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ZOOMING IN: COMPANIES, COMMODITIES, & TRACEABILITY COMMITMENTS THAT COUNT, 2018

Supply Change Research on Corporate Disclosure of Traceability and Commitments to Address Commodity-Related Deforestation

February 2018

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Commercial agriculture drives at least two-thirds of tropical deforestation.

As companies commit to reduce the ecological impacts of their commodity supply chains, Supply Change provides transparency to their progress – and tracks commitments that count.

The majority of impacts stem from the production of the "big four" commodities: palm, soy, timber & pulp, and cattle.

Companies with exposure to deforestation in their supply chains may face material financial risks such as supply disruption, cost volatility, and reputational damage.

PALM

SOY

TIMBER & PULP

CATTLE

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Investors are addressing deforestation risk in recognition that the profitability of many consumer goods companies depends on secure access to a supply chain that is free from deforestation. In managing these risks, an increasing number of companies have developed policies to address deforestation embedded within their commodity supply chains.

→ *Supply Change* is routinely tracking 800 companies with "big four" commodity exposure*. Of these, 469 have publicly declared their commitment(s) to addressing deforestation.

Further, companies are recognizing that in order to ensure that their supply meets such policies, commodity traceability is paramount. And institutional investors recognize that traceability is the building block for understanding and addressing supply chain risks.

* A company is considered "exposed" if it produces, procures, or uses soy, palm, timber & pulp, or cattle products as part of its core business* Companies included in this study are based on

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Supply Change and Ceres teamed up to analyze, from an investor perspective, the state of corporate reporting related to traceability commitments for forest risk commodities for key differences in the nature and details of corporate traceability statements.

➡ The *Supply Change* team reviewed* 815 traceability statements from the public documents of 208 of the 469 companies with commitments to address deforestation in their supply chains.**

➡ For each statement the team made note of key characteristics:
　　(1) What was communicated?
　　(2) How was it communicated?
　　(3) Where was it communicated?

* Review was completed during the period of August to October of 2017.
** Documents were discovered via corporate channels such as websites and sustainability reports, voluntary disclosure channels such as CDP's forest programme and the Roundtable on Sustainable Palm Oil (RSPO) Annual Communications of Progress.

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ZOOMING IN:
COMPANIES, COMMODITIES, & TRACEABILITY
COMMITMENTS THAT COUNT, 2018

EXECUTIVE SUMMARY FOR INSTITUTIONAL INVESTORS

Change is good. So is information.
Businesses, investors, and governments are committing to reverse their role in degrading the world's critical ecosystems. But until recently, market information that best supports these efforts has been scarce. Supply-Change.org exists to fill this data gap by providing a platform for news, data, and analysis that catalogs and contextualizes global progress toward environmental targets.

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→ Supply Change tracks 800 companies with "big four" commodity exposure, of which 469 have commitments to address deforestation; however, **less than half of these companies (208, 44%) have made statements of traceability intent.**

→ **Among those with a statement of traceability intent, 98 (47%) companies have made clear and actionable commitments to carry out traceability.** The remaining 110 companies have made aspirational statements that lack detail, in that they have no targets or deadlines and are not accompanied by an action plan.

→ **Companies are tracing commodity supply despite not having a commitment for doing so.** Supply Change has discovered that 41 of the 110 companies (37%) with aspirational statements are disclosing some degree of traceability.

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➡ **The majority (67%) of the companies with traceability commitments are publicly traded.** Their traceability progress consistently outpaces that of privately held companies across all regions and commodities.

➡ **Setting goals that are quantifiable and time-bound. Just over half (56%) of all traceability commitments are time-bound.** Publicly declaring a commitment's target date and establishing milestones can guide the development of an implementation plan and serve to keep traceability on the corporate agenda.

➡ **Committing to traceability across all commodities. Less than 1% of companies* have traceability commitment(s) covering each of the big four commodities to which they are exposed.** Our analysis shows that companies have placed a stronger emphasis on palm and have comparatively underemphasized soy, cattle, and timber & pulp. Palm alone accounts for over half (59%) of traceability commitments—more than all three other commodities combined.

➡ **Regularly disclosing progress against commitments. Just over half (56%) of companies with traceability commitments are communicating publicly about their progress.** Demonstrating progress through public reporting is critical for reassuring investors, supply chain actors, NGOs, and other stakeholders that the commitment is alive and well.

*Note: Companies with exposure to only one commodity are not included in this finding.

→ **Detailing a specific scope for traceability goals. Very few companies (6%) commit to traceability with both a blanket statement that covers their whole commodity footprint and a specific scope that addresses, e.g., high-risk facilities, suppliers, and/or regions of operation.** This level of detail provides useful insights to stakeholders, however, over half (65%) of companies commit to traceability with only a blanket statement that covers the whole commodity footprint as its scope.

→ **Traceability to a specific landscape or supply chain level. The plantation, forest, or ranch of origin are the most upstream landscapes, or levels, of reporting.** While it may not be necessary nor applicable for all companies at all levels of the supply chain (e.g., retailer vs. trader) to report with such upstream granularity, only a third (36%) of companies with commitments report to those landscapes or levels. Most companies (55%) report traceability to the level of mill or tannery.

→ **Transparency on traceability is varied and vast. Of the 815 traceability statements reviewed for this analysis, we found that companies communicated about traceability through a variety of channels that are either managed directly by the company (e.g., websites, sustainability reports, annual reports) or by external parties (e.g., CDP, RSPO).** Traceability statements are most likely to be communicated through channels managed by the company (62%). Further, of all statements, highly detailed commodity-specific updates or dashboards (10%) are provided by a small number of companies. Externally managed channels, through which 28% of traceability statements appear, hold great value in their standardization of data requests and consistency in their reporting cycles.

➔ Palm traceability commitments are the most likely to be time-bound (79%), and soy traceability commitments are least likely to be time-bound (36%).

➔ Traceability ambition and performance is scored by 23 commodity-specific assessments, of which six provide a stand-alone traceability assessment. Soy is the only commodity without any accessible or comparable traceability score.

➔ More than half (51%) of all discovered traceability statements pertain to palm (415/815).

➔ Disclosures on soy traceability were most likely (54%) to be measured to a broad landscape level, often to the country, region, or biome.

Upon analyzing each of the traceability elements discussed above, the team noted variations in the depth of information included in disclosures ranging from general to more specific information. These insights informed the key findings slides as derived from corporate reporting and disclosure on traceability.

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Category of Traceability Ambition	Aspiration	Commitment		
	Any generally worded (not time-bound) expression of intent to pursue traceability.	*Any detailed, publicly available goal or sub-goal (milestone) for addressing traceability. May also be framed to avoid sourcing from certain locations.*		
Company Examples	Johnson&Johnson	M&S EST. 1884	vandemoortele	Olam
Traceability Ambition Description	Aspires to work with its suppliers to build wood visibility back to the country of origin.	Commits 100% of leather will be sourced from outside the Amazon biome by 2020.	Has a sub-goal (supporting its commitment to zero deforestation) that 100% of its palm will be traceable to the mill by 2015.	Commits 100% of palm will be traceable to the mill by 2018, and that 30% will be traceable to the mill by 2016.

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Almost half (44%) of the 469 companies with commitments to reduce commodity-driven deforestation also have published traceability ambition(s), inclusive of both aspirations and commitments.

Companies with Traceability Ambition(s)		Companies without Traceability Ambition(s)		Total
208/469	44%	261/469	56%	469

Of the 208 companies with ambitions, 47% have published at least one clear and actionable commitment to carry out traceability.

Companies with Traceability Aspiration(s)		Companies with Traceability Commitment(s)		Total
110/208	53%	98/208	47%	208

Companies with and without Traceability Commitments
Business Structure

Publicly traded companies, across all commodities and regions, are more likely to have traceability commitments than privately held companies.

Business Structure	Companies with Traceability Commitment(s)		Companies without Traceability Commitment(s)		Total
Publicly Traded	66/261	25%	195/261	75%	261
Privately Held	32/208	15%	176/208	85%	208
Total	98/469	21%	371/469	79%	469

Note: Denominators equal the total number of companies, per business structure, of the 469 companies that Supply Change tracks that have at least one commitment to address commodity-driven deforestation.

Companies may be exposed to the "big four" commodities at multiple levels within their supply chain as they may operate at multiple levels of the supply chain.

Supply Chain Level	Companies with Traceability Commitment(s)		Companies without Traceability Commitment(s)		Total
Producer	19/83	23%	64/83	77%	83
Processor	31/110	28%	79/110	72%	110
Trader	18/58	31%	40/58	69%	58
Manufacturer	70/322	22%	252/322	78%	322
Retailer	31/150	21%	119/150	79%	150

Companies may be exposed to more than one commodity, however, less than 1% of companies have traceability commitment(s) covering each of the big four commodities to which they are exposed.

Commodity Exposure and Commitment Coverage	Partial Company has exposure to more than one commodity but does not have full traceability commitment coverage.		Full Company is exposed to all four forest-risk commodities and has full traceability commitment coverage.
Company Examples	COACH	JERÓNIMO MARTINS	MARS
Traceability Commitment Coverage Details	Commitment for cattle. No timber & pulp commitment specified.	Commitments for soy, timber & pulp, and cattle. No palm commitment specified.	Commitments for palm, soy, timber & pulp, and cattle.

Companies with and without Traceability Commitments
Commodity Exposure and Commitment Coverage

	# of Commodities with a Traceability Commitment(s)					
# of Commodities with Exposure	**0**	**1**	**2**	**3**	**4**	**Total**
1	133	18				151
2	80	23	0			103
3	66	15	2	0		83
4	97	28	4	1	2	132
Total	376	84	6	1	2	469

Traceability Commitments
Quantifiable and Time-bound

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Publicly declaring a commitment's target date and establishing milestones can guide the development of an implementation plan and serve to keep traceability on the corporate agenda. Just over half (56%) of all traceability commitments are time-bound.

Specificity of Commitment Timeframe	Not Time-bound.	Is Time-bound.	Is Time-bound and has Time-bound Milestones.
Company Examples	PZ Cussons	TARGET	Apical
Traceability Commitment Details	100% of palm will be traceable to the plantation. No target date specified.	100% of its own brand products will be traceable to the plantation by 2018. No milestone goals specified.	100% of palm will be traceable to the plantation by 2020, and, 100% will be traceable to the mill by 2016.

Traceability Commitments
Quantifiable and Time-bound, by Commodity

**Out of the 98 companies with commitments,
55 have target dates for all of their traceability commitments.**

Companies with Traceability commitment(s)				Companies without Traceability Commitment(s)		Total Companies with and without Commitments
All Commitments are Time-bound		Not all Commitments are Time-bound				
55/98	56%	43/98	44%	371/469	79%	469

Commodity breakdown and Time-bound details of the 98 companies with traceability commitments.

Commodity	Companies with Traceability Commitment(s) that are All Time-bound		Companies with Some Traceability Commitment(s) that are Not Time-bound		Total Companies with Traceability Commitments
Soy	5/14	36%	9/14	64%	14
Palm	46/58	79%	12/58	21%	58
Timber & Pulp	8/14	57%	6/14	43%	14
Cattle	9/21	43%	12/21	57%	21

The landscape and/or supply chain level is the location to which a company's commodity supply chain can be traced upstream (e.g., region, country, state, port of entry, refinery, tannery, mill, slaughterhouse, plantation, ranch). While it may not be necessary nor applicable for all companies at all levels of the supply chain (e.g., retailer vs. trader) to report with such upstream granularity, only a third (36%) of companies with commitments report to those landscapes or levels. Most companies (55%) report traceability to the level of mill or tannery.

Location Specificity of Traceability Commitment	Broad Disclose traceability to a broad landscape level.	More Defined Landscape and/or Supply chain Level	
		Disclose traceability to the mill, slaughterhouse.	Disclose traceability to the plantation, ranch, forest.
Company Examples	axfood	STAPLES	NESTE OIL
Traceability Commitment Details	Discloses that 100% of beef is traceable to the country of origin.	Discloses that 71% of timber is traceable to the mill.	Discloses that 100% of palm is traceable to the plantation.

Commodity	Companies with Traceability Commitments and Traceability Disclosures						Total # Disclosing
	Disclosing to the Plantation/Forest/Ranch Level		Disclosing to the Mill/Tannery Level		Disclosing to a Broad Location		
Soy	5/13	38%	1/13	8%	7/13	54%	13
Palm	9/44	20%	29/44	66%	6/44	14%	44
Timber & Pulp	9/21	43%	7/21	33%	5/21	24%	21
Cattle	5/14	36%	5/14	36%	4/14	28%	14
Any Commodity	20/55	36%	30/55	55%	5/55	9%	55

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Very few companies (6%) commit to traceability with both a blanket statement that covers their whole commodity footprint and a specific scope that addresses, e.g., high-risk facilities, suppliers, and/or regions of operation. This level of detail provides useful insights to stakeholders, however, over half (65%) of companies commit to traceability with only a blanket statement that covers the whole commodity footprint as its scope. This method is the most comparable and is standardized in CDP forests programme disclosures.

Scope Specificity of Traceability Commitments	Company Level		Company Level & Specific Scope
	The scope of reporting covers a portion of the company.	The scope of reporting covers the company as a whole.	The scope of reporting is both the company as a whole and specific high-risk facilities, suppliers, or regions.
Company Examples	TIFFANY & CO.	Nestlé	Kellogg's
Traceability Commitment Details	Discloses traceability of leather used in its accessories line.	Discloses company-level traceability for each commodity.	Discloses company-level traceability and provides traceability breakdowns for some of its top suppliers.

Commodity	Company Level, a Portion of the Company		Company Level, for the Whole Company		Company Level & Specific Scope		Total
Soy	13/30	43%	17/30	57%	0/30	0%	30
Palm	62/197	31%	117/197	60%	18/197	9%	197
Timber & Pulp	13/75	18%	61/75	81%	1/75	1%	75
Cattle	14/46	30%	32/46	70%	0/46	0%	46
Total	102/348	29%	227/348	65%	19/348	6%	348

Transparency on Traceability
Disclosure and Reporting Channels are Varied and Vast

Of the 815 traceability statements reviewed for this analysis, we found that companies communicated about traceability through a variety of channels that are either managed directly by the company (e.g., websites, sustainability reports, annual reports) or by external parties (e.g., CDP, RSPO).

Channels for Traceability Disclosure and Reporting	Externally Managed Channels	Company Managed Channels	Externally and Company Managed Commodity Specific Channels
Company Examples	McCORMICK	Barilla	PEPSICO
Disclosure and Reporting Channels Details	Communicates soy commitment and traceability status via CDP Forest Disclosures.	Communicates palm commitment through its Annual Report and discloses its traceability status through its CDP Forest Disclosure.	Discloses palm traceability via: Palm Oil Action Plan Progress Reports, Sustainability Reports, CDP Forests Disclosures, and RSPO Annual Communications of Progress.

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Traceability statements are most likely to be communicated through channels managed by the company (62%). Further, of all statements, highly detailed commodity-specific updates or dashboards (10%) are provided by a small number of companies. Externally managed channels, through which 28% of traceability statements appear, hold great value in their standardization of data requests and consistency in their reporting cycles.

Channels for Traceability Disclosure and Reporting	Externally Managed Channels*		Company Managed Channels**		Externally and Company Managed Commodity-specific Channels		All Channels
Traceability Statements by Channel	229/815	28%	506/815	72%	80/815	10%	815

*Externally managed channels include: CDP Forest Disclosures, Roundtable on Sustainable Palm Oil Annual Communications of Progress, TFT Profile, Leather Working Group (Traceability Guide), Global Forest Trade Network (Public Information Document), Palm Oil Innovation Group (Charter Indicators), Round Table on Responsible Soy (Annual Public Report).
** Company managed channels include: sustainability reports, annual reports, web pages, policy documents, and news articles published by the company.

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Traceability statements are most likely to address palm, more than half. In comparison to soy, for example, palm related traceability statements are available more than eight times as much.

Commodity	Channels for Traceability Disclosure and Reporting						All Channels
	Externally Managed Channels		Company Managed Channels		Externally and Company Managed Commodity-specific Channels		
Soy	26/61	43%	31/61	50%	4/61	7%	61
Palm	106/415	26%	250/415	60%	59/415	14%	415
Timber & Pulp	67/200	34%	123/200	62%	10/200	5%	200
Cattle	25/91	27%	59/91	65%	7/91	8%	91

Supply Change tracks 23 Relevant Assessments*, six of which directly evaluate companies on their traceability ambitions and/or performance.** These assessments assign a traceability score which can be viewed and compared with other companies covered by the assessment.

Relevant Activity Organization	Leather Working Group (1)	Canopy: Hot Button Issue (2)
Commodity Assessed	**Leather** 🐂	**Timber & Pulp** ⬤
Supply Chain Level	Processors (leather tanners)	Processors (viscose fiber)
# of Companies:	306***	10
Basis of Score	Traceability to the slaughterhouse.	Establish traceability system, publish list of suppliers, and share origin of fiber sources publicly.
Score Scaling	Traceability grade A: 90-100% B: 50%-89% C: 0-49%	7 total buttons (pts.) 2: reports traceability to Canopy 1: has a traceability system 1: publishes a list of suppliers 3: discloses fiber origins (forest level)

* Relevant Assessments are scores, rankings, or credentials conducted by third parties.
** Other scorecards rate traceability but aggregate the scores, thereby rendering the individual traceability scores inaccessible.
*** There are 438 corporate LWG members of which 306 are tanners. These are the only companies scored on traceability.

Relevant Activity Organization	Union of Concerned Scientists (3 & 4)		ZSL: SPOTT Tool (5 & 6)	
Commodity Assessed	**Beef** 🐮	**Palm** 🌴	**Palm** 🌴	**Timber & Pulp** 🪵
Supply Chain Level	Retailers & Restaurants	Manufacturers & Retailers	Producers	Producers
# of Companies:	13	40	50	25
Basis of Score	Company's mapping of suppliers	Commitment of traceability to the plantation	% of supply traceable to mill or plantation	% of supply traceable to mill or plantation
Score Scaling	Direct - 8 Indirect - 12	Vague - 10 Full - 15	75% to 100% - 2 50% to 74% - 1.5 25% to 49% - 1 1% to 24% - 0.5	75% to 100% - 2 50% to 74% - 1.5 25% to 49% - 1 1% to 24% - 0.5

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Companies are beginning to recognize that improving their traceability is fundamental to managing their supply chain risks. A growing number of companies have recognized a variety of business risks associated with commodity-driven deforestation. At the same time, an increasing number of companies (469) have made commitments to reduce these risks in their commodity supply chains.

As more companies focus on traceability, details to guide implementation and transparency on progress is important. Few companies (44%) have included traceability ambitions (time-bound or otherwise) as part of their commitment(s) to avoid deforestation. Even fewer (12%) report the traceability status of even one of the commodities they use.

Traceability requires supply chain teamwork and stakeholder collaboration. Companies and their stakeholders will achieve greatest success when working together, while taking into consideration the many factors that may influence strategies for how to implement commitments that address commodity-driven deforestation, e.g., the commodity, supply chain complexity, geographic origin and/or destination of commodity flows.

About Ceres and the Ceres Investor Network on Climate Risk and Sustainability

Ceres is a sustainability nonprofit organization working with the most influential investors and companies to build leadership and drive solutions throughout the economy. Through powerful networks and advocacy, Ceres tackles the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and human rights abuses.

The Ceres Investor Network on Climate Risk and Sustainability comprises more than 130 institutional investors, collectively managing more than $20 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. Ceres Investor Network members engage and collaborate on environmental, social, and governance issues to advance leading investment practices, corporate engagement strategies and policy solutions through working groups and shared learning opportunities, such as webinars and events. Ceres works with investors specifically to better manage carbon, water and supply chain risks, and ramp up global investments in clean energy and sustainable food and water systems.

About Forest Trends' *Supply Change* Initiative

Supply Change, an initiative of the non-profit organization Forest Trends, is a transformational resource for businesses and the various stakeholders that hold them accountable, including investors, governments, industry groups, not-for-profits, and the general public, on the extent and value of corporate commitments related to commodity-driven deforestation. *Supply Change* continuously researches and aggregates already available data, providing this via a centralized, freely, and publicly available web platform (www.supply-change.org) that tracks companies, their commitments, corresponding implementation policies, and their progress towards their commitments over time.

Forest Trends works to conserve forests and other ecosystems through the creation and wide adoption of a broad range of environmental finance, markets, and other payment and incentive mechanisms. Forest Trends does so by 1) providing transparent information on ecosystem values, finance, and markets through knowledge acquisition, analysis, and dissemination; 2) convening diverse coalitions, partners, and communities of practice to promote environmental values and advance development of new markets and payment mechanisms; and 3) demonstrating successful tools, standards, and models of innovative finance for conservation.

For *Supply Change* updates, news and insights, please subscribe to our newsletter (http://forest-trends.org/dir/signup).

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POWERED BY CDP DATA

Supply Change data is regularly gathered from a variety of sources, including public disclosures to CDP's forest program, sustainability reports, websites, RSPO Annual Communications of Progress, and Roundtable on Responsible Soy (RTRS) annual reports.

More information on data sources is available in *Supply Change*'s full methodology: http://www.supply-change.org/pages/full-methodology

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