



STAKEHOLDER UPDATE

03 November 2011

FSC certification of Veracel plantations in Brazil

Dear Stakeholder,

This update is intended to provide you with an overview on developments related to a complaint submitted to the FSC Dispute Resolution System in September 2010.

Accreditation Services International (ASI) completed a thorough investigation of the FSC Forest Management certificate held by Veracel Cellulose S.A. and the monitoring performed by FSC Accredited Certification Body SGS Qualifor. The assessment considered a wide range of issues raised by the complainant including labor laws, environmental issues, land and real estate matters, stakeholder consultation and community relations.

ASI conducted an extensive stakeholder consultation and a short notice on-site witness assessment of SGS Qualifor at Veracel Cellulose S.A. in November and December 2010, respectively. The findings from this assessment resulted in 8 Major Corrective Action Requests (CARs) to SGS Qualifor and suspension of SGS Qualifor for FSC Forest Management certification in Brazil.

ASI returned to Veracel between 18 and 20 April 2011 to complete the dispute resolution process. The assessment team at this time included three senior ASI assessors, six legal experts, two technical and local experts and a professional translator. Observers included representatives from SGS Qualifor, Veracel and an independent observer endorsed by FSC and FSC Brazil. ASI's assessment report from the on-site surveillance in April has raised 3 new major non conformities against SGS Qualifor. An Observation was also made on SGS Qualifor's lack of evaluation of Veracel's stakeholder consultation list and methods especially in relation to specific and targeted consultation with key stakeholders. This observation is linked to a non conformity that was issued to SGS Qualifor on the same subject matter in 2010.

The completion of the assessment process in relation to the dispute has provided comprehensive information to evaluate the concerns raised by stakeholders. ASI has found that 3 Major CARs and 1 observation against SGS Qualifor reveal non conformities by the Certificate Holder. However, all other issues raised in the complaint have been addressed in a manner compliant with FSC requirements and to the satisfaction of the assessment team.

At this time, SGS Qualifor remains suspended for Forest Management in Brazil with 11 Major CARs. ASI received evidence of the correction actions from SGS Qualifor on 6 August 2011 and the information is under review to determine the accreditation status of SGS Qualifor. At current, the certificate issued to Veracel has no open Major CARs from SGS Qualifor. ASI expects to have finalised review of the SGS Qualifor evidence by the end of November, at which time it will make the findings publicly available.

For further information, please contact:

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Enclosed: Stakeholder concerns in detail, FAQs
Stakeholder Concerns in detail

Is Veracel the legal owner of the certified area?

About 700 purchase titles are registered for Veracel at the real estate registry office. They cover more than 200,000 ha of forest. Veracel has ownership and possession contracts for a small proportion of its land that does not have land titles. In some cases, this is due to title problems from the previous owners or formal problems with the land itself.

As Veracel has signed commitments of purchase and sale with the sellers of the land, the current situation cannot be considered illegal. Nevertheless, there is a need for Veracel to put the land registry in order to remedy any unclear ownership issues. ASI is aware of one lawsuit between Veracel and the Movimento de Luta pela Terra (MLT) regarding unclear ownership. SGS Qualifor did not correctly evaluate Veracel's land status and this has resulted in a Major Corrective Action Request (CAR).

ASI Assessment: Veracel is following the due process of registering all the land under its ownership. However, with FSC certification and in the context of Brazil land possession rights can be considered as sufficient evidence to demonstrate long-term forest use rights to the land, provided that the land possession rights are transferred to formally registered land titles within a period of maximum. 5 years of including the land into the certificate".

Does Veracel provide employment and benefits to local communities?

ASI Assessment: Veracel employs about 4,000 people plantations and factory, and interviews conducted by ASI confirmed that most workers (laborers) come from vicinity of the plantations. The wages for the workers on Veracel plantations were found to be far above the minimum wage. There are ongoing negotiations between Veracel, contractors and the Worker's Union for higher salaries and benefits.

Regarding benefits to local communities, ASI found that Veracel supports several community development projects and has personnel dedicated to ensuring its relationship with the local communities and indigenous people. ASI also found that Veracel's involvement with communities is growing, and has made recommendations to work with local channels, such as universities, to develop training opportunities.

Did Veracel convert rainforests for its Eucalyptus plantation?

There is evidence of a conversion of 1,200 ha since 1997, spread over more than 200 small areas and different municipalities. This land is under dispute, and legal issues dating back to 1993 exist under a suspended lawsuit. Veracel is legal to operate while in court and due process for sorting out the land use is being followed. In 2007, the state environment agency ordered Veracel to replant 1,203 ha as a compensation measure for conversions done in the past.

Does Veracel follow a broad and inclusive stakeholder consultation process?

ASI found that Veracel has corporate procedures in place to handle conflicts, disputes, compensation and community social impacts. Veracel's stakeholder consultation was found to be broad, and that the company announces and invites stakeholders for events and meetings via radio and newspaper. Veracel is a member of the Forest Dialogue Forum, and also organizes annual general meetings with leaders of indigenous people from the region to discuss socio economic issues.

ASI assessment: While Veracel performs broad stakeholder consultation, ASI found that targeted consultations with stakeholders who express specific concerns should be improved by both SGS Qualifor and Veracel. ASI identified that this outreach could include MST, MLT and CEPEDS and raised a non conformity against SGS Qualifor in 2010, which also applies to Veracel. ASI has met with CEPEDS in November and April stakeholder consultations.



Does Veracel correctly use approved pesticides?

In March 2007, the federal agency IBAMA raised an infraction against the use of glyphosate in permanent preservation areas. Veracel immediately suspended the use of the product in such areas. The company also uses sufluramid for ants control. An exception for this product was approved by the FSC Pesticides Derogations Committee in January 2008, subject to conditions be monitored annually.

In accordance with the Brazilian law, Veracel subcontracts Cetrel, an independent test laboratory, for the monitoring of water quality in rivers of the area of influence of the certified operations. The test report from September 2010 sampled seven rivers and a water pit did not find any noncompliance. It is significant to note that the water protection department does not have the capacity to carry out tests to validate those performed by independent firms hired by Veracel.

ASI Assessment: There should be a close monitoring of Veracel's integrated pest management strategy to reduce or eliminate the use of pesticides.

Does Veracel comply with the labour legislation?

According to Veracel's own Report of Labor Claims, a total of 965 claims are ongoing relating to pay for health hazards, overtime, time spent travelling to work, severance, production premiums and accidents. The majority of claimants filed two or more claims for different requests. With a total number of employees and contractors of about 4,000, the number of claims falls within a reasonable range for companies of this scope and activity in Brazil.

ASI Assessment: One noncompliance was found with regard to the compensation of workers for the time they spend commuting to work and back home.

Are there lawsuits pending against Veracel?

ASI looked at all open and closed legal matters related to the stakeholder complaint. Detailed information about 32 of environmental disputes is included in the audit report. Veracel is a party to lawsuits and administrative proceedings, which are being handled through the Brazilian courts and Veracel is observing the due diligence. For some lawsuits Veracel holds clearance certificates by all three levels of government.

ASI Assessment: Even if no final ruling has been adopted, this has not been reported on sufficiently by Veracel's certification body SGS Qualifor.

Is there a conflict with the landless movements in Brazil?

Since 2009, Veracel has initiated fifteen lawsuits against landless movement camps that had taken wood or set its property on fire. In nine cases, judges ruled in favour of Veracel; six cases are pending. One of these cases concerns an area for which Veracel does not possess a registered title.

ASI Assessment: Veracel is following the due process of contacting the leaders of invading groups before filing repossession lawsuits. Further audits should investigate the titles for the invaded areas pending decision and review the court decisions. Veracel's claim on 1,934 ha currently occupied by the Movimento de Luta pela Terra (MLT). Veracel does control the land and cannot guarantee the implementation of FSC Principles and Criteria.

For more details about the Veracel assessment please refer to the ASI full assessment report on the ASI Website: http://www.accreditation-services.com/public_fsc_summaries.html



FAQs

What is the role of FSC in the certification process?

FSC develops guidelines for responsible forest management through strong multi-stakeholder processes. FSC also accredits independent certification bodies to carry out certification activities in accordance with the FSC Principles and Criteria (www.fsc.org/pc). The certification body takes the decision whether operations meet the FSC requirements. FSC does not take certification decisions itself and does not influence the decision making of FSC accredited certification bodies.

The certification body's working procedures, their technical competence and expertise is evaluated by FSC through a detailed accreditation process and undergo regular surveillance under the FSC Accreditation Program to ensure continued compliance with FSC accreditation requirements. The FSC Accreditation Program is managed by ASI-Accreditation Services International GmbH (www.accreditation-services.com).

Why are FSC certificates issued in plantations?

After extensive debate, the FSC membership recognized that there is a continuum of conditions between natural forests and plantations, varying from very diverse and complex natural systems to simpler man-made plantations. In 1995, the FSC membership voted a majority of 89% in favor of adopting Principle 10 for plantations – in addition to Principles 1-9 for plantation management. The decision was made with a majority vote in each sub-chamber: social, environmental and economic members for North and South.

FSC certified plantations do not replace natural forests, and FSC does not support conversion of natural forests to plantations or other land uses. The adoption of Principle 10 for plantations recognizes that natural forests alone should not be expected to meet the global demand for wood and fiber. It also recognizes that application of the FSC Principles and Criteria to timber plantations can contribute to improved social and environmental conditions that would otherwise be unmonitored in these more intensive production systems. By working with the different realities between forests and plantations, FSC will better be able to achieve its mission of promoting responsible forest management. More information on FSC certification in plantations is available at www.fsc.org/plantations.html.