

Revenue at risk:

Why addressing deforestation is critical to business success

European summary



European summary

78%

of European companies report that they have identified sufficient future sustainable supply across all forest-risk commodities

but only

45%

of European companies have evaluated the impact of the availability or quality of forest-risk commodities on their growth strategies over the next five or more years

For any company active in the global trade in timber products, soy, palm oil or cattle products, deforestation has become a critical business issue. The production of these forest-risk commodities can contribute to habitat loss, greenhouse gas emissions and social conflict – resulting in direct and supply chain exposures for suppliers and customers alike.

Addressing these environmental and social impacts has become a priority for policymakers, with the forging of the Paris Agreement on climate change and the UN Sustainable Development Goals.

As a result, a growing number of investors want to know what companies are doing to address this major business challenge. This year 365 investors, over a fifth more than in 2015, with a total of US\$22 trillion in assets asked companies to disclose information via CDP about how they are managing deforestation risk linked to these four commodities – responsible for the majority of tropical deforestation globally. 155 of these are European investors, representing almost three quarters (US\$16 trillion) of the asset base backing CDP's forests program.

Responses were received from more than 200 companies – 69 of which are headquartered in Europe – including three of the four so-called 'ABCD' global commodity trading giants¹, the three largest slaughterhouses in Brazil, big-name brands from Barilla to Nestlé, and forestry companies like Holmen and UPM-Kymmene Corporation.

We have analyzed the wealth of data² with the following questions front of mind: Are companies on course to remove deforestation from their supply chains? Have companies identified a sustainable and secure supply of key commodities, the building blocks of their business, to meet their future needs in the light of shifting regulatory and investor expectations? Is there evidence they are sufficiently engaged across their supply chains to meet these needs?

The analysis finds that:

A substantial share of company revenue is dependent on commodities responsible for deforestation.

- ▶ The total annual turnover at risk for publicly listed companies is estimated to be up to US\$906 billion, of which US\$418 billion appear on the balance sheets of European companies.

Companies believe they will be able to access a secure and sustainable supply of forest-risk commodities in the future.

- ▶ 78% of European companies report that they have identified sufficient future sustainable supply across all forest-risk commodities.

But this confidence may be misplaced, given existing commodity-related impacts and potentially inadequate forward planning.

- ▶ 81% of companies in the Agricultural Production sector, which sits at the top of global commodity supply chains, have experienced impacts related to forest-risk commodities that have resulted in substantive changes to operations, revenue or expenditure in the past five years;
- ▶ Despite these impacts, less than a fifth (19%) of European companies assess risks associated with deforestation beyond a six-year horizon across commodities; and
- ▶ Fewer than half (45%) of European companies have evaluated the impact of the availability or quality of key forest-risk commodities on their growth strategies over the next five or more years.

The key barriers companies report to face in addressing these risks are: inadequate traceability systems, weak governance (and compliance enforcement) of national deforestation policies, and limited availability of certified materials and their costs.

- ▶ These most frequently cited challenges have not changed since 2013. As we approach 2020, when many corporate deforestation goals and commitments are due to be met, we need to see bolder corporate action if revenues, resilience and the future growth of the companies involved are not to be put at risk.

¹ The Archer Daniel Midlands Company, Bunge, Cargill and Louis Dreyfus Company

² The analysis of the global report is based on responses from 187 companies that disclosed before August 2, 2016. The analysis of the European summary is based on responses from 67 European companies that disclosed before this date.

US\$418 billion

The total annual turnover at risk for publicly listed companies headquartered in Europe is estimated to be up to US\$418 billion

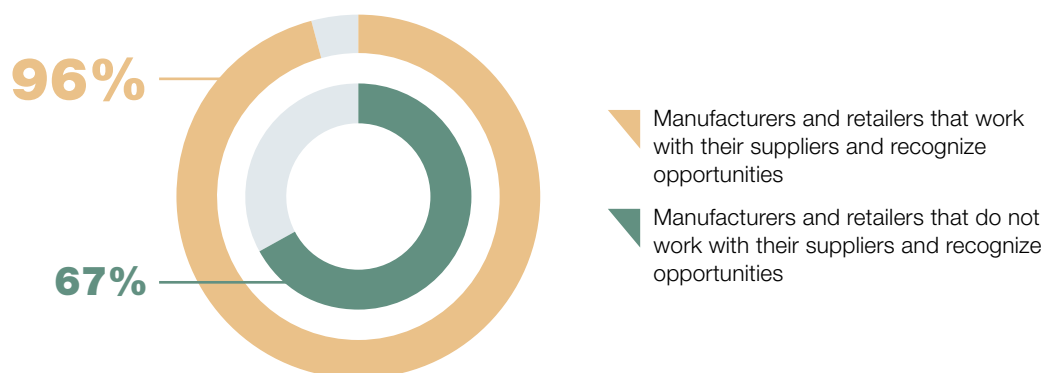
European companies are ahead of their global peers in taking deforestation issues to the board room. But to ensure their future growth, European companies need to improve their internal processes, work with their supply chains and collaborate with their peers.

- ▼ Unlike their global peers, European companies have an increasingly high level (85%, up from 81% in 2015) of board-level responsibility for deforestation risk management. However, regional differences are quite significant: 100% of companies headquartered in Benelux, France and the UK report board-level responsibility for deforestation risk, but only 67% of those in the Nordic region do so;
- ▼ Two thirds (67%) of European companies have considered deforestation as part of a comprehensive, company-wide risk assessment for their full supply chain across commodities;

- ▼ However, when it comes to monitoring compliance with their procurement standards and auditing their suppliers across commodities, European manufacturers and retailers fall below the global average; only 38% are doing so. This is despite the need for supply chain alignment to allow companies to meet their zero deforestation commitments; and
- ▼ There are benefits for companies that implement these actions. European manufacturers and retailers that work with their suppliers report far greater levels of traceability and are 29% more likely to identify business opportunities.

Companies also need to embrace more advanced approaches to commodity sourcing, which aim to tackle deforestation at the landscape or jurisdictional scale, and work with governments to ensure enabling regulatory environments are in place.

Manufacturers and retailers that work with their suppliers identify more opportunities related to the sustainable production or sourcing of forest-risk commodities



Call to action

The will exists to address these challenges. We have seen an increasing level of investor concern regarding deforestation, corporate commitment to address the issue, and political momentum at the international level and within some jurisdictions. We believe that, to meet the challenge posed by deforestation, companies should:

- ▼ **Ask for transparency and disclosure from suppliers.** The biggest risks and greatest opportunities are to be found in the supply chain. Companies should ask their suppliers to disclose relevant information, and collaborate with them to implement change at scale;
- ▼ **Bring deforestation to the board room.** Board-level oversight of this issue varies around the world, and also within Europe. Risk assessments that are comprehensive and company-wide will ensure that the issue of deforestation risk reaches the very top; and
- ▼ **Work cross-sectorally to find solutions.** Addressing the barriers to securing sustainable, deforestation-free commodities will involve working across sectors, and with customers, governments and civil society.

CDP Europe contacts

Steven Tebbe
Managing Director

Mirjam Wolfrum
Director Policy & Reporting

Lena Meintrup
Europe Project Manager, Forests

CDP's forests program

Katie McCoy
Head of Forests

Rafel Servent
Senior Project Officer, Forests

Anjali Fordington
Project Officer, Forests

Lena Meintrup
Europe Project Manager, Forests

Jillian Gladstone
North America Project Manager,
Forests

Rebecca Willcox
Technical Officer, Forests

Sareh Forouzes
Account Manager, Forests

CDP Europe Board of Directors

Simon Barker

Sue Howells

Steven Tebbe

CDP Worldwide (Europe) gGmbH

c/o WeWork
Potsdamer Platz - Kemperplatz 1
10785 Berlin
Germany

Tel: +49 (0)30 629 033 174
www.cdp.net
info@cdp.net



Read the full report at CDP.net

We are grateful to receive core funding for the project from:



Co-funded by the
LIFE+ programme of
the European Union

The sole responsibility lies with the author and the
Commission is not responsible for any use that may
be made of the information contained therein.



Design and production
www.see-design.com