

## **The Bank's intervention principles in sectors at risk of deforestation and ecosystem conversion**

**Sustainability Department**



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## 1 Context

Forests and other natural ecosystems such as grasslands, wetlands, peatlands, mangroves and savannahs play an important role in capturing CO<sub>2</sub>, which is essential to meeting the 1.5°C target set by the Paris Agreement as well as protecting biodiversity. However, their destruction continues to increase, linked in particular to the production and trade of agricultural commodities (palm oil, soybeans, beef and its by-products, timber and its derived products, cocoa, coffee, rubber, etc.).

In addition to climate and environmental effects, large-scale deforestation can lead to human rights violations with devastating effects on indigenous peoples and local communities.

Local communities and indigenous populations play a fundamental role in protecting forests and achieving climate and biodiversity targets. Community resistance to land grabs and deforestation can lead to acts of violence against them, including forced evictions, threats, arbitrary arrests, physical attacks and even killings of community leaders and human rights and environmental defenders. These actions contravene, among other things, the right to self-determination (including free, prior and informed consent - FPIC), the right to life and physical integrity, the right to an adequate standard of living (access to land and subsistence resources), and civil and political liberties (right to freedom, justice and freedom of expression)<sup>1</sup>.

**There is an urgent need to protect ecosystems and communities by effectively involving all stakeholders who directly or indirectly contribute to this deforestation. Among these stakeholders, La Banque Postale has a major role to play as a financial institution.**

### 1.1 What is deforestation and ecosystem conversion?

To make these principles easier to understand, here is the definition of deforestation and conversion by the Accountability Framework<sup>2</sup>:

#### 1.1.1 Deforestation

The loss of natural forest as a result of:

- Conversion to agriculture or other non-forest land use;
- Conversion to a tree plantation;
- Or severe or sustained degradation.

Severe degradation (severe and sustained degradation in the definition) constitutes deforestation even if the land is not subsequently used for non-forest land use.

Loss of natural forest that meets this definition is considered deforestation regardless of whether it is legal.

The Accountability Framework's definition of deforestation means "gross deforestation" of natural forests where "gross" is used in the sense of the "total; aggregate; without deduction for reforestation or other offset".

#### 1.1.2 Conversion

A change from a natural ecosystem to another land use or a profound change in a natural ecosystem's species composition, structure or function.

Deforestation is one form of conversion (conversion of natural forests).

This includes severe degradation or the introduction of management practices that result in a substantial and sustained change in the ecosystem's species composition, structure or function.

<sup>1</sup> WWF.

<sup>2</sup> [Deforestation & Conversion - Accountability Framework \(accountability-framework.org\)](http://accountability-framework.org).

Change to natural ecosystems that meets this definition is considered to be conversion regardless of whether or not it is legal.

## 1.2 Why fight against imported deforestation?

**Deforestation is one of the biggest causes of biodiversity loss.** Forests are valuable reservoirs of biodiversity. They are home to more than 80% of biodiversity on land<sup>3</sup> and 75% of bird species<sup>4</sup> find refuge there. Tropical forests, the most threatened by deforestation, are home to nearly half of living animal and plant species, while they cover only 6% of the Earth's surface. In addition, forests play an essential role in the functioning of ecosystems (ecological corridors, regulation of biogeochemical cycles, etc.). Deforestation disrupts the ecological balance, which aggravates the loss of biodiversity.

**Deforestation contributes to climate change.** While forests store carbon through photosynthesis, they release it again when they are burned or cleared. It is estimated that around 12% of greenhouse gas emissions worldwide are due to deforestation<sup>5</sup>, which will lead to the loss of ecosystem services necessary for climate change adaptation. This will cause an increase in the frequency of extreme weather events (floods, droughts etc.) linked to climate change.

**Deforestation also carries significant risks for our economy.** Forests enable the production of many ecosystem services such as water regulation, the supply of human food and the supply of raw materials. More than 1.6 billion people depend on these ecosystem services globally, and the OECD estimates their value at more than one and a half times global GDP or \$140 trillion<sup>6</sup>.

## 1.3 Causes of deforestation

**Unsurprisingly, the main causes of deforestation are directly related to human activity.** Among them is **agriculture**, the leading cause of deforestation in the world, as agricultural production and livestock account for 90% of global deforestation<sup>7</sup>. According to the Food and Agriculture Organization of the United Nations (FAO), the other main drivers of deforestation linked to human activity are **infrastructure development** and the **expansion of urban areas** (6%) as well as the construction of dams and changes to watercourses (2%). The remaining 4% of forests have been lost due to severe degradation affecting their ability to naturally regenerate themselves.

There are also natural causes of deforestation, although they play a much smaller role than human activity. They include forest fires, volcano eruptions, landslides, floods, diseases and pests. Although these disasters are natural, their frequency and intensity are accentuated by climate change. They also contribute to climate breakdown, which creates feedback loops.

<sup>3</sup> Aerts, R., Honnay, O. (2011). Forest restoration, biodiversity and ecosystem functioning. *BMC Ecol* 11, 29. <https://doi.org/10.1186/1472-6785-11-29>

<sup>4</sup> IUCN. (2009). *Wildlife in a changing world. The IUCN Red List of Threatened Species*.

<sup>5</sup> IPCC. (2013). *"Climate Change 2013: The Physical Science Basis, Contribution of Working Group I to the IPCC 5th Assessment Report"*.

<sup>6</sup> OECD. (2019). *Biodiversity: Finance and the Economic and Business Case for Action*.

<sup>7</sup> FAO. (2022). *Global Forest Resources Assessment*.

## 2 A new European regulation (EUDR)

The regulation of 31 May 2023<sup>8</sup> on imported deforestation was published in the Official Journal on 9 June 2023. It is part of the Green Deal, which aims to make Europe the first net-zero continent by 2050.

**The purpose of the regulation is to prohibit the marketing of goods and products derived from a number of raw materials (cattle, cocoa, coffee, palm oil, soybeans and timber, or derived products) if these materials come from deforested land or degraded forests.**

**Three conditions must be met** before these products can be placed on or exported from the EU market:

- **They are “zero deforestation”,** meaning that they do not contain products from land that has been deforested after 31 December 2020 or were not made from such products. In the specific case of products that contain wood or that have been manufactured with wood, “zero deforestation” products are those whose wood was harvested without causing forest degradation after 31 December 2020.
- **They are produced in compliance with the relevant legislation of the country of production,** which encompasses not only environmental, tax and social legislation **but also rules for the protection of human rights and indigenous peoples.**
- **They are subject to a due diligence statement**<sup>2.1.2</sup> by operators and traders, who must guarantee that the products they market do not come from deforestation.

Due diligence is a new obligation that operators and marketers must incorporate into their processes.

The regulation came into force on 30 June 2023. The due diligence obligations will be applicable from 30 December 2024 and, for micro-companies or small companies established no later than 31 December 2020, from 30 June 2025.

### 2.1.1 Products and stakeholders

**The regulation applies to seven commodities** (cattle, cocoa, coffee, palm oil, rubber, soybeans and timber) and to products that contain these basic products or that have been made from them.

The complete list of associated products is provided in Appendix 1 of the regulation<sup>9</sup> and includes a wide range of products, such as leather, food preparations containing cocoa, industrial fatty alcohols, wooden picture frames and prefabricated wooden buildings.

**The regulation applies to two types of actors:**

- **Operators**, which are all parties who, in the course of commercial activity, place the products in question on the market for the first time or export them,
- **Traders**, which are all parties in the supply chain, other than operators, who, in the context of commercial activity, make the products in question available on the market. The activity of making available on the market is broad since it covers any supply of a product in question intended to be distributed, consumed or used on the EU market in the context of commercial activity, whether for payment or free of charge.

### 2.1.2 Due diligence: a process to be incorporated by operators and traders

<sup>8</sup> Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the exports from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No. 995/2010.

<sup>9</sup> [EUR-Lex - 32023R1115 - EN - EUR-Lex \(eurropa.eu\)](https://eur-lex.europa.eu/eli/reg/2023/1115).

**Operators and traders must implement and maintain a due diligence system**, which is a **framework of procedures and measures to ensure that the derived products they place on the EU market or export from the EU market are “zero deforestation” and comply with the relevant legislation**.

**Operators and traders will have to review the due diligence system at least once a year** to take into account new circumstances that may influence due diligence and keep a record of updates to the due diligence system for five years (this obligation does not apply to SMEs, micro-enterprises and natural persons).

**Each year, operators must publish, on a public platform dedicated to this purpose, in the broadest possible manner, their due diligence system and the measures taken to comply with the regulation<sup>10</sup>.**

For operators placing timber on the market, a due diligence system is already provided for by the regulation on combating illegal logging<sup>11</sup>. These operators will be able to draw inspiration from and adapt the due diligence system to the new requirements of the regulation.

Due diligence is rolled out in three stages<sup>12</sup>:

**a. Operators and traders will first need to collate several categories of information:**

- Information on the products (type of product, quantity, country of production, geographical coordinates or geolocation of production plots, contact details of all product suppliers and all persons to whom the products have been supplied, for derived products containing or made from wood, the common name of the species and full scientific name, etc.).
- Sufficiently conclusive information attesting that the products are zero deforestation and that they are produced in accordance with the relevant legislation of the country of production.
- This information must be kept and made available to the competent authorities of the Member States for five years.

**b. Next, operators and traders will have to carry out a risk assessment** to determine if there is a risk that the products intended to be marketed will not be compliant. This assessment will be carried out against several criteria listed by the regulation (level of risk for each country established by the Commission (low, moderate or high), existence of forests in the production area, presence of indigenous populations, source and reliability of the information previously collected, complexity of the supply chain, risk of mixing with products of unknown origin, etc.).

**The risk assessment must be documented, reviewed at least once a year and made available to the competent authorities of the Member States on request.** In the case of production in a low-risk country, a full risk assessment will not be necessary.

**c. Consequences of the risk assessment:**

- Either the operator or the trader will deem that there is a zero or negligible risk that the products will not comply with the requirements of the regulation. The product may then be marketed, with a due diligence statement completed based on the template provided in Appendix 2 of the regulation.

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<sup>10</sup> This obligation does not apply to SMEs, micro-enterprises and natural persons.

<sup>11</sup> Regulation (EU) No. 995/2010 laying down the obligations of operators who place timber and timber products on the market. This regulation will be repealed by the regulation on the fight against deforestation.

<sup>12</sup> SME traders will have simplified due diligence obligations: to market the products, they will only have to collect the contact details of the suppliers of the products and the people to whom they sold the products. This information must be kept for at least five years.

- Or the operator or the trader will deem that there is a risk that the products are not compliant. They will then have to put in place sufficient and proportionate strategies, procedures and controls to effectively mitigate and manage the identified risks of product non-compliance.

According to the regulation, these are risk management practices, models, reports, records, internal controls and compliance management. A compliance manager should be appointed at management level, and **operators that are not SMEs will have to set up an independent audit function responsible for verifying the strategies, procedures and internal controls.**

In the case of production in a low-risk country, risk mitigation will not be necessary.

All risk mitigation procedures and measures shall be documented, reviewed at least once a year and made available by operators to the competent authorities on request.

**Once this process is finished, operators and traders must complete a due diligence statement**, based on the template provided in Appendix 2 of the regulation, in order to be able to market the products.

If operators or traders are informed that a product that does not comply with the regulation has been placed on the market, they must immediately alert the competent authorities of the Member States in which the product has been placed on the market.

### 2.1.3 Comprehensive checks and dissuasive penalties

**The regulation provides for checks by the competent authorities designated by the Member States** and allows third parties to participate in the checks to a certain extent.

- The competent authorities of the Member States will have to carry out checks based on **an annual control plan that they draw up, with regard to the level of risk by country, the record of an operator or trader in terms of compliance and any relevant information.**
- The regulation requires the competent authorities of the Member States to **check a certain percentage of operators and traders each year**. This percentage will depend on the level of risk in the countries in which the products are marketed.
- **The regulation provides opportunities for civil society to be involved in checks: third parties may submit substantiated reports to the competent authorities raising concerns when they believe, on the basis of objective circumstances, that one or more operators or traders are not complying with the provisions of the regulation.**
- **There are reduced checks on SME traders**, as they only have an obligation to collect and keep the contact details of the suppliers of the products and of the people to whom they have sold the products.

**The regulation provides for a range of penalties which can be imposed on operators and traders** who do not comply with the obligations of the regulation.

- It may be, **in the event of serious shortcomings**, that the competent authorities of the Member States impose **immediate provisional measures** such as the seizure of products or their removal from the market.
- If the competent authorities of the Member States find that operators or traders have not complied with their due diligence obligations or that a product does not comply with the regulation, they will **require the operators/traders in question to take appropriate and proportionate corrective measures** (such as rectifying any partial non-compliance, preventing the products from being placed on the EU market, immediately withdrawing or recalling the product in question or even destroying it or donating it for charitable or public interest purposes).
- **In the most serious cases, the competent authorities of the Member States may even impose fines of up to 4% of annual revenue.**

### 2.1.4 Next steps

- The regulation is the first milestone in a more ambitious environmental policy, and **some of its obligations could extend to other products, stakeholders and ecosystems.**
- After the regulation has come into force, the Commission will have to present an impact assessment of the regulation **considering the application of some of its obligations to other wooded areas (meadows, peatlands, wetlands) and other products (biofuels, corn).**
- **Due diligence obligations could also apply to banks.** This concern is part of the duty of vigilance, as recently illustrated by the reports of several NGOs according to which certain banks finance activities contributing to deforestation.

### 3 La Banque Postale's principles

#### 3.1 Scope of application

##### **The Bank's markets and activities affected by the principles**

The provisions of these Principles apply to the scope of La Banque Postale Group's Corporate and Investment Banking clients/issuers and prospects/potential investments, in its financing and investment activities.

Professionals, MEs, SMEs, ISEs, banks, insurance companies and Governments are excluded from the scope. Counterparties subject to invoice financing under a factoring contract are also excluded since they are not counterparties that have signed a contract with La Banque Postale.

These intervention principles aim to define a series of rules and procedures applicable to La Banque Postale's activities to accelerate its customers' progress in the fight against deforestation.

The urgent need to protect ecosystems and communities from deforestation has led La Banque Postale to **set out a sustainability strategy:**

##### **1. It is aligned with the EUDR regulation:**

- The seven commodities: coffee, cocoa, rubber, oil palm, soya, cattle and wood, as well as derived products such as leather and processed products.
- The three conditions before these products can be placed on the EU market or exported from the EU market:
  - Zero deforestation,
  - Produced in compliance with the relevant legislation of the country of production,
  - Subject to a due diligence statement.
- The types of actors concerned:
  - Operators who place the products in question on the market for the first time or export them,
  - Traders – all parties in the supply chain who make the products in question available on the market.

##### **2. It goes beyond the EUDR by:**

###### **• Integrating ecosystem conversion into its risk analysis:**

- **To commit alongside NGOs to the fight against the import of products that contribute to the conversion of natural ecosystems or violations of human rights:** savannahs, grasslands, peatlands, mangroves and wetlands are among the richest ecosystems on the planet. They have cultural value for the indigenous peoples and local communities who inhabit them. Without their protection, we cannot fight against the collapse of biodiversity and climate change.
- **To anticipate stakeholder expectations:** non-financial rating agencies are increasingly vigilant about the commitments of the companies they assess. As an example, CDP has recently extended its disclosure mechanism to track progress in avoiding deforestation, associated with the production of a selection of agricultural products key to preventing the destruction of all natural ecosystems (Deforestation and Conversion Free, or DCF).

- **To anticipate changes in regulations:** the European Commission is already considering applying certain EUDR obligations to such other wooded land areas in the short term.
- **Ensuring that its customers' activities do not contribute to deforestation,** where the EUDR does not impose due diligence on the financial sector with regard to companies involved in deforestation.

**In addition to this commitment strategy, the Bank undertakes not to** lend to or invest in the operators and traders concerned, unless the company has put in place a recognised policy to prevent deforestation.

### 3.2 Cut-off dates for considering a plot deforested or converted

La Banque Postale defines the cut-off date (COD):

- For considering a plot deforested (loss of natural forest) as 31 December 2020 for all commodities, in accordance with the EUDR European Regulation.
- For considering a plot as converted (change from a natural ecosystem to another land use) as 31 December 2020 for all commodities in accordance with what is traceable in the existing deforestation databases.

As defined by the Accountability Framework, this COD is the date after which deforestation or conversion renders a given area or production unit non-compliant with deforestation- or conversion-free commitments, respectively.

**There are previous CODs in place for certain raw materials in defined ecosystems. La Banque Postale may be required to refer to them when the information becomes widely available.**

### 3.3 Commitments from 1 January 2024 for existing clients/issuers (stock)

**In July 2023, La Banque Postale measured its risk of exposure to deforestation, ecosystem degradation and conversion using the FOREST IQ database<sup>13</sup> from Global Canopy.**

**Keen to support companies** identified as “at risk of deforestation and ecosystem conversion” in their transition to “zero deforestation and ecosystem conversion”, **La Banque Postale is committed to:**

- Raising their awareness of deforestation, the conversion of ecosystems and the consequences thereof,
- Informing them about the European Regulation on deforestation (EUDR),
- Informing them of the Bank’s new principles of intervention in sectors at risk of deforestation and ecosystem conversion;
- **Supporting them so that they align with the European Regulation (EUDR) before 1 January 2025**, based on the assessment of compliance with La Banque Postale’s intervention principles carried out by La Banque Postale’s Sustainability Department.

**For financing activities related to existing clients/issuers**, La Banque Postale may decide to no longer carry out new transactions with the client/issuer in question and will start to monitor its commercial relations with them.

These commitments are supplemented, as part of the monitoring of financing and investments, by regular verification of the absence of controversies, as detailed in La Banque Postale’s Responsible Financing and Investment Charter.

### 3.4 Commitments from 1 January 2024 for all new requests (flows)

From 1 January 2024, La Banque Postale will inform its prospects/potential investments of the Bank’s new principles of intervention in sectors at risk of deforestation and ecosystem conversion.

<sup>13</sup> [About - Forest IQ \(forest-iq.com\).](http://About - Forest IQ (forest-iq.com).)

It will carry out a compliance assessment with regard to La Banque Postale's intervention principles for any new financing request/investment decision by a company covered by the European Regulation on deforestation (EUDR) and identified as being at risk of deforestation and ecosystem conversion by the most advanced deforestation databases.

This assessment will determine the acceptance of the financing request or investment decision.

It verifies that the company:

- **Has set a cut-off date (COD) of 31 December 2020** for all commodities at risk of deforestation and ecosystem conversion;
- **Publishes a public commitment to achieving zero deforestation and ecosystem conversion** compatible with the cut-off dates in their value chain and by 2025 at the latest;
- **Outlines a detailed due diligence strategy and process** to assess and reduce the risk of deforestation, ecosystem conversion and associated human rights violations.

These commitments are supplemented, as part of the monitoring of financing and investments, by regular verification of the absence of controversies, as detailed in La Banque Postale's Responsible Financing and Investment Charter.

### 3.5 Future updates of commitments

The European Union Regulation on "zero deforestation" supply chains will come into force in December 2024 for operators and traders.

Commitments made by La Banque Postale on 1 January 2024 will therefore be applied by all operators and traders, in accordance with the European Regulation, in order to prevent the marketing of goods and products derived from raw materials at risk of deforestation and ecosystem conversion on the EU market.

La Banque Postale will regularly review these intervention principles to ensure their compliance with European regulations, current best practices and scientific recommendations.

### 3.6 Implementing the Bank's intervention principles

The implementation of these principles is subject to a dedicated internal procedure set out in documentation which specifies the roles and responsibilities of each party as well as the various stages of the procedure.

The Sustainability Department ensures that these principles are disseminated to all employees to whom they apply and that they are properly understood.