

# No wood for the trees

Which consumer goods companies are addressing deforestation issues?

## Executive Summary

November 2019



Authors: Ling Sin Fai Lam, Emma Amadi, and Christie Clarke

CDP's sector research for investors provides the most comprehensive climate and water-related data and analysis on the market. The Eitel IRRI survey ranked CDP the number one climate change research house for three years in a row.

CDP's sector research series takes an in-depth look at high impact industries one-by-one. Reports are now available on the automotive industry, electric utilities, diversified chemicals, diversified mining, cement, steel, oil & gas, capital goods, consumer goods and shipping.

Full sector reports are exclusively available to CDP investor signatories and members through the online investor dashboard and include detailed analysis, company insights and methodology. Members have enhanced access to analysts within the Investor Research team and the full GHG emissions dataset. To become a CDP signatory or member and gain access to the full reports and other tools, including CDP company disclosure data, please contact [investor@cdp.net](mailto:investor@cdp.net).

For more information see:  
<https://www.cdp.net/en/investor/sector-research>  
<https://www.cdp.net/en/dashboards/investor>

Authors:  
Ling Sin Fai Lam  
Emma Amadi  
Christie Clarke

Acknowledgements:  
Alice Newman  
Tom Crocker  
Viera Ukropcova  
Jinxi Chen

## Accessing the full report

The full report is available only to CDP investor signatories and members. Signatories can access the full report from <https://www.cdp.net/en/dashboards/investor>. Please contact your CDP account manager or [investor@cdp.net](mailto:investor@cdp.net) if you are not able to log in. Members have enhanced access to analysts within the Investor Research team.



# Linking deforestation to earnings for consumer companies

As the deadline set by the Consumer Goods Forum's resolution to achieve zero net deforestation by 2020 approaches, it seems particularly timely to initiate on CDP's first Investor Research report on deforestation. We cover companies in the consumer goods sector and include 22 Food Manufacturers, Personal & Household Goods Manufacturers and Fast Food Retailers. The report seeks to evaluate the relative risks and opportunities these businesses face from the challenges posed by deforestation in their supply chain.

Companies featured in this report are among the largest in their sectors and have been chosen based on the scale of their businesses and commodity use. They account for 3.1% of the MSCI ACWI World companies by market capitalisation. Companies are listed in Europe, the U.S. and Japan; all with global operations and most with a large and growing presence in emerging markets.

The consumer goods sector is directly impacted by inter-governmental mandates on sustainable consumption and production. These initiatives have not only contributed to consumer trends towards more sustainable food sources and ingredients, but also threaten the traditional supply chain models that have for so long been integral to mainstream businesses. Consumer-facing companies are particularly exposed to Forest Risk Commodities (FRCs), with palm oil, soybean and cattle playing a major role in product formulation, whilst paper & pulp products are essential to the packaging and marketing of these products.

However, these commodities cannot and should not be completely eradicated from supply chains. Palm oil, for example, is the most productive vegetable oil in the world, producing 6 to 10 times more oil per hectare than other oil crops such as soy and sunflower. Substituting palm oil with other types of vegetable oil in the face of increasing consumer pressure could erroneously lead to further deforestation elsewhere in the food system. Companies should instead look at ways to eliminate deforestation from their supply chains through traceability, certification and engagement with all supply chain actors to mainstream sustainable agriculture practices.

## Key findings

- ▼ **The Consumer Goods Forum resolution to achieve zero net deforestation by 2020 will not be met**, indicating a growing gap between companies' ambitions and targets.
- ▼ **No company has complete traceability of palm oil and cattle to plantation / farm of origin.**
- ▼ **Current certification and traceability systems are not effectively addressing the issue of deforestation.** Certified volumes account for just 20% of global palm oil production.
- ▼ Multi-stakeholder engagement needed to halt deforestation; **only eight out of 22 companies deploying landscape style approaches or regenerative agriculture.**
- ▼ Palm oil has been the focus of efforts relating to deforestation. **45% of companies reported revenue dependencies of at least 20% on palm oil.**
- ▼ Disclosure lags for cattle and soy; **cattle as much as 400 times<sup>(1)</sup> and soybean oil 8.2 times<sup>(2)</sup> more land intensive than palm oil.**

Due to their proximity to the consumer, companies included in the report face tangible financial and operational risks associated with deforestation due to changing consumer patterns and supply chain stresses. Yet, businesses able to turn these risks into opportunities through developing innovations in sustainable consumption and production have a competitive edge over their peers. We are already seeing significant developments in plant-based foods and a change in supply chain models that bring consumer goods manufacturers closer to the field.

In this report we assess how well aligned companies are to the zero net deforestation commitments set out by the Consumer Goods Forum looking at the risks and opportunities for the sector against a backdrop of growing population and the planetary constraints to supply these key soft commodities. There are four key areas assessed in the League Table which are aligned with the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD):

**Transition risks:** We assess companies' disclosure on and exposure to the FRCs timber, cattle, palm oil and soybean, in addition to business resilience and land use associated with these commodities.

**Physical risks:** We assess companies' exposure to acute and chronic physical risk events as potential drivers of further deforestation in raw material supply chains.

**Transition opportunities:** We assess companies' foresight in identifying and acting on opportunities relating to sustainable consumption and production.

**Governance & strategy:** We assess companies' deforestation-related governance and strategic frameworks through the strength of its board level expertise, risk management policies, commitments, implementation, reporting, targets and delivery. We also score a company based on their CDP Forests 2018 score.

- ▼ **Hidden use of FRCs** such as the indirect use of soymeal in supply chains contribute to deforestation and there is a lack of transparency in labelling of animal derivatives in certain consumer products.
- ▼ Supply chains are exposed to physical risks of climate change - **90% of global palm oil production is concentrated in Southeast Asia in low-lying land exposed to coastal flooding.** This could jeopardise global supply and risk further deforestation inland.
- ▼ **Substituting the use of FRCs with other raw materials could lead to higher land use and more deforestation:** Rapeseed uses five times more land than palm oil.
- ▼ 70% of food companies have invested in plant-based meat alternatives, **however this investment is happening in only niche brands or start-ups.**
- ▼ **European companies, Danone, Nestlé, Unilever and L'Oréal, lead with robust governance of deforestation risk.** Unilever and L'Oreal are managing significant exposures in their supply chains.

▼ **McDonald's performs much better than other fast food retailers Yum! Brands and RBI.** McDonald's actively engages with its suppliers and has robust risk management systems in place.

▼ **RBI, Tyson Foods and Kraft Heinz rank last.** All are exposed to land-intensive cattle and perform weakly on FRC disclosure.

**Figure 1: League Table summary<sup>(i)</sup>**

LT rank	Company <sup>(ii)</sup>	Headquartered	Average market cap 2018 (US\$bn)	Weighted rank	Transition risks rank	Physical risks rank	Transition opportunities rank	Governance & strategy rank	Business split (%)
1	Danone	France	56.5	7.42	3	5	6	5	
2	Nestlé	Switzerland	313.9	7.52	8	6	5	3	
3	L'Oréal	France	160.6	7.96	9	8	3	6	
4	Unilever	UK / Netherlands	160.4	8.05	20	4	1	1	
5	Kellogg's	US	22.0	8.14	10	7	9	2	
6	Mars	US	PRIVATE	8.24	13	2	2	8	
7	PepsiCo	US	185.9	10.25	5	13	18	7	
8	McDonald's	Global	146.9	10.42	16	18	4	9	
9	General Mills	US	31.8	10.45	12	12	10	10	
10	Kao	Japan	37.8	10.51	17	19	7	4	
11	Fonterra	New Zealand	4.1	10.87	1	14	12	16	
12	RB	UK	53.5	10.99	7	9	16	12	
13	Colgate-Palmolive	US	57.3	10.99	6	3	20	11	
14	P&G	US	300.9	12.27	15	10	13	13	
15	Campbell's	US	14.3	12.39	2	11	21	17	
16	Mondelez	US	75.9	12.74	19	1	14	13	
17	Yum! Brands	US	29.8	13.31	14	21	8	18	
18	The Estée Lauder Companies Inc. <sup>(iii)</sup>	US	67.7	13.87	11	20	15	19	
19	Conagra	US	13.8	14.61	18	15	19	15	
20	Kraft Heinz	US	40.7	14.85	4	17	22	22	
21	Restaurant Brands International <sup>(iv)</sup>	Canada	31.5	16.60	21	22	17	20	
22	Tyson Foods	US	32.5	16.73	22	16	11	21	

#### Weighting

(i) Weighted ranks are calculated for each area. We display non-weighted ranks in this summary for simplicity only.

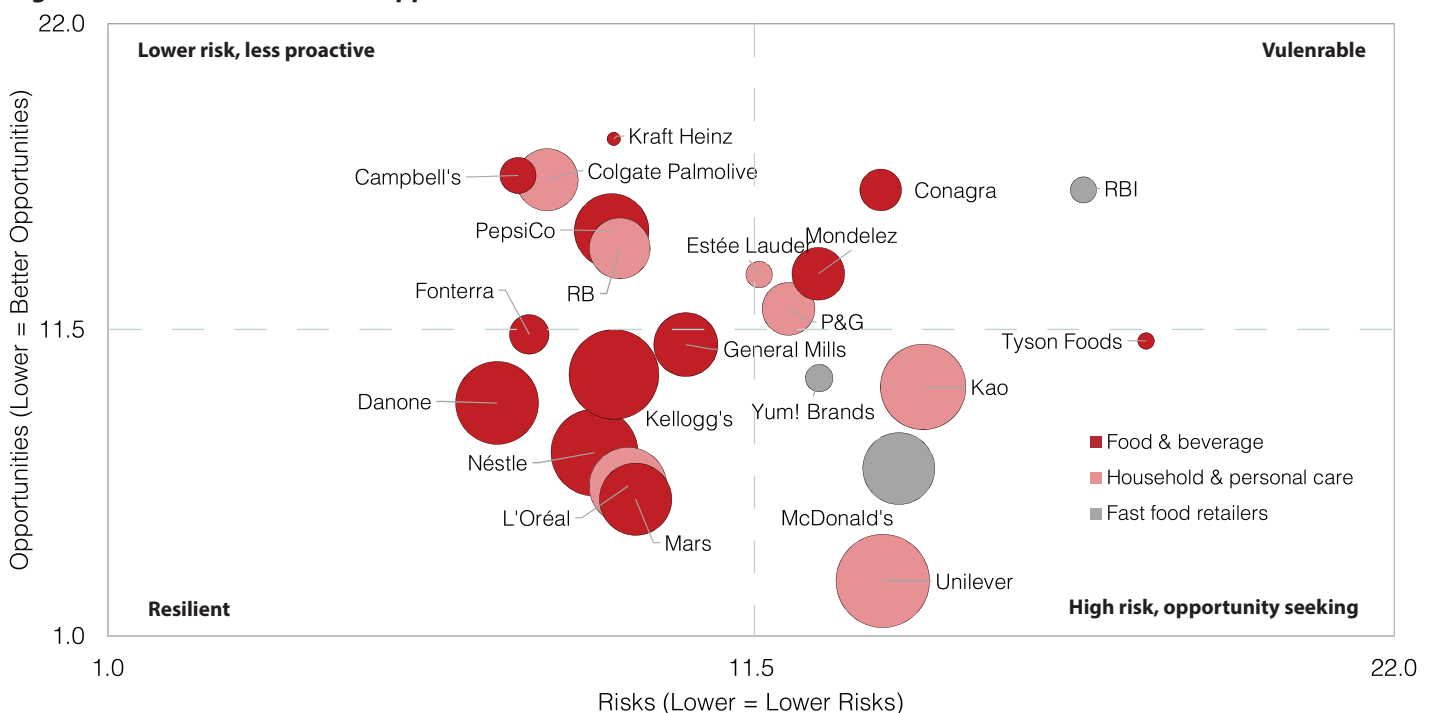
(ii) Nestlé, P&G and Mondelez are non-responders to CDP's 2019 forests questionnaire. We encourage investors to raise this lack of transparency in discussions with company management.

(iii) The Estée Lauder Companies Inc. will be referred to as Estée Lauder for the remainder of the report.

(iv) Restaurant Brands International will be referred to as RBI for the remainder of the report.

Source: CDP

**Figure 2: Deforestation risks vs opportunities**



Bubble size represents performance in deforestation governance & strategy where a larger bubble size indicates better performance

Source: CDP

## CDP Investor Research

### CDP UK

#### Carole Ferguson

Head of Investor Research  
+44 (0) 20 3818 3956  
carole.ferguson@cdp.net

#### Luke Fletcher

Senior Analyst,  
+44 (0) 20 3818 3951  
luke.fletcher.cdp.net

#### Ling Sin Fai Lam

Senior Analyst,  
+44 (0) 20 3818 3936  
ling.sinfailam@cdp.net

#### Emma Amadi

Analyst  
+44 (0) 20 3818 3936  
emma.amadi@cdp.net

#### Christie Clarke

Analyst,  
+44 (0) 20 3818 3951  
christie.clarke@cdp.net

#### Tom Crocker

Analyst,  
+44 (0) 20 3818 3935  
tom.crocker@cdp.net

#### Kane Marcell

Analyst,  
+44 (0) 20 3818 3956  
kane.marcell@cdp.net

#### Alice Newman

Analyst,  
+44 (0) 20 3818 3936  
alice.newman@cdp.net

#### Jinxi Chen

Analyst,  
+44 (0) 20 3818 3935  
jinxi.chen@cdp.net

## CDP contacts

### CDP UK

#### Frances Way

Chief Strategy Officer

#### Sebastian O'Connor

Senior Account Manager,  
Investor Engagement  
+44 (0) 20 3818 3900  
sebastian.oconnor@cdp.net

### CDP North America

#### Emily Kreps

Head of Investor Initiatives  
+1 646 517 6470  
emily.kreps@cdp.net

#### Radhika Mehrotra

Manager, Investor Initiatives  
+1 646 517 6471  
radhikamehrotra@cdp.net

### CDP Europe

#### Laurent Babikian

Director of Investor Engagement  
+33 658 66 60 13  
laurent.babikian@cdp.net

#### Torun Reinhammar

Senior Account Manager,  
Investor Engagement  
+46 (0)705 365903  
torun.reinhammer@cdp.net

#### Matteo Brezza

Account Manager, Investor Engagement  
+49 30629033120  
matteo.brezza@cdp.net

### CDP Japan

#### Kyoko Narita

Senior Account Manager,  
Investor Initiatives  
+81 (0)3 6869 3928  
kyoko.narita@cdp.net

## CDP Board of Trustees

### Alan Brown (Chairman)

### Annise Parker

### Jane Ambachtsheer

### Stephen T Chow

### Jeremy Burke

### Justin Johnson

### Katherine Garrett-Cox

### Rachel Kyte

### Christine Loh

### Ramakrishnan Mukundan

### Jeremy Smith

### Takejiro Sueyoshi

### Martin Wise

### CDP Forests contacts

#### Morgan Gillespy

Head of Forests  
morgan.gillespy@cdp.net

#### Sareh Forouzes

Forests Manager  
sareh.forouzes@cdp.net

#### Viera Ukropcova

Senior Projects Officer, Forests  
viera.ukropcova@cdp.net

## CDP

Plantation Place South  
60 Great Tower Street  
London EC3R 5AZ  
United Kingdom

Tel: +44 (0) 203 818 3900

@cdp  
www.cdp.net  
info@cdp.net

### Important Notice:

CDP is not an investment advisor, and makes no representation regarding the advisability of investing in any particular company or investment fund or other vehicle. A decision to invest in any such investment fund or other entity should not be made in reliance on any of the statements set forth in this publication. While CDP has obtained information believed to be reliable, it makes no representation or warranty (express or implied) as to the accuracy or completeness of the information and opinions contained in this report, and it shall not be liable for any claims or losses of any nature in connection with information contained in this document, including but not limited to, lost profits or punitive or consequential damages.

This report or any portion of it may not be reprinted, repackaged, sold or redistributed without the written consent of CDP.

'CDP' refers to CDP Worldwide, a registered charity number 1122330 and a company limited by guarantee, registered in England number 05013650.

© 2019 CDP Worldwide. All rights reserved.