



## Voluntary environmental strategies: factors for success

### Highlights

- A combination of regulation, or the threat thereof, policy incentives and company self-regulation is the key to innovation in environmental management in forest operations.
- Opportunities exist for industry to lead the way by self-regulation through voluntary environmental strategies.
- Pro-active rather than re-active responses can improve business opportunities.
- Awareness of external and internal constraints to environmental strategies will help forest companies understand how to best implement successful initiatives.
- Government and regulator support of industry's efforts is an important factor for success.

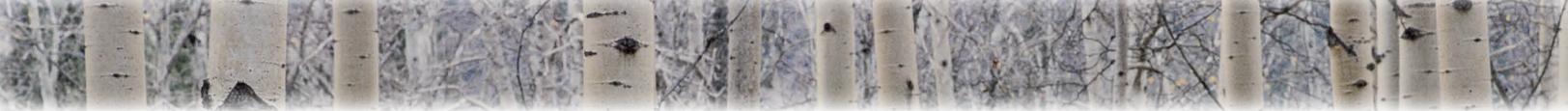
## The value of voluntary environmental strategies

**Good forest stewardship** is good business; pro-active voluntary stewardship is even better. With that recognition, and an increased understanding of the links between environmental, economic and social values, forest stewardship has evolved at a remarkable pace. Thus, a new trend is developing in the forest industry that is characterized by the corporate social responsibility (CSR) model. This pro-active, scientifically-driven and collaborative model is largely based on voluntary environmental strategies (VES).

Canadian forest companies that have adopted a CSR framework for their operations now work beyond regulations and are focusing on market and scientific innovation. This movement represents a shift from regulation-driven management to market-driven and collaborative approaches that include forest certification, environmental reporting and voluntary agreements.

Environmental voluntarism by forest companies has several advantages:

- Companies can greatly influence the way environmental improvements are implemented.
- Voluntary self-regulation can reduce the need for future legislation and enforcement.
- Voluntary environmental strategies set precedents for the rest of the industry and send important, positive messages to the public.
- Good forest stewardship is good business. Markets can favour companies that pursue environmental strategies.



## What's being done? Canadian forest sector examples

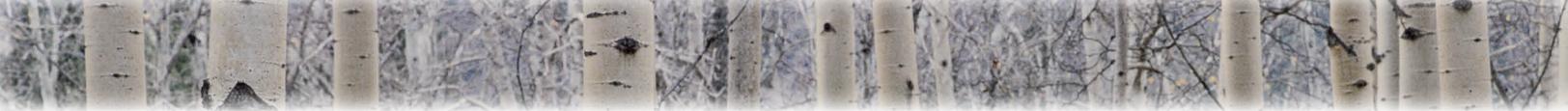
- **Alberta-Pacific Forest Industries Inc.** has implemented an Integrated Resource Management program in cooperation with three oil and gas companies that share its Forest Management Area (FMA) near Fort McMurray, Alberta. Through this program the company has, for example, negotiated an agreement to share road building costs and timber harvest rights prior to oil and gas extraction activities. This has resulted in a reduced 'ecological footprint' and lower operating costs. In 2005, the company received FSC certification for 5.5 million hectares of its forest management agreement area.
- **Tembec Inc.** is participating in the 'Impact Zero<sup>®</sup>' and 'Forever Green<sup>®</sup>' programs under which the company has implemented Environmental Profile Data Sheets (a voluntary labeling program for consumer use) for each group of pulp and paper products. The company has also developed environmental performance measures for their operations and has undertaken a number of energy efficiency initiatives to reduce GHG emissions from its operations. As of 2008, 12 million ha of Tembec's managed forest lands were FSC certified in its goal to certify all of its 13 million ha across Canada.
- **AbitibiBowater Inc.** has formed partnerships with various conservation groups and has adopted a Corporate Environmental Audit Program. The company has instituted chain of custody certification in some of its mills and has much of its owned or managed land (19.5 million ha) in North America certified to the Canadian Standards Association or the Sustainable Forestry Initiative sustainable forest management standards. The company is also an active participant in an innovative forest zoning project in Quebec—the TRIAD Project (Projet TRIADE).
- **Weyerhaeuser Inc.** has entered into a memorandum of understanding with the Canadian Boreal Initiative, which includes environmental groups and thus, commits them to several environmental initiatives.
- **Domtar Inc.** is actively involved in forest conservation as a participant in the Canadian Boreal Leadership Council and in Ontario's Lands for Life program.

## Lessons from Europe

A number of academics have studied the effectiveness of voluntary strategies in the European forest industry. In Europe, the use of voluntary strategies, such as voluntary environmental agreements (VAs) between government and industry, is considered better than the regulatory approach because VAs can be immediately applied and quickly adapted. This type of flexible, cooperative enforcement has, according to some researchers, been more effective in eliciting environmental compliance in the European forest industry.

European governments are increasingly negotiating VAs with forest companies that range from "gentlemen's agreements" to legally binding contracts. Both types of VAs, however, come with strong expectations of compliance and an explicit threat of traditional regulation or market-based repercussions if expectations are not met.

Some European forest companies have implemented preferential corporate purchasing policies to screen their suppliers for sound environmental practices. Other voluntary strategies used both in Europe and elsewhere include eco-labelling and certification programs that harness market forces by helping consumers identify products that are less harmful to the environment.



While the perception is that NGO campaigns are often a significant driver of VES, studies of industry self-regulation in Europe have shown that such campaigns are not a necessary pre-condition. The European paper industry, for example, adopted strict standards in the absence of NGO campaigns. In that particular case, researchers found that market incentives were decisive; strict government control was not a key driver.

Researchers of European VES suggest that self-regulation is most effective in a backdrop of legislative threat possibly underlined by NGO campaigns. Successful VAs must have:

- clear targets set by government,
- more effective mechanisms for public reporting, and
- independent verification of actual environmental performance.

Some authors contend that VAs can only be successfully implemented if the legislative threat is sustained or there is sufficient external monitoring or sanctioning. In the absence of such external factors, VAs can still be effective if they have a direct impact on industry's bottom line.

## Pre-requisites for successful adoption of voluntary environmental strategies

### *Government regulation*

Researchers are divided about the effectiveness of government regulation in producing desirable actions. While some say that strict enforcement of tough regulations produce higher levels of compliance, others contend that going by the book has not worked well, citing that industry can only be innovative when operating in a flexible environment. Some experts also favour voluntary approaches but note that the threat of government legislation or initial steps towards legislation, a level of government control and robust incentives are important pre-conditions for effective voluntary action by companies.

### *Stakeholder and public demands*

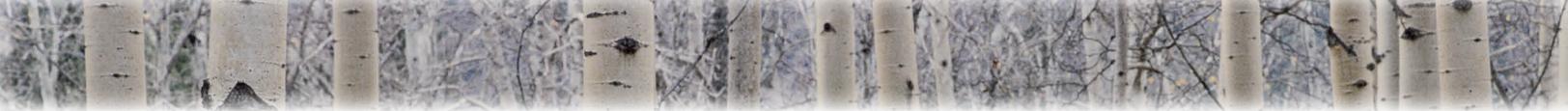
Forest companies are also influenced by stakeholders—in some cases more so than government regulations or the threat thereof. When consumer and stakeholder perceptions influence market share or public relations, the company leadership tends to respond. This is where government-initiated public participation processes can be useful (i.e. in raising company awareness of public perception and vice versa). Evidence has shown that when there is a strong relationship between companies and local communities, environmental performance tends to be better.

One example of the impact of public demands was the response of Canfor Inc. in the late 1990s for the pollution attributed to its pulp mill in Howe Sound in coastal BC. Initially, the company responded to social pressure from environmental groups and the media by avoidance and dismissal. However, when consumers became involved, the company announced the construction of a new pulp mill in Howe Sound built to higher environmental standards. It also appointed a Vice-President of Environment and Energy and adopted an official environmental policy with environmental audits at all of its manufacturing operations.

In a relatively short period of time, Canfor went from defiance to innovation, and has become a leader in Canadian forest management. The result? There was no need for more stringent regulations and the company benefited from an improved public image.

### *Market-based environmental incentives*

When pollution has a price (i.e. taxes or fines) or can be traded through tradable “pollution permits”, companies often find measures to reduce pollution through current technologies. Market-based approaches to environmental protection can provide long-term incentives for new technology development and adoption.



Forest certification is one of the best examples of a market-based incentive to adopt environmental strategies. Generally considered the most successful non-government regulatory system to date, certification promotes sustainability and environmental behaviour through the promise of market access, price premiums and improved “social license”. At the end of 2008, the total forest area certified in Canada by the Canadian Standards Association, the Forest Stewardship Council or the Sustainable Forest Initiative was nearly 146 million ha or 40 % of the world’s certified forest area.

### *Industry associations*

Industry associations can also have considerable influence on company voluntary environmental efforts. Associations often have a good overview of national and international environmental issues, main market trends, and the current political climate, and can therefore, be instrumental in promoting voluntary actions. When several member companies are leaders and are proactive in their approach to environmental issues, other member companies may be inspired to follow suit. However, if the majority of member companies are reluctant to change or are skeptical of new environmental initiatives, association membership may actually hinder voluntary strategies.

The Forest Products Association of Canada (FPAC) has made third party verification, to a forest-specific standard, a condition of association membership. Furthermore, members have instituted an outreach program that allows public scrutiny of mills and forest operations. A majority of FPAC members have public environmental reports and citizen advisory panels.

### *Economic feasibility*

If environmental strategies fulfill the central goal of maintaining and potentially increasing a company’s competitive advantage, voluntary approaches may be successful. Sufficient evidence exists to show that voluntary action can make good economic sense. For example, Tolko Industries Ltd. and Tembec Inc. have undertaken a number of initiatives to reduce energy consumption, all with a payback of less than two years and with support from federal government and local utility incentives. Environmental innovation, if linked to internal considerations, can become part of production innovation.

### *Internal support*

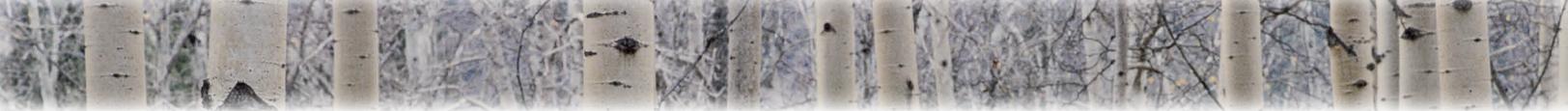
Is there a willingness on the part of the personnel to support environmental strategies, especially from those who are influential within the company? Genuine environmental concerns from influential individuals can move the process along. Is the corporate structure conducive to making the changes required for environmental voluntarism? Are decision-makers accessible and open? Is there an adequate company internal learning process?

The dynamics between environmental policy supporters and skeptics of “corporate greening” play a significant role in determining the success of the implementation of such strategies as integrated resource management (IRM) programs. In interviews of some Alberta-based forest companies, staff agreed that corporate leaders, be they CEOs or senior managers, can influence internal decision making and resource allocation to facilitate IRM implementation.

Voluntary strategies may be a great idea in theory but if the company lacks both the financial and human resources to implement environmental goals and objectives, there is little to be done. Furthermore, if such strategies and programs are not part of the long-term strategy of the company, there is unlikely to be a future for them. From a company perspective, adequate capacity (human and financial resources) and planning time are needed to address external barriers to the implementation of environmental strategies.

### *Government support*

Government should use more policy incentives and other tools to induce wider and more effective use by industry of the voluntary approach. While government still needs to set goals and objectives, a



decreased reliance on regulation would allow industry to develop their own solutions.

Government purchasing policies, tax incentives, price premiums, cost-share arrangements, and grants or loans can all stimulate industry adoption of VES. Technical assistance with, and educational programs about, desirable management practices would also be instrumental.

## Summary

Canadian forest companies have already adopted many voluntary environmental strategies. While government regulation, or the threat thereof, has its place in motivating companies to go even further, government support through policy, educational and economic tools could provide even greater stimulus. Other external influences such as stakeholder and public demands, as well as market incentives can be important factors in industry adoption of voluntary environmental strategies; while internal factors including human and financial capacity can sometimes present significant barriers to environmental innovation. By keeping an eye on strategies being adopted elsewhere (i.e. national and international), and the various external and internal factors that influence strategy adoption, forest company managers can chart a path for continuous improvement.

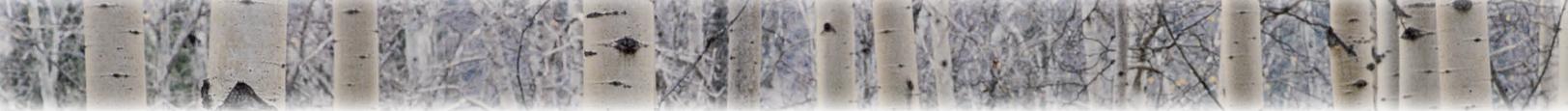
## Further reading

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## Management Implications

- Look at the “low-hanging fruit” when thinking of environmental projects. Lighting or boiler retrofits in facilities can, for example, be a low-cost way to cut not only energy costs but reduce companies’ carbon footprint.
- If not already underway, conduct a benchmarking study that details current environmental impacts, and provides a baseline for progress. This will also provide the ability to compare performance to companies in jurisdictions with more regulations and /or advanced technologies.
- Investigate and pursue the applicability of forest certification for operations or management areas.
- Take advantage of any existing incentives offered by provincial or federal governments or local utilities to reduce fossil fuel consumption.
- Be aware of public and stakeholder demands for environmentally sound forestry practices that can help in the design of innovative approaches.
- Work with local government officials to expand assistance and education programs that promote environmental innovation in forestry, and make the case for government assistance programs that stimulate VES, such as cost-share programs.
- Investigate programs like the Canadian Standards Association’s GHG CleanStart® registries that can highlight environmental efforts to the broader public. Employees are often neglected as an excellent public relations avenue to broadcast company environmental achievements.
- Look for partners such as environmental non-governmental organizations that complement the experience of the forest industry.



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