

FOREST

500

ANNUAL REPORT

2018

THE COUNTDOWN TO 2020

A PROJECT OF



global canopy

Citation:

Please cite this publication as: Rogerson, S., 2019. Forest 500 annual report 2018 - the countdown to 2020, Global Canopy: Oxford, UK. Lead author: Sarah Rogerson, contributing authors and reviewers: Helen Bellfield and Helen Burley

Acknowledgments

The authors would also like to express their thanks to Chris Hart, Tom Bregman, Sarah Lake, Emma Mutch and Mei Corbett for their insights and comments on the report.

Funding:



This publication was financially supported by UK aid from the UK government; however the views expressed in this report do not necessarily reflect the UK government's official policies.

Forest 500, a Global Canopy project, identifies and ranks the most influential companies and financial institutions in the race towards a deforestation-free global economy.

Contact:

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

Global Canopy is an innovative environmental organisation that targets the market forces destroying tropical forests. Since 2001, we have been testing new approaches to tackling deforestation, and guiding companies, investors and governments worldwide to think differently about our planet's forests. See: www.globalcanopy.org

The contents of this report may be used by anyone providing acknowledgement is given to Global Canopy. No representation or warranty (express or implied) is given by Global Canopy or any of its contributors as to the accuracy or completeness of the information and opinions contained in this report.

Global Canopy is a registered charity, charity number 1089110. Copyright Global Canopy 2019

Executive Summary

Our growing global appetite for consumer goods is driving the loss of the world's tropical forests. Yet these forests are essential to address climate change, provide crucial habitat for biodiversity and enhance water security. Five years ago, companies and governments signed up to the New York Declaration on Forests, committing to eliminate deforestation from agricultural supply chains by 2020.

As the 2020 deadline approaches, not one of the Forest 500 companies and financial institutions assessed in 2018 is on track to eliminate commodity-driven deforestation from their supply chains and portfolios by next year. Yet nearly half have made commitments to do so by 2020 or earlier.

The Forest 500 ranking assesses the 500 most influential companies and financial institutions in forest-risk commodity supply chains, focusing on palm oil, soy, cattle and timber products. Each year, the Forest 500 ranking assesses their policies and commitments to address deforestation, holding them to account for their impacts on forests.

These 500 companies and financial institutions have the greatest potential to prevent tropical deforestation. Despite the commitments that have been made, evidence shows that rates of commodity-driven deforestation have not decreased¹.

In recognition of this gap between company commitments and impacts on the ground, the Forest 500 methodology was updated in 2018 to better distinguish between companies who have set commitments, and those that have taken the next step towards implementation. This new methodology has meant that many companies have received lower scores this year.

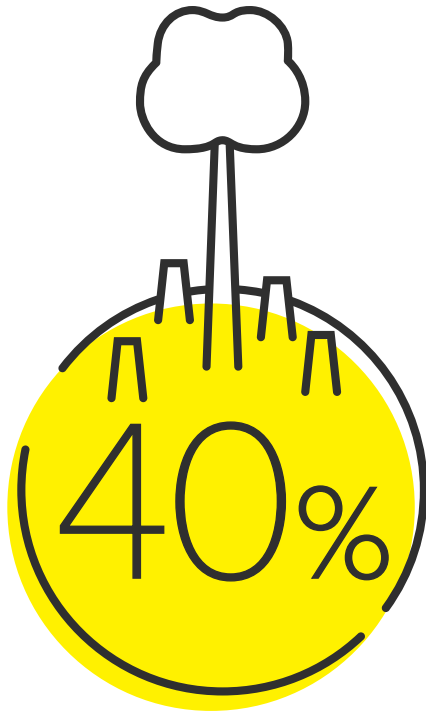
This report identifies the leaders, both overall and for each commodity assessed, and looks at progress among companies and financial institutions, identifying where common gaps lie. It also shows that there is an urgent need to prioritise deforestation in agricultural commodity supply chains. The 2020 goal cannot be met, but action is still needed.



**companies report
some implementation
activities for all of the
commodities they are
exposed to.**

Key findings:

- The 2018 assessment shows that some leading companies have strong commitments which do include actions on implementation. Fifty of the 350 assessed companies report some implementation activities for all of the commodities they are exposed to. Other companies need to follow the example of these leading companies.
- Every year the number of companies with commitments to protect forests increases. In 2018, we found that 57% of companies had a commitment to protect forests for at least one of the commodities they are exposed to, up from 50% in 2014.
- Many of the companies with commitments are not tackling all of the risks they are exposed to. Thirty seven percent of companies have a commitment for one or more but not for all of the forest-risk commodities in their supply chains.
- Even companies with ambitious commitments are not putting these into practice. Of the 228 companies assessed in 2017 and 2018, nearly 70% scored lower this year than last year, due to the new indicators on implementation. This reflects an implementation gap - companies are not executing their commitments.
- Far too many of the most influential companies in these supply chains still have no commitments at all, or commitments that are too weak to deliver change on the ground. Over 40% of the most influential companies are not doing anything to tackle deforestation that they are linked to.
- Palm oil remains the commodity with the greatest action - companies are more likely to have strong commitments and report on implementation for palm oil than for any other commodity. But there is still room for improvement: most companies, including the leading companies, do not report on protecting High Carbon Stock forests or peatlands.
- Cattle products are still overlooked. Only 16% of companies have a forest-related commitment for beef or leather that they produce or source.
- Financial institutions are behind companies in setting commitments and policies on deforestation. Of the 150 financial institutions assessed, nearly two thirds had no financing policy for any of the four key forest-risk commodities. Of the 53 that do, none score 4 or 5 out of 5 for their policies.



**of the most
influential companies
are not doing
anything to tackle
deforestation that
they are linked to.**

Key asks:

- Companies need to assess their exposure across forest-risk commodities, and set and implement strong commitments that address each commodity.
- Companies must put more focus on implementing their commitments with clear action plans, including monitoring supplier and producer compliance, and detailing policies for dealing with non-compliance.
- Action plans should include realistic time-bound milestones which are monitored and reported against. These plans must extend beyond 2020 and remain ambitious, with all aspects of the commitments reported on, to ensure companies themselves and others can measure progress against their milestones.
- Financial institutions need to do more to recognise and act on the material risk that deforestation poses. They should require their portfolio companies to adopt and implement policies that mitigate these risks.

¹ See: Curtis et al (2018), Classifying drivers of global forest loss.
<http://science.sciencemag.org/content/361/6407/1108>

Introduction

The urgent need to take action on climate change has led some consumer market governments and some big companies to make commitments to eliminate deforestation from forest-risk supply chains, recognising the impact of agriculture on tropical deforestation.

Many of these commitments are focused on the forest-risk commodities whose production causes the greatest share of tropical deforestation: palm oil, soy, cattle and timber products. Many also have a 2020 deadline - in line with the high profile collective commitments made by the Consumer Goods Forum² and the New York Declaration on Forests' goal 2³.

Forest 500 identifies the 350 most influential companies and 150 financial institutions in forest-risk commodity supply chains, focusing on palm oil, soy, cattle and timber products. These companies and financial institutions have the greatest potential to prevent tropical deforestation, and are annually assessed on their policies and commitments to eliminate forest loss from their supply chains or portfolios.

Since Global Canopy began tracking company commitments in 2014, the number of commitments from the Forest 500 has increased slowly. In 2018, we found that 57% of companies had a commitment to protect forests for at least one of the commodities they are exposed to, up from 50% in 2014. Over a quarter of these 2018 commitments are commitments to be deforestation free, at least for priority forest types, by 2020.

Despite the increase in commitments from companies, deforestation continues. Evidence suggests that rates of commodity-driven deforestation have not decreased⁴. This discrepancy between companies' commitments and deforestation rates highlights what has been recognised as an "implementation gap"⁵.

With just one year left to the 2020 deadline, it is clearer than ever that even companies with strong commitments will not be able to assert that their supply chains are deforestation-free by that deadline.

This report looks at the progress made by the Forest 500 companies and financial institutions in removing deforestation from their supply chains. It also identifies the trends and gaps in those commitments. It identifies leaders, best practice and key trends both for companies and financial institutions overall, and for companies sourcing and producing each of the four commodities.

New this year - assessing steps towards implementation

Every year, Forest 500 companies are assessed on the strength of their commitments and policies to tackle deforestation for all the commodities they are exposed to, receiving a score out of 100, which is translated into a score band out of five.

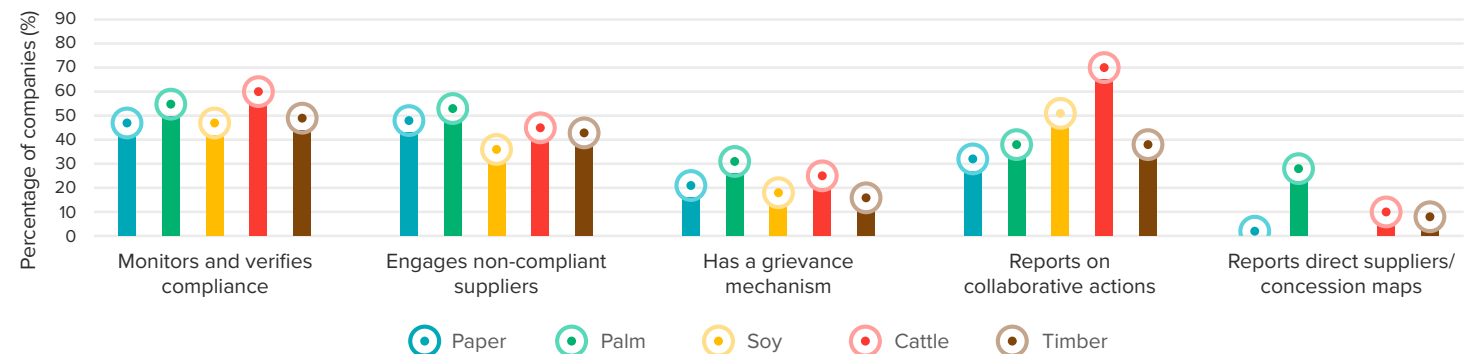
While many companies have set ambitious targets for removing deforestation from their supply chains - 164 Forest 500 companies have committed to 2020 or earlier - many have not developed clear and actionable implementation plans for delivering on these commitments.

In order to better understand the implementation gap and distinguish between those companies that have set ambitious commitments without plans for implementation and those that have, the Forest 500 methodology was updated for 2018 to include more indicators on implementation.

The new indicators assess key actions that companies should be making to implement their commitments. They look at whether the company reports that it:

- monitors and verifies its suppliers against its own commodity commitment;
- engages with non-compliant suppliers;
- has a grievance mechanism so that issues in its supply chain can be raised;
- is actively involved in collaborative actions to improve sustainable commodity supply chains;
- is transparent and has published supplier lists or coordinates of specific sourcing regions.

Figure 1: Graph showing the proportion of forest-related commitments that included detail on implementation actions. The total number of forest-related commitments are: Paper (107), Palm oil (126), Soy (39), Cattle (20), Timber (37).





**of forest-related
commitments
did not include
implementation
actions.**

In our 2018 assessment, based on companies' own declarations published online, Global Canopy found that almost a third of forest-related commitments⁶ did not include any of these implementation actions. To fully implement commitments in their supply chains, companies need to be looking into all of these actions as a minimum.

Fifty companies were found to be doing some form of implementation for all of the commodities in their supply chain. However, no companies reported on all of these actions for all of the commodities they are exposed to. Only 13 forest-related commitments made by companies included details on all of these actions, 12 of which were palm oil commitments.

We also added an indicator on whether companies' reporting was independently verified, either through a certification scheme or an independent audit. Verification is vital to assure that a company is implementing its commitments and having the impact it self-report. Almost all of the companies that verified self-reporting relied on a certification scheme to do this (87%).

Of the 228 companies that were assessed in 2017 and 2018, 151 have dropped score bands. Almost all of these are due, at least in part, to the new indicators on implementation steps. The lack of detail on how companies plan to execute their commitments clearly illustrates the gap between setting ambitious public commitments and effective implementation.

Social considerations in commodity supply chains

For 2018 we added two new indicators relating to the human rights issues linked to commodity production. The first indicator asks whether companies have a policy to address gender rights in their supply chains - both regarding equal labour rights and encouraging greater inclusion of women in the supply chain. The second indicator asks whether companies have a policy to encourage greater inclusion of small farmers or small producers in their supply chains. To score for these, companies needed to apply these principles in a sourcing policy, rather than demonstrate a project-specific outcome. These indicators complement the indicators on workers' rights, and the free, prior and informed consent of local communities that are already in the methodology.

² The Consumer Goods Forum (CGF) pledge to achieve zero net deforestation was made on behalf of their 400 members in 2010 (<http://www.theconsumergoodsforum.com/sustainability-strategic-focus/sustainability-resolutions/deforestation-resolution>)

³ The New York Declaration on Forests (NYDF) goal to eliminate commodity-driven deforestation (<http://forestdeclaration.org/goal/goal-2/>)

⁴ Curtis et al (2018), Classifying drivers of global forest loss. <http://science.sciencemag.org/content/361/6407/1108>

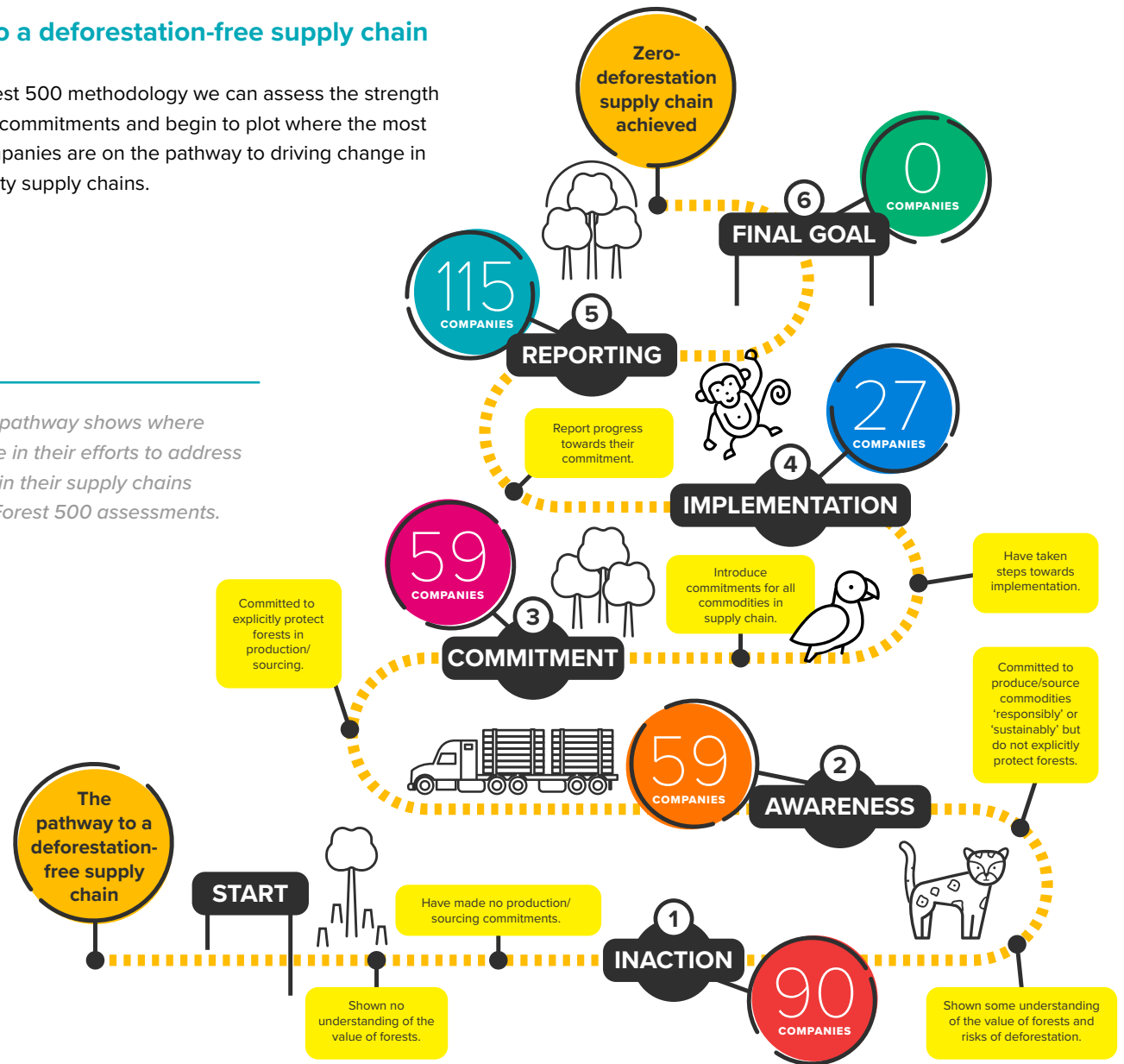
⁵ Lambin et al (2018), The role of supply-chain initiatives in reducing deforestation. <https://www.nature.com/articles/s41558-017-0061-1>

⁶ Forest-related commitments include commitments to protect priority forest types, commitments to use certified products where the certification scheme protects key forest types, or to zero net or zero deforestation, including zero conversion.

Pathway to a deforestation-free supply chain

Using the Forest 500 methodology we can assess the strength of commodity commitments and begin to plot where the most influential companies are on the pathway to driving change in their commodity supply chains.

Figure 2: The pathway shows where companies are in their efforts to address deforestation in their supply chains according to Forest 500 assessments.



Companies

The leaders

Leading companies have time-bound and measurable commitments to protect forests in the supply chains that they are involved in. They report against these commitments, and report on activities they are doing to implement them. None of the Forest 500 leaders have a perfect score, and all have areas where they could improve on implementation.

Some companies show significant leadership in some commodities but are yet to apply the same rigour to other commodities. For instance Unilever scores 81% for their palm oil commitment, but only 48% for its commitment on soy.

The extent of the challenge faced by companies seeking to tackle deforestation can depend on the number and nature of the commodities they source (certification is more effective for timber than for cattle, for example), and on their position in the supply chain. To better compare the leaders, we have grouped companies according to their position in the supply chain.

TOP 5 MANUFACTURERS	SCORE %	SCORE BAND (/5)
Nestlé S.A.	88	●●●●●
Kao Corp.	81	●●●●●
Unilever PLC	73	●●●●○
Mars Inc.	67	●●●●○
L'Oreal S.A.	65	●●●●○
Average Manufacturer	22	●●○○○



**of the companies
assessed have a
company-wide
commitment to
deforestation-free or
zero net deforestation
commodities.**

TOP 5 RETAILERS	SCORE %	SCORE BAND (/5)
Marks and Spencer	63	●●●●○
IKEA	59	●●●○○
News Corp	54	●●●○○
McDonald's	51	●●●○○
Pearson	49	●●●○○
Average Retailer	21	●●○○○

TOP 5 PRODUCERS/ PROCESSORS/TRADERS	SCORE (%)	SCORE BAND (/5)
PT Astra International TBK	80	●●●●●
Harita Group	67	●●●●○
Louis Dreyfus	61	●●●●○
Kimberly-Clark Group	60	●●●●○
Genting Bhd.	59	●●●○○
Average Producer, processor or trader	17	●○○○○

Many companies have limited commitments that do not cover all of their operations

The majority of companies are not tackling all of the deforestation they are exposed to. By either focusing commitments on some commodities or regions, they remain exposed to deforestation in other geographies or supply chains. Companies should have commitments that cover all of their supply chains.

Thirty seven percent of companies have a commitment for one or more of the forest-risk commodities they source, but not for all of the forest-risk commodities in their supply chains.

Just 12% of the companies assessed have a company-wide commitment to deforestation-free or zero net deforestation commodities. Of these 43 companies, 16 have not translated these into equivalent commitments for all of the commodities that they are exposed to. Of the 27 that have, seven do not report implementation on all of the commodities.

To remove deforestation from their supply chains, companies must recognise and assess their exposure to multiple forest-risk commodities. Commodity specific policies and action plans are required - for example currently certification whilst relevant for palm oil, is not a relevant tool for cattle products.



of the most influential companies in forest-risk supply chains are still not reporting on any action.

Too many companies are still not addressing deforestation at all

Over 40%, 149, of the most influential companies in forest-risk supply chains are still not publicly reporting on any action to address the risk of deforestation in their supply chains. They have not set commitments, or shown an understanding of the impacts of their activities or the risks that they face.

The behaviour of these companies is a significant barrier to achieving the global goal of ending commodity-driven deforestation.

All companies, in particular the largest in forest-risk commodity supply chains, need to recognise the role that they play and maintain global ambition beyond the 2020 target.

Companies are considering human rights in their commodity commitments

An indicator on gender rights was new this year. Thirty four percent of companies had a policy to respect gender rights in their supply chain, either through equal workers' rights or through encouraging more female participation in the supply chain.

Palm oil

PALM OIL TOP 10	SCORE (%)	SCORE BAND (/5)
Nestlé S.A.	93	● ● ● ● ●
Unilever PLC	89	● ● ● ● ●
Sime Darby Bhd.	89	● ● ● ● ●
PepsiCo Inc.	88	● ● ● ● ●
Eight Capital Inc.	88	● ● ● ● ●
Mondelez International Inc.	87	● ● ● ● ●
Sinar Mas Group Co. Ltd.	87	● ● ● ● ●
Musim Mas	87	● ● ● ● ●
Kao Corp.	86	● ● ● ● ●
AAK AB	84	● ● ● ● ●
Average Palm oil score (196 companies)	34	● ● ○ ○ ○

Best in class:

Nestlé was the only company to score more than 90% for its palm oil commitment in 2018. The commitment is for deforestation-free palm oil for all of its sourcing with a deadline of 2020. It also has a commitment to trace its supply chains back to plantation.

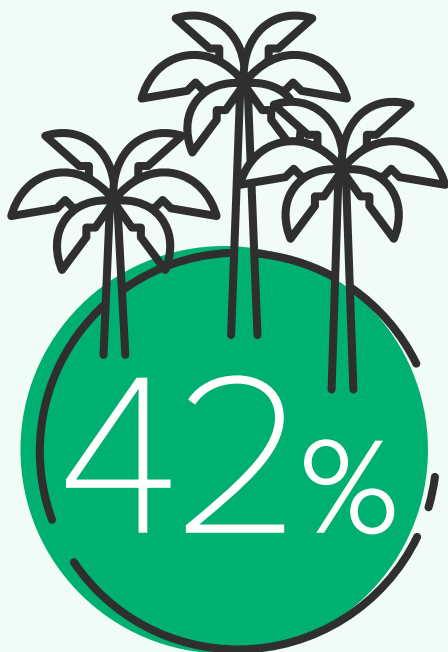
In 2017 Nestlé reported on progress on its deforestation commitments, stating that 58% of its goals were achieved. Importantly, its report was independently verified.

The company reported activities for all five of the new indicators on implementation. It has policies that cover workers' rights, gender rights, smallholder/farmer inclusion and the free, prior, informed consent of local communities.

Nestlé also has a commitment to protect High Carbon Stock (HCS) and peatlands, but does not report on this commitment.

Manufacturers lead the way

The top 10 companies with the highest scores for their palm oil commitments are evenly split between manufacturers and companies involved in the processing and trading of palm oil. Eight of the top 10 are involved in manufacturing and three of the top five are only manufacturers, and so are at the downstream end of the supply chain, several stages away from production.



companies involved in palm oil supply chains have a commitment to not produce or buy commodities grown on cleared HCS forests and/or peatlands.

These downstream companies cannot meet their commitments without action by their suppliers closer to production. Their suppliers may be large commodity traders, processing companies or producers. To drive change on the ground, downstream companies need to put pressure on their suppliers, and require them to take action.

The traders, processors and producers assessed as part of Forest 500 have weaker commitments than most of the downstream companies, which suggests that this pressure has not yet borne fruit.

Downstream companies need to do more to ensure that their suppliers develop and implement the same ambitious level of commitments to ensure that they are driving change throughout the supply chain to prevent deforestation on the ground.

Companies need to report on all of their commitments

Forty two percent of Forest 500 companies involved in palm oil supply chains have a commitment to not produce or buy commodities grown on cleared HCS forests and/or peatlands of any depth (with 88% mentioning both types of landscapes). Just 16% of palm oil companies report on these commitments, with some leading companies failing to report on this issue, despite reporting on other aspects of their palm oil commitment.

Palm oil companies are most likely to report on the extent to which their production or use of palm oil is RSPO certified. Before November 2018, RSPO certification did not guarantee that palm oil was not produced in HCS forest or peatland areas. This meant

companies were not reporting on aspects of their commitments that protect these areas.

Companies should report on all aspects of their commitments, to ensure they and others can measure success against their milestones.

Palm oil remains the commodity with the strongest commitments, which are complemented with the most advanced implementation

Over the last five years, more companies have made commitments on palm oil than for any other commodity. These have also consistently been the strongest, scoring higher than other commodity commitments. This year, 19 companies received 5/5 for their palm oil commitment, while Nestlé was the only company to receive the full 5/5 score for commitments on commodities other than for palm oil.

Companies with palm oil commitments scored highly on implementation indicators. While only 13 of the 329 commodity commitments to protect forests made by companies included information on all five of the implementation indicators added this year, 12 of these were palm oil commitments.

Companies need to learn from advances in palm oil supply chains, understand best practice in both commitments and implementation in the palm oil sector, and apply these to their other commodities and contexts.

Cattle

CATTLE TOP 10

SCORE (%)

SCORE BAND (/5)

JBS	70	●●●●○
Marks & Spencer Group PLC	68	●●●●○
Marfrig Global Foods	64	●●●●○
Mars Inc.	63	●●●●○
Deckers Outdoor Corp	53	●●●○○
McDonald's Corp.	52	●●●○○
Carrefour S.A.	52	●●●○○
IKEA Group	51	●●●○○
Wal-Mart Stores Inc.	47	●●●○○
Casino Guichard Perrachon S.A.	43	●●●○○
Average score for Cattle products (129 companies)	12	●○○○○

Most improved:

Doctor's Associates (parent of Subway) increased their score for cattle the most this year by introducing a new sustainability policy (last year they scored 0/5). However the policy is weak, only asking suppliers to strive to preserve "benefits of managed forests" rather than to explicitly protect priority forest types. A stronger policy would protect key forest types, such as High Conservation Value (HCV) forests as a minimum. Full points require a company to exclude all conversion of native vegetation from their supply chains.

Highest score:

JBS scores for its zero deforestation commitment, and for reporting on progress made. In 2017 the company reported that 99.97% of purchases were compliant, and were independently audited. JBS says that it has mapped all suppliers and has geo-references for all cattle farms in the Legal Amazon.

JBS also states that it monitors suppliers, has a grievance mechanism and reports on collaborative actions.

However, the commitment only applies to the Amazon, and not to all the areas they source from. The company also loses points because it blacklists non-compliant suppliers without engaging and does not report on supplier lists or sourcing concessions.



**of those assessed
for cattle had a
commitment to no
deforestation
or to protect priority
forest types.**

Seven of the top 10 companies scored for cattle products are retailers, four are manufacturers, and two of these are also involved in trading and processing cattle products. Retailers and manufacturers cannot meet their deforestation commitments without action by their upstream suppliers and yet, three retailers (Deckers, McDonald's, and Ikea) do not monitor and verify their suppliers against their commitments or engage with non-compliant suppliers.

Cattle is the largest driver of tropical deforestation globally⁷, but companies in cattle supply chains are least likely to have a commitment

Only 20 companies (16% of those assessed for cattle) had a commitment to no deforestation or to protecting priority forest types. Fourteen of these commitments do not apply to all sourcing regions, and most only protect forest in the Amazon.

Despite having weak commitments, these companies are the most likely to report that they participate in collaborative activities to further sustainability in this supply chain

Seventy percent of the companies with commitments in cattle supply chains report on collaborative actions, such as participating actively in industry platforms or partnerships to address deforestation with other companies, NGOs, or governments. Companies scored here for being active members in initiatives such as the Leather Working Group⁸ or the Sustainable Apparel Coalition⁹. This is the highest proportion of any commodity.

⁷ Henders, S. et al. (2015), Trading forests: land-use change and carbon emissions embodied in production and exports of forest-risk commodities. Available from: <http://iopscience.iop.org/article/10.1088/1748-9326/10/12/125012/meta>

⁸ <https://www.leatherworkinggroup.com/>

⁹ <https://apparelcoalition.org/>

Soy

SOY TOP 10	SCORE (%)	SCORE BAND (/5)
Nestlé S.A.	83	●●●●●
Archer Daniels Midland Co.	64	●●●●○
Mars Inc.	60	●●●●○
Marks & Spencer Group PLC	59	●●●○○
Bunge Ltd.	53	●●●○○
Unilever PLC	53	●●●○○
Louis Dreyfus	50	●●●○○
Wal-Mart Stores Inc.	49	●●●○○
JBS	47	●●●○○
Arla Foods	46	●●●○○
Average score for Soy (168 companies)	13	●○○○○

Best in class:

Nestlé's zero deforestation commitment applies to all sourcing regions and sets a 2020 deadline. Nestlé reported that 75% of their soy was compliant with their policy in 2017.

Nestlé also has a commitment to trace their soy supplies back to the farm. In 2017 the company reported that 78% of its soy was traceable back to the crushing facility.

Nestlé monitors suppliers for compliance with its policy, engages with non-compliant suppliers and reports both total and compliant volumes of soy.

However, Nestlé does not score full marks for its soy commitment as it does not have a deadline for its traceability commitment, does not report on involvement in any collaborative actions in soy supply chains and does not publish details of its soy suppliers or specific sourcing regions.

Collective commitments

The 10 companies with the highest scores for their soy commitments are all either signatories to the Soy Moratorium or the Cerrado Manifesto Statement of Support. Signatories to the voluntary zero deforestation agreement established by the Soy Moratorium committed to not source soy grown on land in the Amazon biome that had been deforested after July 2006¹⁰. The Cerrado Manifesto¹¹ Statement of Support was signed by 61 companies¹² who committed to "working with local



**companies assessed
disclose a list of soy
suppliers or sourcing
regions.**

and international stakeholders to halt deforestation and native vegetation loss in the Cerrado”. Action by companies in soy supply chains has been catalysed by these collective agreements.

Companies need to make sure that their commitments cover all the biomes that they may be sourcing from, including the Chaco in Argentina and Paraguay.

A lack of transparency

None of the companies assessed disclose a list of soy suppliers or sourcing regions. In comparison, a quarter of the companies with a forest-related commitment for palm oil disclosed supplier lists, the concessions sourced from, or both. Disclosing these details shows a willingness to be transparent, helps others to hold companies to account, and can help companies themselves track non-compliance in their supply chain.

Conversion-free commitments

Louis Dreyfus and COFCO were the only companies to have made a commitment to conversion-free soy sourcing in the 2018 assessment¹³. Louis Dreyfus has committed to “Eliminate engagement in, or financing of deforestation throughout our supply chain, and conserve biomes proven to be of high ecological value, such as the Cerrado, Brazil, with the intent to discourage and eliminate conversion of native vegetation.”

Conversion commitments go beyond deforestation commitments and include all native vegetation types, not just forests. This is particularly important when considering biomes with high

ecological value, such as the Cerrado, that may not be included in most companies’ definitions of forests.

Louis Dreyfus drops points for its soy commitment because it lacks key actions on implementation. The company does not report on any efforts to monitor or engage with suppliers, or provide details of any plans to do this, it does not have a grievance mechanism, and does not publish supplier lists or detailed sourcing regions.

COFCO drops points because the commitment is made by the subsidiary COFCO International, rather than the parent, and only applies to Brazil. COFCO have no commitment to trace their supply chain, and do not have a grievance mechanism or publish sourcing information.

¹⁰ <http://www.abiove.org.br/site/index.php?page=soy-moratorium&area=MTEtMy0x>

¹¹ The Cerrado Manifesto can be accessed at: https://d3nehc6yl9qzo4.cloudfront.net/downloads/cerradomanifesto_september2017_atualizadooutubro.pdf

¹² <https://www.tfa2020.org/wp-content/uploads/2018/01/Press-release-marking-the-significant-increase-in-company-signatories-to-the-Cerrado-Manifesto-Statement-of-Support-25-Jan-2018.pdf>

¹³ Since the Forest 500 2018 assessments have been carried out, Cargill has made a conversion-free commitment in February 2019.

Timber and pulp and paper

TIMBER TOP 10

SCORE (%)

SCORE BAND (/5)

IKEA Group

72



Lowe's Companies Inc.

62



Home Depot

56



UPM

53



Marks & Spencer Group

52



Klabın S.A.

51



Oji Holdings Corp.

50



Svenska Cellulosa Aktiebolaget SCA

49



Carrefour S.A.

48



Daiwa House Group

47



**Average score for Timber
(69 companies)**

24



PAPER TOP 10

SCORE (%)

SCORE BAND (/5)

Nestlé S.A.

92



Unilever PLC

77



Kao Corp.

77



Mars Inc.

67



Kimberly-Clark Group

62



IKEA Group

57



General Mills Inc.

57



Klabın S.A.

54



PepsiCo Inc.

54



News Corp.

54



**Average score for Paper
(290 companies)**

19





**top timber companies
are retailers of timber
products.**

Seven of the top 10 performing companies scored on paper are manufacturers and retailers who source paper as a packaging material, rather than manufacturing or retailing paper-based products themselves. Kimberly-Clark was the highest scoring paper manufacturer, with 4/5 for its paper commitment. Six of the top 10 timber companies are retailers of timber products.

This reflects far stronger action by the retail and manufacturing companies at the downstream end of the timber products supply chain - with timber and paper producers less likely to have strong commitments.

Companies sourcing timber and paper were the least likely to score well for reporting action on implementation, despite generally scoring well for commitments. In 2017, companies in timber supply chains had the strongest commitments after palm oil. These companies do not appear to be reporting on how they implement their commitments, raising questions about how the commitments translate into action on the ground.

Companies in timber supply chains are more likely to have commitments than companies sourcing cattle and soy, but companies in cattle and soy supply chains who have commitments score better on policy implementation.

Financial institutions

The Forest 500 ranking also assesses 150 financial institutions who are identified as the institutions with the largest financial exposure to the 350 companies assessed for their activities in forest-risk supply chains. Institutions are assessed on their financing policies for companies in these supply chains.

In 2018 we updated the methodology to include more indicators on the human rights' impacts of their portfolio companies' activities. This aligns with the changes to the company methodology. Financial institutions are exposed to deforestation through the companies that they finance, as such they need to look at company implementation. To capture this, our methodology includes indicators on monitoring clients and assurance mechanisms.

The new indicators assess whether financial institutions' financing policies require companies to act on gender rights and impacts on smallholders in their supply chains. We also looked at whether financial institutions ask the companies in their portfolios to have grievance mechanisms for environmental and social issues in their supply chains.

These indicators were added to recognise the interlinkages between environmental and social issues in commodity supply chains. Grievance mechanisms were selected as these are a vital tool for companies in implementing their commitments as they allow all stakeholders to be able to report grievances and know that they are acted on.

Of the 123 financial institutions assessed in both 2017 and 2018, 30 dropped a score band out of five. All of these are due to the changes in the methodology.

Figure 3: Number of financial institutions that score for each of the new social indicators, across commodities.



Only two financial institutions had a policy around small-scale farmers, and all of these were only in relation to palm oil.

Despite the change in the methodology, nine financial institutions managed to increase their score from 2017 by adding new policies, or strengthening existing ones. However, none of the 150 financial institutions are leading in their financing policies as illustrated in their overall scores. No financial institutions received 4/5 or 5/5 this year.

The top scores

Forest 500 identified the 10 highest scoring financial institutions out of the 150 most influential financiers in companies active in forest-risk supply chain. None of the top 10 achieved a top score of 5/5.

FINANCIAL INSTITUTION	SCORE (%)	SCORE BAND (/5)
Rabobank	57	●●●○○
BNP Paribas	55	●●●○○
HSBC	54	●●●○○
Deutsche Bank	53	●●●○○
ING Group	49	●●●○○
Westpac	49	●●●○○
Royal Bank of Scotland	47	●●●○○
ABN Amro	46	●●●○○
Credit Suisse	45	●●●○○
Citigroup	45	●●●○○
Average Financial institution	12	●○○○○



97
of the institutions
assessed do not have
any commitments for
any of the forest-risk
commodities that
they finance.

Financial institutions continue to lag behind companies in setting commitments and financing policies on deforestation.

Out of the 150 financial institutions assessed, nine have a policy for all of the key forest-risk commodities. No financial institutions scored more than 3/5 for their financing policies.

These financial institutions are the largest financiers of the biggest companies in forest-risk supply chains, yet 97 of the institutions assessed do not have any commitments for any of the forest-risk commodities that they finance.

Deforestation, and the associated human rights' abuses, could create a material risk for the companies involved, and as a result, expose the investing institution, and the rest of the supply chain to that risk. Financial institutions need to recognise these risks and can mitigate them by requiring action from the companies they finance.

Financial institutions that do specify an assurance mechanism, rely on certification

Of the 38 financial institutions that do ask the companies they invest in to have an assurance mechanism to provide proof that priority landscapes are protected in their supply chain, all but one ask for certification for at least one commodity. This reflects the companies' reliance on certification as a means to verify their reporting and progress.

BNDES, the Brazilian development bank, is the only financial institution to ask for an assurance mechanism for cattle products. There is currently no well-established, well-used certification scheme for cattle products and BNDES asks for a traceability

system to prove that forests are protected in the cattle supply chains it finances.

BNDES requires the cattle processors that it finances to use the Brazilian CAR traceability system which tracks cattle from birth to slaughter, and then to verify that the farms sourced from comply with BNDES' policy, based on information from official bodies.

Figure 4: The number of financial institutions that ask for assurance that forests are protected, split by whether they ask for certification or traceability.





**financial institutions
rely on certification
to assess company
compliance with
commitments.**

The problem with relying on certification to assess compliance is that only a small fraction of global supplies are certified by credible schemes¹⁴. Even in commodities where certification is common and well-known, such as palm oil, only 19% of global palm oil production is certified by the RSPO¹⁵. This limits a financial institution's ability to distinguish between the majority of companies who are not certified, leaving them with either the risk of financing without any other check on compliance, or limiting their ability to provide finance to a lucrative sector.

The situation is even more extreme in commodities where certification is not widely used. Around 1% of global soy production is certified by the Round Table on Responsible Soy (RTRS)¹⁶. Rainforest Alliance cattle certification only covered 1% of Brazil's pastureland at the end of 2016¹⁷.

Financial institutions should develop their own policy criteria that they require their portfolio companies to meet, and they must find an assurance method that allows them to be sure that they are only financing companies that meet these criteria.

Certification should be used where they are at least as strong as the institution's policy and they are available, but other mechanisms must be used in cases where this is not possible. Financial institutions should collaborate to standardise assurance mechanisms across the industry.

¹⁴ The Forest 500 defines a credible certification scheme as multi-stakeholder certification schemes that include civil society in decision-making and exclude the production of commodities from intact forest landscapes, high conservation value areas, primary forests and/or tropical natural forests. Global schemes considered credible include FSC, PEFC, RTRS, RSPO, and Rainforest Alliance

¹⁵ <https://rspo.org/impacts>

¹⁶ <http://www.responsiblesoy.org/mercado/volumenes-y-productores-certificados/?lang=en>

¹⁷ Cameron, B., (2016), A Drive to Protect Forests: Introducing Sustainable Cattle Certification in Brazil, 2009-2016. Innovations for Successful Societies, Princeton University. Available from: <https://successfulsocieties.princeton.edu/publications/drive-protect-forests-introducing-sustainable-cattle-certification-brazil-2009-2016>

Conclusion

The 2018 Forest 500 assessment shows that companies are not on track to meet the ambitious 2020 zero deforestation commitments agreed by many companies, and that there is an urgent need for more progress to be made.

While some companies are addressing the implementation challenge of ensuring that their supply chains are deforestation-free - 50/350 companies were found to be implementing their commitments in some way for all the commodities in their supply chain - this is not always reported against. Only 29 of the 50 were also reporting on progress for all of their commodities.

While the 2020 deadline will not be met, it is essential for the long-term future of their business models that companies continue to work to implement their deforestation commitments and shift to more sustainable supply chains.

Many companies set commitments before steps for implementation, or the complexities of supply chains were fully understood. As they draw close to the 2020 deadline, companies should learn from their experience over the last few years, and from the successes of leaders in these supply chains, to assess the time and resources required to meet these commitments. It is crucial that this is done without reducing ambition.

Companies should report clearly on the changes to their timeline and their updated deadlines including detailed and time-bound action plans for implementing commitments.

It is essential that the financial institutions that provide investment and loans to companies in forest-risk supply chains also recognise the need to address these risks and introduce policies accordingly.

Recommendations

Global Canopy urges the Forest 500 companies to:

- Recognise the role that they play in the supply chains that are driving deforestation and maintain global ambition to tackle deforestation beyond the current 2020 target.
- Assess their exposure across forest-risk commodities, and set and implement strong commitments that address each commodity.
- Strengthen commitments by building detailed action plans including steps to implementation and how they will monitor and deal with non-compliance.
- Back up commitments and action plans with clear reporting of implementation efforts, difficulties and successes.
- Learn from advances in specific commodity supply chains, understand best practice in both commitments and implementation in each sector, and apply these to their other commodities and contexts.

Financial institutions should:

- Complement the ambition that companies have shown by setting their own targets and financing policies to eliminate deforestation, and associated human rights abuses, from their lending and investment.
- Move beyond certification to better mitigate the risks that they face, without excluding large parts of the sector.
- Engage their portfolio companies on deforestation risks and actions they need to take to mitigate them¹⁸.

¹⁸ Global Canopy and CDP, (2017), Financial institution guidance: Soft Commodity Company Strategy: Supporting financial institution engagement on deforestation risk: <https://www.script.finance/wp-content/uploads/2018/03/Global-Canopy-CDP-Financial-Institution-Guidance-Briefing.pdf>

FOREST 500

www.globalcanopy.org