



# FSC General Assembly 2014

## Outcomes for Sustainable Forestry Investment

The Forest Stewardship Council (FSC) General Assembly convened in September 2014 in Seville, Spain, with a week of debate, voting, and celebration of 20 years of promoting responsible forest management. In this briefing note, New Forests summarises key outcomes and what they mean for plantation forestry investment in the Asia-Pacific region.

In this brief, New Forests<sup>1</sup> provides an update on some of the key discussion areas and outcomes from the FSC General Assembly (FSC GA), focusing on issue areas that we believe may present either challenges or opportunities for forestry investment in the Asia-Pacific region. New Forests is dedicated to improving the FSC through active membership.<sup>2</sup>

## Motions – The Outcomes

A key component of the FSC GA is the member debate and vote on motions that have been prepared by the membership. The FSC includes three chambers of membership (economic, environmental, and social), and each chamber coordinates their motions through a development process leading up to the FSC GA. In-person debates of the motions take place allowing participation from all chambers before a vote. In total 19 motions were successfully passed, and 13 were rejected.<sup>3</sup> In this brief, we focus on two successful motions that are important for ensuring the relevance of FSC certification for plantation investment in the Asia-Pacific region.

### Motion 7 – Changes to the P&C<sup>4</sup>

This motion “Changes to the P&C” included specific changes to the FSC Principles & Criteria, which are the backbone of the organisation’s policy framework. The approved wording changes will be incorporated into the current process of establishing International Generic Indicators (IGIs) that will be used to operationalise the next version of the Principles and Criteria Version 5

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<sup>1</sup> New Forests refers to New Forests Pty Ltd (ACN 114 145 274) and all of its subsidiaries. For more information see [www.newforests.com.au](http://www.newforests.com.au).

<sup>2</sup> New Forests Pty Ltd and New Forests Asia (Singapore) Pte Ltd are members of FSC International, and New Forests Asset Management Pty Ltd is a member of FSC Australia.

<sup>3</sup> A summary of the motions and outcomes is available at: <http://ga2014.fsc.org/motion-updates>

<sup>4</sup> Motion 7 is available at: <http://ga2014.fsc.org/motion-updates-166.motion-07-changes-to-the-pc>

(P&C V5). The changes approved at the FSC GA will be included in the next version of the IGIs, expected in late November 2014 and set for FSC Board approval in March 2015.

A key change will address Criterion 6.9 on conversion of forests to non-forest uses. This will rectify a challenge that New Forests and other investment managers face when trying to economically rationalise land use and convert non-commercial existing plantation areas to non-forest use. This type of conversion is currently prohibited by the FSC except in very limited circumstances, which requires careful management and estate planning. Changing the P&C's treatment of conversion was a primary focus for New Forests, and Amanda's participation in the Australian SDG helped to ensure the Australian context was considered in Motion 7.

Criterion 6.9 will be changed to read:

*The Organisation shall not convert natural forest to plantations, nor natural forests or plantations on sites directly converted from natural forest to non-forest ~~any other~~ land use, except when the conversion:*

- a) Affects a very limited portion of the area of the Management Unit, and
- b) Will produce clear, substantial, additional, secure long-term conservation benefits in the Management Unit, and
- c) Does not damage or threaten High Conservation Values, nor any sites or resources necessary to maintain or enhance those High Conservation Values.

The change is intended to convey that if the land was a natural forest immediately prior to plantation establishment, then the plantation may not be converted to non-forest use, whereas if the site was previously in a non-forest use (e.g. agriculture), then the site may be converted back to a non-forest use. The outcome of Motion 7 will benefit New Forests-managed assets in Australia, allowing greater management flexibility within the FSC standards without restricting the amount of land that can be converted back to agricultural use or sold. The change of wording may also be relevant in some Asian investments, because it provides flexibility to improve future site selection or to revert areas to local community usage or mixed agroforestry.

Motion 7 also included wording changes on two other areas of the P&C. The other approved changes are (1) inclusion of "intact forest landscapes" in the definition of High Conservation Value type 2 (HCV 2) as an indicator of HCV 2 and (2) changes to language about minimising or avoiding the use of fertilisers rather than avoiding or eliminating their use.

## Motion 12 – Forest Conversion and the Ownership Loophole<sup>5</sup>

Motion 12 was put forward to fast track the FSC review of the policy in relation to plantations. This review is important because the FSC standard was written for the certification of natural forests and not plantations. The difference in management prescription for the two land uses and the construct of the standard has brought about a number of problems. The main problem has been the practical implications of the cutoff date for forest conversion, known as the "1994 rule", which is based on the FSC's year of establishment. The 1994 rule prohibits a company from being FSC certified if it converted forest land to another land use after 1994. Although this may seem straightforward, one challenge in implementation is that the FSC definition of what constitutes a forest is wide ranging and vague. This unclear and subjective view of "what is a forest" makes it difficult to define what is and is not forest conversion. This in turns makes it difficult for investors like New Forests to determine if a plantation is eligible for FSC certification.

Another challenge of the 1994 rule is that it effectively excludes a significant area of plantations from entry into the FSC, thereby limiting the organisation's reach. Some FSC members are now asking how responsible forest management of these plantations can be encouraged, even if they were established on land cleared after 1994. The possibility of using a mechanism of restoring

<sup>5</sup> Motion 12 is available at: <http://ga2014.fsc.org/motion-updates-168.motion-12-fast-tracking-the-implementation-of-motion-18-from-ga-2011>

forest land to compensate for past conversion has been raised and was discussed in the FSC GA 2011, but to date no consensus has emerged.

As the inclusion of plantations in FSC is a key concern for New Forests, we have been active stakeholders on the issue of the plantations review and in support of more clear guidance on forest conversion and possible restoration. New Forests helped develop a side event focused on promoting Motion 12 and educating the membership on the issues of conversion and reversion. See text box on next page for details of New Forests' participation in the side event.

## The “ownership loophole”

Motion 12 in particular calls for a process to consider how to address what is viewed by some critics as an “ownership loophole” in 6.10 of the P&C. Criterion 6.10 of the P&C enables plantations established after 1994 (“post-1994 plantations”) to achieve FSC certification if a majority or total ownership change has occurred, such that the party responsible for the natural forest conversion to plantation is not the controlling owner. New Forests believes that Criterion 6.10 is important for the future of responsible plantation management as it enables new forest owners to improve the management and sustainability of plantation assets. This is true throughout the Asia-Pacific region, where significant areas of post-1994 plantations and degraded land occur.

However, there is significant skepticism among the FSC membership that 6.10 has created a loophole and somehow enables, encourages, or rewards deforestation. New Forests is not aware of “plantation speculators”, i.e. entities who are responsible for deforestation and subsequent plantation establishment with the aims of flipping land to a new owner to take advantage of the ownership loophole. Throughout the preparation for the 2014 FSC GA and conversations at the event, we did not hear of any examples of this happening in practice. Yet there is a risk that the fast-tracking process set forward by successful Motion 12 could lead to a change in the standard such that plantations established on former natural forestland are prohibited from achieving FSC certification. New Forests will monitor and continue to engage on this issue as it could potentially limit the investible universe of plantations that could be acquired and subsequently managed under FSC certification. In the near term, a key priority is to continue to educate the membership about the role for plantations in the FSC and to help alleviate concerns about the loophole, which are based in speculation rather than observation.

## Compensation for past conversion

Motion 12 also asks the question, “What does an organisation that has converted post 1994 need to do to be able to be certified?” This question clearly relates to the ownership issues noted above, but may open the door for further discussion on how a mechanism to compensate for natural forest conversion can be used within the FSC. At the 2011 FSC GA, New Forests was active in side events and put forward a discussion paper that proposed a new approach to restoration using compensatory mitigation. This paper is available on our website,<sup>6</sup> and it is our hope that through the process of Motion 12 the use of effective compensation mechanisms will be discussed. This approach offers a solution for the perceived ownership loophole while also encouraging forest restoration.

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<sup>6</sup> New Forests, June 2011. “Discussion Paper on FSC Criteria 6.9, 6.10: Building on the FSC Plantations Review Recommendations – A Joint Restoration and Biodiversity Offsets Approach.” Available at: <http://www.newforests.com.au/wp-content/uploads/2014/08/201106-FSCdiscussionpaper.pdf>.

## Conversion by local communities

The third facet of Motion 12 relates to the challenge of accounting for conversion of natural forests by local communities, such as for subsistence purposes. At present, many forest-dependent communities in the tropics are excluded from FSC certification due to subsistence activities in their forest areas and/or historical forest conversion. New Forests will monitor the issue as we do have local communities that are dependent on forest resources from within and near our investments.

As Motion 12 deals with some of the most challenging aspects of integrity in the FSC system, it will be an important area to watch moving forward. New Forests believes the FSC must improve its treatment of the definition of forests, conversion, and restoration to keep up with the need to bring more well-managed forests into the FSC system.

## Miscellaneous

Among the successful motions, there are a range of issues that will affect FSC's market relevance and importance in the future. Some of the other items included in the passed motions include:

- Clarifying the qualifications and registration of FSC auditors;
- Improving transparency in the FSC process to create working groups and expert panels;
- Consideration for the conservation of "Intact Forest Landscapes," which are very large areas of natural forests (50,000 hectares and greater); and
- Development of an FSC Global Strategy, including a 2015-2020 strategic plan.

## Conclusions

New Forests views the FSC as a benefit to investment management as it is an internationally recognised, third-party certificate of responsible forest management and can be used as a risk management tool. This is why we have adopted FSC certification as a target across our forestry assets. The organisation must be nimble to keep up with trends in the forest sector. New Forests believes that FSC needs to continue to modernise and adapt in order to remain relevant for institutional timberland investment and to recognise the role that high-productivity plantations must play in meeting global timber supply, conserving natural resources, and providing economic, environmental, and social benefits for stakeholders. Given the importance of FSC to institutional investment in timberland, forestry investors must help ensure FSC's development is aligned with trends in timber markets, forest governance, institutional investment, and forward-thinking forest management.

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