



Investor concern for forests

Can shareholders
prompt companies
to take action?

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The Forest 500, an initiative of the Global Canopy Programme, is the world's first rainforest rating agency. It identifies and ranks the most influential companies, financial institutions, countries and subnational jurisdictions in the race towards a deforestation-free global economy. To find out more about our work visit www.forest500.org

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Introduction

Commercial agricultural production caused nearly three-quarters of tropical forest loss between 2000 and 2012¹. Of the companies producing and procuring agricultural commodities, an increasing number are making commitments on deforestation. Yet the rate of policy adoption, let alone implementation, is too slow to fully address the climate impacts. Moreover, many deforestation policies remain limited in their strength or scope².

Through shareholder resolutions – proposals filed by shareholders in public companies – investors are demanding stronger sustainability commitments. Since 2010, around 40% of proposals in the U.S. have focused on environmental and sustainability issues, with a small number focused specifically on forest loss driven by agricultural commodity production³. What is the potential for such proposals to drive much needed action to meet 2020 deforestation targets? To explore the influence of shareholder resolutions, this brief examines the content, targets, and company responses to resolutions catalogued by the Ceres Investor Network. In particular, it focuses on resolutions filed with Forest 500 companies, the powerbrokers of deforestation.

Box 1: Company progress on deforestation

Global Canopy Programme's (GCP) Forest 500 project identifies the 250 companies with the greatest influence to remove deforestation embedded within the global supply chains dealing in palm oil, soya, cattle⁴ and timber products, including pulp. As of 2016, 57% of these companies had weak forest policies⁵ or no policy at all. Progress in soya and cattle supply chains is particularly slow. Less than 30% of companies producing or procuring these commodities have a relevant sustainability policy⁶. www.forest500.org.

Box 2: Shareholder resolutions

In most cases, investors file resolutions when they believe their concerns are not being addressed⁷. In the US, shareholders with at least US\$2,000 or 1% in market value of a company's total securities can submit a resolution. Proposals are advisory and non-binding, even when the resolution receives a majority vote of approval. The Ceres Investor Network on Climate Risk, a network comprised of more than 130 institutional investors collectively managing more than US\$17 trillion in assets, has filed a number of forest-focused resolutions targeting largely US-based companies.

¹ Lawson, S. (2014). Consumer Goods and Deforestation: An Analysis of the Extent and Nature of Illegality in Forest Conversion for Agriculture and Timber Plantations. Available from: http://www.forest-trends.org/documents/files/doc_4718.pdf

² Global Canopy Programme. 2016. Sleeping Giants of Deforestation: The Companies, Countries and Financial Institutions with the Power to Save Forests. The 2016 Forest 500 results and analysis. Available from: http://globalcanopy.org/sites/default/files/documents/resources/sleeping_giants_of_deforestation_-_2016_forest_500_results.pdf

³ As You Sow, the Sustainable Investments Institute (Si2), and Proxy Impact. (2017) Proxy Preview. Helping Shareholders Vote Their Values. Available from: <http://www.proxypreview.org/Proxy-Preview-2017.pdf>

⁴ Cattle products include beef, leather, tallow, and other byproducts.

⁵ Weak policies omit key elements for success, such as important environmental and social factors (including protection of priority forest types), meaningful reporting of progress, or parts of the company's supply chain.

⁶ Global Canopy Programme. 2016. Sleeping Giants of Deforestation.

⁷ Snow Spalding, K. & Cook, J. 2010. Ceres Guidance. Proxy Voting for Sustainability. Available from: <https://www.ceres.org/resources/reports/proxy-voting-for-sustainability>

Findings

Targets of shareholder resolutions

Between the 2011 proxy season and May 2017, 13 investors in the Ceres Investor Network filed a total of 50 forest-focused shareholder resolutions.

Most resolutions focus on the powerbrokers of deforestation. Shareholder resolutions stand to have the most impact if they target companies with significant market leverage. For forest risk supply chains – palm oil, soya, pulp and paper, timber, and cattle – these companies are identified by the Forest 500 as powerbrokers with large-scale influence over the fate of tropical forests. Of the 50 resolutions filed by the Ceres Investor Network between 2011 and 2017, nearly 70% were filed with Forest 500 companies.

All Forest 500 companies targeted by shareholders operate as manufacturers or retailers in the US. Three companies also operate as producers, processors or traders of agricultural commodities. This finding is unsurprising given the position of the US as a consumer market of tropically produced forest risk commodities.

Food and drink companies made up the majority of Forest 500 companies targeted.



⁸ Ceres, 2017. Climate and Sustainability Shareholder Resolutions Database. Available from: http://tools.ceres.org/resources/tools/resolutions/@@resolutions_s3_view#/subject=Forests&year=&company=&filer=§or=&status=&memo=&all=&=fores. Proposals categorised as focused on 'Forests' were analysed.

Proposals increasingly address all forest risk supply chains rather than focus on individual commodities. Most effective resolutions will go beyond blanket statements around improved sustainability and ask for specific, time-bound, and measurable change in company behaviour. Examining the shareholder resolutions in the Ceres database filed with Forest 500 companies, we find proposals increasingly address all forest risk supply chains rather than focus on individual commodities. As shown in Figure 1, the majority of proposals between 2011 and 2015 focused solely on palm oil, but in following years proposals covering all high-risk forest commodities increased.

This trend is especially relevant for commitments on cattle, given they lag far behind the commitments for palm oil. In 2016, only 32% of US-headquartered Forest 500 companies had a forest policy in place for cattle products, in contrast to 94% of companies for palm oil. Shareholder resolutions filed in 2017 continue to address this gap, with all six filed with Forest 500 companies covering all forest risk commodities, including cattle.

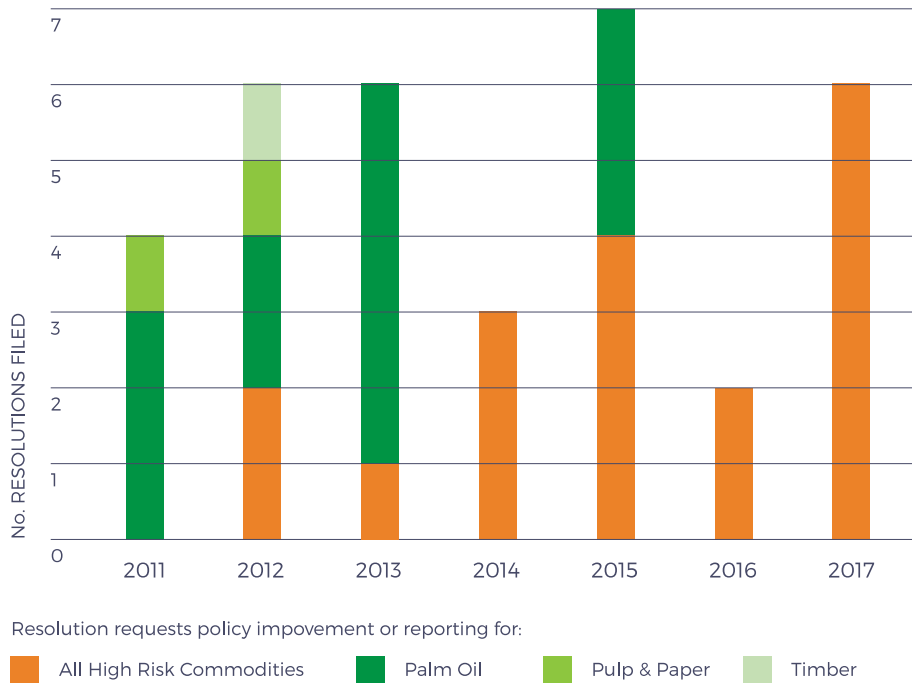


Figure 1. Number and commodity focus of shareholder resolutions filed with Forest 500 companies between 2011 and May 2017. 'High risk commodities' specified include palm oil, soya, beef, sugar, and paper products.

Shareholder resolutions are increasingly specific. This is both in terms of forest issues and the implementation of policies. Since 2015, proposals with Forest 500 companies have moved beyond asking companies to 'address deforestation' to specify particular land types that must be protected, using terminology such as high conservation value and natural or high carbon stock forest (Figure 2). In addition, around 90% of resolutions since 2011 ask that policies apply to all suppliers or are applied company-wide.

Proposals support better reporting. An increasing number of proposals request companies establish 'time-bound' goals along with public reporting (in contrast to reporting privately only to investors). With such requests, shareholder resolutions hold companies to account regarding their commitments and foster greater transparency around implementation. This is especially important as the Forest 500 finds that only 51% of US companies report for all existing policies.

Not all proposals include human rights protections. Companies may already protect human rights through overarching policies, yet there is potential for investors to file more resolutions which address social and environmental considerations together. While 87% of US-headquartered Forest 500 companies require their suppliers to respect workers' rights, only 21% require free prior informed consent of indigenous and local communities as part of development planning for all the forest risk commodities they procure. Incorporating protections for human rights is viewed as best practice by many groups working on supply chain sustainability, such as the Consumer Goods Forum⁹.

Percentage of proposals that request companies to:

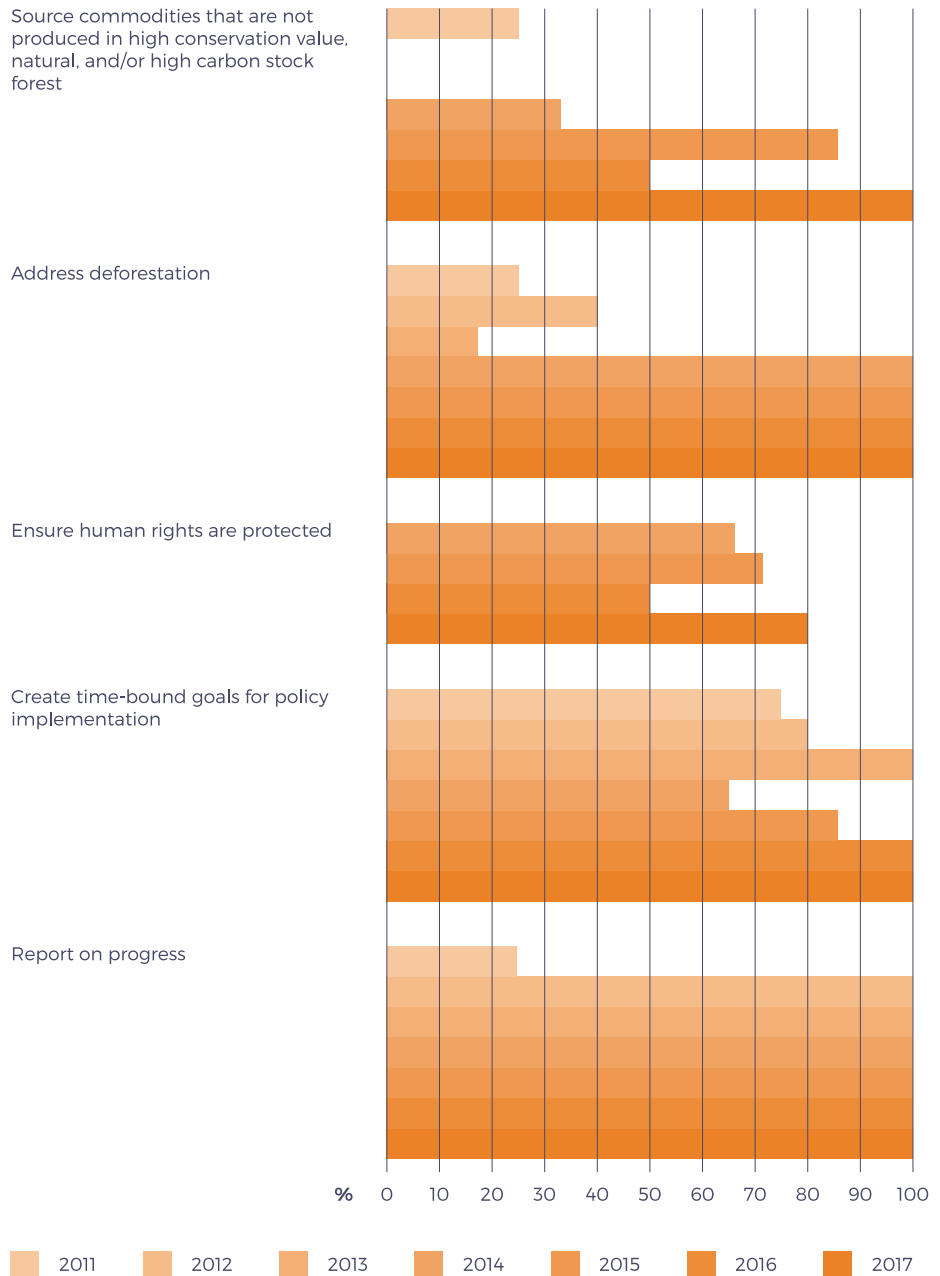


Figure 2. Requests by shareholder resolutions filed with Forest 500 companies between 2011 and 31 March 2017. Requests for 'clear goals' have been interpreted as time-bound.

⁹ For example, see: The Consumer Goods Forum. 2015. 'Sustainable Palm Oil Sourcing Guidelines'. Available from: <http://www.theconsumergoodsforum.com/files/Publications/20150810-Sustainable-Plam-Oil-Sourcing-Guidelines-Final-Version-1.pdf>

Company responses

Lastly, there are persistent loopholes in the language. This includes the possibility that 'company-wide' policies or commitments only apply to a particular geographic area. In order to maximise the impact of the resolutions for forest protection, future resolutions should request that companies' policies apply globally rather than to a specific region or ecosystem.

Regardless of the content of these resolutions, proposals only have the potential to drive change if companies respond. To what degree have shareholder resolutions led to the adoption or strengthening of company policies? This following sections analyse filings with Forest 500 companies, the powerbrokers of deforestation.

Many shareholder resolutions were withdrawn when companies agreed to make changes following preliminary engagement. Others were withdrawn for technical reasons. Of the 50 proposals initially filed, only 23 went on to a vote.

Around half (52%) of the 23 proposals successfully filed were followed by a company commitment to address the forest issue raised, according to the Ceres database¹⁰. However, beyond this initial commitment, it is difficult to track the direct influence of shareholder resolutions on corporate policy, as company decisions occur within a broader context. Shareholder resolutions are often only one facet of an active ownership strategy and considerations such as an NGO campaign or competitor decision may spark shareholder dialogue in the first place.

There is some evidence that investor engagement causes company policy change. For example, Archer Daniels Midlands (ADM) is one of the largest soya traders in the world. A resolution filed in 2015 with ADM requested the company introduce time-bound policy goals to reduce deforestation. Prior to reaching a vote, ADM committed to address the issue and the proposal was withdrawn¹¹. The resolution led the company to establish a no-deforestation policy for soybeans and palm oil with stronger, time-bound commitments¹² and become the first major agricultural trader to expand its action plan for forest conservation beyond the Brazilian Amazon^{13,14}.

However, in some cases the impact of shareholder resolutions is less clear. In 2014, shareholders of both Mondelez and PepsiCo requested these food and drink companies create company-wide policies on deforestation. The requests covered palm oil, soya, sugar and paper^{15,16}. Although the shareholders withdrew the proposals after commitments to address the requests, significant progress is yet to be seen. PepsiCo took an incremental step by releasing an updated palm oil policy less than a year later¹⁷.

Nonetheless, as of 2016, the Forest 500 found both companies had yet to publish strong public policies for all of these commodities.

¹⁰ This analysis does not include the 11 shareholder resolutions listed as 'filed', or that were omitted or not voted on due to technical reasons. Calculations as of 9 May, 2017.

¹¹ Ceres. 2015. 'ADM Deforestation 2015'. Available from: <https://www.ceres.org/investor-network/resolutions/adm-deforestation-2015>

¹² ADM. 2015. Our Commitment to No-Deforestation. Available from: <https://www.adm.com/sustainability/sustainability-progress-tracker/policies>

¹³ Green Century Funds. 2015. 'Will you join us in thanking ADM for protecting forests?' Available from: <http://greencentury.com/will-you-join-us-in-thanking-adm-for-protecting-forests/>

¹⁴ Forest Heroes. 2015. 'Soy, Palm Oil: End Deforestation'. Available from: <http://www.forestheroes.org/adm-to-suppliers-of-soy-palm-oil-end-deforestation/>

¹⁵ Ceres. 2014. 'Mondelez Sustainable Forestry 2014'. Available from: http://tools.ceres.org/resources/tools/resolutions/mondelez-sustainable-forestry-2014/@s3_view

¹⁶ Ceres. 2014. 'Pepsi Deforestation 2014'. Available from: http://tools.ceres.org/resources/tools/resolutions/pepsi-deforestation-2014/@s3_view

¹⁷ PepsiCo. 2015. 'PepsiCo Palm Oil Specific Commitments.' Available from: <http://www.pepsico.com/docs/album/policies-doc/pwp/pepsico-palm-oil-commitment-3.pdf?sfvrsn=0>

Shareholder resolutions: powerful but marginal

While proposals have the potential to drive significant change in company deforestation policies, very few shareholders are using this engagement method to express concerns. Shareholder resolution filing remains a marginal strategy for spurring company sustainability improvements.

The majority of proposals are filed by only a handful of investors. Just three investors – Domini Impact Investments LLC, Green Century Capital Management, and the New York State Comptroller – filed 59% of all resolutions with Forest 500 companies. Among the 13 investors that filed forest-related resolutions, many follow a socially responsible or religious investment mandate, suggesting that shareholder resolutions are not commonly used by conventional investors.

The investors filing forest-focused resolutions do not hold the largest investments in companies operating in commodity supply chains. Of the investors listed in the Ceres database, only one – the New York State Comptroller – makes it into the Forest 500 as one of the 150 financial institutions holding the largest investments in publicly listed powerbroker companies. This is through the New York State Comptroller's role as the sole trustee of the New York State Pension Fund.

Support for proposals by shareholders averages around 20%. This support is an important factor in prompting change, as it demonstrates to a company's management that resolutions reflect mainstream investor concerns. Votes in support of resolutions with Forest 500 companies are generally at similar levels to other climate-focused proposals. As investors become increasingly aware of supply chain risks, it is hoped that support for forest resolutions will increase, as has been the case for climate concerns with key oil and gas companies. For example, in May 2017, a surprising 62% of shareholders voted for Exxon Mobil to begin annually reporting its climate impacts, an increase from 38% for a similar proposal in 2016^{18,19}.

¹⁸ Exxon Mobil. 2017. 'Summary of 2017 Proxy Voting Results'. Available from: <http://cdn.exxonmobil.com/-/media/global/files/investor-reports/2017/summary-of-proxy-votes-2017.pdf>

¹⁹ Ceres. 2016. 'Exxon Carbon Asset Risk 2016'. Available from: http://tools.ceres.org/resources/tools/resolutions/exxon-carbon-asset-risk-2016/@s3_view

Conclusions

Analysis suggests that shareholder resolutions are increasingly common and have potential to drive company action on deforestation, especially given their focus on companies with the most influence over forests. The filings from the Ceres Investor Network are encouraging as they show requests have expanded over time to cover more key forest issues as well as all high priority supply chains.

Regardless of the content, resolutions only stand to drive systemic improvements in sustainability if they are used by a greater number and wider variety of investors or, at a minimum, investors show high levels of support for company action. As the data on filings in the past seven years suggests, proposals have a fairly high success rate in sparking company engagement on deforestation issues. At the very least, such resolutions are supportive of policy improvements. However, the fact that only one Forest 500 investor is using shareholder resolutions to drive change underscores that proposals on forest issues remain a niche engagement method for the time being.

Overall, this research points to a possible strategy for action. While different engagement strategies suit differing purposes, investors wishing to drive positive change should take note of the reasonably high degree to which shareholder resolutions are successful in prompting company engagement on forest issues.

Annex:

Shareholder Resolutions

This table documents the 50 forest focused filings by the Ceres Investor Network as of 5th June 2017.

| Company | Year | Forest 500 company | Sector | Resolution Summary | Filer | Status |
|--------------------------------------|------|--------------------|-------------------|--|--|---------------------------------|
| Dominion Resources, Inc. | 2017 | No | Electric Power | Evaluating the net greenhouse gas impact from each of the company's current and planned biomass facilities | As You Sow | Withdrawn; Ongoing dialogue |
| Domino's Pizza, Inc. | 2017 | Yes | Food and Beverage | Develop policy and plan to eliminate deforestation from supply chain | New York State Comptroller | Vote: 23.1% |
| Kraft Heinz Co. | 2017 | Yes | Food and Beverage | Report on supply chain impact on deforestation | Domini Impact Investments LLC | Vote: 13.1% |
| Kroger Co. | 2017 | Yes | Retail | Report on supply chain impacts of deforestation | Green Century Capital Management | Filed |
| Restaurant Brands International Inc. | 2017 | Yes | Food and Beverage | Plan to eliminate deforestation and human rights violations from supply chain | Seventh Generation Interfaith Coalition for Responsible Investment | Withdrawn; Company will address |
| Target Corp. | 2017 | Yes | Retail | Issue annual reports on supply chain impact on deforestation | Green Century Capital Management | Filed |
| Yum! Brands, Inc. | 2017 | Yes | Retail | Adopt deforestation-free policy | Sisters of St. Francis of Assisi | No Vote For Technical Reasons |
| Church & Dwight Co. Inc. | 2016 | No | Consumer Goods | Palm oil implementation report | Seventh Generation Interfaith Coalition for Responsible Investment | Withdrawn; Company will address |
| DuPont | 2016 | Yes | Chemicals | Issue a report on reducing deforestation associated with supply chain | Clean Yield Asset Management | Vote: 23% |
| Restaurant Brands International Inc. | 2016 | Yes | Food and Beverage | Set goals to reduce impacts on forests and human rights | Province of St. Joseph, Capuchin Order | No Vote For Technical Reasons |
| WhiteWave Foods Company | 2016 | No | Food and Beverage | Report on deforestation impacts | Trillium Asset Management | Withdrawn; Company will address |

| Company | Year | Forest 500 company | Sector | Resolution Summary | Filer | Status |
|--------------------------------|-------------|---------------------------|-------------------|--|--|---------------------------------|
| Whole Foods Market, Inc. | 2016 | No | Food and Beverage | Report on palm oil sourcing policy | Clean Yield Asset Management | Withdrawn; Company will address |
| Archer Daniels Midland Company | 2015 | Yes | Agriculture | Adopt goals to reduce deforestation | New York State Comptroller | Withdrawn; Company will address |
| Bunge Limited | 2015 | Yes | Agriculture | Time-bound goals for reducing impacts on deforestation | Green Century Capital Management | Vote: 29.3% |
| Dominion Resources, Inc. | 2015 | No | Electric Power | Report on bioenergy risks | Marion Edey | Vote: 22% |
| DuPont | 2015 | Yes | Chemicals | Sustainable forestry report | Clean Yield Asset Management | No Vote For Technical Reasons |
| Energizer Holdings Inc. | 2015 | No | Consumer Goods | Adopt sustainable palm oil sourcing policy | Sisters of the Presentation of the Blessed Virgin Mary | Vote: 29% |
| Kraft Foods Inc. | 2015 | Yes | Food and Beverage | Assess supply chain impacts on deforestation | Domini Impact Investments LLC | Vote: 30.3% |
| McDonald's Corp. | 2015 | Yes | Food and Beverage | Report on curtailing deforestation from palm oil | Green Century Capital Management | Vote: 7% |
| Target Corp. | 2015 | Yes | Retail | Report on metrics for sourcing sustainable palm oil | New York State Comptroller | Withdrawn; Company will address |
| Tyson Foods Inc. | 2015 | Yes | Food and Beverage | Tyson sustainable palm oil implementation reporting | New York State Comptroller | Vote: 9.7% |
| Walgreen Co. | 2015 | No | Retail | Include sustainability metrics in executive compensation | Clean Yield Asset Management | Vote: 5.7% |
| J. M. Smucker Company | 2014 | No | Consumer Goods | Report on deforestation impacts in supply chain | Clean Yield Asset Management | Withdrawn; Company will address |
| J. M. Smucker Company | 2014 | No | Consumer Goods | Assess supply chain impacts on deforestation | Clean Yield Asset Management | Withdrawn; Company will address |
| Kraft Foods Inc. | 2014 | Yes | Food and Beverage | Sustainable forestry report | Domini Impact Investments LLC | No Vote For Technical Reasons |
| Mondelez International, Inc. | 2014 | Yes | Food and Beverage | Sustainable forestry report | Domini Impact Investments LLC | Withdrawn; Company will address |
| Panera Bread Company | 2014 | Yes | Food and Beverage | Palm oil sourcing policy implementation | Franciscan Sisters of Perpetual Adoration | No Vote For Technical Reasons |

| Company | Year | Forest 500 company | Sector | Resolution Summary | Filer | Status |
|------------------------------|-------------|---------------------------|-------------------|--|--|---------------------------------|
| PepsiCo, Inc. | 2014 | No | Food and Beverage | Report on deforestation impacts in supply chain | Domini Impact Investments LLC | Withdrawn; Company will address |
| Sysco Corp. | 2014 | No | Food and Beverage | Disclose impact of palm oil sourcing on forests and human rights | Sisters of St. Dominic of Racine, Wisconsin | Filed |
| Church & Dwight Co. Inc. | 2013 | No | Consumer Goods | Palm oil policy | Province of St. Joseph, Capuchin Order | Withdrawn; Company will address |
| Darden Restaurants, Inc. | 2013 | No | Food and Beverage | Adopt and implement a comprehensive sustainable palm oil policy | Sisters of the Presentation of the Blessed Virgin Mary | Filed |
| Dean Foods Company | 2013 | No | Food and Beverage | Adopt and implement a comprehensive sustainable palm oil policy | Sisters of St. Francis of Dubuque, Iowa | Withdrawn; Company will address |
| Dunkin' Brands | 2013 | Yes | Food and Beverage | Palm oil sourcing | New York State Comptroller | Withdrawn; Company will address |
| Estee Lauder Companies Inc. | 2013 | Yes | Consumer Goods | Palm oil policy | Sisters of St. Francis of Assisi | Filed |
| Kroger Co. | 2013 | Yes | Food and Beverage | Adopt and implement a comprehensive sustainable palm oil policy | Sisters of the Presentation of the Blessed Virgin Mary | Vote; Company will address |
| Mondelez International, Inc. | 2013 | Yes | Food and Beverage | Deforestation impact and risk mitigation report | Domini Impact Investments LLC | Omitted |
| Starbucks Corporation | 2013 | Yes | Food and Beverage | Palm oil policy | Green Century Capital Management | Withdrawn; Company will address |
| Sysco Corp. | 2013 | No | Food and Beverage | Adopt a palm oil sourcing policy | New York State Comptroller | Withdrawn; Company will address |
| Yum! Brands, Inc. | 2012 | Yes | Food and Beverage | Comprehensive sustainable palm oil policy | Trillium Asset Management | Withdrawn; Ongoing dialogue |
| Colgate-Palmolive Co. | 2012 | Yes | Consumer Goods | Palm oil sourcing | Calvert Research & Management | Withdrawn; Company will address |
| H. J. Heinz Company | 2012 | Yes | Food and Beverage | Sustainable forestry report | Benedictine Sisters of Virginia | Withdrawn; Company will address |
| J. M. Smucker Company | 2012 | No | Food and Beverage | Palm oil sourcing | New York State Comptroller | Withdrawn; Company will address |
| Kraft Foods Inc. | 2012 | Yes | Food and Beverage | Sustainable forestry report | Domini Impact Investments LLC | Vote: 8.3% |

| Company | Year | Forest 500 company | Sector | Resolution Summary | Filer | Status |
|--------------------------------|-------------|---------------------------|-------------------|---|--------------------------------|---------------------------------|
| Lowe's Companies Inc. | 2012 | Yes | Big Box/Retail | Sustainable forestry report | Domini Impact Investments LLC | Withdrawn; Company will address |
| R.R. Donnelley & Sons Company | 2012 | Yes | Business Services | Sustainable paper sourcing | Domini Impact Investments LLC | Vote: 26.7% |
| Yum! Brands, Inc. | 2012 | Yes | Food and Beverage | Comprehensive sustainable palm oil policy | Trillium Asset Management | Vote: 37% |
| Archer Daniels Midland Company | 2011 | Yes | Agriculture | Palm oil sourcing | The Nathan Cummings Foundation | Vote: 4.2% |
| Avon Products Inc. | 2011 | Yes | Consumer Goods | Palm oil sourcing | The Nathan Cummings Foundation | Withdrawn; Company will address |
| Hershey Company | 2011 | Yes | Food and Beverage | Palm oil sourcing | Adrian Dominican Sisters | Withdrawn; Company will address |
| R.R. Donnelley & Sons Company | 2011 | Yes | Business Services | Sustainable paper sourcing | Domini Impact Investments LLC | Vote: 29% |

