FOREST 500

POWERBROKERS OF ZERO DEFORESTATION

A PROJECT OF THE GCP GLOBAL CANOPY PROGRAMME

Analysis: executive summary

Measuring progress to zero deforestation

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About the Forest 500:
The Forest 500 project identifies, ranks, and tracks the governments, companies and financial institutions that together could virtually eradicate tropical deforestation from global commodity supply chains. It measures progress towards ambitious zero deforestation goals by assessing the public policies of these key powerbrokers.

Contact:
To contact the Forest 500 team, please write to forest500@globalcanopy.org

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About the Global Canopy Programme: The Global Canopy Programme (GCP) is a tropical forest think tank working to demonstrate the scientific, political and business case for safeguarding forests as natural capital that underpins water, food, energy, health and climate security for all. GCP works through its international networks – of forest communities, science experts, policymakers, and finance and corporate leaders – to gather evidence, spark insight, and catalyse action to halt forest loss and improve human livelihoods dependent on forests.

Introduction

Over the last decade, commodity production driven by global demand for food, feed and fuel products has been responsible for over 50% of deforestation and 60% of forest degradation in tropical and subtropical regions. Specifically, the vast majority of tropical forest loss can be associated with the production of just a handful of 'forest risk' commodities; namely palm oil, soya, beef, leather, timber, and pulp and paper. These commodities are traded globally and find their way into thousands of products used around the world every day, making us all part of a deforestation economy.

There is widespread consensus on the need to address the destruction of the world's tropical forests and growing momentum towards tackling forest loss associated with commodity production, with an increasing number of individual and collective commitments to remove deforestation from supply chains. A number of influential companies have committed to removing deforestation from their operations, and some countries are also aiming to eliminate deforestation at least in specific regions or associated with particular supply chains. Furthermore, zero deforestation targets have been endorsed by multiple stakeholders across different sectors through initiatives such as the *New York Declaration on Forests*, which establishes a global timeline to end forest loss by 2030 and eliminate deforestation from global supply chains by 2020, and the Consumer Goods Forum, which commits its 400 corporate members to mobilise resources to achieve net zero deforestation by 2020.

Whilst the adoption of zero and net zero deforestation policies is just a first step in the implementation of a zero deforestation economy, it signals the level of ambition necessary to addressing this historically intractable problem. In addition, monitoring these public commitments provides a tool for ensuring increased accountability and a way in which to measure progress.

The Forest 500

The Forest 500 identifies, ranks and tracks the powerbrokers of zero deforestation that together could virtually halt tropical forest loss. These influential players include the key governments, companies and financial institutions at risk of being associated with deforestation through their significant involvement in, or exposure to, the complex global supply chains bringing forest risk commodities from forest to consumer countries.

Rigorous methodologies have been developed to identify and rank these actors based on their public policies and potential impacts on tropical forests. Specific policy indicators have been used to assess the powerbrokers in each category, with the results revealing varying progress towards zero deforestation.

Progress towards zero deforestation

The variation in scores achieved by the Forest 500 shows that whilst some powerbrokers are leading the way in addressing global forest loss, many are failing to take the action required to safeguard against the risk they are linked to deforestation. Although a more comprehensive approach with improvements across the policies and practices of these major powerbrokers is required if global zero deforestation targets are to be achieved, the high scores awarded to some of the actors within each category demonstrate that progress is not only possible, but is under way.

Jurisdictions

Important steps have been taken by some of the most influential governments with respect to the global production and trade of forest risk commodities. Commitments to zero or net zero deforestation have been made at both the national and subnational level in key tropical forest jurisdictions. These have been adopted mostly in relation to specific forest areas or ecosystems, such as is the case with Colombia's *Vision Amazon* strategy, which includes a pledge to achieve net zero deforestation in the Amazon region by 2020. On the whole, such commitments appear to be more prevalent in the Latin American countries included in the Forest 500, perhaps reflective of the historically longer-term engagement with the issue of deforestation as it links to commodity production in the region. However, ambitious commitments have been adopted in other countries also, with Liberia leading the way in aiming for deforestation free agriculture by 2020.

The adoption of a legal framework to govern Liberia's agricultural sector that includes safeguards to ensure zero deforestation has been established as a goal in a Letter of Intent with the Government of Norway, illustrating the importance of bilateral support for such commitments. Furthermore, a number of forest countries, such as Indonesia, Colombia, Peru, and the Democratic Republic of Congo, are signatories of the New York Declaration on Forests and have endorsed global goals to eliminate deforestation from supply chains by 2020 and altogether by 2030, but are yet to translate these specific targets into their national policies.

Similar progress is being made at the other end of the supply chain, with some of the most important jurisdictions with respect to imports, processing and consumption, taking significant steps to reduce deforestation. Among the trading jurisdictions included in the Forest 500, the highest scores are achieved by European countries. This is an important sign of progress, given the central role these jurisdictions play in the global trade in forest risk commodities, with the European countries included, as a block, representing the most significant importing jurisdiction, responsible for almost 23% of all forest risk commodity imports by value (2007-2012).

Despite this, the overall results reveal a lack of progress in some of the most important trading jurisdictions and highlight these countries as focal areas for future action. China imports forest risk commodities at similar volumes to Europe (2007-2012), and has even surpassed Europe in recent years. Yet it has a long way to go to address its external impacts of consumption on tropical forests. However, it is important to recognise that a significant percentage of products made in China using forest risk commodities are re-exported to other consuming regions, such as the US and Europe. Similarly concerning are the lack of policies found in other important trading jurisdictions, such as India and Russia. India plays a particularly critical part in the global palm oil trade, responsible for over 17% of all palm oil imports and over 37% of crude palm oil imports globally. Yet it achieves low scores for the measures taken to address deforestation. Meanwhile Russia, which plays a vital role in the trade in beef and beef products from Latin American countries – responsible for almost 20% of the total import value – also achieves minimal scores for its policies in place to address tropical deforestation.

Companies

A number of companies are showing strong signs of progress in their policies for eliminating deforestation from their supply chains and operations, with six companies (Groupe Danone, Kao Corp., Nestle, Procter & Gamble, Reckitt Benckiser, and Unilever) achieving the maximum number of five points (with overall scores of more than 80 out of 100). As well as these, a further 25 companies are in the second highest category with four points (with scores of more than 60 out of 100). The Forest 500 companies each hold influential positions in commodity markets and collectively represent revenues in excess of US$4.5 trillion. However, with average scores of just 29 out of 100, as a group they are falling short in their responsibility to safeguard their operations from driving deforestation.

Just 7% of the companies listed in the Forest 500 have overall zero or net zero deforestation policies in place that cover all of their operations and commodities, of whom two thirds are members of the Consumer Goods Forum (CGF). Furthermore, CGF members have been found to score on average 80% higher than non-members across all policy areas. This demonstrates the essential role played by voluntary sustainability intiatives, such as the CGF. However, despite the CGF's target for net zero deforestation by 2020, just five out of the fifty CGF member companies assessed have adopted their own overall zero or net zero deforestation pledges. Furthermore, with CGF members based in the Asia-Pacific region found to score lower than the average of all companies included in the Forest 500, it is vital that progress is made across all member companies in order for the organisation to achieve its goals.

The analysis of company scores shows that policy strength appears to vary with location of company headquarters. Companies headquartered in the Asia-Pacific region achieve relatively low scores generally; with average scores 70% less than those headquartered in North America. While, in terms of specific countries, the best scoring companies are located in the UK, Switzerland and Germany, followed by those in the US, France and Singapore. Reflective of the lower scores achieved by the trading jurisdictions, as discussed above, companies based in some of the most critical forest risk commodity processing and importing countries, such as China and India, generally score well below the average, with Russian companies at the bottom of the table.

Corporate governance has also been found to be a key differentiator, with publicly traded companies scoring on average 50% higher than those under private ownership or other governance structures. State-owned companies are found to be performing relatively poorly, however more in depth analysis is required here, as these are mostly located in China where low scores already prevail. Striking differences also become apparent with varying company size. Of those assessed, there is a clear threshold whereby companies reporting revenues in excess of US$10 billion achieve almost double the scores of those with lower revenues.

When assessing policies specific to individual commodities, the findings show that more companies operating within the supply chains of timber and palm oil have deforestation commitments (62% and 59% of companies respectively) than those with operations in the beef and leather, and soya trades (26% and 20% of companies respectively). This is perhaps reflective of the historical focus on timber extraction as a driver of deforestation and the more recent scrutiny on the palm oil industry's role in land use change in the tropics, particularly in Indonesia.

One sector shown to be performing particularly poorly when assessed against different forest risk commodity policy indicators is the animal feed industry. Included due to its role as a significant user of soya imported from tropical forest jurisdictions in Latin America and to a much lesser extent for its use of palm oil from Southeast Asia, companies involved in the manufacture of feed achieved the lowest scores amongst the twenty industry sectors that have been included.

The biggest strides forward in the corporate sector are shown to be within the consumer-facing home and personal care industries, with manufacturers in these sectors receiving the highest scores on average. This can be explained in part by their relatively low exposure to forest risk commodities, with companies assessed for their policies on fewer commodities on average than those in other sectors, making it easier for them to score well. In addition, the position of these companies towards the consumer end of the supply chain and their production of products under global brand names has exposed them to greater reputational risk associated with civil society pressure, driving more progressive policies.

Policies adopted by companies responsible for a particularly large proportion of the global trade in forest risk commodities can have disproportionate impacts throughout the supply chain. For example, palm oil trader Wilmar covers around 45% of the total volume of palm oil traded globally. If effectively implemented, policies adopted by such uniquely positioned players can have positive knock on effects up and down the supply chain by driving improved policies among their suppliers and buyers. Other companies can also lead the way by implementing strong policies to promote change cross entire sectors. However, it is worth recognising that even with the commitments of some highly influential powerbrokers; progress to zero deforestation will not be achieved if other players continue to accept commodities linked to deforestation. Without comprehensive changes across entire sectors, commodities from destructive operations might simply shift to markets not influenced by the most advanced corporate actors. Similarly, the complex nature of global supply chains means concerted action is required at multiple supply chain stages for the policies of individual actors to achieve their goals.

Investors

The financial sector holds a unique position in its potential to contribute to a zero deforestation economy: the investors included together hold more than US$1.7 trillion worth in shares in the publicly listed Forest 500 companies. Once more, some individually high scores – such as the five points achieved by HSBC, and the four points (but more than 75 out of 100) achieved by Société Générale, Rabobank, and Bank of America – demonstrate that progress is possible. Further, the collective ambition of the sector has been shown through voluntary commitments such as the *Banking Environment Initiative*, which aims to transform soft commodity supply chains to help achieve net zero deforestation by 2020.

However, there is much to be done in order for the financial sector to fulfil its potential to address tropical deforestation: the average scores achieved by investors and lenders is just 18 out of 100, and none have established zero or net zero deforestation policies associated with their investment, financing and lending activities. In addition, many investors with sustainable investment policies in place have been found to have no clear implementation processes and more often than not, do not apply these policies universally across their operations.

As with companies, scores are found to vary according to location, with investors based in Europe tending to have more developed sustainable investment policies than those headquartered in North America and the Asia-Pacific region. The role of the US in this context is particularly striking. Although the country is a significant powerbroker as an importer of forest risk commodities, responsible for around 5% of the total import value of commodities from key tropical forest regions, its position in the investment landscape is even more prominent. While 20% of companies included in the Forest 500 are headquartered in the United States, US-based investors hold almost 80% of all shares in the publicly-listed Forest 500 companies, highlighting the low scores achieved by these institutions as a concern and an area for much needed improvement.

Scores are also found to vary with financial institution type, with banks generally scoring higher (with an average of around 34 out of 100) than other organisation types, such as insurance companies (with an average score of around 18 out of 100). The lowest scores are seen among the sovereign wealth funds and hedge fund managers, none of those assessed having been found to have sustainable investment policies in place.

Conclusion

With influential positions throughout the supply chains of forest risk commodities, the powerbrokers included in the Forest 500 have a vital role to play in the transition to a zero deforestation economy. A number of leading players within different sectors are demonstrating that progress is possible. For the first time, through the *New York Declaration on Forests* released at the UN Climate Summit in September 2014, concerted commitments have been made across the public and private sectors, with the support of indigenous groups and wider civil society. The declaration establishes a timeline to eliminate deforestation from commodity supply chains by 2020 and stop the loss of natural forests globally by 2030. However there is clearly much room for progress, with the financial sector in particular having only taken very early steps to address deforestation.

There have been questions over the extent to which deforestation and development targets can both be simultaneously achieved in developing forest countries, and similarly, surrounding the willingness of governments in importing and consuming jurisdictions to implement sustainability policies affecting trade; with many relying on industry-led voluntary sustainability initiatives. However, increasing emphasis has been put on the need to transition to green economies, where development is not predicated on deforestation and short-term economic growth does not come at the expense of natural capital. Similarly, there is growing understanding of the role international trade plays in deforestation and therefore the responsibility of trading jurisdiction governments to support tropical forest protection efforts in forest countries through their own measures. Meanwhile, the peak in the uptake of deforestation and sustainability commitments among corporate actors also demonstrates better appreciation of the business case for removing deforestation from supply chains. Although the Forest 500 results highlight a number of priority areas for action, they also demonstrate that vital steps forward are being taken to address deforestation across multiple sectors. It is essential that this progress by leading institutions in setting strong policies on deforestation catalyses uptake by others in their sectors and ultimately translates into effective implementation in the race to achieve zero deforestation by 2020.

For more information visit: **www.forest500.org**

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