

A close-up photograph of a stack of cut logs, showing the texture of the wood and the bark. The logs are stacked in a way that creates a sense of depth and texture. The background is a blurred forest with tall, thin trees.

# *Position Statement on Forestry*

March 2022

# Introduction

It is a key commitment for Danske Bank to be a responsible and predictable partner in the green transition. The forestry sector oversees a system that produces multiple economic, social and environmental values and plays a key part in climate action and biodiversity preservation. We see multiple points of entry towards meaningful discussions on sustainability and want to support customers and companies who take initiative to promote sustainable growth and greater societal responsibility. This position statement covers forestry and pulp & paper, with the aim to establish guidelines for comprehensive sustainability practices.

At Danske Bank we release the potential in people and businesses by using the power of finance to create sustainable progress today and for generations to come. In the forestry sector this means assisting our customers' transition to more sustainable productions and, where needed, setting clear standards and expectations. In addition, we also want to offer transparency about our efforts.

Throughout the centuries, forests have held an important role in our economies, offering materials, food, a hub for cultural heritage and an engine for job creation, as well as rural- and industrial development. At the same time, forests are also rich in biodiversity and create vital ecosystem services that human societies benefit from – e.g. local climate regulation, fresh water provisioning, and pollination services. Further, they are hugely important in the fight against climate change.

The financial sector has an important role to play to help safeguard forests ability to provide multiple values. Financial services is uniquely positioned to affect change in the real economy through its ability to mobilize capital, direct funds and price risks and as such has a responsibility to support the green transformation and sustainability agenda. As a large Nordic bank, we want to support the forestry sector in the contribution it can make.

Firstly, we want to assist the sector in playing a role in climate change mitigation. Forests sequester large amounts of carbon in biomass and soils, provides valuable raw materials capable of substituting the use of fossils and can sequester carbon in long-lived products [e.g. timber and

building materials]. Secondly, the sector is instrumental in maintaining and improving the biodiversity underpinning valuable ecosystem services, and we want to promote our customers in managing impacts. Thirdly, the sector is responsible for building a resilient green infrastructure capable of withstanding climate change. Increased risks of e.g. drought, storms and pests creates an increased need to improve forests capacity to buffer ecological shocks. With that in mind, the sector increasingly need to factor in physical risks of climate change when making long-term plans.

In addition, downstream pulp & paper operations could be affected by upstream activities in regard to sustainability. We also see that it faces its own set of emerging sustainability challenges. For example, raw material sourcing, supply chains, emissions, air quality and human health & safety are examples of material ESG risks. We want to assist our customers' strengthening management of these risks and welcome dialogue around opportunities.

To support our customers and portfolio companies address these challenges, this position statement establishes guidelines for comprehensive sustainability practices and high standards. It is a key commitment for Danske Bank to be a responsible and predictable partner for all our stakeholders in the green transformation. We welcome dialogue and want to support customers and portfolio companies who want to take initiative to promote sustainable growth, greater societal responsibility and explore meaningful ways to further integrate sustainability in their operations.

# Position Statement on Forestry

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## 1. Objective and purpose of the position statement

Danske Bank’s position statement on Forestry aims to create transparency and predictability on our ambitions, efforts and governance with regards to the sector and provide a view on how we manage the related risks and opportunities.

The position statement establishes a shared framework for a constructive and forward-looking dialogue with our stakeholders on these topics.

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## 2. Scope of position

This position statement applies to Danske Bank Group and all legal entities under its control.

**Geography**

The position statement is global in scope with no exceptions. Danske Bank’s activities

The position statement applies to lending and investment services offered by Danske Bank

**Clients**

The position statement covers existing as well as potential new clients of Danske Bank.

**Industries and subsectors**

The rules stated below on agriculture apply to all customers and investment companies within the group’s core agriculture segment.

**Projects and companies**

The position statement applies to financial services offered for both general finance and project finance purposes offered to companies as well as for investment services.

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## 3. Definitions

Relevant definitions include:

- Financial services encompass lending, guarantees, primary debt and equity capital markets activities, but not secondary market intermediation, trading and thereto
- Investment services refer to assets managed by Danske Invest and life & pension products offered by Danica
- Ecosystem services refer to the multitude of benefits that nature provides to society, for example timber, food, clean water, regulating disease and climate, pollination of crops and soil formation. These services are typically divided into provision services, regulating services, cultural services and supporting services.

- Biodiversity encompass the diversity among living organisms, which is essential to ecosystems function and services delivery<sup>1</sup>.
- Bioenergy refers to energy generated from using organic matter as feedstock. Potential applications span e.g. heat and electricity production, industrial processes and biofuel for transportation.
- Sustainable forest management encompasses the stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfill, now and in the future, relevant ecological, economic and social functions, at local, national, and global levels, and that does not cause damage to other ecosystems<sup>2</sup>



- Transition risk: Business-related risks that follow societal and economic shifts toward a low-carbon and more climate-friendly future
- Physical risks of climate change: The risk of significant negative impact on the bank due to the physical impacts of climate change.

<sup>1</sup> Food and Agriculture Organization (FAO) of the United Nations; Ecosystem Services & Biodiversity (ESB) | Food and Agriculture Organization of the United Nations (fao.org)

<sup>2</sup> EU Definition on sustainable forestry adopted in 1993 at the pan-European Ministerial Conference on the Protection of Forests in Europe (MCPFE). Sustainable forest management (europa.eu) Similar definitions exist in North- and South America

## 4. Rules and standards of the position

For the purposes of this position statement, Danske Bank separates governance of Forestry into expectations and recommendations. These are covered below respectively.

In general, Danske Bank expects customers we lend to, as well as portfolio companies we invest in, to operate in accordance with relevant international norms, regional and national laws, regulations and permits. We expect the companies we do business with to systematically manage material sustainability risks and impacts and to provide transparency on their impacts. Specifically, we expect that customers and portfolio companies will adhere to the following guidelines as relevant, subject to size of company and exposure:

### Environmental:

- Prevent negative impacts on High Conservation Value (HCV) areas within their business operations and the areas they manage<sup>3</sup>
- Prevent negative impacts on High Carbon Stock (HCS) areas within their business operations and the forests they manage<sup>4</sup>
- Prevent negative impact on protected areas including: UNESCO World Heritage Site, Wetlands covered by the Ramsar Convention; Area categories I-IV of the International Union for Conservation of Nature (IUCN)
- Large enterprises adopt sustainable forest management practices and integrate into governance and strategy (in the form of relevant policies, objectives and targets) with an intent to protect and enhance ecosystem services provided by forestlands and disclose on progress
- Large enterprises pursue third-party certification of forests and timber plantations according to e.g. the Forest Stewardship Council (FSC) or Program for Endorsement of Forest Certification (PEFC) or other relevant market standards depending on domicile – e.g. Canadian Standards Association (CSA), Sustainable Forestry Initiative (SFI)

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- For large enterprises in supply chains of timber traders and companies in the wood product chain (including pulp, paper, veneer, furniture) pursue third-party certification according to the FSC or PEFC chain of custody certification
- Pulp and paper factories limits the use of chemicals and the pollution of soil, water and air by making use of the best available techniques.

### Social

- Respect customary land tenure and usage rights of indigenous people by applying free, prior and informed consent (FPIC) principles; conduct community consultation early in project life cycles and respect the rights of local and indigenous communities on the fair and equal use of forests
- Have commitments and management processes to address health and safety risks.

### Governance

- Include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers – especially when sourcing from areas with weak enforcement of environmental and labour laws
- Large enterprises, publish a comprehensive sustainability report that is preferably set up in accordance with a widely recognized and global framework such as the Global Reporting Initiative (GRI)
- Integrate environmental, social and governance criteria in their procurement and operational policies



- Prevent the use of illegally cut and traded timber throughout the wood supply chain.

As relevant, we also recommend companies in the Forestry sector to:

- Large companies with large impacts on forests across the value-chain report their forest related information to the Carbon Disclosure Project (CDP) Forest Program, or similar initiative
- Consider the use of a 'green' forest management plan, or similar scheme, to address critical ESG considerations where third-party certification (e.g. PEFC/FSC) might not be relevant due to size of operation
- For large enterprises, take a dual-materiality approach towards understanding, identifying and assessing ESG risks and integrate findings into governance and strategy (e.g. in the form of relevant policies, objectives or targets) and disclosures
- Specifically for companies in biofuel value-chains, we recommend companies to pursue certification, and adhere to, principles according to the Roundtable on

Sustainable Biofuels (RSB) unless otherwise covered by other certification scheme

- For large enterprises, report on climate risks according to the Task-force on Climate-related Financial Disclosures (TCFD) to help frame and structure ongoing dialogue about transition risks and physical risks of climate change
- For large enterprises, perform due-diligences on biodiversity- and nature risks and impacts, adopt policies and management processes to manage biodiversity impacts
- Prevent the introduction of invasive alien species in natural ecosystems
- Apply responsible usage of fertilizers and pesticides and seek alternatives to pesticides, herbicides, and fertilizers in forestry management.

<sup>3</sup> See definitions and guidance: High Conservation Values | Forest Stewardship Council ([fsc.org](http://fsc.org))

<sup>4</sup> See definitions and guidance: The High Carbon Stock Approach | High Carbon Stock Approach

## 5. Supporting standards and principles

In general, Danske Bank supports the following set of international agreements and principles as relevant for forestry:

- UN Global Compact<sup>5</sup>
- UN Guiding Principles on Business and Human Rights<sup>6</sup>
- The Universal Declaration of Human Rights<sup>7</sup>
- The ILO Declaration of Fundamental Principles of Rights at Work<sup>8</sup>
- OECD Guidelines for Multinational Enterprises<sup>9</sup>
- High conservation value forests (HCVF), including those depended on by indigenous people<sup>10</sup>
- The UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol<sup>11</sup>
- International Union for the Conservation of Nature Red List Species<sup>12</sup>

- Forest Stewardship Council (FSC); Program for Endorsement of Forest Certification (PEFC); Roundtable on Sustainable Biofuels (RSB)<sup>13</sup>
- The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

For the listed companies Danske Bank invests in, a screening is performed in collaboration with research partners to make sure that they act in line with the following international principles and conventions:

- UNESCO World Heritage List
- Ramsar convention
- International Union for Conservation of Nature (IUCN)
- Minimum Age Convention
- Worst Forms of Child Labour Convention



- Free, Prior and Informed Consent (FPIC) as covered in ILO Convention 16920 and the UN Declaration on the Rights of Indigenous Peoples
- Rio Declaration on Environment and Development
- The Kyoto Protocol.

<sup>5</sup> <https://www.unglobalcompact.org/about>

<sup>6</sup> [GuidingPrinciplesBusinessHR\\_EN.pdf \[ohchr.org\]](#)

<sup>7</sup> [Universal Declaration of Human Rights | United Nations](#)

<sup>8</sup> [ILO Declaration on Fundamental Principles and Rights at Work \[DECLARATION\]](#)

<sup>9</sup> <http://mneguidelines.oecd.org/text/>

<sup>10</sup> [High Conservation Values | Forest Stewardship Council \[fsc.org\]](#)

<sup>11</sup> [Home | Convention on Biological Diversity \[cbd.int\]](#)

<sup>12</sup> [International Union for Conservation of Nature - IUCN](#)

<sup>13</sup> [Home Page | Forest Stewardship Council \[fsc.org\]](#); [PEFC - Programme for the Endorsement of Forest Certification](#); [Home | Sustainable Development and Biomaterials | RSB](#)

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## 6. Implementation, monitoring and disclosure

### Implementing expectations and recommendations

This position statement is implemented in the organisation by integrating it into the bank's governance hierarchy and business processes and is reviewed yearly. Expectations call out particular risk considerations and recommendations signal understanding of best-practices and will be monitored. Should this position statement be breached, there are several escalation paths in Danske Bank's governance structure where breaches could be addressed. On a group level, relevant forums include for instance:

- Danske Bank's Business Integrity Committee (BIC), and;
- The Sustainable Finance Council (SFC).

In addition to Group level escalation paths, there also exists separate business unit committees tasked with the oversight of the implementation of this position statement.

**Monitoring adherence to endorsed standards and principles**  
In order to monitor that Danske Bank's business is conducted with respect to the international standards that we endorse, the bank has developed processes for financial services and investments separately.

For financial services, the position, and the standards it endorses, are integrated in the credit process. All credit cases are reviewed for potential breaches, and cases with concerns are escalated for further review by ESG experts and the bank's 2nd line credit teams. Monitoring is carried out by an independent unit in Group Risk Management.

For investing, Danske Bank takes a risk-based approach that is structured around two phases:

- Screening and ESG Risk Analysis, and;
- Dialogue and Engagement.

In the Screening and ESG Risk Analysis phase, we screen companies to identify sustainability risks related to portfolio holdings with reference to current regulations, industry best practice, international norms and voluntary frameworks for corporate responsibility.

In the Dialogue and Engagement phase, we address potential breaches through dialogue, voting or participation in nomination committees when relevant.