

# Net-zero: Forestry and Paper & Pulp

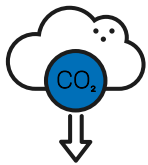


12.5% of net anthropogenic greenhouse gas emissions come from land use and forestry.<sup>1</sup>

What does the **forestry and paper & pulp sector** need to do to reach net-zero?

**LGIM will vote and implement investment sanctions against companies falling short of our climate expectations.**

**LGIM expects companies' boards to oversee and publicly disclose answers to the following:**



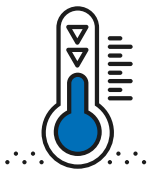
## Net-zero commitment

- Does the company have a comprehensive target for net-zero by 2050 or earlier, covering scopes 1, 2 and material scope 3 emissions?<sup>2</sup>
- Has the company made a commitment to certify/certified this target with the SBTi or other external independent parties?
- Does the company have a net-zero transition plan that includes short- and medium-term targets?<sup>3</sup>



## Strategy

- What are the actions and investments involved in the company's plan to reach net-zero, and what is the contribution of each action towards meeting its targets?<sup>4</sup>
- Does the company calculate and disclose its recycling capacity and the percentage of recycled inputs?
- Does the company incorporate nature-based solutions<sup>5</sup> into its strategy?
- Is the company disclosing the level of traceability of its commodities across its supply chain?
- What is the percentage of commodities purchased or developed in line with no-deforestation principles?
- Is executive remuneration aligned with short-and/or medium-term emission targets, as set out in the net-zero transition plan?
- Does the company's net-zero strategy integrate an assessment of related-nature risks, opportunities, impacts and dependencies – for example, in relation to land-use change, sustainable forestry practices, and the incorporation of nature-based solutions?



## Resilience

- Has the company analysed its business model resilience to climate-related risks and opportunities using scenario analysis and disclosed how the output has influenced its strategy?
- Has the company analysed the physical climate risks to its operations and value chain (e.g. water scarcity), including potential financial impacts, and evidenced measures to mitigate or adapt to them?



## Targets

- Does the company have targets to increase the share of production from recycled fibre and improve the circularity of products?
- Does the company have an operational net-zero target?
- Does the company have targets to scale up and grow revenue from low-carbon, sustainably sourced forest products?



## Collaboration

- How is the company working collaboratively across its value chain to reduce emissions (e.g. suppliers, customers, utilities sector, strategic R&D partnerships, sector initiatives)?
- Is the company advocating meaningful policy action, including from regulators, to meet global net-zero targets (e.g. carbon pricing)?



## Red lines

- Does the company have a public comprehensive zero-deforestation policy including no-land-conversion principles, covering material commodities?
- Does the company disclose its material scope 3 emissions?
- Does the company disclose its climate-related lobbying/advocacy activities, including trade association memberships, and explain the action it will take if these are not aligned with a 1.5°C scenario?

\* The applicability of the expectations varies depending on companies' business models

1. Roe et al., (2019).

2. Aiming to cover all segments of the business, as articulated within the GHG protocol guidance.

3. Short-term refers to 2022-2025, medium-term 2026-2035 and long-term 2036-2050.

4. E.g., Increase the use of alternative energy sources such as renewables or black liquor; introduce practices to enhance carbon sequestration capacity and resilience such as fire prevention measures, afforestation, advanced silviculture techniques; improve energy efficiency measures (such as precision forestry, automation, combined heat and power (CHP) systems, recovery boilers); promote circular bioeconomy; bioenergy with carbon capture and storage/ utilisation (BECCS/U); etc.

5. Actions to protect, sustainably manage and restore natural or modified ecosystems, that address societal challenges (e.g., climate change, food and water security or natural disasters) effectively and adaptively, simultaneously providing human well-being and biodiversity benefits (WBCSD, 2021).

## Further areas for company consideration

### Nature expectations

**Why?** The climate and nature crises are inextricably linked.<sup>5</sup> Climate change is one of the five direct drivers of nature change. Net-zero requires both emission avoidance and sequestration. the inter-dependencies between climate and nature are a critical factor in the transition.

**LGIM’s expectations:** As part of a climate transition plan, companies should integrate an assessment of the related nature risks and opportunities, impacts and dependencies, and appropriate mitigation actions.<sup>6</sup>

**Sector-specific considerations:** Direct impacts could result from unsustainable forestry practices causing loss of native species, forest degradation and habitat disruption. Indirect impacts could result from timber processing and associated operations.



### Company levers

- Renewables
- Energy and material efficiency
- Recovery and reuse of biological resources
- Circularity
- Climate-positive land use (silviculture)
- Product innovation

### Government policies

- Carbon pricing and taxation
- Support for renewables
- Policies that avoid carbon lock-in and incentivise low-carbon technologies (e.g. economic incentives to replace or upgrade emission-intensive technologies or infrastructure)
- Strengthen disclosure rules and their applicability to the forest sector, in line with TCFD, to reward more sustainable companies
- Improve forest governance to prevent illegal logging and trade
- Encourage reforestation and afforestation of degraded areas



#### Challenges

Price of current technologies and deployment at scale  
 High investment costs and commercial viability of breakthrough technologies  
 Carbon capture and storage  
 Forest monitoring and data collection difficult due to remote regions



#### Opportunities

Forestry as key enabler of emissions reductions (e.g. net-zero buildings)  
 Can complement or partially substitute emissions intensive materials such as steel, cement, or plastic  
 High recyclability  
 Bringing wood-based alternatives to new markets and increasing uptake in traditional markets



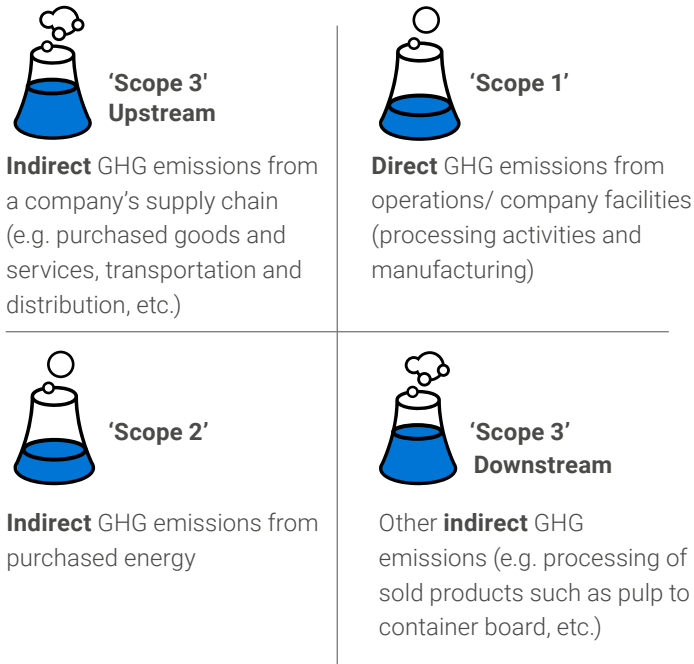
#### What is needed?

Company leadership	Research and innovation	Consumer behaviour
Prioritise recycling and re-use of fibre, promote sustainable management of forests, and invest in R&D to advance silviculture techniques ensuring climate adaptation	New drying technologies Integrated biorefinery Bioenergy with carbon capture and storage/ utilisation (BECCS/U)	Demand for products with reduced emissions and which are recycled or sourced from sustainably managed forests

5. UN IPCC-IPEBS, [Biodiversity and Climate Change workshop report \(2021\)](#)

6. [LGIM's Nature Framework can be accessed here](#)

### Sources of emissions



Source: WBCSD (2021).

### 'Just Transition' considerations

The potential implications for employees, the supply chain, customers and communities from the transition to a lower-carbon business model

### Physical risk impacts

Disruption to production facilities from extreme weather (e.g. forest fires, droughts, flooding, pest outbreaks)

Water availability



## For more information and to see how companies are rated

[LGIM Climate Impact Pledge score](#)

[LGIM Climate Impact Pledge](#)

### Important information

**Source: LGIM as at October 2024. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. The above information does not constitute a recommendation to buy or sell any security.**

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