Principled Sourcing

certified forest management and traceability

Tetra Pak has chosen a natural and renewable resource for its primary material: paper. We recognise that renewable resources are a preferred environmental choice since they can be regrown or produced without depleting natural resources. It is therefore our ultimate goal that all the wood fibre in our Liquid Packaging Board (LPB) come from forests independently certified as managed in accordance with the principles of sustainable forest management.

As we are not paper manufacturers, and do not own our wood supply, we do not purchase any raw material directly from forests. Instead, we purchase processed fibre as LPB from a range of specialized suppliers around the world. Therefore, to achieve our goal, we work with and through our LPB suppliers focusing on traceability of supply, and sustainable forest management.
Traceability
Our suppliers must have reliable systems in place to trace wood fibre back to the forest of origin. All unacceptable sources must be avoided. The definition of unacceptable sources is in our Forestry Guideline at tetrapak.com. Ultimately, these systems should be independently certified.

Forest management
Our suppliers need to ensure that the forests supplying the wood fibre are well managed and ultimately independently certified as managed in accordance with the principles of sustainable forest management.

This report was published in June 2008 and reports on performance in 2005-2007. The most up-to-date information can be found on tetrapak.com.
Forestry Guideline Implementation

The goals and guiding principles for the forest management and traceability work are described in the Tetra Pak Forestry Guideline. We instruct our suppliers to show continuous improvement with respect to forest management and traceability, as illustrated in our Double Staircase Model above. We are committed to implementing the policy through a stepwise program, which monitors all suppliers annually, and increasingly rewards them for supplying products made from wood fibre which contribute to progress towards Tetra Pak’s ultimate goal. We evaluate all suppliers to ensure they make progress in moving towards increased traceability and certification of wood sources.

1 www.tetrapak.com

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**FOREST CERTIFICATION SCHEMES**

<table>
<thead>
<tr>
<th>Forest management standards in double staircase model</th>
<th>Accepted for steps:</th>
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<tbody>
<tr>
<td>FSC12</td>
<td>2M, 2T &amp; 3M, 3T</td>
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<tr>
<td>PEFC3</td>
<td>2M &amp; 2T</td>
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</table>

* The certification schemes CSA4 and SFF5 are now part of PEFC.

2 www.fsc.org
3 www.perfc.org
4 www.pefccanada.org/
5 www.sfiprogram.org
Known origin and avoidance of unacceptable sources

Step 1. As illustrated in Figure 1 (see p4), the first step ensures that the origin of all wood fibre is known, and unacceptable sources avoided. All our suppliers meet this standard.

TRACEABILITY

Step 2T. Verified tracing system for fibre supply
The system implemented for the achievement of Step 1 shall be verified for the supplier by an independent auditing body according to a routine agreed in advance with Tetra Pak, who will assess the adequacy of the verification report. Alternatively, third-party inspectors shall on behalf of Tetra Pak verify the system implemented for the achievement of Step 1. The third party inspection will consist of verification that the information provided to Tetra Pak on sources of fibre is accurate and that the supplier’s system used to control fibre procurement ensures that the requirements from Step 1 are being achieved.

Step 3T. Certified tracing system for fibre supply
The manufacturing of LPB and all wood fibre sources used must be covered by chain of custody (COC) certification. Certified material from both segregation and volume credit approaches to chain of custody will be accepted as meeting this requirement. The chain of custody standard, or the supplier’s wood purchasing policy, must ensure that all unacceptable sources identified by Tetra Pak are excluded from the supplied LPB.

FOREST MANAGEMENT

Step 2M. Certified Sources
Achievement of step 2M requires forest management certification against an international certification scheme. We believe certification offers a level of transparency, control, and reassurance in terms of the management of forests. Therefore we value certified fibre in preference to uncertified fibre. Suppliers should be able to demonstrate, and account for, the share of certified fibers (of all fibers used to produce liquid packaging board for Tetra Pak) under an international certification scheme.

Step 3M. Certified sources according to preferred certification schemes
Achievement of step 3M requires forest management certification against (one of) the Tetra Pak preferred certification scheme(s). Currently the only preferred scheme is FSC. In the future we may develop criteria to expand the range of schemes that are preferred by Tetra Pak. Suppliers should be able to demonstrate, and account for, the share of certified fibers under the preferred certification scheme(s), among all fibers used to produce liquid packaging board for Tetra Pak.
Results

In order to assess the performance of each supplier, Tetra Pak has developed a Supplier Evaluation Forestry Profile Questionnaire which each supplier must complete annually. The supplier evaluations from 2005-2007 show a slow but steady increase in volumes reaching steps 3T and 3M in Figures 2-3.

TRACEABILITY

Supplies reaching Step 3T increased from 77% to 80% in the last three years and the amount of supply reaching only Step 1 has been less than 5%. Many of the suppliers are now COC certified according to both FSC and PEFC. The increase in volumes reaching Step 3T is expected to slow down, but we are committed to reaching Step 3T for all our supply by latest 2015. In 2007 Tetra Pak started FSC COC certification of all converting plants, and so far 9 units have been certified. We have committed to having all our converting plants FSC COC certified by 2018.

FOREST MANAGEMENT

While we have increased the supply reaching Steps 2M and 3M to 41% and 25% respectively, progress has been slower; although many of our suppliers own and manage forests that are forest management certified, all of them also buy wood from other forest owners to cover their production needs. While some sub suppliers are certified, most are not, and therefore our suppliers buy considerable volumes of wood that are not certified. We are asking our suppliers to increase their purchases of certified wood. Another reason why the percentage of FSC material is growing slowly is that we are growing and therefore purchasing more LPB. This means that even though we are increasing the purchased volume of FSC board, the percentage stays the same. The figures for 2M and 3M are lower here than in the reporting from last year. This is because one of our suppliers misunderstood our questionnaire and reported the wrong numbers. We have now revised the figures for 2005-2007.
Figure 2: Traceability of fibre in LPB delivered 2004-2006

Figure 3: Forest management certified fibre in LPB delivered 2004-2006
Since 2005 we have hired the forestry consultancy firm ProForest to verify the information provided in the Supplier Evaluation Forestry Profile Questionnaires, and to assess the risks related to our sourcing of wood-based raw materials.

The assessments are carried out in a series of one day visits to each supplier. They are conducted by an assessor of ProForest, accompanied where needed by a local specialist.

All our LPB suppliers have been assessed: global suppliers, who supply over 97% of the LPB to Tetra Pak, were assessed the first time in 2005, and the remaining ‘local’ suppliers were assessed in 2006.

**Verification Focus**

For each Tetra Pak LPB supplier, the visit focus on four main issues:

- **Verification of the information provided in the Supplier Evaluation Forestry Profile Questionnaire regarding fibre sources for the LPB supplied to Tetra Pak.**
- **Adequacy of fibre tracing (chain of custody).** We particularly emphasise the reliability of figures setting out the proportion of fibre from a certified source to ensure that our communications are accurate.
- **Verification of the more general environmental information provided to Tetra Pak by LPB suppliers.**
- **Identification of particular issues or risks including:**
  - Sources of fibre which may not meet the requirements in the Forestry Guideline.
  - Potential inadequacies in material tracing and verification.

**Verification Results**

In 2005 ProForest audited global suppliers, accounting for over 97% of the LPB supply to Tetra Pak, and stated that:

“No potential high risk sources where there is potential for non-compliance with Tetra Pak’s requirements for ‘acceptable sources’ were identified.”

Some low risk issues were identified associated with various suppliers, and they are presented in Table 2 (see p9) together with the action taken and the status of the issue.

In 2006 ProForest audited the ‘local’ suppliers, accounting for less than 3% of the LPB supply to Tetra Pak, and identified two low risk issues (no 1 and 2), and one “where there is a substantial risk of non-compliance with Tetra Pak’s sourcing policy” (no 3). The issues are presented in Table 3 (see p9) together with the action taken and the status of the issue.

**Future verification**

During 2006 and 2007 Tetra Pak met with the suppliers to address the issues raised in the verification reports to close the issues or agree on action plans. 6 of the 9 issues, including the high risk issue with a “local” supplier, has been closed.

The verification of suppliers will continue, and based on the suppliers’ own traceability systems they have been divided into three groups:

- **For suppliers whose sourcing of wood fibre and manufacturing of LPB is FSC and/or PEFC COC certified,** the audits for certification suffice, and no further audits will be conducted. The Forestry unit at Tetra Pak will continue discussions, and follow up on the supplier’s action.

- **If any major risks are identified audits will be carried out annually until the issue has been resolved.**

www.proforest.net
Table 2: Low risk issues found in audits of global suppliers

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<thead>
<tr>
<th>Issue</th>
<th>Action</th>
<th>Status</th>
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<tbody>
<tr>
<td>Three suppliers did not report on the volumes (5% or less) of bought pulp.</td>
<td>Clarify to suppliers that all fibre sources must be included in reporting.</td>
<td>Closed 2006 – all suppliers include purchased pulp in reporting.</td>
</tr>
<tr>
<td>One supplier did not perform formal verifications of supplies in 2004.</td>
<td>Ensure that all suppliers perform verifications of all supply.</td>
<td>Closed 2006 - FSC COC certification has been obtained for this mill.</td>
</tr>
<tr>
<td>One supplier did not check forest management issues related to social conflict.</td>
<td>Ensure that suppliers perform complete verifications of all supply.</td>
<td>Closed 2006 – FSC COC certification has been obtained for this mill.</td>
</tr>
<tr>
<td>One supplier did not perform checks for avoidance of unacceptable sources in 2004, despite having traceability systems in place.</td>
<td>Ensure that suppliers perform complete verifications of all supply.</td>
<td>Closed 2006 - FSC COC certification has been obtained for this mill.</td>
</tr>
<tr>
<td>Four suppliers declared material as certified which was not covered by COC certificates, and therefore could not be the subject of public claims.</td>
<td>Investigate clarifications and changes to questionnaire so that only volumes covered by COC certificates are reported.</td>
<td>Closed 2007 - the questionnaire has been updated and the incorrectly reported figures have been revised.</td>
</tr>
<tr>
<td>Five suppliers were identified as having potential for increasing certified content through greater capture of the fibre volume that actually comes from certified forest.</td>
<td>Discuss ways to increase capture of certified volumes with the suppliers and set up action plans.</td>
<td>Open – discussions with suppliers are ongoing.</td>
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</table>

Table 3: Issues found in audits of ‘local’ suppliers

<table>
<thead>
<tr>
<th>Issue</th>
<th>Action</th>
<th>Status</th>
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<tbody>
<tr>
<td>Three suppliers use production systems which despite individual merits are, by their characteristics (use of non wood fibers, wood from agro-forestry), unable to move towards certification.</td>
<td>Evaluate the environmental values of these suppliers that are not linked to certification, and explore ways that they can become certified. Discuss phasing out of these suppliers depending on result of evaluation.</td>
<td>Open – solutions are being discussed.</td>
</tr>
<tr>
<td>One supplier is using an introduced tree species for the production of LPB, and concerns have been raised by local stakeholders about the potential for environmental impacts.</td>
<td>Cooperate with the supplier to make an environmental impact assessment of the use of the introduced species.</td>
<td>Open – action not yet taken.</td>
</tr>
<tr>
<td>One supplier is sourcing from three areas of natural forests without verifying that no HCVFs have been affected.</td>
<td>Request more information and verification from supplier; meet with supplier to agree on action plan; new audit in 2007.</td>
<td>Partly closed 2007 - at the audit in 2007 it was clear that improvements regarding traceability had been made, and many sub-suppliers are now COC certified. A few unclarities are still being discussed.</td>
</tr>
</tbody>
</table>
Tetra Pak and WWF\(^9\) began a three year partnership in 2006, focused on two issues related to sustainability and renewability: forestry and climate change. The aim of the forestry partnership is to demonstrate the benefits of using renewable materials, to ensure that forest resources are verifiably renewed, and to promote good forest governance and management practices. We are undertaking activities in three areas:

- Supporting the creation of the High Conservation Value (HCV) Resource Network\(^10\). The network aims to encourage collaboration, provide information and support on the evolving usage of HCV, and ensure that a consistent approach to HCV is understood and applied throughout the world.

- Providing funding for the Global Forest & Trade Network (GFTN)\(^11\), WWF’s initiative with the forest products industry to eliminate illegal logging and improve the management of valuable and threatened forests.

- Leveraging the global agreement locally to develop further processes and activities in cooperation with local WWF offices.

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\(^9\) www.panda.org/about_wwf/what_we_do/forests/news/index.cfm?uNewsID=60020

\(^10\) www.hcvnetwork.org

\(^11\) www.gftn.panda.org
The High Conservation Value (HCV) Resource Network started its activities in the first quarter of 2006. The number of signatories to the Network’s charter reached 235 individuals and 17 organisations during 2007 with both Tetra Pak and WWF represented on the network’s Steering Group. Main activities in 2007 included regional stakeholder events and meetings in South Africa and Brazil, and a workshop at the UN Conference on Climate Change in Bali. The Network has also added new information to the Country Pages of the Network’s website for Bolivia, Ghana, South Africa, Ukraine, Cambodia, Georgia, Paraguay, Russia and Senegal.

In December 2007 GFTN had ca 80 Forest Participants (forest owners and managers) managing ca 27 million hectares of forest, and ca 300 Trade Participants (companies buying and selling forest products) representing ca $44 billion in annual forest product sales. Tetra Pak has been a participant of GFTN since 2006.

GFTN Forest Participants have achieved ca 13 million hectares of forest certified under FSC, which represents ca 13% of the total FSC certified area in the world. The volume of FSC certified products traded by all GFTN Participants has a value of $2 billion, which is 28% of total volume of FSC certified products traded globally. Important GFTN events during 2007 include a conference hosted by the Dutch and Indonesian FTNs to facilitate market links between Indonesian FSC-certified producers and Dutch buyers, as well as a training workshop on forest management planning in Ghana wherein ca 50 people participated.

Co-operation between Tetra Pak and WWF at the national level has also been promoted with several cooperation agreements having been signed. For example, cooperation has been created in China focusing on promoting forest certification through demonstrations, and increasing awareness and building capacity among the public, forest product companies, forest management units and various levels of government.
For any further questions, comments and ideas you have regarding this report please contact: info@tetrapak.com

This report and other information on Tetra Pak are available at www.tetrapak.com