Doubling Down on Deforestation

How the Big Three Asset Managers Enable Consumer Goods Companies to Destroy the World’s Forests

- September 2020 -

Executive Summary

To download the full report, go to: https://foe.org/doubling-down-deforestation
Executive Summary

In 2010, the Consumer Goods Forum (CGF), a consortium of the world’s largest retail companies, made a big promise. The CGF, which includes globally recognized brands such as Procter & Gamble, Kroger, Mondelez, and Unilever, committed to achieving zero-net deforestation in its members’ supply chains by 2020. The commitment highlighted the need for “specific, time-bound, and cost-effective action plans for the different challenges in sourcing commodities like palm oil, soya, beef, paper and board in a sustainable fashion.”

Attention from the CGF has driven action by some companies and helped shine a spotlight on the global deforestation crisis, but it has not come close to achieving its goals or solving the problem. **Unfortunately, at the end of 2020, CGF companies will have failed to meet their deadline, as deforestation driven by industrial agricultural commodities has continued at an alarming pace.**

From 2014 to 2019, global tree cover loss increased by a disturbing 43%. An area of tree cover the size of the United Kingdom has been lost every year between 2014 and 2018. Annual CO2 emissions from tropical deforestation now equal the annual emissions from the European Union. In the words of the platform of the New York Declaration on Forests in its 2019 assessment of industry progress on deforestation, “Forestlands continue to be converted to other commercial land uses, indicating that the short-term profits of forest conversion still trump the long-term benefits of forest conservation and restoration in many land-use decisions.”

Four commodities drive the majority of tropical deforestation:

- **Palm oil**
- **Soy**
- **Cattle**
- **Paper/pulp**
Doubling Down on Deforestation

CGF member companies bear a sizable share of the responsibility for this crisis, and they have been called to task by dozens of civil society groups. But CGF member companies are not solely to blame. They are implicitly encouraged by weak legal and regulatory frameworks, subject to lax enforcement, and empowered by their financiers and shareholders to continue their destructive course. The failure of voluntary corporate initiatives to halt the global deforestation crisis reveals a need for greater regulation by governments and for a greater level of responsibility to be taken by the financial services industry.

Financial institutions can address deforestation in companies they own or finance in many ways: through direct engagement with companies, proxy voting, introducing criteria for loans and underwriting of debt and equity securities, or by excluding companies entirely from their lending and investment portfolios. Deforestation, and climate risk more broadly, are increasingly recognized by financial institutions as having direct materiality. Yet, the “Big Three” asset managers – BlackRock, Vanguard, and State Street – have no risk frameworks or explicit policies to measure, manage, and mitigate deforestation, native ecosystem conversion, and peatland destruction – or the associated risks of land grabbing and human rights violations.

The lack of coherent policies is especially troubling given the fact that the Big Three have a total of $698 billion in shareholdings and bonds in 121 CGF member companies, and $12.1 billion more invested in agribusiness producers and traders directly driving deforestation. Furthermore, since 2012, shortly after the CGF made its commitment to end deforestation in its supply chains, the Big Three have voted against or abstained from all 16 shareholder resolutions calling for action on deforestation, effectively taking a stance against industry change.

Put simply, as industrial agricultural production and unfettered consumption devastate the world’s forests, the largest asset managers in the United States have actively undermined efforts to halt deforestation by voting against measures to protect forests at virtually every opportunity they had and by failing to hold either consumer goods companies or forest-risk producers accountable for ongoing deforestation and egregious human rights violations.

The CGF commitment has failed not only because CGF companies were not ambitious enough or because governments have failed to adopt and enforce adequate regulatory frameworks, but also because powerful investors have consistently undermined meaningful action by agribusinesses and the consumer goods sector writ large. This report examines the ways in which the Big Three have “doubled down on deforestation” through five primary failures:

- Lack of policies to manage and mitigate the deforestation crisis.
- Failure to vote their shares to stem deforestation and related human rights abuses.
- Failure to hold companies accountable to reduce Scope 3 emissions.
- Failure to engage with companies to shift their practices.
- Broader failure of passive investment to address environmental, social, and governance issues.

Finally, this report offers recommendations for urgent actions the Big Three can and must take to uphold their responsibility, not only to their beneficiaries, but to our planetary survival.
Key Findings by the Numbers

**43%**
The amount by which global deforestation has increased since 2014, largely driven by agricultural commodities used in everyday consumer goods.

**$5.2 billion**
The estimated economic loss to Indonesia from forest fires in 2019.

**900,000**
The number of hectares of Amazon rainforest illegally burned in 2019.

**4**
The number of land and environmental defenders killed each week worldwide.

**$698 billion**
The total value of bonds and shares owned by BlackRock, Vanguard, and State Street in Consumer Goods Forum (CGF) companies (as of Q1 2020). Respectively, Vanguard has $291 billion, BlackRock has $250 billion, and State Street has $157 billion invested in CGF companies.

**67**
The number of CGF companies in which BlackRock, Vanguard, and State Street rank among the top-three shareholders. (BlackRock is a top three shareholder in 55 CGF companies, Vanguard is a top-three shareholder in 48 CGF companies, and State Street is a top-three shareholder in 17 CGF companies.)

**100%**
The frequency with which the Big Three voted against or abstained from voting on deforestation resolutions at consumer goods and agribusiness companies during the period since the CGF committed to ending deforestation in global supply chains.

**25**
The number of agribusiness producers, traders, and processors known to be engaged in ongoing deforestation and land rights violations from which CGF companies continue to source.

**15**
The number of agribusiness producers, traders, and processors known to be engaged in ongoing deforestation and land rights violations that also receive investments from the Big Three.

**$10.6 billion**
The total value of bonds and shares owned by BlackRock, Vanguard, and State Street in the publicly listed deforestation-risk producers, traders, and processors that continue to supply CGF companies (as of Q1 2020).\textsuperscript{ix}

**0**
The number of formal policies the Big Three have addressing deforestation and land rights risks.
Since 2012, the Big Three have had 16 chances to vote in favor of shareholder resolutions to halt deforestation.

How did they vote?

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>YEAR</th>
<th>RESOLUTION</th>
<th>BLACKROCK’S VOTE</th>
<th>VANGUARD’S VOTE</th>
<th>STATE STREET’S VOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yum! Brands</td>
<td>2020</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>AGAINST</td>
</tr>
<tr>
<td>Restaurant Brands International</td>
<td>2019</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>AGAINST</td>
</tr>
<tr>
<td>Yum! Brands</td>
<td>2019</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>AGAINST</td>
</tr>
<tr>
<td>Mondelez</td>
<td>2019</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>AGAINST</td>
</tr>
<tr>
<td>Restaurant Brands International</td>
<td>2018</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>AGAINST</td>
</tr>
<tr>
<td>Domino’s Pizza</td>
<td>2018</td>
<td>Adopt Policy on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>ABSTAIN</td>
</tr>
<tr>
<td>Kroger</td>
<td>2017</td>
<td>Adopt Policy on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>AGAINST</td>
</tr>
<tr>
<td>Yum! Brands</td>
<td>2017</td>
<td>Adopt Policy on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>AGAINST</td>
</tr>
<tr>
<td>Domino’s Pizza</td>
<td>2017</td>
<td>Adopt Policy on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>ABSTAIN</td>
</tr>
<tr>
<td>Kraft Heinz</td>
<td>2017</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>ABSTAIN</td>
</tr>
<tr>
<td>E.I. du Pont de Nemours</td>
<td>2016</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>AGAINST</td>
</tr>
<tr>
<td>Domino’s Pizza</td>
<td>2016</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>ABSTAIN</td>
</tr>
<tr>
<td>Bunge</td>
<td>2015</td>
<td>Reduce Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>AGAINST</td>
</tr>
<tr>
<td>Kraft Heinz</td>
<td>2015</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>ABSTAIN</td>
</tr>
<tr>
<td>Kraft Heinz</td>
<td>2014</td>
<td>Report on Supply Chain Deforestation</td>
<td>AGAINST</td>
<td>AGAINST</td>
<td>ABSTAIN</td>
</tr>
<tr>
<td>Mondelez</td>
<td>2012</td>
<td>Report on Supply Chain Deforestation</td>
<td>ABSTAIN</td>
<td>AGAINST</td>
<td>ABSTAIN</td>
</tr>
</tbody>
</table>

Urgent action is needed at multiple levels. First and foremost, increasing rates of deforestation highlight not only the failure of voluntary commitments made by companies and financiers, but the need for greater regulation of the financiers, companies, and industries responsible for the majority of deforestation and forest degradation worldwide.

Deforestation-related risks as material financial risk

Risks to financial institutions

Non-performing loans: Clients’ unable to service debts on time or in full

Asset values: Assets may become stranded as markets shift and require decoupling from forest impacts

Profitability: Market value may deteriorate as revenue is impaired

Supply chain risks

Operational risk: Resource scarcity, biodiversity loss, ecosystem damage & social conflict

Reputational risk: Public awareness leads to brand damage

Market risk: Change in consumer behavior drives market shifts

Regulatory risk: Non-compliance with existing & emerging regulations

Legal risk: Failure to manage ESG risks: corruption, fraud, bribery

Soft commodity supply chain actors have direct or indirect impacts on forests

Source: United Nations Environment Programme

Policymakers, asset owners, asset managers, and consumer goods companies all have responsibilities to take action. For the full set of recommendations, see the full report, Doubling Down on Deforestation: How the Big Three Asset Managers Enable Consumer Goods Companies to Destroy the World’s Forests. To download the full report, go to: https://foe.org/doubling-down-deforestation


Ibid.


A qualified exception is BlackRock which, after continued pressure from legislators, shareholders, activists, and the public has said it will vote against company directors where it doesn’t see enough progress on supply chains and deforestation – though this remains to be seen.

The Big Three asset managers have $12.1 billion invested in agro-commodity companies listed on the Forests & Finance database, including three companies for which no supply chain links with CGF companies were identified. Of this $12.1 billion, $10.6 billion is in agro-commodity producers with supply chain links to the CGF companies (as of Q1 2020). See [https://forestsandfinance.org](https://forestsandfinance.org). This figure may include duplicates and has not been disaggregated – i.e., each of the Big Three may be among the top three investors in many of the same companies.

As above: The Big Three asset managers have invested $10.6 billion in agro-commodity producers with supply chain links to the CGF companies (as of Q1 2020). However, based on the universe of companies listed on the Forests & Finance database, they have $12.1 billion invested in agro-commodity companies in total, including three companies for which no supply chain links with CGF companies were identified. See [https://forestsandfinance.org](https://forestsandfinance.org).