

Paper & Forest Products

ESG Evaluation Key Sustainability Factors

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Approach

Our key sustainability factors identify the most material environmental and social risks assessed in our ESG Evaluation. We assess the materiality¹ of those risks across the industry’s value chain and reflect them in the weighting of our environmental and social factors. We also provide the quantitative indicators² used to assess a company’s performance relative to its industry peers on each of those factors. For further information, please refer to our [“Environmental, Social, And Governance Evaluation: Analytical Approach.”](#)

Scope

The sector covers companies whose primary activity is harvesting timber or converting wood fiber and recycled cellulose fiber into pulp, paper, or converted wood products.

Material Environmental Risks





Companies in this sector are exposed to material environmental risks across their value chain:

- **Land and biodiversity impacts:** forests are the main source of virgin raw materials for the paper and forest products industry. They also provide a wide range of ecosystem services, including carbon sequestration, water filtration and storage, pollution capture, soil quality, and habitat for most of the world’s terrestrial biodiversity. The paper and forest products sector plays an important role in preserving those ecosystem services and the resulting global and local environmental benefits.
- **Environmental impacts associated with pulp and paper manufacturing:** these activities require significant amounts of energy, water, and chemicals and generate greenhouse gases, air emissions, waste, and water pollution, resulting in regulatory and reputational risks for the sector.

Environmental Factors: Weighting And KPIs

The equal weighting of environmental factors reflects the multiple environmental risks associated with the manufacturing of paper and forest products, including energy, water use, and pollution. It also captures the importance of sustainable forest management in preserving the long-term resilience of forests and the associated ecosystem services.

In our ESG Evaluation, we use qualitative and quantitative indicators to inform our opinion on an entity’s management of its environmental impacts relative to industry peers. Examples of qualitative indicators include an entity’s policies and commitments to ensure sustainable land use in forests owned, leased and managed by the company and its suppliers. The main quantitative performance indicators are listed in the table below.

Factor	Weight	Key performance indicators	Other performance indicators
 Land use and biodiversity	25%	– % of forestland covered by a sustainability certification – % of fibre and timber sourced from suppliers which is covered by a sustainability certification	– Number of threatened, vulnerable, endangered, and critically endangered species affected by operations
 Greenhouse gas emissions	25%	– Scope 1 emissions intensity (tCO2e, by output) – Scope 2 emissions intensity (tCO2e, by output)	– Energy intensity (by output) – % of energy sourced from renewable sources – Source and amount of material scope 3 emissions
 Waste and pollution	25%	– SOx, NOx, and VOCs intensity (t, by output) – Number and cost of non-compliance with wastewater regulations	– Wastewater discharged (m3, by output) – Absolute amount and % of waste that is hazardous – % of waste that is recycled/reused/recovered
 Water	25%	– Water use intensity (m3, by output) – Operations exposed to water-stressed regions (as % of COGS and plant locations)	– Water withdrawals by source – % of water that is recycled

Material Social Risks





Paper and forest products companies are exposed to material social risks across their value chain.

- **Occupational health and safety:** remains a primary concern at all stages of the production process, from tree logging to pulp and paper manufacturing.
- **Relationships with local communities:** paper and forest products companies are often a large employer in local communities. Companies in the industry engage with and invest in local communities to protect their license to operate. Measures range from engaging with community leaders, to investing in educational programs, public health services, and local amenities. Pulp and paper producers located close to populated areas can also be exposed to opposition from local communities and regulators resulting from concerns over air and water pollution, as well as odor and noise.
- **Growing demand for sustainable products:** we expect demand for sustainable paper and forest products to continue to increase and gradually become the norm. Producers that use certified and recycled fiber will be better positioned to capitalize on this trend.

Social Factors: Weighting And KPIs

The equal weighting of communities, workforce and diversity, and safety management reflects our view that the management of these three factors is intrinsically linked. Companies in the industry increasingly recognize that safe working conditions can help build long-lasting relations with local communities, retain talent, and preserve their social license to operate. We consider customer engagement to be less material than the other social factors given the commoditized nature of most products.

In our ESG Evaluation, we use qualitative and quantitative indicators to inform our opinion on an entity’s management of its social impacts relative to industry peers. Examples of qualitative indicators include the effectiveness of an entity’s engagement policies to ensure high safety, labor, and human rights standards across the value chain, including for employees, contractors, and indigenous communities. The main quantitative performance indicators are listed in the table below.

Factor	Weight	Key Performance Indicators	Other performance indicators
 Safety management	30%	– LTIF (Lost Time Injury Frequency Rate) – OIFR (Occupational Injury Frequency Rate) – Number of fatalities	– % of direct operations and suppliers assessed and audited on their safety performance
 Communities	30%	– % of forestland owned, leased, or managed covered by a third-party sustainability certification – Number and cost of project delays due to community opposition	– Cash contributions, employee volunteering and in-kind giving converted in reporting currency – Noise- and odor-related indicators
 Workforce and diversity	30%	– Voluntary/involuntary turnover rate (%) – % of women and ethnic minorities in total workforce, junior and senior management positions, and in revenue-generating functions – Average hours per FTE of training and development	– Entry-level wage compared to local minimum wage – Gender pay gap
 Customer Engagement	10%	– % of revenue derived from sustainable products (including products made of certified and recycled fiber)	

Submit Feedback

You can submit your feedback [online](#), by [email](#), or [telephone](#).

Please specify which sector you are commenting on when submitting feedback.

We would particularly like to hear from you regarding:

1. Which Issues are missing or not relevant?
2. Which KPIs are missing, could be enhanced, or are not relevant?
3. What views do you have on the suggested factor weights for the environmental and social analysis?
4. Do you have additional feedback(s) on this document?

Endnotes

¹ Events and issues are material for the ESG Evaluation when in our view they could meaningfully affect the entity's business operations, cash flows, legal or regulatory liabilities, access to capital, reputation, or relationships with key stakeholders and society more generally, either directly or through its value chain (upstream or downstream).

² We are mindful that some may be produced using different methodologies and scopes.

Related Research

- [“The ESG Risk Atlas: Sector And Regional Rationales And Scores,”](#) published July 22, 2020
- [“Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide,”](#) published July 22, 2020
- [“Environmental, Social, And Governance Evaluation: Analytical Approach,”](#) published June 17, 2020
- [“How We Apply Our ESG Evaluation Analytical Approach: Part 2,”](#) published June 17, 2020

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