

Investment returns at risk, as many corporates fail to tackle deforestation

- **Up to US\$941 billion** of turnover in publicly listed companies is dependent on commodities linked to deforestation.
- **87%** of companies identify risks from deforestation, and 32% are already experiencing impacts from those risks.
- Yet only **13%** of companies have made a time-bound comprehensive zero (net) deforestation commitment and over a third do not assign their boards with responsibility for addressing deforestation.
- With the risk of '**stranded assets**' looming, financial institutions are increasingly concerned with deforestation.
- But with nearly **four out of five** companies (77%) failing to disclose how they are affected, investors are unable to judge the risk to their portfolios.
- CDP calls on investors to engage with the companies they own to improve disclosure and performance, in order to protect their portfolios.

November 21, 2017 - A [new report](#) reveals that 87% of companies identify at least one risk related to the production or consumption of forest-risk commodities (FRCs) including timber, palm oil, cattle and soy, while nearly a third (32%) are already experiencing impacts from these risks, such as a reduction or disruption of supply, increased costs, or reputational damage.

The report 'From risk to revenue: the investment opportunity in addressing corporate deforestation', by the non-profit global environmental disclosure platform CDP, calculates that up to US\$941 billion of turnover in publicly listed companies is dependent on commodities linked to deforestation (rising from up to US\$906 billion last year). Yet despite the revenues at risk, more than one in three (36%) of the 201 companies surveyed (and 65% of those in North America) do not assign their boards with responsibility for addressing deforestation. Furthermore, only 13% have followed the lead of companies such as **McDonald's** and **Asia Pulp & Paper** and made a time-bound comprehensive commitment to zero (net) deforestation, a critical step in stopping global forest-loss, responsible for up to 15% of global greenhouse gas emissions.

With inaction on unsustainable production of forest-risk commodities leading to potentially millions of dollars of investments becoming 'stranded assets'¹, investors are increasingly concerned about the impact deforestation could have on their portfolios, demonstrated by the growth in the number of investor signatories backing CDP's forests program (184 in 2013 to 380 in 2017). However, despite this demand, less than a quarter (23%) of the 838 companies approached on behalf of investors this year responded to their information request, leaving investors in the dark about the deforestation risks they may face in the remaining 77% of companies.

Investors need this information not only to assess risks, but also potential opportunities. Indeed, with almost three-quarters (73%) of responding companies reporting a commitment to reduce or remove deforestation from their supply chains, there is clearly a large and growing market for deforestation-free commodities. The Tropical Forest Alliance 2020 suggest the investment opportunity will roughly total US\$200 billion annually for deforestation-free investment and financing by 2020, a hidden gold mine for investors looking for new opportunities.

¹ The Tropical Forest Alliance 2020 estimates that anticipated investments worth tens of billions of dollars over the next 10 years are at risk of stranding, if strategic and financial institutions invest in the expansion of business-as-usual production. If all production areas that were illegally deforested in the past are included, that figure rises to the hundreds of billions.

A handful of companies are forging ahead. Working with forests scoring partner **South Pole Group**, CDP assesses every company disclosing to the forest program on their efforts to remove commodity-driven deforestation from their value chains, awarding them a score between A and D-. This year, **Brambles, L'Oréal, SCA, Tetra Pak, Unilever, and UPM-Kymmene** achieved the top score and have been named as pioneers in tackling deforestation as part of the [CDP A List 2017](#).

As the only company to score A's across all four forest-risk commodities, as well as on water and climate change, **Unilever** has proven that best-practice on deforestation can go hand-in-hand with long-term profitability. The company aims to source all its agricultural materials from 100% sustainable origins by 2020, and as 21-30% of the company's revenue is dependent on cattle products, that commodity is critical.

Investors are uniquely positioned to increase this kind of corporate action by engaging with the companies they own to improve disclosure and performance, and by shifting capital away from high-risk, unsustainable companies. In the report, CDP calls on investors to action a four-stage roadmap to engage with companies to identify and act upon deforestation-related risks and opportunities; activity which will ultimately protect and benefit their portfolio.

Morgan Gillespy, Director, Forests at CDP said, *"With deforestation accounting for around 15% of global emissions and putting almost a trillion dollars of listed equity turnover at risk, protecting forests has become a pre-requisite for both a stable climate and a stable economy. The six companies on 2017's Forests A List are showing real leadership with board-level oversight of the issue and commitments such as zero deforestation, but investors require much greater levels of measurement and reporting from companies around the world on their deforestation risk. We call on investors to ramp up their engagement and demand greater levels of disclosure from companies."*

Florian Reber, Senior Manager, Land Use & Sustainable Supply Chains at South Pole Group said, *"The 2017 CDP Global Forest Report clearly illustrates the scale and systemic nature of market risks related to deforestation and unsustainable land use. It is encouraging to see the leadership of those companies that are moving towards deforestation-free supply chains, and investors asking for forest-risk related information. Together with public policy and market incentives, those voluntary actions are important enablers of the necessary transition towards climate-resilient and low-carbon growth. At South Pole Group, we also see a clear need for equipping mainstream investment professionals with innovative tools to integrate financial risks related to deforestation - as well as the benefits of good practices - into the financial valuation of assets and liabilities."*

Leslie Samuelrich, President at Green Century Capital said, *"Deforestation poses a number of material concerns to investors, including restricted market access, competitive disadvantage and reputational damage. To counter this risk, investors must demand rigorous disclosure from companies. Using CDP data to assess company exposure to forest risk commodities and how policies and procedures are being implemented, we have worked with over 20 companies to support deforestation free supply chains. While this progress is worth celebrating, much work remains to ensure sustainable supply chains and protect investors and companies from risk."*

The full report can be found at <https://www.cdp.net/en/research/global-reports/global-forests-report-2017>

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Notes to editor

As CDP's official forest scoring partner since 2016, South Pole Group has evaluated the corporate forest management practices of over 300 companies in over 30 countries, 8 sectors,

and 32 industries and we have successfully supported companies to develop corporate forests stewardship strategies

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About the CDP Global Forests Report 2017

In total 201 companies analyzed in the report provided data on the proportion of their revenues linked to one or more of the commodities.

CDP's forests program acts on behalf of 380 signatory investors, with US\$29 trillion in assets, who wish to understand how companies are addressing their exposure to deforestation risks. This year 219 companies disclosed data through CDP in response to this investor-backed request for information. A full index of companies who provided data is available on [CDP's website](#).

More details on CDP Forest A list and Scores methodology can be found [here](#).

About South Pole Group

South Pole Group is a leading provider of global sustainability financing solutions and services. The company has 200 experts in 16 global offices and works with a wide range of public, private and civil society organisations for over a decade. The company's expertise covers project and technology finance, data and advisory on sustainability risks and opportunities, as well as the development of environmental commodities such as carbon credits or renewable energy credits. South Pole Group has developed and provided climate-finance to over 500 projects in emission reduction, renewable energy, energy efficiency and sustainable land-use. For more information, visit southpole.com or follow the company [@southpolegroup](#).

About CDP

CDP is an international non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate [research](#) provider by investors and working with institutional investors with assets of US\$100 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 6,300 companies with some 55% of global market capitalization disclosed environmental data through CDP in 2017. This is in addition to the over 500 cities and 100 states and regions who disclosed, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP, formerly Carbon Disclosure Project, is a founding member of the We Mean Business Coalition. Please visit www.cdp.net or follow us [@CDP](#) to find out more.