZ acknowledges the complexity of managing social issues and changing external expectations at both an operating and corporate level. ANZ commits to a balanced approach where both the positive and negative social aspects of a customer's activity are fully understood and addressed on an ongoing basis. ANZ considers it good practice for these social aspects to be integrated in the feasibility assessment and impact mitigation plans including the broader socio-economic considerations through effective consultation with local communities.
- g. Prevention and mitigation – ANZ supports the principle of pollution prevention throughout the design, construction, operation and decommissioning phases of a business activity. ANZ therefore requires all projects to incorporate best available pollution prevention and control technologies that are technically and financially feasible and cost effective. Where avoidance is not possible, the resulting adverse impacts should be mitigated and performance improvement plans implemented.
- h. Performance management – ANZ expects customers to actively manage their social and environmental performance on an ongoing basis and to monitor and report their performance internally against compliance criteria and operational targets. Implementation of a social and environmental management system is considered good practice and will be required for all large scale business activities. Where a customer identifies specific mitigation measures are required to meet approval requirements, ANZ will require the customer to develop an action or implementation plan with reporting of annual conformance and by exception.

6. Implementation Guidelines

The following implementation guidelines define the key elements of ANZ's approach:

- a. Due Diligence – For any major business activities or projects proposed by a customer, independent technical specialists will be utilised to assess the current and/or proposed practices relative to the standards outlined above. This will provide the basis for subsequent customer engagement and agreement of management considerations or mitigation plans and the timeframes in which to demonstrate performance improvement or the achievement of specific outcomes.
- b. Policy Deviations – If ANZ becomes aware that a customer is operating outside the requirements of this policy, ANZ will engage the customer and relevant third-parties including appropriate authorities to clarify and resolve the situation to ANZ's satisfaction. In a situation where a customer is operating outside the requirements of this policy and unable to demonstrate reasonable progress against agreed actions and milestones, ANZ will discontinue the business relationship.
- c. Policy Triggers – Application of the policy will be triggered by new credit approvals and major annual reviews or customer credit reviews. ANZ will initiate a review of a customer's business activities against the policy requirements in response to a formal inquiry from a legitimate external party but only when an internally triggered review has not been undertaken within the last 12 months. All such reviews would be undertaken in full consultation with the customer and ANZ would communicate the outcome of its review but not release the detailed findings.
- d. Forest Management Certification - ANZ will engage customers involved in large-scale forestry activities to advocate credible sustainable forest management (SFM) certification. However, we acknowledge that this is ultimately a commercial decision for each customer based on their particular business circumstances at the time. Irrespective of the internationally recognised certification scheme adopted

ANZ Forests Policy

by a customer, 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 external groups and individuals who raise legitimate issues and taking all the reasonable steps to resolve outstanding disputes.
- e. Project Finance – Where a customer seeks project (non-recourse) finance for a particular business activity, ANZ will apply the Equator Principles⁸ in its decision-making processes consistent with the requirements of this policy. ANZ will commit to undertake a streamlined and efficient approach to achieve the requirements of each, in most cases by including the relevant aspects in the mandate of the bank's independent technical consultant. ANZ will also collaborate with other lenders in this process, on a case by case basis.
- f. Independent Assurance - For large scale forest-based business activities, ANZ will seek independent assurance that it meets the expectations of this policy or to provide advice on the acceptability of any specific exceptions. For customers whose activities are certified to an internationally recognised framework and standards (as defined in (e) above), ANZ would simply require a statement from the independent verifier to that effect. For other activities, ANZ would agree with the customer the requirements and terms of reference for an independent specialist to provide such assurance.

7. Transition Arrangements

ANZ acknowledges that some ANZ customers and their business activities may not necessarily meet all of the requirements outlined in this policy and therefore ANZ will work with these customers over an agreed period to enable a demonstration of continuous improvement in keeping with the standards outlined above.

More specifically, the following transition arrangements will be implemented:

- In respect of all new business activities (existing and new customers), as from 1 January 2008, ANZ will support customer activities where ANZ is confident the policy's requirements are achieved and/or the customer is willing to collaborate with ANZ in the achievement of this policy's intent and standards.
- In respect of existing business activities (initiated prior to 1 January 2008 by existing or new customers), ANZ will engage customers on a case by case basis and require a time-bound implementation plan to be agreed within 6 months (no later than 31 August 2008) for the progressive achievement of this policy's standards.
- In respect of existing and new customers carrying out forestry-related businesses who are not in direct control of the activity (e.g. contractors), ANZ will engage the customer to ensure they are aware of the policy intent and to obtain assurance that there are no current major exceptions or regulatory non-compliance issues.
- In respect of new and existing customers carrying out non-forestry activities that significantly impact forests, ANZ will engage with the intent of demonstrating progressive achievement of the relevant standards and requirements in this policy through an agreed time-bound action plan developed within 9 months (no later than 30 November 2008).

8. External Engagement

ANZ encourages external engagement as a means for customers to assess and develop more transparent approaches to managing their business activities and associated social and environmental issues.

Similarly, ANZ will engage relevant external parties to achieve the following:

- Seek broad perspectives on the social and environmental issues related to specific industry or sector activities and advice in relation to implementation of this policy;
- Increase ANZ's understanding of developments relating to sustainable forest management practices and their certification to international standards;
- Enhance knowledge based on professional and scientific advances in forest valuation and new business models associated with the commercialisation of forest values; and,
- Obtain feedback on the implementation of ANZ forests policy and input to the revision of the policy and guideline in due course.

9. Policy Revision

ANZ will review and update this policy and guideline no later than 1 March 2010.

Notes & Glossary

¹ **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 2 metres and with existing or potential crown cover of overstorey strata about equal to or greater than 20 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 National Forest Inventory <http://www.daff.gov.au/brs/forest-veg/nfi/forest-info/what-is>).

² **Biological Diversity (also known as Biodiversity)** – A concept encompassing the diversity of indigenous species and communities occurring in a given region. It includes "genetic diversity", which reflects diversity within each species; "species diversity", which is the variety of species; and "ecosystem diversity", which is the diversity of different communities formed by living organisms and the relations between them (as defined in the Australian National Forestry Policy Statement <http://www.daff.gov.au/rfa/glossary>).

³ **ANZSIC** - The Australian and New Zealand Standard Industrial Classification (ANZSIC) is a system that identifies groupings of businesses which carry out similar economic activities. The structure comprises categories at four levels: Divisions (at the highest level), Subdivisions, Groups and Classes (the lowest level). Individual businesses are assigned an appropriate industry category on the basis of their predominant activities.

To be separately classified, individual ANZSIC classes must be economically significant, with a significance limit set at a minimum of \$200m turnover for Australia or \$40m for New Zealand, or employment of 3,500 for Australia or 700 people for New Zealand. Refer Attachment 1 below for list of relevant ANZSIC "logging and primary processing industries" Codes covered by this policy.

ANZSIC was developed in 1993 by the Australian Bureau of Statistics and the New Zealand Department of Statistics (<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyTopic/A77D93484DC49D63CA25712300056842?OpenDocument>).

⁴ **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/>).

⁵ **Designated conservation areas** – areas set aside under national or state legislation to achieve various levels of conservation of biodiversity, natural and cultural values.

⁶ **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).

⁷ **High Conservation Values** – In summary, a High Conservation Value area is the area of natural habitat required to maintain or enhance a High Conservation Value. A HCV area may be part of a larger habitat, for example a riparian zone protecting a stream that is the sole supply of drinking water to a community or a patch of a rare limestone-loving forest within a larger forest area. Elsewhere, the HCV area may be the whole of a habitat, for example a large forest management unit, when that forest contains several threatened or endangered species that range throughout the forest. Any habitat type – boreal, temperate or tropical, natural or modified by humans, can potentially be designated an HCV area, because HCV designation relies solely on the presence of High Conservation Values within the habitat (extract from the High Conservation Values Network definition - www.hcvnetwork.org).

ANZ Forests Policy

⁸ **Equator Principles** – The Equator Principles are a set of 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 primarily 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 nearly 100 financial institutions adopting EP to date (<http://www.equator-principles.com/principles.shtml>).

Attachment 1

ANZSIC “logging and primary processing industries” covered by this policy:

Subdivision	Group	Class
03 Forestry & Logging	030 Forestry And Logging	0301 FORESTRY
		0302 LOGGING
		0303 SERVICES TO FORESTRY
23 Wood & Paper Product Manufacturing	231 Log Sawmilling And Timber Dressing	2311 LOG SAWMILLING
		2312 WOOD CHIPPING
		2313 TIMBER RESAWING & DRESSING
	232 Other Wood Product Manufacturing	2321 PLYWOOD & VENEER MANUFACTURING
		2322 FABRICATED WOOD MANUFACTURING
	233 Paper And Paper Product Manufacturing	2331 PULP, PAPER & PAPERBOARD MANUFACTURING
		2332 SOLID PAPERBOARD CONTAINER MANUFACTURING