Revenue at risk:
Why addressing deforestation is critical to business success

Executive summary for policymakers

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Deforestation is a risk for both companies and investors

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

but only

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of 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 which participates in the global trade in cattle products, soy, palm oil or timber products, deforestation has become a critical business issue. The production of these forest-risk commodities can lead to problems including habitat loss, greenhouse gas emissions and social conflict – resulting in direct and supply chain risks for suppliers and customers alike. Analysis of 2016 CDP disclosures of over 200 companies has shown that:

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

- Companies report that, on average nearly a quarter of company revenues depend upon the commodities they reported on; and
- The total annual turnover at risk for publicly listed companies is estimated to be up to **US$906 billion**.

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

- **72%** of 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, only **one in five** companies assess risks associated with deforestation beyond a six-year horizon across commodities; and
- Fewer than half (**42%**) of 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.

Companies need to act on deforestation

Companies involved in forest-risk commodity markets need to improve their awareness and management of related business risk, and work with their supply chains to ensure they are deforestation free.

However, when it comes to building sustainable supply chains companies are facing challenges. In fact, the most commonly cited barriers to company actions haven't changed since 2013, according to analysis of disclosures by companies to CDP. They are:

- **Inadequate traceability systems;**
- **Weak governance (and compliance enforcement) of national deforestation policies;**
- **Limited availability of material certified as sustainable, together with cost barriers to buying sustainable products.**

In order to overcome these barriers, and accelerate and increase voluntary action by companies to the necessary pace and scale, the right enabling policy environment is needed.

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Policymakers can take five important actions to help companies achieve zero-deforestation

1. **Commit to zero-deforestation at national level**

   A total of 190 governments, private sector entities and civil organisations have endorsed the New York Declaration on Forests, which sets ambitious targets to end natural forest loss by 2030, with a 50% milestone at 2020. Just as the Norwegian parliament has committed the government's public procurement policy to become deforestation-free, similar commitments in other countries will send a strong signal to the private sector.

2. **Work on governance through bilateral agreements**

   Governments are using bilateral agreements to tackle the issue of illegal timber and are already starting to realize results. The 2016 issuance of the first EU Forest Law Enforcement Governance and Trade licenses for timber is a good example of prioritizing improvements to regulatory governance that other governments can replicate.

3. **Treat REDD+ as an opportunity for national compliance with Paris and SDGs**

   REDD+ holds the potential to attract new inward investment, particularly from the private sector, to reduce deforestation and forest degradation.

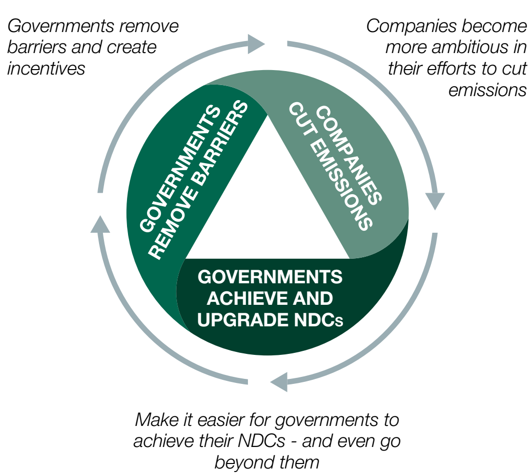
   CDP data shows that companies are realizing opportunities by examining existing supply chains to identify where REDD+ activities could add value. Treating REDD+ as an opportunity will allow governments worldwide to achieve their deforestation targets by harnessing this private sector interest.

4. **Embrace innovative Public-Private Partnerships**

   Governments can partner with the private sector to create the future we want to see such as through public-private partnerships like the Tropical Forest Alliance 2020. This initiative fosters cross-sectoral collaboration where voluntary actions are taken by partners such as the Government of the Netherlands, Nestlé and Mars, to reduce the tropical deforestation driven by commodities.

5. **Explore jurisdictional landscape approaches**

   Subnational governments have a strong role to play in reducing deforestation, but will need to be empowered to meet their environmental goals through appropriate high-quality regulation, with national governmental support and while avoiding regulatory duplication or overlap.



The Business End of Climate Change', We Mean Business, CDP (2016)

Taking these actions, can create a 'virtuous circle' where governments encourage companies to act, companies respond to policy signals and take action, and this in turn enables governments to set more ambitious timeframes for deforestation, needed to fulfil the long-term goal of the Paris Agreement[1].

1 In 2015's Paris Agreement the world's governments committed to bring down emissions to net zero by mid-century. In order to achieve this, deforestation and forest degradation, responsible for some 15-20% emissions must be addressed.

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