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Forest & paper : A sector with tree-mendous potential

Sector review of the 2024 CIA campaign

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Summary

The value chain in the forestry and paper sector is made up as follows: **upstream forestry** (silviculture), followed by primary processing (crushing, sawing) and finally secondary processing (downstream), which involves the sale of **finished products** (timber, industrial wood and wood energy).

In a **poorly capitalised** sector, the few large listed companies have adopted an **integrated** business model, focusing mainly on the manufacture of **paper and cardboard** (industrial wood), particularly for **packaging**.

Deforestation is the sector's main climate issue, as the preservation of forest ecosystems is imperative if we are to have any hope of limiting global warming. The **transition risks** associated with deforestation have been clearly identified by industry players, while some are warning that deforestation could become the "new coal" in investors' portfolios.

However, this is not the only issue that needs to be taken into account to maximise the climatic benefits of the forest: wood products continue to **store the carbon** absorbed during the growth of the tree throughout their **lifespan**, and some of them can **replace** more emissive products as a source of **energy** or as a **building** material.

Based on scientific literature, the CIA **sector methodology**, comprising past, present and future indicators reflecting the sector's climate challenges, was

applied in this study to **listed companies** in the sector that are included in the major stock market **indices**.

In the overall ranking, the companies obtained CIA scores ranging from **4.58 to 10.81,** with ratings from 1 (best) to 15 (worst). Between these two extremes, the scores are relatively **tight**, by virtue **of the homogeneity** of the company profiles in the sample.

In terms of **past** and **present** performance, with the exception of a few poor performers, the majority of companies have relatively **low Scope 3 deforestation intensities**, thanks to sourcing from low deforestation countries, and despite a lack of transparency on certification.

However, there is considerable room for improvement in the **choice of products**: the overwhelming majority of products sold (by volume) belong to the pulp, paper and cardboard categories. These are the products that are least valued by the CIA methodology, particularly when combined with low rates of use of **recycled materials** and **co-products**.

Finally, in terms of **future** performance, almost half of the companies demonstrate a good or very good understanding of the climate **risks** and **challenges** associated with their sectors. They set ambitious reduction targets in terms of **operational emissions** (Scope 1&2), but seem to be more cautious when it comes to emissions from their **value chain** (Scope 3). In terms of **governance**, they are in the 2nd quartile compared with all CIA sectors.

Introduction

Wood is one of the oldest materials used by mankind. The first traces of its use for fire date back 750,000 years. Evidence of its use in construction in Tanzania dates back 60,000 years. Tree species have been cultivated for thousands of years, but the first mention of a forest nursery dates back to the Middle Ages, in the 15th century . [1]

During the industrial revolution, the use of fossil fuels reduced the economy's dependence on wood as an energy source. Since then, the importance of wood in a country's GDP has tended to decline. However, the absolute volume of wood

consumed has continued to rise, driven by population growth and economic development. And with them, the pressures exerted by the economy on forest ecosystems. [2]

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[1] Pope et al (1998)

[2] Iriarte-Goñi and Ayuda (n.d.)

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