

Revenues in jeopardy: Commodity-reliant companies underestimate risks of deforestation

- Latest corporate forest report by **CDP** reveals that only 30% of manufacturers and retailers can trace deforestation-linked commodities back to the point of origin;
- Up to USD906 billion in company turnover depends on commodities that drive the majority of tropical deforestation globally, according to CDP;
- Scoring of company performances by **South Pole Group** reveals global benchmark of zero-deforestation efforts

5 December, 2016 - Launched today, **CDP's 2016 forest report** reveals that nearly a quarter (24%) of the revenues of global companies depend on four deforestation-linked commodities: cattle products, palm oil, soy and timber products. As much as USD906 billion in annual turnover could be in jeopardy. These latest insights are included in the report by CDP titled [*"Revenue at risk: Why addressing deforestation is critical to business success"*](#), which has been produced on behalf of 365 investors representing US\$22 trillion. A total of 187 companies provided data to CDP this year on their deforestation risk management strategies. The scoring of disclosed efforts to address deforestation was undertaken by leading sustainability solutions provider **South Pole Group**. Two of the most important global commodity traders, **Archer Daniels Midland** and **Bunge**, are among the major firms who disclosed deforestation data for the first time through CDP.

The report finds that despite the fact that a significant share of income is derived from commodities linked to deforestation, fewer than half (42%) of companies have evaluated how the availability or quality of these commodities will impact their growth strategy over the next five or more years. This suggests that companies are overlooking potential business risks linked to deforestation. Risks include impacts arising from the physical effects of climate change on the quality, availability and prices of commodities; tightening regulation; and brand damage from increasing media and civil society scrutiny of commodity sourcing practices.

"Sustainability risk within commodity supply chains is real, and is already having an impact on corporate performance. This latest market-wide snapshot by CDP shows just how vulnerable companies are to these risks," says **Renat Heuberger, CEO, South Pole Group**. *"The commitment to zero-deforestation and low-carbon procurement needs to be ingrained at the highest level of corporate decision-making if companies want to keep thriving. To remain profitable in the long run, business needs to embrace more advanced, sustainable approaches to commodity sourcing."*

Already 81% of agricultural producers - the companies who sit at the top of global commodity supply chains - say they have experienced deforestation-linked impacts in the past five years that have led to substantive changes to their business. **Marfrig Global Foods** say drought conditions have resulted in higher operating costs and reduced beef production in the Brazilian industry. And **Wilmar International** report impacts on brand value as customers become more sophisticated in their demands for sustainable products that are traceable and deforestation-free. These companies produce the commodities that are fed down global supply chains and end up in products ranging from ice cream to toothpaste, footballs and lipstick.

Across the four commodities, a high percentage of reporting companies (72%) say they are confident that they will be able to source these supplies securely and sustainably in the future. The report says this confidence may be misplaced because not only do the majority of companies not evaluate the supply or quality of deforestation-linked commodities over the next five or more years, but:

- Fewer than half (44%) of manufacturers and retailers with procurement standards monitor compliance with these standards and audit suppliers across commodities;
- Only one in five assess deforestation-risks beyond a six-year horizon across commodities; and
- On average, only 30% of manufacturers and suppliers can trace these commodities back to the point of origin.

The financial risks to companies can impact investor portfolios and pressure is mounting on both investors and companies to act on deforestation. More investors have joined the call for companies to disclose: The number of investors that are signatories to CDP's forests program has risen by a fifth since 2015, with new signatories including **UBS** and **Morgan Stanley**. There are now 365 institutional investors requesting corporate deforestation data through CDP, up from 184 in 2013.

Companies are also recognising benefits in scaling-up their forest protection efforts. **Unilever Plc** and **Marks & Spencer** are working to prioritise commodity sourcing from areas that are pursuing comprehensive forest-climate programs. Unilever says this will allow them to improve supply chain security and make monitoring and verifying environmental impacts more straightforward. German consumer goods giant **Henkel AG** is training key smallholders in order to improve livelihoods and ensure sufficient volumes of sustainable palm oil are available on the market. And **Colgate-Palmolive** - who is working with suppliers on responsible sourcing practices — also identifies opportunities to increase the capacity of sustainable commodity markets.

*"Companies need to address the sustainability of products that drive deforestation quite simply to protect their balance sheets," says **Katie McCoy, head of forests at CDP.** "Supply chains are like rows of dominoes: if unsustainable commodities enter the top of a supply chain, the effects will cascade throughout. Failing to address deforestation will have knock-on reputational impacts, manifesting themselves as consumer boycotts, community opposition, and increased regulatory scrutiny. Business growth is at risk."*

ENDS

Notes to editors

In total 155 companies analysed in the report provided data on the proportion of their revenues linked to one or more of the commodities. The USD906 billion figure has been calculated by looking at the percentage of revenues publicly listed companies say is dependent on the commodities they reported on. CDP's forests program acts on behalf of 365 signatory investors, with USD22 trillion in assets, who wish to understand how companies are addressing their exposure to deforestation risks. This year 201 companies disclosed data through CDP in response to this investor-backed request for information – a 10% increase since 2015. A full index of companies who provided data is available in the appendix of the report. It also lists the 650 companies who failed to disclose deforestation-risk data through CDP this year.

All requested companies that responded prior to July 1, 2016, have been scored on their disclosed efforts to address deforestation risks and opportunities. Scoring was undertaken by leading sustainability solutions provider South Pole Group. The scores range from “A” for leadership to “D” for disclosure. Companies who failed to provide sufficient information to CDP in order for us to evaluate performance receive an “F”. *It does not indicate a failure in terms of environmental stewardship and does not indicate the company does not provide environmental information through other sources, but only through CDP reports.*

More details about CDP’s deforestation scoring methodology can be found [here](#).

About South Pole Group

South Pole Group is a leading provider of global sustainability solutions with over a decade’s worth of experience of working with a wide range of public, private and civil society organisations. The company’s core competence covers the areas of corporate sustainability, investment climate risks, sustainable supply chains, green finance, as well as renewable energy and energy efficiency. South Pole Group helps companies in the consumer goods, extractives, agricultural and forestry sector to design strategies and monitoring approaches for results-based sustainability action, building on its expertise in identifying, quantifying and understanding operational impacts on natural capital such as forests, water, and other land use resources. A pioneer in emission reduction and renewable energy projects, South Pole Group’s portfolio is at present the largest available on the market. For more information, visit www.thesouthpolegroup.com or follow the company [@southpolegroup](#).

About CDP

CDP, formerly Carbon Disclosure Project, is an international, not-for-profit organisation providing the global system for companies, cities, states and regions to measure, disclose, manage and share vital information on their environmental performance. CDP, voted number one climate [research](#) provider by investors, works with 827

institutional investors with assets of US\$100 trillion and 89 purchasing organisations with a combined annual spend of over US\$2.7 trillion, to motivate companies to disclose their impacts on the environment and natural resources and take action to reduce them. Please visit www.cdp.net/ or follow us [@CDP](#) to find out more.

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