



SUPPLY CHANGE
An Initiative of Forest Trends

in partnership with



TARGETING ZERO DEFORESTATION: COMPANY PROGRESS ON COMMITMENTS THAT COUNT, 2019

A COLLABORATIVE ANALYSIS BETWEEN FOREST TRENDS AND CERES BASED UPON SUPPLY CHANGE DATA

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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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Introduction

It's been nearly a decade since the Board of the Consumer Goods Forum (CGF), an industry association comprised of roughly 400 companies, passed a resolution to achieve Zero Net Deforestation¹ in the "big four" commodity supply chains responsible for the bulk of the world's deforestation – cattle, soy, palm oil, and pulp & paper – by the year 2020. The resolution was passed in response to growing evidence of risks associated with climate change and deforestation in commodity supply chains – specifically, evidence that deforestation accounted for nearly 20% of global greenhouse gas emissions, and that the production of these four commodities accounted for the lion's share of deforestation worldwide.

Since then, a significant number of consumer-facing buyers, and a small but growing number of investors, have leveraged zero deforestation commitments to both attract sustainability-minded consumers and meet their own fiduciary responsibility to identify, disclose, and address climate-related risks.

Early zero deforestation commitments lacked comparability and were dispersed across numerous channels, so Forest Trends launched the [Supply Change](#) initiative in early 2015 to address this. The initiative organizes the world's collective understanding of corporate action on eliminating deforestation from supply chains by identifying companies with exposure to deforestation risk associated with the "big four" commodities, and it tracks both their commitments and their reported progress towards achieving them.²

To date, *Supply Change* has identified 865 companies³ believed to be the largest, most impactful, and/or most likely to have commitments. The selection criteria include whether the companies have done one or more of the following: joined multilateral efforts to end deforestation, such as the Tropical Forest Alliance 2020 (TFA2020, now just known as Tropical Forest Alliance); endorsed global pledges to end deforestation, such as the New York Declaration on Forests (NYDF); been featured in related assessments on managing deforestation-related risks, such as [WWF's Soy Scorecard](#); or been called to task by the media for deforestation-related impacts embedded within their supply chains.

Analysis Objectives

- (1) Identify the types and degree of progress reported around various corporate commitments, and
- (2) Present these findings in a way that can be of use to value-driven investors looking to nudge companies away from deforestation risk.

In pursuing these objectives, *Supply Change* has identified key differences in the depth and level of detail that companies provide around their ambition and disclosure to address deforestation. It is hoped that these findings will motivate companies to accelerate their pace heading into 2020 while informing investor approaches for corporate engagement. Our analysis considered (Figure 1):

- ➔ Whether or not companies have **forest-risk exposure**⁴ to a commodity linked to deforestation;
- ➔ Whether or not companies established a **sustainable commodity commitment**⁵ for at least one major commodity linked to deforestation within their supply chain. This includes attaining sustainability certification or implementing practices such as tracing commodities back toward the

¹ The Consumer Goods Forum has endorsed the World Wildlife Fund definition of *Zero Net Deforestation*, which "acknowledges that some forest loss could be offset by forest restoration and afforestation on degraded land." This can be achieved through direct restoration or the purchase of forest carbon offsets, biodiversity offsets, or other environmental currencies.

² Because tracking all 865 companies simultaneously is not possible, *Supply Change* staggers company reviews throughout the year, so the research for any given company varies and is up-to-date as of the date it was reviewed.

³ Forest Trends' *Supply Change* Initiative tracks a global set of companies, representing all levels of the supply chain from producer to retailer, and their commitments to address deforestation that stems from the production of the "big four": palm, soy, timber & pulp, and cattle commodities. *Supply Change* data is regularly gathered from a variety of sources, including public disclosures to CDP's forest program, sustainability reports, websites, Roundtable on Sustainable Palm Oil (RSPO) Annual Communications of Progress, and Roundtable on Responsible Soy (RTRS) annual reports.

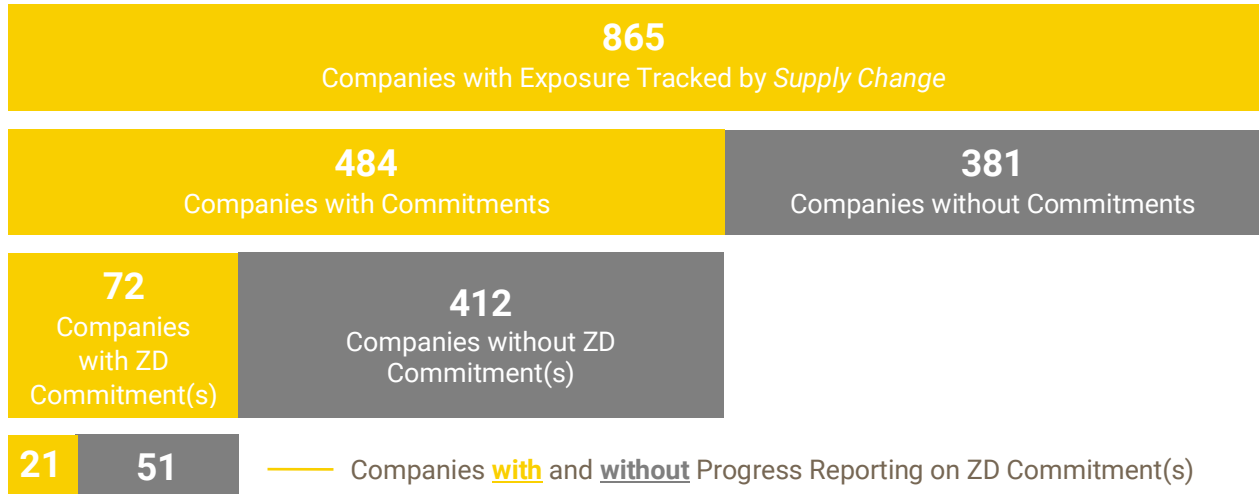
⁴ Exposure indicates that a company produces, sells, or procures the commodity and/or related derivatives and byproducts as part of its core business. *Supply Change* checks for exposure to all of the big four forest-risk commodity supply chains.

⁵ For the purposes of this report, a "sustainable commodity commitment" is an umbrella term encompassing all commitments to reduce land-use impacts, including commitments around commodity certification, traceability, and reduction or elimination of forest-risk commodities. A commitment is any publicly-available corporate statement specific to a particular commodity, e.g., palm, timber & pulp, soy, cattle, related to the following: certified (or otherwise "sustainable") commodities or certificates/credits; supply chain traceability, supplier certification, bilateral purchase agreements, and any other organizational targets for zero/zero net deforestation or ecological degradation. We also track aspirations and milestones – instances when companies modify or elaborate on commitments, with either an unspecified or specific time-bound goal, respectively.

origin of production. *These pledges are achievable and verifiable, but they don't guarantee elimination of deforestation*

- ➔ Whether or not these sustainable commodity commitments include pledges to eliminate deforestation from companies' own supply chains (called **"Zero deforestation" or ZD commitments**).⁶ *These pledges are highly motivational but difficult to measure and implement without broad structural and sectoral change.*
- ➔ Whether or not companies have reported quantitative **progress**⁷ towards achieving these commitments, either in terms of compliant volumes or progress towards specific milestones to address deforestation.⁸

 **Figure 1: Variation in Companies' Sustainable Commodity Commitments and Progress Reporting on Zero Deforestation (ZD) Commitments**



These findings inform and underpin the complementary brief, *Out On a Limb: The State of Corporate No-Deforestation Commitments and Reporting Indicators that Count*, released by Ceres as part of their 2019 campaign to motivate institutional investors with \$26 Trillion in assets in their Climate Investor Network to support corporate leadership in addressing deforestation.

⁶ *Supply Change* counts company commitments or aspirations towards zero deforestation if the commitment text states, "zero deforestation," "no deforestation," "deforestation free" or similar language that implies "no deforestation anywhere," whether the company has defined the term or not. For the purpose of this analysis, zero deforestation includes both "zero deforestation" and "zero net deforestation."

⁷ Quantitative progress refers to when companies report compliance towards a high-level commitment either as a percentage of the total that is in compliance and/or the volumes of the product (or the area of land) in compliance. For example, corporate disclosure that 20% of the soy it uses in 2018 is deforestation-free would be progress for a publicly stated commitment to use 100% deforestation-free soy by 2020. In contrast, corporate disclosure stating that 40% of the soy it uses will be sustainably certified would not be considered progress toward the previous example commitment. Rather it would be designated as progress toward an intermediate milestone that the company would buy all sustainably certified soy by 2019 in support of its larger efforts to achieve deforestation-free soy.

⁸ A milestone to address deforestation is a time-bound intermediate goal that serves as a stepping-stone toward meeting the broader commitment to zero deforestation.

Key Findings

(1) 484 (56%) of the 865 companies with forest-risk exposure have set sustainable commodity commitment(s). Of the 865 companies tracked, 484 (56%) companies have committed to implementing targets related to the sustainable production of commodities, while 381 – or 44% – have made no such commitments.

(2) Only 72 (8%) of the 865 companies have committed to achieve zero/zero net deforestation for at least one forest-risk commodity. Of the 865 companies tracked by Supply Change, 72 companies (8%) have committed to zero deforestation supply chain(s), while the remaining 412 with commitments have pledged something short of zero deforestation.

(3) Just 21 companies (29%) of the 72 companies have reported quantitative progress on at least one zero/zero net deforestation commitment.⁹ A minority of companies (29%) are disclosing quantitative progress toward their zero/zero net deforestation commitment(s), while the remaining 51 companies are not.

(4) Companies with zero/zero net deforestation commitments are half as likely to report progress as those with other types of commitments (such as for commodity certification). Just 21 (29%) of the 72 companies with zero deforestation or zero net deforestation commitments have reported progress, while 59% of the 412 companies with other types of commitments (e.g., certification) have done so. This could reflect basic challenges around defining the problem as well as the associated financial, technical, and buy-in challenges associated with setting up systems for managing and monitoring these forest-risks, while sustainable commodity commitments involving third-party certification standards and chain of custody systems for tracing commodity supplies to their source provide ready-made solutions that everyone can agree on.¹⁰

(5) Most of the 21 companies that both commit and report are reporting compliant volumes – not just percentages. Roughly three-fourths (16) of these companies report the volume of product – as opposed to just a percentage of the total – that meets the targeted criteria. This makes it possible to evaluate the scale of the impact.

(6) Zero/zero net-deforestation commitments lack intermediate deadlines. Although 2020 is a key year for collective zero deforestation pledges, none of the 72 companies with these pledges have set intermediate milestones to track progress on deforestation. This contrasts sharply with companies making other types of commitments, and may reflect a lack of consensus on how to define and report progress towards zero deforestation.

A coalition of companies, nonprofits, and government agencies collaborating through the [Accountability Framework initiative](#) (AFi) have developed concrete guidance for establishing and reporting measurable, verifiable commitments to address deforestation in ways that align with existing definitions. The intention is that AFi deforestation principles will inform and simplify civil society demands of companies and that companies will set and report progress to commitments aligned with those principles. This lays the groundwork for forming industry norms. Companies can report progress toward zero deforestation commitments and interim milestones without having to rely on proxies, such as progress toward sustainable commodity milestones.

⁹ Companies may disclose quantitative and/or progress in support of a commitment, but this number only counts progress disclosure toward zero/zero net deforestation and not toward other sustainable commodity targets.

¹⁰ Chagas et al. *Impacts of Supply Chain Commitments on the Forest Frontier* (Tropical Forest Alliance 2020, June 2018) accessed at <https://www.tfa2020.org/wp-content/uploads/2018/06/Impacts-of-Supply-Chain-Commitments-on-the-Forest-Frontier.pdf>, April 2019. Representatives for the companies interviewed expressed frustration about the lack of consensus on definitions, metrics, and reporting. The Accountability Framework initiative is working to develop guidance that is intended to help clarify these issues for companies as they set, implement, and report on commitments to reduce or eliminate commodity-driven deforestation.

Conclusion and Next Steps

Through backdoor talks and shareholder engagement tactics such as dialogues, letters, and shareholder resolutions,¹¹ investors are increasingly pressuring portfolio companies to be more transparent about how they are implementing their zero deforestation pledges. Investors are also asking companies to show results they have achieved in eliminating deforestation risks from their commodity supply chains. Many companies have responded by making and disclosing on sustainable commodity commitments. The majority have not bought into making high level zero deforestation commitments, let alone reporting quantitative progress against them.¹²

As we head into 2020, some companies are clearly differentiating themselves, both in terms of ambition and action. Many, for example, are making concrete, group-wide zero deforestation commitments that cover supply chains for all commodities and disclose detailed information on the origins of their supply.¹³ These companies have defined specific actions that constitute progress towards commitments, and are implementing systems for monitoring, verifying, and reporting that progress.

Box 1: The Breakdown: Who are the 72 Companies that set Zero deforestation Commitments?

Geographic Location

Roughly two-thirds of the 72 zero deforestation companies are headquartered in the United States (17) and Europe (30). Only 12 are based in countries with large tropical forests (i.e. Africa, South America, and South East Asia).

Ownership and Structure

Over half (44) of the 72 zero deforestation companies are publicly traded, while 28 are privately held. This means 12% of the 498 publicly traded companies have zero deforestation commitments, compared to just 6% of the *Supply Change* 367 privately-held companies.

Publicly traded companies are also more likely to disclose progress towards a commitment, with 39% of public companies disclosing compared to 21% of private companies. Of those that disclose progress, 69% of publicly traded companies and 83% of private companies also disclose volume amounts.

Sectors

Nearly half of the zero deforestation companies – or 34 of 72 – come from food and beverage-related sectors. Roughly half of the total companies tracked by *Supply Change* fall into these sectors.

Supply Chain Level

Manufacturers (42) and retailers (24) dominate the list of companies setting zero deforestation commitments. This is likely due to various factors, including higher exposure to reputational risk among consumer-facing companies. Indeed, many have been targeted for nearly a decade by environmental advocacy groups and campaigns, in addition to shareholder engagements.

In the *Out on a Limb* Investor Brief, Ceres offers a deep dive into actions that leading companies are taking, consequences faced by laggards who fail to address deforestation risk, and AFI-aligned recommendations¹⁴ and questions that investors can use for engagement. As these few companies pull ahead, the commodities market is rapidly bifurcating with companies that aim to avoid deforestation risk clustered on one side and companies with no such concerns clustered on the other – making it easier for shareholders to differentiate between high-risk and low-risk companies.

¹¹ See [Ceres database](#) on shareholder resolutions initiated by investors in Ceres Investor Network on Climate and Sustainability (INCRS) and other global shareholder partners.

¹² Institutional investors increasingly have an opportunity to make concrete requests of companies toward addressing deforestation with the emergence of detailed guidance on how to define and monitor progress toward zero deforestation commitments.

¹³ See [Zooming In](#) report by Forest Trends *Supply Change* Initiative in partnership with Ceres.

¹⁴ The AFI and Ceres advocate that companies move beyond zero net deforestation commitments popularized by the Consumer Goods Forum and only set zero deforestation commitments (also called no-deforestation commitments), which do not allow for forest loss to be offset by forest restoration and afforestation on degraded land.

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Donors

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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.

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Supply Change

Tracking corporate commitments, implementation policies, and progress on reducing deforestation in commodity supply chains

Water Initiative

Promoting the use of incentives and market-based instruments to protect and sustainably manage watershed services

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