Ceres

Deforestation Scorecard

Assessing Corporate Action on Deforestation Amid Growing Regulatory Risk

November 2023

Introduction

Ending deforestation is essential to achieving net zero targets and mitigating the worst impacts of climate change, reversing nature and biodiversity loss, and addressing financial risks to companies and their investors. Yet agricultural commodity production continues to drive forest loss at an alarming rate, globally replacing an average of 5.7 million hectares of forests annually—and tropical deforestation rates only continues to rise.

At the same time, a rapidly evolving regulatory environment is increasing the risks that shareholders are exposed to deforestation, as the European Union rolls out new regulations that will impact companies worldwide: the Regulation on Deforestation-free Products (EUDR), Corporate Sustainability Reporting Directive (CSRD), and Corporate Sustainability Due Diligence Directive (CSDDD), which hasn't been finalized and adopted yet. The EUDR sets the most stringent no-deforestation requirements of the three, compelling companies to eliminate deforestation and forest degradation from their supply chains and operations starting in 2024, while the CSRD and CSDDD require corporate disclosure of deforestation impacts and mitigation plans. Critically, these rules add a new layer of regulatory risk to the existing systemic risks companies face from the world's dual climate and nature crises.

Investors have made it clear that they expect companies to make advances on tackling commodity-driven deforestation and driving progress towards net zero. Ceres developed the Deforestation Scorecard to assess the efforts of some of the world's largest companies to eliminate deforestation from their supply chains at a foundational level, simply asking: **Does the company have a robust no-deforestation policy?**

Key Findings

1. Most companies assessed have a no-deforestation policy, but only 18 of the 53 assessed companies have a company-wide, no-deforestation policy that covers all the commodities subject to the European Union's new **Regulation on Deforestation-free Products (EUDR)**.
2. Few companies—only four—have policies that cover their full supply chains and all their sourcing regions, exposing them to reputational and market risks from suppliers and regions that are unmonitored.
3. Most companies have specified a target date by when they intend to fully implement their no-deforestation policies. But few—only eight—of these company policies are ambitious enough to meet the **recommended 2025 no-deforestation target date**, never mind the 2024 deadline for compliance with the EUDR.
4. An even smaller number of companies —five—include a **cutoff date** that prohibits commodities from being produced on land that was deforested after 2020. A 2020 cutoff date is necessary for compliance with the new EU regulations and removes the incentive for continued deforestation.

Robust no-deforestation policies are only a first step for companies when it comes to removing deforestation from their supply chains—and they do not address critical climate and nature impacts caused by the conversion of other natural ecosystems. While companies need to adopt deforestation and conversion-free supply chains, this scorecard specifically focuses on deforestation, given the scope of the EUDR. The absence of a no-deforestation policy raises the concern that a company is not prepared for compliance with existing and emergent legislation, as well as investor expectations, such as those set by members of the Finance Sector Deforestation Action Initiative (FSDA), a coalition of leading global financial institutions with more than $8.5 trillion in assets under management. Laggards are leaving themselves exposed to litigation, market, operational, regulatory, and reputational risks.

In line with guidance from the Accountability Framework initiative (AFi), the global collective of organizations that aims to promote ethical supply chains in the agricultural and forestry sectors, a robust no-deforestation policy covers all forest-risk commodities across all operations, geographies, and direct and indirect suppliers, has a target date of 2025, and a cutoff date no later than 2020.

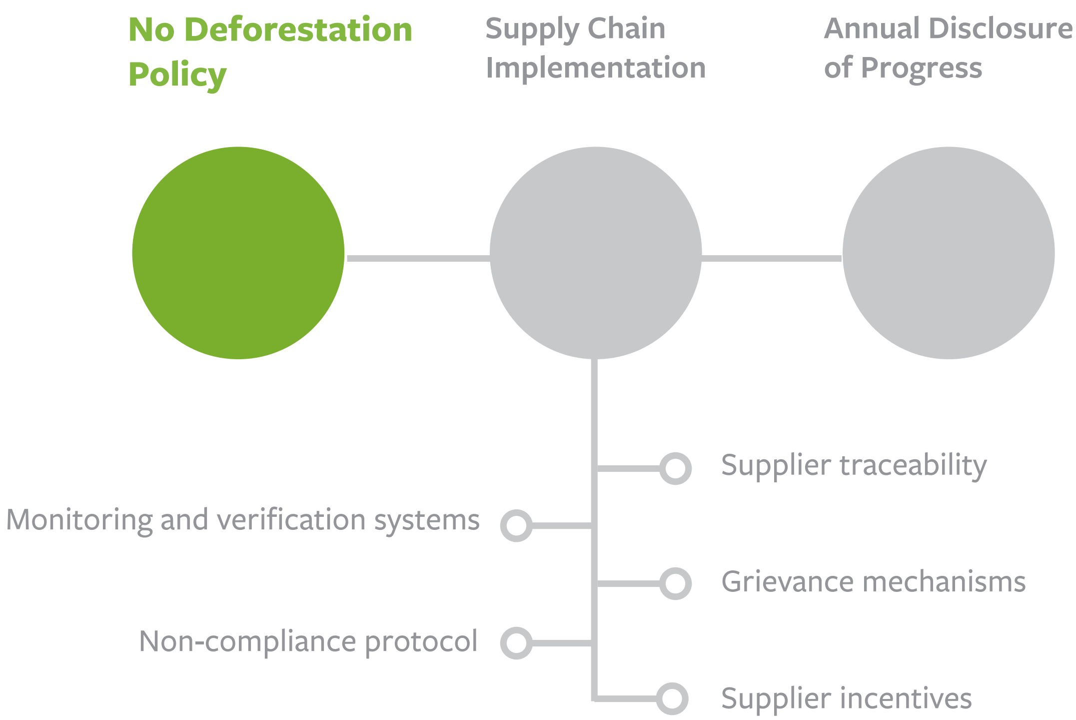
Figure 1. Indicators Used to Assess Company Performance in the Deforestation Scorecard. Credit: Ceres.

Indicator

1	Does the company have a multi/cross-commodity no-deforestation policy that covers all relevant commodities (such as soy, beef, palm oil, wood, cocoa, coffee, rubber or derived products) that the company sources?
2	Does the company's policy cover all segments of the supply chain across all geographies?
3	Does the policy include a time-bound, quantifiable commitment to achieve a deforestation-free supply chain by 2025?
4	Does the policy include cutoff targets of 2020 or earlier?

The Deforestation Scorecard draws on distinct datasets to offer a robust analysis of corporate policies. This includes information publicly available on company websites, such as corporate sustainability reports, as well as any disclosures made through the questionnaires companies submit to CDP on forest risk and the Annual Communications of Progress (ACOPs) reports member companies submit to the Roundtable on Sustainable Palm Oil. We chose to rely on this public information to encourage greater transparency in company disclosure. Companies were selected for assessment based on their exposure to commodities that drive deforestation—determined in part using information from the Forest 500, Global Canopy's database of the 350 companies and 150 financial institutions with the largest influence on tropical deforestation—their EU market presence, and their influence over production in key sectors and regions.

Figure 2. Steps Companies Need to Take to Remove Deforestation From Their Supply Chains. Credit: Ceres.



See Ceres' deforestation engagement framework for more details: Evaluating Corporate Actions to Eliminate Deforestation: Key Engagement Questions.

A Deeper Dive into the EU Regulation on Deforestation-free Products

The EU Regulation on Deforestation-free Products (EUDR), effective as of June 29, 2023, is a first-of-its-kind legislation banning companies from trading commodities associated with deforestation and forest degradation. While the list of covered products is likely to expand in coming years, it currently applies to soy, beef, palm oil, wood, cocoa, coffee, rubber, and some of their derived products, such as leather, chocolate, tires, or furniture. Large to medium companies have until the end of 2024 to verify and prove their products are deforestation-free, with small businesses granted a longer adaptation period (June 2025).

To avoid substantial regulatory risks (fines for non-compliance stand to cost 4% of annual revenue), as well as significant litigation and reputational risks, all companies operating or trading products on EU markets must start reporting on their activities. Numerous U.S. -based companies will be impacted by the requirements.

The increased compliance challenge of sourcing fully traceable raw material has the potential to create supply shortages and other market risks. It is critical that companies start assessing now whether they will be subject to the EUDR and plan accordingly.

Why Companies Need Comprehensive Policies Against Deforestation

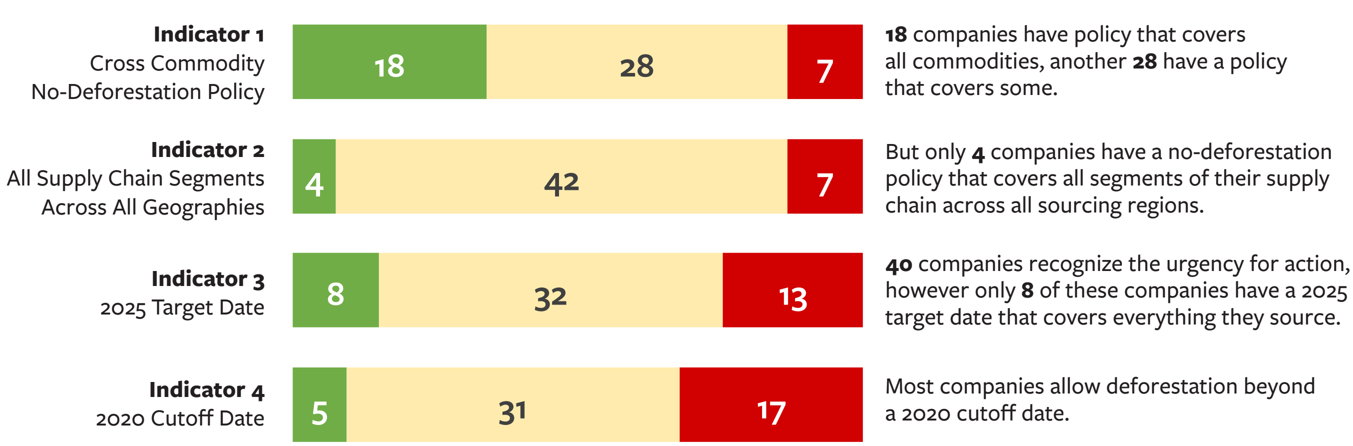
EUDR compliance does not guarantee that a company has deforestation-free operations or a deforestation-free supply chain. A company may separate its shipments into "compliant" and "non-compliant" groups, continuing to sell goods associated with deforestation on other markets. In light of this, companies may decide to bifurcate their supply chains to separately serve EU and non-EU markets. While such a strategy may be EUDR compliant, it creates production inefficiencies and keeps companies exposed to other deforestation risks including:

- **Litigation risks,** including legal fees and monetary settlements for violating local laws and regulations.
- **Market risks,** such as jeopardized market access and decreased revenue due to reduced contracts with buyers.
- **Regulatory risks**, including fines, suspensions, and other legal consequences from illegal activities or the violation of standard requirements.
- **Reputational risks** from consumer concerns and advocacy campaigns that damage brand equity.

As additional no-deforestation legislation is enforced (such as the Environmental Targets Legislation in the UK), and introduced (such as the FOREST Act that will likely be introduced in the U.S. Congress this year), companies that act now will establish themselves as competitive market-leaders.

The Accountability Framework initiative outlines five key steps all companies should take to ready their supply chains for EUDR compliance. The Deforestation Scorecard assesses progress on the first foundational step—establishing a robust cross-commodity no-deforestation policy. This entails adopting a deforestation-free policy that covers all the commodities relevant to a company (including soy, beef, palm oil, wood, cocoa, coffee, rubber, or derived products) across all the company's supply chain segments and sourcing geographies, as well as time-bound, quantifiable commitments.

Figure 3. Overall Company Performance Against Each Indicator. Credit: Ceres.



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No-Deforestation/Conversion Policy

Company	**Indicator 1:** Does the company have a cross-commodity no-deforestation policy that covers all relevant commodities (i.e., soy, beef, palm oil, wood, cocoa, coffee, rubber) that the company sources?	**Indicator 2:** Does the company's policy cover all segments of the supply chain across all geographies?	**Indicator 3:** Does the policy include a time-bound, quantifiable commitment to achieve a deforestation-free supply chain by 2025?	**Indicator 4:** Does the policy include cutoff targets of 2020 or earlier?
	Verdict	**Verdict**	**Verdict**	**Verdict**
adidas AG	No Disclosure	No Disclosure	No Disclosure	No Disclosure
Koninklijke Ahold Delhaize NV	Partial	Partial	Partial	No Disclosure
Amaggi	Yes	Yes	Yes	Yes
Amazon	No Disclosure	No Disclosure	No Disclosure	No Disclosure
Aramark Corp.	Partial	Partial	Partial	No Disclosure
Archer-Daniels-Midland Company	Partial	Partial	Partial	Partial
Associated British Foods plc	Partial	Partial	Partial	No Disclosure
Fromageries Bel SA	Yes	Partial	Yes	No Disclosure
BRF Brasil Foods SA	Partial	Partial	No Disclosure	Partial
Bunge Ltd.	Yes	Partial	Yes	Partial
Cargill, Inc.	Yes	Partial	Partial	No Disclosure
Carrefour SA	Partial	Partial	Partial	Partial
Casino Guichard Perrachon SA	Yes	Partial	Partial	Partial
CK Hutchison Holdings Ltd.	Partial	Partial	Partial	No Disclosure
COFCO Corp.	Partial	Partial	Partial	Partial
Colgate-Palmolive Company	Yes	Partial	Partial	Partial
Danone SA	Yes	Partial	Partial	Partial
Gap, Inc.	Partial	Partial	No Disclosure	No Disclosure
General Mills, Inc.	Partial	Partial	Partial	No Disclosure
H&M Hennes & Mauritz AB	Partial	Partial	Partial	Partial
Hyatt Hotels Corp.	No Disclosure	No Disclosure	No Disclosure	No Disclosure
Inditex SA	Partial	Partial	Partial	Partial
JBS SA	Partial	Partial	Partial	Partial
Kellogg Company	Partial	Partial	Partial	Partial
Kering SA	Yes	Yes	Yes	Yes
Chocoladefabriken Lindt & Sprüngli AG	Yes	Partial	Partial	Partial
Louis Dreyfus Company	Yes	Partial	Yes	Partial
LVMH Moet Hennessy Louis Vuitton	Yes	Partial	Yes	Partial
Marfrig Global Foods SA	Partial	Partial	Partial	Partial
McDonald's Corp.	Partial	Partial	Partial	Partial
Minerva SA	No Disclosure	No Disclosure	No Disclosure	No Disclosure
Mitsubishi Corp.	Partial	Partial	No Disclosure	Partial
Mondelēz International, Inc.	Partial	Partial	Partial	Partial
Mondi plc	Yes	Yes	Yes	No Disclosure
Musim Mas	Partial	Partial	Partial	Partial
Nestlé SA	Yes	Partial	Yes	Yes
Nike Inc.	Partial	Partial	No Disclosure	No Disclosure
Olam International Ltd.	Yes	Partial	Partial	Partial
PepsiCo, Inc.	Partial	Partial	Partial	Partial
Procter & Gamble Company	Partial	Partial	Partial	Partial
Restaurant Brands International, Inc.	Partial	Partial	Partial	No Disclosure
Saputo, Inc.	Partial	Partial	Partial	No Disclosure
Sodexo, Inc.	Partial	Partial	Partial	Partial
Spar International	No Disclosure	No Disclosure	No Disclosure	No Disclosure
Starbucks Corp.	Partial	Partial	Partial	Partial
Stora Enso	No Disclosure	No Disclosure	No Disclosure	Partial
Suzano	Yes	Yes	No Disclosure	Yes
Tyson Foods, Inc.	Yes	Partial	Partial	Yes
Unilever PLC	Yes	Partial	Partial	Partial
VF Corp.	No Disclosure	No Disclosure	No Disclosure	Partial
Viterra	Yes	Partial	Partial	Partial
Wilmar International Ltd.	Partial	Partial	No Disclosure	Partial
Yum! Brands, Inc.	Partial	Partial	Partial	Partial

Most companies have no-deforestation policies, but few cover all commodities

A comprehensive cross-commodity no-deforestation policy signals a company's commitment to upholding production, sourcing, and financial investment practices that do not cause or contribute to forest loss. Coverage of all commodities ensures that a company mitigates risk across its entire supply chain—especially considering the broad commodity coverage of the EUDR.

Of the 53 companies Ceres assessed, 18 have clear cross-commodity no-deforestation policies and received a "Yes." For instance, Unilever details: "We've committed to achieving a deforestation-free supply chain. This means that by the end of 2023, our palm oil, paper and board, tea, soy and cocoa will come from places that are verified as deforestation- and conversion-free."

Twenty-eight companies have no-deforestation policies that cover a subset of the commodities they source, or their commitment is limited to an external sign-on (such as the Soy Moratorium) and/or the use of certification systems (for example, Roundtable on Sustainable Palm Oil (RSPO) certification). These companies received a "Partial." While collective initiatives can be powerful mechanisms for shifting markets, they do not establish the same accountability as a public corporate policy. Notably, the EUDR makes no such exceptions. Companies themselves hold the ultimate responsibility for delivering on their supply chain commitments and demonstrating their achievements. Certification systems can support the implementation of a no-deforestation policy, but cannot be used in place of a clear company policy.

The remaining seven companies received a "No Disclosure." This includes companies allowing for legal deforestation, including Inditex, JBS Foods SA, Minerva Foods SA, and Kellogg Company.

Few company policies cover all supply chain segments and sourcing regions

A sufficiently broad commitment—one that covers all supply chain segments and all sourcing geographies—is essential for the policy to effectively mitigate market and reputational risk. When a company's supply chain is linked to deforestation, the media, consumers, and downstream buyers do not distinguish between direct and indirect suppliers. Full geographic coverage is needed for a company to effectively eliminate deforestation from its operations.

However, only four companies—AMAGGI, Kering SA, Mondi plc, and Suzano SA—explicitly establish no-deforestation policies that apply to their entire supply chains (they include third party and/or indirect suppliers), as well as all markets, product lines, ownerships, and sourcing geographies. For example, as AMAGGI states in its 2022 Sustainability Report, "AMAGGI has committed to sourcing its commodities from a 100% monitored and traceable supply chain that is deforestation- and conversion-free across all biomes, countries, and regions where the company operates by 2025" and this policy "encompass[es] agricultural production, grain sourcing, and financing, including direct, intermediate, and indirect suppliers."

Most companies (42 out of 53) received a "Partial" for having policies that only apply to direct suppliers, specific markets, select product lines, certain ownerships, or distinct geographies. Many of these companies also received a "Partial" for using mass balance certification schemes as part of their no deforestation policies.

Mass balance certification systems mix uncertified and certified materials, and accordingly blend deforestation risk into company procurement. For example, 32 of the 35 companies sourcing palm oil rely on the Roundtable on Sustainable Palm Oil (RSPO) Mass Balance module to certify their supplies. A number of companies also report the use of mass balance systems to certify their soy and cocoa supply chains.

Companies recognize the urgency for action, but many still have room to improve

Urgent action on deforestation is key to addressing the planet's joint climate and biodiversity crises and to avoid hundreds of billions in losses to investors.

Target dates hold companies accountable for their commitments and provide clear benchmarks for disclosing progress. By including a 2025 or earlier target date in their no deforestation policies, companies demonstrate their commitment to urgent action. The leading guidance on deforestation, including from the Accountability Framework initiative, Science-Based Targets Initiative Forest, Land and Agriculture Guidance, and Science-Based Targets Network's preliminary targets for land , all set 2025 as a target date. Moreover, many companies will need to comply with the EUDR by an even earlier date: December 30, 2024.

Eight of the 53 assessed companies have policies with a 2025 target date that covers all their supply chains and sourcing geographies. For example, Le Groupe Bel's Forest and Natural Ecosystems Policy states: "Our objective is to ensure that 100% of commodities production is free from deforestation and natural ecosystem conversion by 2025" and this "commitment covers all these commodities [palm; soy: timber, paper and pulp] and applies to 100% of Bel brands in all Bel geographies, including products manufactured in our own plants, out-sourced or through co-branding products, and MOM [Bel subsidiary: Mont Blanc-Materne] activities with an implementation managed by MOM's teams."

Thirty-two companies received a "Partial." This includes companies such as Colgate-Palmolive Company, McDonald's Corporation, and Sodexo that have set 2030 target dates for their supply chains. It also includes companies that have segmented their policies into varied target dates. For instance, Tyson Foods, Inc. has a target date of 2025 for direct palm and soy supplies and 2030 for embedded (indirect) palm and soy supplies. Others have set targets that only apply to part of their product lines. As an example, Associated British Foods plc only indicates a target date for its AB Agri subsidiary to eliminate deforestation from its soy and palm supply chains by 2025. Another set of companies, like Danone SA and Chocoladefabriken Lindt & Sprüngli AG, indicate that their target dates only apply to direct suppliers. Still others have target dates that only apply to some of the commodities they source.

Several companies that received a "Yes" or "Partial" for their cross-commodity no-deforestation policy and policy scope (full supply chain coverage across all geographies), do not include target dates in their policies. This includes Nike, Inc. and Wilmar International Ltd.

Nearly one-third of companies do not have cutoff dates for their supply chains

A cutoff date is the date after which further deforestation on the ground is not allowable. It renders the affected area, and the commodity produced there, non-compliant with a no-deforestation commitment. It is generally a date in the past, whereas a target date—the date by which a company intends to fully achieve its commitment—is usually in the future. It is critical for company policies to specify a cutoff date to 1) send a clear signal to suppliers and guide their management of both suppliers and own operations, 2) drive demand for deforestation-free products, and 3) promote the development and implementation of robust monitoring systems. Following the EUDR, companies should set no-deforestation cutoff dates for 2020 or earlier. To comply with the EUDR, companies must have a cutoff date for no later than December 31, 2020.

Yet just five companies—AMAGGI, Kering, Nestlé SA, Suzano, and Tyson—have no-deforestation policies with a 2020 cutoff date that encompasses all their supply chains and sourcing geographies. Kering's no-deforestation policy, nested within its Biodiversity Strategy, provides a strong example: "The cut-off date for this commitment is of 1st January 2020 at the latest. Any existing earlier cut-off dates for specific materials, sectors and regions continue to apply, as well as earlier cut-off dates associated with certification standards."

The 31 companies receiving a "Partial" have a cutoff date of 2020 or earlier that only applies to a portion of their supply chain or a selection of their geographies or they have a cutoff date that is not part of a clear policy. For instance, Unilever's (2015) and Danone's (2020) cutoff dates only apply to direct suppliers and exclude indirect suppliers. Other companies indicate endorsement of a cutoff date as part of an external initiative, like the Soy Moratorium, rather than establishing a cutoff date as a clear part of their no-deforestation policy that covers all supply chain segments and all geographies. For example, Louis Dreyfus Company references cutoff dates for soy in Brazil as a part of its sign-on to the Soy Moratorium (cutoff date: 2008), as well as a special agreement made in 2022 with eligible Brazilian farmers (cutoff date: 2016). However, Louis Dreyfus exports soybeans from other regions, including Argentina and Paraguay.

Seventeen companies—more than a third of those assessed—received a "No Disclosure." Seven of these companies do not have a no-deforestation policy, and another 10 have a policy that neglects to include a specific cutoff date.

Conclusion

Currently, few of the largest global companies have adequate no-deforestation policies. Although most companies have a policy, further examination reveals consistent policy gaps:

- Only four companies have a no-deforestation policy that covers all segments of their supply chain across all sourcing regions.
- Although most companies recognize the urgency for tackling no-deforestation, only eight companies have a 2025 target date that covers all sourcing.
- Most company policies allow deforestation beyond a 2020 cutoff date.

These gaps create risks for companies and their investors. This includes, but is not limited to, regulatory risks related to EUDR compliance. Until companies implement comprehensive time-bound no-deforestation policies that cover all commodities across all supply chains and sourcing regions, and include appropriately ambitious target and cutoff dates, they will continue to be exposed to deforestation-related litigation, market, regulatory, and reputational risks, while exacerbating the systemic risks of climate change and nature loss.

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