

CDP Europe’s comment on European Commission’s initiative “Stepping up EU Action against Deforestation and Forest Degradation”¹

Background

CDP welcomes the European Commission’s initiative that aims to present an integrated EU approach to combat deforestation, protect forests and promote sustainable supply chains.

Trends in global deforestation are moving in the wrong direction; 2017 was the second worst year on record for tropical tree cover loss. If tropical deforestation were a country, it would rank as the third largest emitter of greenhouse gases (GHGs). As the latest landmark report from the Intergovernmental Panel on Climate Change spells out, three of the four scenarios by which global warming can be held below 1.5°C involve significant sequestration of carbon by the agriculture, forestry and other land-use sectors.²

Our input focusses on three areas.

▼ Corporate disclosure and action

Strengthening the corporate reporting framework by specifying disclosure requirements of corporates on deforestation, forests degradation risk and land-use change throughout their entire supply chains, notably considering the Non-Financial Reporting Directive.

▼ Sustainable Finance

Integrating deforestation risk assessment into policy measures targeting investors and banks, notably considering the legislative and non-legislative measures of the EU Action Plan on Sustainable Finance.

▼ Public and private procurement

Encouraging better management of forest-related impacts of suppliers and act as a driver of positive action to halt deforestation in supply chains; and embed sustainability criteria into procurement standards.

¹ https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-6516782_en

² CDP (2019), “From rhetoric to collaboration”

1. Corporate disclosure and action

The [CDP Europe report 2018](#) reveals that 83 companies responded to CDP's forests questionnaire, looking at risks associated with key forest commodities. This included 67 responses on timber, 23 on cattle, 31 on palm oil, 21 on soy, and 4 on rubber.³

- ▼ 80% of European companies have put in place an internal policy to address forest-related sustainability issues.
- ▼ 70% of European companies have made public commitments on deforestation and forest degradation.
- ▼ 90% of European companies with targets rely on third party schemes to track or achieve them.
- ▼ 88% of European companies have a procedure in place to identify and assess deforestation risks.

The vast majority of the 83 corporates disclosing on forest-related issues this year are already taking some form of action to tackle them. Four-fifths (80%) have put in place some sort of **internal policy measure to address forest sustainability issues**, such as transparency on sourcing or the inclusion of forest-related standards into procurement processes. And of the remaining companies that do not yet have a policy in place, a majority (61%) indicate that they are planning to implement one over the next two years.

Where policies are in place, 89% specifically address a **commodity associated with deforestation** – most commonly timber and palm oil. It is also clear that most companies are taking a holistic rather than a tactical approach to issues, with 90% of policies set at a company-wide level, rather than just applying to selected geographies, facilities, business units, or product lines.

Over three-quarters (78%) of the **policies that are in place go beyond mere regulatory compliance**, with two-thirds (67%) referring to voluntary international standards and widely-recognized forests initiatives. Most are centred around avoiding deforestation and forest degradation, but a large number also seek to achieve wider goals, such as the protection of local communities and important habitats for species.

Looking beyond broader policies, 70% of companies have made **public commitments to reduce or remove deforestation and forest degradation from their direct operations or supply chain**. These focus mostly on ending sourcing of illegally-produced or traded commodities, protecting high value conservation areas, and zero net deforestation pledges. The most frequently cited are the We Mean Business pledge to remove commodity-driven deforestation from all supply chains by 2020 (12 companies), and supporting the New York Declaration on Forests (9 companies).

³ CDP (2019), Europe report 2018: "Higher ambitions, higher expectations"

Four-fifths (80%) of respondents also have **quantitative targets related to increasing the sustainable production or consumption of specific forest commodities**. The most frequently cited goals relate to increasing the use of commodities that meet the criteria of third-party certification schemes, traceability and sustainable procurement standards. The importance of these third-party schemes is highlighted by the fact that where targets are in place, 90% of companies indicate that they rely on them.

However, once set, **targets are not necessary always achieved**. Only 70% of companies have come close to meeting their third-party certification targets, 56% on traceability targets, and 38% on sustainable procurement standards. This indicates that most companies will need to step up their efforts to fully address the deforestation and forest degradation challenges posed by high risk commodities. Fortunately – at least amongst European respondents to CDP – there appears to be a step change in how these commodities are being looked at. Nearly three-quarters (72%) of respondents indicate that they are **integrating forest-related issues into their long-term business objectives**, alongside having a strategy in place to achieve these goals. And 58% of disclosing companies are now **integrating forest issues in their financial planning**.

Conclusions for Corporates

- ▼ CDP's forests [A List 2018](#) features just seven companies this year, an increase of one from 2017. Although six of these are from Europe, again showing leadership from businesses in the region. In part, the forests A List is smaller because the disclosure process for forests is much less established than for climate change, with fewer total respondents. However, this doesn't fully account for the discrepancy;
- ▼ A record number of companies disclosed to CDP's forests questionnaire in 2018. While these companies have taken an important first step in their journey towards managing deforestation risks, most will need to significantly accelerate their efforts to match the progress they are making on climate change, and to a lesser extent on water security.

2. Sustainable Finance

Last year, 656 investors and financial institutions, managing US\$87 trillion in assets, put their names to the CDP Forests Disclosure Request. This figure has risen from 380 in 2017, and just 31 when the first information request was sent out in 2010.

Engagement with the issue has never been greater. A growing number of financial institutions have introduced policies that cover their investment in or lending to companies involved in forest-risk commodity supply chains. Rabobank's sustainability policy, for example, commits

the Dutch bank to “strive to achieving zero net deforestation by preferably not engaging in transactions that are directly linked to deforestation activities”⁴.

Some of these institutions are taking concrete action to remove deforestation risk from their portfolios. Many are engaging with companies to encourage them to improve their practices, often in behind-closed-door meetings. Some are going further, choosing to decline investment to, or to divest from, companies that are causing or contributing to deforestation.

In some cases, these decisions are made public. In its latest responsible investment report, Norges Bank Investment Management, which manages around US\$1 trillion for Norway’s Government Pension Fund Global, reported divestment from one soy and three palm oil companies, based on the long-term environmental and social risks they pose⁵.

Equally, investors are working collaboratively to encourage higher standards within commodity supply chains. Ninety-one institutions, managing US\$6.7 trillion in assets, in mid-2018 called on the Roundtable for Sustainable Palm Oil (RSPO) to strengthen draft revisions to its sustainable palm oil standards⁶. In November, the RSPO adopted strengthened standards⁷.

Service providers are offering products that help investors avoid deforestation-related risks. Exchange operator Euronext has launched an equity index, the Euronext® CDP Environment France EW Decrement 5%, which includes the 40 France-listed companies which score highest based on their CDP disclosures, including on deforestation risks.

Financial institutions are also offering products to help **channel finance towards sustainable forestry management and commodity production**. For example, BNP Paribas has structured a US\$95 million sustainability bond on behalf of the Tropical Landscapes Financing Facility. The proceeds will help fund a sustainable natural rubber plantation on heavily degraded land in Indonesia, in a joint venture between tire maker Michelin of France and Indonesian conglomerate Barito Pacific Group.

Governments can use existing tools such as [Climetrics](#), the **first independent fund rating** that provides a holistic assessment of a fund’s climate-related risks and opportunities, covering a fund universe of 4500 funds and used by institutional and retail investors as well as individuals seeking an investment in Paris Agreement aligned funds. Climetrics uses company scores and data on **climate change and deforestation** from CDP and incorporates carbon emissions data from ISS-climate.

However, there is much more to be done. Green finance is dwarfed by funding that is facilitating deforestation. And among the 150 most important financial institutions analyzed by the Forest 500 project, only 31% disclosed a sustainability policy covering at least one forest-risk

⁴ Rabobank Group (2018), Sustainability Policy Framework

⁵ Norges Bank, Responsible Investment 2017

⁶ Ceres, “Global Investors Call for Stronger Standard from Sustainable Palm Oil Certification Group”, 13 August 2018

⁷ RSPO, “Members Agree on New Palm Oil Standard to Halt Deforestation and Improve Human Rights Protection”, 15 November 2018

commodity; and, while 38 have policies for lending to timber companies, that figure drops to 13 for cattle⁸.

Conclusions for Investors

- ▼ As a first step, seek to understand the extent and nature of their exposures to deforestation risk. CDP forests data offers essential insights in this regard;
- ▼ Explore the potential of investing in opportunities in deforestation-free commodity supply chains. These might include sustainable landscape bonds, green bonds or impact funds that target sustainable agriculture and forestry⁹;
- ▼ Provide support for companies that invest in measures that will improve their ability to manage risks, particularly at the landscape and jurisdiction levels, through providing sustainable loans, project finance and equity.

3. Public and private procurement

With public procurement accounting for about 14% of European GDP, **public authorities' buying can play a key role in positive environmental action by driving suppliers to combat deforestation.**

Activities causing deforestation and forest degradation can often be hidden in complex supply chains, which is why it's important that **public buyers engage with their suppliers.**

Consumer country governments are turning their attention to commodity supply chains. Governments of seven European countries – Denmark, France, Germany, Italy, the Netherlands, Norway and the United Kingdom – have signed the Amsterdam Declaration 'Towards Eliminating Deforestation from Agricultural Commodity Chains with European Countries'. It commits signatories to “support and help meet the private sector goal of eliminating deforestation from the production of agricultural commodities such as beef and leather, palm oil, paper and pulp, soy and other commodities such as cocoa and rubber by no later than 2020¹⁰.” It specifically **recognizes the role of the private sector in eliminating deforestation from global supply chains¹¹.**

In a bid to turn this commitment into action, in November 2018 five French ministries announced a package of **measures to end deforestation linked to commodities imported**

⁸ Forest 500 (2019), Financial Institution Trends

⁹ TFA 2020 (2018), The Roadmap to Financing Deforestation-Free Commodities

¹⁰ Dutch Ministry of Foreign Affairs (2017), Amsterdam Declaration 'Towards Eliminating Deforestation from Agricultural Commodity Chains with European Countries'

¹¹ CDP (2018), Analysing European Public and Private Actions to Tackle Imported Deforestation

by France. These include financial aid to producer countries, product labels, and advocating for an EU-wide policy on the import of forest-risk commodities.

This year **CDP celebrates a decade of working with organizations to help them successfully reduce the environmental impact of their supply chain.** The CDP Supply Chain program began with just 19 members, largely from the retail and consumer goods sectors and headquartered in the USA and Europe. Today it brings together a diverse group of **115 major purchasing organizations** from around the world, with an enormous US\$3.3 trillion in combined procurement spend – an amount greater than the annual GDP of the United Kingdom.¹²

There is huge power in this scale of procurement spend. But with great power comes great responsibility. And over the past 10 years we have seen a fundamental shift in expectations around business action on climate change and other environmental sustainability issues. The program launched in 2008, **a time when many governments were acting far too slowly to address climate change;** a fact emphasised by the disappointing final outcome from the landmark Copenhagen climate talks in 2009. Partly as a result of this, subnational actors – particularly large corporates, but also some large public sector organizations – have started to play an increasingly important role driving climate action internationally. In many cases they are moving considerably faster and further than governments have required.

- ▶ More than 1.300 disclosing suppliers in Europe and 5.562 suppliers globally.
- ▶ The number of companies globally, disclosing information to their customers on their forests-related impacts has more than tripled, from 88 in 2017 to 305 in 2018¹³

Government members who want to leverage the power of public procurement to drive action on climate change:

- ▶ Los Angeles Department of Water and Power
- ▶ California Department of General Services
- ▶ U.S. General Services Administration (GSA)
- ▶ Ministry of the Environment, Government of Japan

Yoshiaki Harada, Minister of the Environment, Government of Japan: *“By taking action along the supply chain, companies can send price signals that reverberate throughout the economy and embed climate action at all levels. Members of the CDP Supply Chain program have set an example here, showing other organizations how to effectively create sustainable change through supplier engagement. As part of our commitment to driving climate action the Japanese government will be joining the 115 CDP Supply Chain members asking a selection of suppliers to disclose their climate change information to us through CDP in 2019.”*

¹² World Bank (2018) World Bank national accounts data, and OECD National Accounts data files

¹³ CDP (2019), Cascading commitments: Driving upstream action through supply chain engagement

Where regulations have not pushed companies to act in many parts of the world, clear signals from major purchasers have made a real difference. And as the consensus on the need to act has developed, coalescing around major campaign groups such as the We Mean Business coalition, with involvement from some of the most significant players in the global economy. And this commitment to a sustainable, low carbon economic transition has helped to bolster international support for political change, helping secure the signing of the Paris Agreement in 2015.

Over the past decade, as CDP's remit has expanded beyond climate change to encompass other urgent sustainability issues, the Supply Chain program has similarly expanded to address these areas. Water was introduced in 2013, to address scarcity and stewardship issues around this critical resource. And more recently forests, added in 2017, in response to the need to **act around deforestation risks associated with key commodities such as palm oil, timber, soy, cattle and rubber.**

Conclusion for Public and Private Procurers

- ▼ Encourage better management of forest-related impacts of suppliers of public and private procurement organizations and act as a driver of positive action to halt deforestation in supply chains;
- ▼ Embed sustainability criteria into procurement standards; [Public authorities can use their purchasing power](#) to influence suppliers to adopt more sustainable practices relating to their forest impact.

Recommendations for Policymakers

1. Ensure integration of deforestation and forest degradation matters as much and explicit as possible in the legislative and non-legislative measures of the **EU Action Plan on Sustainable Finance**¹⁴:
 - ▼ Action 1: Establishing an EU classification system for sustainable activities
 - ▼ Action 2: Creating standards and labels for green financial products
 - ▼ Action 3: Fostering investment in sustainable projects
 - ▼ Action 4: Incorporating sustainability when providing financial advice
 - ▼ Action 5: Developing sustainability benchmarks
 - ▼ Action 6: Better integrating sustainability in ratings and market research
 - ▼ Action 7: Clarifying institutional investors' and asset managers' duties
 - ▼ Action 8: Incorporating sustainability in prudential requirements
 - ▼ Action 9: Strengthening sustainability disclosure and accounting rule-making

¹⁴ https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

- ▼ Action 10: Fostering sustainable corporate governance and attenuating short-termism in capital markets
- 2. **Strengthen disclosure requirement of companies.** Governments should implement a fit-for-purpose framework of corporate reporting that delivers **decision-useful information on deforestation, forests degradation and land use change to financial markets**, and which ensures that companies comply with best practices regarding transparency on commodity-driven deforestation throughout their supply chains (see Action 9 above: Strengthening sustainability disclosure and accounting rule-making).
- 3. **Remove incentives that promote ‘grey’ agriculture and disincentives that discourage sustainable agriculture**, working closely with the investor community to shift their investments from ‘grey’ to ‘green’, including requirements that investors provide transparency and disclosure of investments in forest-risk commodity supply chains.
- 4. Provide enabling conditions for private sector financing, such as **mandating central and bilateral banks to work with private investors**, and putting in place better governance and robust anti-corruption mechanisms.
- 5. Encourage better management of forest-related **impacts of suppliers of public and private procurement organizations** and act as a driver of positive action to halt deforestation in supply chains.
- 6. Embed **sustainability criteria into procurement standards** and use public and private purchasing power to influence suppliers to adopt more sustainable practices relating to their forest impact.

We are at the European Commission’s disposal to provide further evidence.

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