

No wood for the trees

Which consumer goods companies are addressing to deforestation issues?

Executive Summary

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Linking deforestation to earnings for consumer companies

As the deadline set by the Consumer Goods Forum's resolution to achieve zero net deforestation by 2020 approaches, it seems particularly timely to initiate on CDP's first Investor Research report on deforestation. We cover companies in the consumer goods sector and include 22 Food Manufacturers, Personal & Household Goods Manufacturers and Fast Food Retailers. The report seeks to evaluate the relative risks and opportunities these businesses face from the challenges posed by deforestation in their supply chain.

Companies featured in this report are among the largest in their sectors and have been chosen based on the scale of their businesses and commodity use. They account for 3.1% of the MSCI ACWI World companies by market capitalisation. Companies are listed in Europe, the U.S. and Japan; all with global operations and most with a large and growing presence in emerging markets.

The consumer goods sector is directly impacted by inter-governmental mandates on sustainable consumption and production. These initiatives have not only contributed to consumer trends towards more sustainable food sources and ingredients, but also threaten the traditional supply chain models that have for so long been integral to mainstream businesses. Consumer-facing companies are particularly exposed to Forest Risk Commodities (FRCs), with palm oil, soybean and cattle playing a major role in product formulation, whilst paper & pulp products are essential to the packaging and marketing of these products.

However, these commodities cannot and should not be completely eradicated from supply chains. Palm oil, for example, is the most productive vegetable oil in the world, producing 6 to 10 times more oil per hectare than other oil crops such as soy and sunflower. Substituting palm oil with other types of vegetable oil in the face of increasing consumer pressure could erroneously lead to further deforestation elsewhere in the food system. Companies should instead look at ways to eliminate deforestation from their supply chains through traceability, certification and engagement with all supply chain actors to mainstream sustainable agriculture practices.

Key findings

- ▼ **The Consumer Goods Forum resolution to achieve zero net deforestation by 2020 will not be met**, indicating a growing gap between companies' ambitions and targets.
- ▼ **No company has complete traceability of palm oil and cattle to plantation / farm of origin.**
- ▼ **Current certification and traceability systems are not effectively addressing the issue of deforestation.** Certified volumes account for just 20% of global palm oil production.
- ▼ Multi-stakeholder engagement needed to halt deforestation; **only eight out of 22 companies deploying landscape style approaches or regenerative agriculture.**
- ▼ Palm oil has been the focus of efforts relating to deforestation. **45% of companies reported revenue dependencies of at least 20% on palm oil.**
- ▼ Disclosure lags for cattle and soy; **cattle as much as 400 times⁽¹⁾ and soybean oil 8.2 times⁽²⁾ more land intensive than palm oil.**
- ▼ **Hidden use of FRCs** such as the indirect use of soymeal in supply chains contribute to deforestation and there is a lack of transparency in labelling of animal derivatives in certain consumer products.
- ▼ Supply chains are exposed to physical risks of climate change - **90% of global palm oil production is concentrated in Southeast Asia in low-lying land exposed to coastal flooding.** This could jeopardise global supply and risk further deforestation inland.
- ▼ **Substituting the use of FRCs with other raw materials could lead to higher land use and more deforestation:** Rapeseed uses five times more land than palm oil.
- ▼ 70% of food companies have invested in plant-based meat alternatives, **however this investment is happening in only niche brands or start-ups.**
- ▼ **European companies, Danone, Nestlé, Unilever and L'Oréal, lead with robust governance of deforestation risk.** Unilever and L'Oreal are managing significant exposures in their supply chains.

Due to their proximity to the consumer, companies included in the report face tangible financial and operational risks associated with deforestation due to changing consumer patterns and supply chain stresses. Yet, businesses able to turn these risks into opportunities through developing innovations in sustainable consumption and production have a competitive edge over their peers. We are already seeing significant developments in plant-based foods and a change in supply chain models that bring consumer goods manufacturers closer to the field.

In this report we assess how well aligned companies are to the zero net deforestation commitments set out by the Consumer Goods Forum looking at the risks and opportunities for the sector against a backdrop of growing population and the planetary constraints to supply these key soft commodities. There are four key areas assessed in the League Table which are aligned with the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD):

Transition risks: We assess companies' disclosure on and exposure to the FRCs timber, cattle, palm oil and soybean, in addition to business resilience and land use associated with these commodities.

Physical risks: We assess companies' exposure to acute and chronic physical risk events as potential drivers of further deforestation in raw material supply chains.

Transition opportunities: We assess companies' foresight in identifying and acting on opportunities relating to sustainable consumption and production.

Governance & strategy: We assess companies' deforestation-related governance and strategic frameworks through the strength of its board level expertise, risk management policies, commitments, implementation, reporting, targets and delivery. We also score a company based on their CDP Forests 2018 score.

▼ **McDonald's performs much better than other fast food retailers Yum! Brands and RBI.** McDonald's actively engages with its suppliers and has robust risk management systems in place.

▼ **RBI, Tyson Foods and Kraft Heinz rank last.** All are exposed to land-intensive cattle and perform weakly on FRC disclosure.

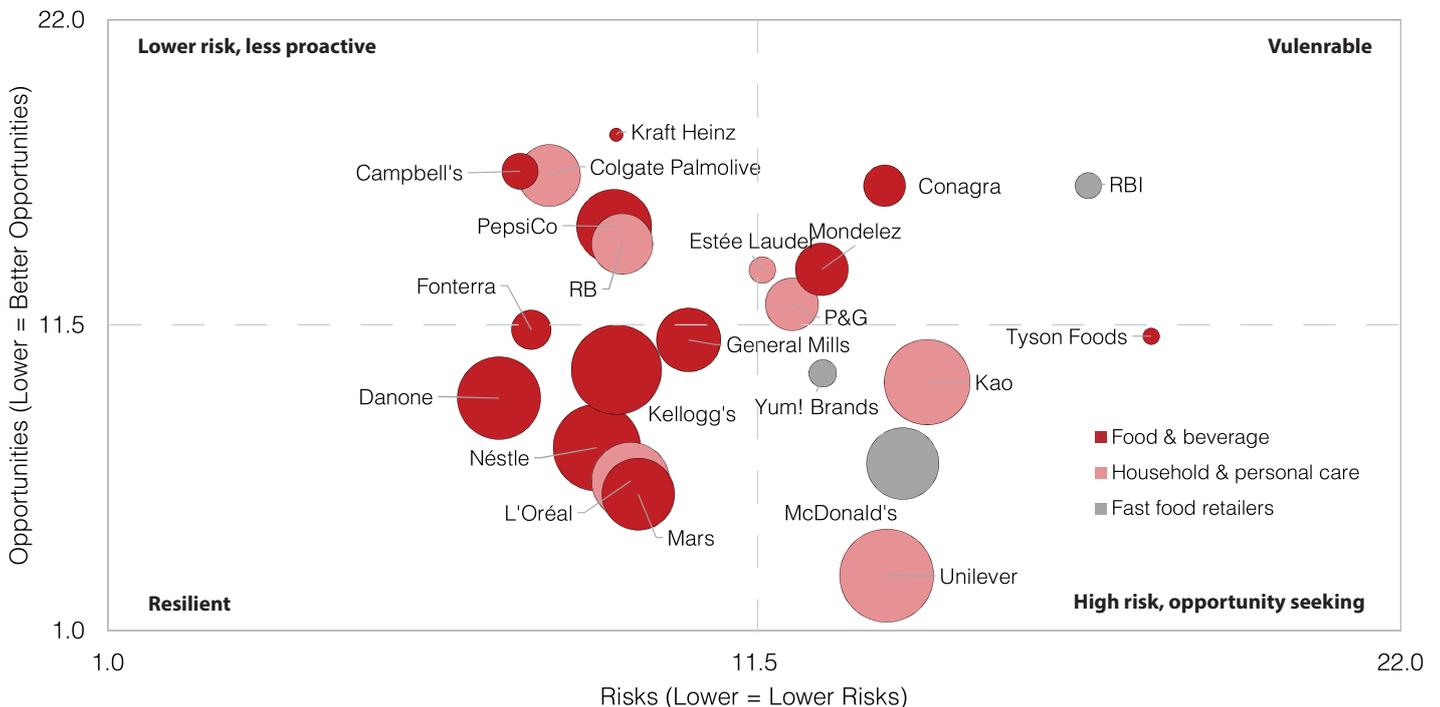
Figure 1: League Table summary ⁽ⁱ⁾

| LT rank | Company ⁽ⁱⁱ⁾ | Headquartered | Average market cap 2018 (US\$bn) | Weighted rank | Transition risks rank | Physical risks rank | Transition opportunities rank | Governance & strategy rank | Business split (%) |
|---------|--|------------------|----------------------------------|---------------|-----------------------|---------------------|-------------------------------|----------------------------|--------------------|
| 1 | Danone | France | 56.5 | 7.42 | 3 | 5 | 6 | 5 | |
| 2 | Nestlé | Switzerland | 313.9 | 7.52 | 8 | 6 | 5 | 3 | |
| 3 | L'Oréal | France | 160.6 | 7.96 | 9 | 8 | 3 | 6 | |
| 4 | Unilever | UK / Netherlands | 160.4 | 8.05 | 20 | 4 | 1 | 1 | |
| 5 | Kellogg's | US | 22.0 | 8.14 | 10 | 7 | 9 | 2 | |
| 6 | Mars | US | PRIVATE | 8.24 | 13 | 2 | 2 | 8 | |
| 7 | PepsiCo | US | 185.9 | 10.25 | 5 | 13 | 18 | 7 | |
| 8 | McDonald's | Global | 146.9 | 10.42 | 16 | 18 | 4 | 9 | |
| 9 | General Mills | US | 31.8 | 10.45 | 12 | 12 | 10 | 10 | |
| 10 | Kao | Japan | 37.8 | 10.51 | 17 | 19 | 7 | 4 | |
| 11 | Fonterra | New Zealand | 4.1 | 10.87 | 1 | 14 | 12 | 16 | |
| 12 | RB | UK | 53.5 | 10.99 | 7 | 9 | 16 | 12 | |
| 13 | Colgate-Palmolive | US | 57.3 | 10.99 | 6 | 3 | 20 | 11 | |
| 14 | P&G | US | 300.9 | 12.27 | 15 | 10 | 13 | 13 | |
| 15 | Campbell's | US | 14.3 | 12.39 | 2 | 11 | 21 | 17 | |
| 16 | Mondelez | US | 75.9 | 12.74 | 19 | 1 | 14 | 13 | |
| 17 | Yum! Brands | US | 29.8 | 13.31 | 14 | 21 | 8 | 18 | |
| 18 | The Estée Lauder Companies Inc. ⁽ⁱⁱⁱ⁾ | US | 67.7 | 13.87 | 11 | 20 | 15 | 19 | |
| 19 | Conagra | US | 13.8 | 14.61 | 18 | 15 | 19 | 15 | |
| 20 | Kraft Heinz | US | 40.7 | 14.85 | 4 | 17 | 22 | 22 | |
| 21 | Restaurant Brands International ^(iv) | Canada | 31.5 | 16.60 | 21 | 22 | 17 | 20 | |
| 22 | Tyson Foods | US | 32.5 | 16.73 | 22 | 16 | 11 | 21 | |

Weighting

(i) Weighted ranks are calculated for each area. We display non-weighted ranks in this summary for simplicity only.
 (ii) Nestlé, P&G and Mondelez are non-responders to CDP's 2019 forests questionnaire. We encourage investors to raise this lack of transparency in discussions with company management.
 (iii) The Estée Lauder Companies Inc. will be referred to as Estée Lauder for the remainder of the report.
 (iv) Restaurant Brands International will be referred to as RBI for the remainder of the report.
 Source: CDP

Figure 2: Deforestation risks vs opportunities



Bubble size represents performance in deforestation governance & strategy where a larger bubble size indicates better performance
 Source: CDP

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