

A Case Study in Eco-Certified Wood Fibre Sourcing

1.0 Corporate Overview & Program Context

Catalyst Paper are a leading producer of mechanical printing papers in North America. They also produce market kraft pulp and own Western Canada's largest paper recycling facility. Catalyst have nearly 4,000 suppliers, spending approximately \$1B annually on wood fibre, electricity, oil and natural gas, chemicals, machinery, transportation, and other business necessities. Catalyst is the single largest purchaser of forest fibre in BC.

2.0 Policy & Program Scope

As a significant purchaser of BC forest fibre, Catalyst focuses most of their sustainability purchasing efforts on fibre sourcing, to ensure that their suppliers meet the company's environmental standards. They follow a certification approach in order to authenticate the environmental qualities of their paper, the first component of which is an assessment of forest management practices, to ensure the wood is sustainably harvested. The second step is product certification or "chain of custody" assessment, wherein a respected independent party verifies in a written statement (or certificate) that the timber product to be purchased originates from a supplier that adheres to accepted practices of forest management as defined by the certifying body. The function of certification for the chain of custody is to provide for environmental labeling to identify to the consumers that the wood products to be purchased are actually derived from forests that have been certified as following sustainable harvesting methods. The chain of custody system allows for tracking of forest products from forest transport to primary processing, from primary processing to secondary processing, and finally to trade and retail outlets where products reach the consumer. Each processing facility along the harvesting to consumer chain must obtain a chain of custody certificate.

"Sustainability has long been a consideration for resource-dependent companies. Yet society's expectations of us as good stewards of natural resources have never been higher or more widely held than today. Sustainability – and climate change in particular – is at the top of public opinion polls across the continent. Green consumerism is driving sustainability more deeply into the business-to-business supply chain served by paper producers."

Catalyst Paper 2006 Sustainability Report

Catalyst's approach to sustainable fibre sourcing consists of:

- 1) An annual review of fibre suppliers; and
- 2) A chain of custody management system for their certified fibre, called their Chain of Custody Program.

This is one component of their broader sustainable purchasing effort that incorporates general social and environmental considerations into their buying decisions. Potential new suppliers are asked to provide RFP information on their sustainability performance, which is evaluated alongside quality and cost considerations. Evidence of corporate social responsibility programs and documented health, safety and human rights policies, product stewardship initiatives, carbon reduction programs, etc., help Catalyst in supplier selection. Catalyst will

extend this effort in 2008 to include existing suppliers who will be surveyed for this additional information, starting with their top 10 suppliers in terms of annual spend (\$10 – 20M), and subsequently expanded to the top 25% of suppliers representing 75% of their overall annual spend.

3.0 Key Drivers of the Chain of Custody Program

The following are the key drivers for Catalyst's Chain of Custody Program:

Enhances License to Operate with Communities and the Public

Forest product companies are subject to regular public and media scrutiny. Activist groups such as ForestEthics and Greenpeace are using high profile campaigns to pressure paper purchasers to buy from the most environmentally sound sources. Catalyst's sustainable fibre sourcing program has created positive attention for the firm in an industry that is often criticized for unsustainable forestry management practices.

Since Catalyst operates in rural areas, drawing their labour pool from nearby communities, they are also directly accountable to the small communities in which they operate. Positive public perception has resulted in strong community and employee relations, enhancing the company's license to operate within the local setting.

Attracts Customers and Helps Meet Expectations for Sustainable Products

Catalyst's certified Chain of Custody paper sourcing has won them new customers and increased sales. Catalyst has experienced significant sales increases since the introduction of its Chain of Custody certified paper. Sales jumped 75% from 2004 to 2005, increasing another 36% from 2005 to 2006.

When Catalyst introduced their boreal-free forest paper in response to concerns over unsustainable logging of one of the largest remaining intact forest systems in the world, they began receiving orders immediately, clearly filling a market need for products that meet high environmental standards. This market demand further reinforced their commitment to their Chain of Custody program.

Demonstrates Alignment with Organizational Goals and Values

Sustainable sourcing is a means for Catalyst to meet their overall corporate sustainability goals. Those goals include integrating sustainable business practices, supporting vibrant communities, and having respect for nature. Their Chain of Custody fibre sourcing program is one of the ways in which they are able to encourage the forest industry to take up forest management certification, one of their specific corporate objectives.

4.0 Implementation & Accountability

Chain of Custody Program

Catalyst's Chain of Custody Program was implemented in 2004. The Program includes a fibre sourcing policy, which commits Catalyst to:

1. Procure wood fibre supply from well-managed, sustainable forests;
2. Verify harvesting methods through third party certification; and
3. Ongoing review and improvement of the Chain of Custody Program.

Annual Fibre Review

Catalyst ensures that their wood fibre suppliers adhere to sustainable forest management practices through annual supplier surveys. Catalyst surveys all of their wood fibre suppliers each year; 85 supplier surveys were conducted in 2007. The survey assesses supplier sustainability performance and confirms third party certification under one of three sustainable forest management standards: the Forest Stewardship Council, the Canadian Standards Association Canadian National Forest Management Standard or the Sustainable Forestry Initiative.

The company's Fiber Supply Group is responsible for conducting this annual review. Both the Director of Fibre Supply and the Director of Procurement report to the VP of Supply Chain and Information and Technology, integrating information flow and decision-making between both supply and procurement groups.

Verification and Accountability

Catalyst conducts internal and external audits to provide assurance on the credibility of their Chain of Custody Program: internal teams from each division audit the chain of custody systems of other divisions, and they are subject to external audits from an independent audit firm.

Continuous Improvement

Catalyst is focused on continuous improvement of their Chain of Custody Program. The results of annual management reviews are combined with recommendations from the internal and external audits to provide a roadmap for program enhancements.

5.0 Benefits, Challenges, and Collaboration

Increasingly purchasers are looking to source paper that meets their environmental goals. Catalyst faces the challenge of proving to their customers they do what they say they are doing. Being "green" is not an easy accomplishment for a pulp and paper company, so proving to their customers that Catalyst is socially and environmentally responsible is a company priority. Continually striving to maintain and enhance their reputation within communities, and to their customers, Catalyst seeks to do everything possible to preserve, protect, and replace the trees consumed for production.

One of the main benefits of the Chain of Custody Program is that it has allowed Catalyst to prove to their environmentally-conscious customers that the fibre in the paper they buy is secured through a guaranteed source. Because the Program is openly auditable by Catalyst's customers, the program provides the firm with the means to assure their customers that they are purchasing paper certified by an air-tight certification system.

6.0 Next Steps in Program Evolution

In 2007 Catalyst amalgamated seven division-level Certified Chain of Custody sub-programs into one corporate program in order to ensure that all divisions operate under the same verification and continuous improvement approach. The new corporate program is managed by Catalyst's new Fibre Supply Group. Each of the seven sub-programs within the corporate group will continue to have their own representatives, but now operate under the same Chain of Custody guidelines. Further work will be undertaken to streamline and integrate all systems into one approach.

Future sustainable purchasing plans include incorporating sustainability dimensions into their purchasing software so they can track and evaluate supplier sustainability performance and extending their supplier sustainability surveys to their existing suppliers.

7.0 Further Information

For more information, please see Catalyst's Social Responsibility site at <http://www.catalystpaper.com/socialresponsibility>, or contact Jennifer Mercer, Sourcing Manager Supply Management (Powell River Division) at (604) 483-2898 or jennifer.mercer@catalystpaper.com

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This Case Study was developed by the Sustainability Purchasing Network for Industry Canada. The Network supports organizations in their efforts to develop and improve their sustainability purchasing practices. As a source of research, information, networking, training, and business-to-business projects on sustainability purchasing, the Network offers the following services:

- Case studies on best practice in sustainability purchasing
- Guide to the business case for sustainability purchasing
- Tools for advancing sustainability purchasing policy and practice
- Training workshops
- Learning circles and online dialogues to network and share best practices
- Collaborative projects such as buyers clubs, product fairs and initiatives to support economic sustainability
- A newsletter with news, events, resources, tools and updates
- Technical assistance and advisory services

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