



SUPPLY CHANGE
An Initiative of Forest Trends

in partnership with



Ceres

Sustainability is the bottom line.

ZOOMING IN: COMPANIES, COMMODITIES, & TRACEABILITY COMMITMENTS THAT COUNT, 2018

EXECUTIVE SUMMARY FOR INSTITUTIONAL INVESTORS

Change is good. So is information.

Businesses, investors, and governments are committing to reverse their role in degrading the world's critical ecosystems. But until recently, market information that best supports these efforts has been scarce. Supply-Change.org exists to fill this data gap by providing a platform for news, data, and analysis that catalogs and contextualizes global progress toward environmental targets.

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Introduction

Companies with exposure to deforestation in their supply chains may face material financial risks such as supply disruption, cost volatility, and reputational damage. In managing these risks, an increasing number of companies have developed policies to address deforestation embedded within their commodity supply chains. Further, companies are recognizing that in order to ensure that their supply meets such policies, commodity traceability is paramount.

Forest Trends' *Supply Change* Initiative and Ceres teamed up to analyze the state of corporate reporting related to traceability commitments for forest risk commodities. During the period from August to October of 2017, the *Supply Change* team reviewed 815 traceability statements from the public documents¹ of 469 companies with commitments to addressing deforestation in their supply chains.

Key Findings

Supply Change tracks 800 companies with "big four" commodity exposure,² of which 469 have commitments to address deforestation; however, **less than half of these companies (208, 44%) have made statements of traceability intent.**

Among those with a statement of traceability intent, 98 (47%) companies have made clear and actionable commitments to carry out traceability. The remaining 110 companies have made aspirational statements that lack detail, in that they have no targets or deadlines and are not accompanied by an action plan.

Companies are tracing commodity supply despite not having a commitment for doing so. *Supply Change* has discovered that 41 of the 110 companies (37%) with aspirational statements are disclosing some degree of traceability. While our research does not provide us with the insight to understand why these companies do not have a commitment, it is possible that they have implemented a traceability program to gather the needed intelligence to develop a company-specific traceability goal.

Upon analysis of the 98 companies with clear and actionable commitments, we find several common commitment elements that companies have integrated into their journey of developing and implementing traceability goals, including:

- ➔ **Setting goals that are quantifiable and time-bound. Just over half (56%) of all traceability commitments are time-bound.** Publicly declaring a commitment's target date and establishing milestones can guide the development of an implementation plan and serve to keep traceability on the corporate agenda.

Target Corporation. 100% of its owned products will be traceable to the plantation by 2018.

- ➔ **Committing to traceability across all commodities. Less than 1% of companies have traceability commitment(s) covering each of the big four commodities to which they are exposed.** Our analysis shows that companies have placed a stronger emphasis on palm and have comparatively underemphasized soy, cattle, and timber & pulp. Palm alone accounts for over half (59%) of traceability commitments—more than all three other commodities combined.

Mars, Incorporated. Company has commodity exposure to all four commodities and has commodity-specific traceability commitments for each.

- ➔ **Regularly disclosing progress against commitments. Just over half (56%) of companies with traceability commitments are communicating publicly about their progress.** Demonstrating progress through public reporting is critical for reassuring investors, supply chain actors, NGOs, and other stakeholders that the commitment is alive and well.

Barilla Group. Communicates palm commitment through its Annual Report and discloses its traceability status through its CDP Forest Disclosure.

¹ Documents were discovered via corporate channels such as websites and sustainability reports, voluntary disclosure channels such as CDP's forest programme and the Roundtable on Sustainable Palm Oil (RSPO) Annual Communications of Progress.

² A company is considered "exposed" if it produces, procures, or uses soy, palm, timber & pulp, or cattle products as part of its core business.

- ➔ **Detailing a specific scope for traceability goals. Very few companies (6%) commit to traceability with both a blanket statement that covers their whole commodity footprint and a specific scope that addresses, e.g., high-risk facilities, suppliers, and/or regions of operation.** This level of detail provides useful insights to stakeholders, however, over half (65%) of companies commit to traceability with only a blanket statement that covers the whole commodity footprint as its scope.

Kellogg Company. Discloses company-level traceability and provides traceability breakdowns for some of its top suppliers.

- ➔ **Traceability to a specific landscape or supply chain level. The plantation, forest, or ranch of origin are the most upstream landscapes, or levels, of reporting.** While it may not be necessary nor applicable for all companies at all levels of the supply chain (e.g., retailer vs. trader) to report with such upstream granularity, **only a third (36%) of companies with commitments report to those landscapes or levels.** Most companies (55%) report traceability to the level of mill or tannery.

Neste Oil. 100% of palm is traceable to the plantation.

- ➔ **Transparency on traceability is varied and vast. Of the 815 traceability statements reviewed for this analysis, we found that companies communicated about traceability through a variety of channels that are either managed directly by the company (e.g., websites, sustainability reports, annual reports) or by external parties (e.g., CDP, RSPO).** Traceability statements are most likely to be communicated through channels managed by the company (62%). Further, of all statements, highly detailed commodity-specific updates or dashboards (10%) are provided by a small number of companies. Externally managed channels, through which 28% of traceability statements appear, hold great value in their standardization of data requests and consistency in their reporting cycles.

PepsiCo. Discloses palm traceability via Palm Oil Action Plan Progress Reports, sustainability report, CDP's forests programme, and RSPO Annual Communications of Progress.

Conclusions

Companies are beginning to recognize that improving their traceability is fundamental to managing their supply chain risks. A growing number of companies have recognized a variety of business risks associated with commodity-driven deforestation. At the same time, an increasing number of companies (469) have made commitments to reduce these risks in their commodity supply chains.

As more companies focus on traceability, details to guide implementation and transparency on progress is important. Few companies (44%) have included traceability ambitions (time-bound or otherwise) as part of their commitment(s) to avoid deforestation. Even fewer (12%) report the traceability status of even one of the commodities they use.

Traceability requires supply chain teamwork and stakeholder collaboration. Companies and their stakeholders will achieve greatest success when working together, while taking into consideration the many factors that may influence strategies for how to implement commitments that address commodity-driven deforestation, e.g., the commodity, supply chain complexity, geographic origin and/or destination of commodity flows.

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Donors

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Supply Change data is regularly gathered from a variety of sources, including public disclosures to CDP's forest program, sustainability reports, websites, RSPO Annual Communications of Progress, and Roundtable on Responsible Soy (RTRS) annual reports.

More information on data sources is available in *Supply Change*'s full methodology:
<http://www.supply-change.org/pages/full-methodology>

About Forest Trends' *Supply Change* Initiative

Supply Change, an initiative of the non-profit organization Forest Trends, is a transformational resource for businesses and the various stakeholders that hold them accountable, including investors, governments, industry groups, not-for-profits, and the general public, on the extent and value of corporate commitments related to commodity-driven deforestation. *Supply Change* continuously researches and aggregates already available data, providing this via a centralized, freely, and publicly available web platform (www.supply-change.org) that tracks companies, their commitments, corresponding implementation policies, and their progress towards their commitments over time.

Forest Trends works to conserve forests and other ecosystems through the creation and wide adoption of a broad range of environmental finance, markets, and other payment and incentive mechanisms. Forest Trends does so by 1) providing transparent information on ecosystem values, finance, and markets through knowledge acquisition, analysis, and dissemination; 2) convening diverse coalitions, partners, and communities of practice to promote environmental values and advance development of new markets and payment mechanisms; and 3) demonstrating successful tools, standards, and models of innovative finance for conservation.

For *Supply Change* updates, news and insights, please subscribe to our [newsletter](http://forest-trends.org/dir/signup) (<http://forest-trends.org/dir/signup>).

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About Ceres and the Ceres Investor Network on Climate Risk and Sustainability

Ceres is a sustainability nonprofit organization working with the most influential investors and companies to build leadership and drive solutions throughout the economy. Through powerful networks and advocacy, Ceres tackles the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and human rights abuses.

The Ceres Investor Network on Climate Risk and Sustainability comprises more than 130 institutional investors, collectively managing more than \$20 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. Ceres Investor Network members engage and collaborate on environmental, social, and governance issues to advance leading investment practices, corporate engagement strategies and policy solutions through working groups and shared learning opportunities, such as webinars and events. Ceres works with investors specifically to better manage carbon, water and supply chain risks, and ramp up global investments in clean energy and sustainable food and water systems.



Pioneering Finance for Conservation

Biodiversity Initiative

Promoting development of sound, science-based, and economically sustainable mitigation and no net loss of biodiversity impacts

Coastal and Marine Initiative

Demonstrating the value of coastal and marine ecosystem services

Communities Initiative

Strengthening local communities' capacity to secure their rights, manage and conserve their forests, and improve their livelihoods

Ecosystem Marketplace

A global platform for transparent information on environmental finance and markets, and payments for ecosystem services

Forest Policy, Trade, and Finance Initiative

Supporting the transformation toward legal and sustainable markets for timber and agricultural commodities

Public-Private Finance Initiative

Creating mechanisms that increase the amount of public and private capital for practices that reduce emissions from forests, agriculture, and other land uses

Supply Change

Tracking corporate commitments, implementation policies, and progress on reducing deforestation in commodity supply chains

Water Initiative

Promoting the use of incentives and market-based instruments to protect and sustainably manage watershed services

Learn more about our programs at www.forest-trends.org