

*Amazon Fires in  
a Global Context of  
Deforestation:  
need for increased  
Investor awareness*



## Introduction

Over the past weeks, forest fires have been ravaging the Brazilian Amazon region and made the headlines in the international newspapers during several days. The number of forest fires is higher in the Amazon regions where they are used – mainly by farmers – as the main tool to free land for agriculture.

Investors & Asset Managers should be aware of the reputational and financial risks they are facing if they don't take sufficiently into account this issue in their investment decisions. Moreover, the huge media coverage and focus on the Amazon region should not divert also attention from other vulnerable regions. On the other hand, engaging companies on this issue could also be an opportunity in terms of reputation and reduced risk exposure.

Vigeo Eiris monitors the involvement of companies of different sectors in deforestation through its Controversy Risk Assessment database, either through direct impact on biodiversity (for companies that have a direct involvement through forest management, mining activities, oil & gas extraction, etc) or through supply chains (mainly for food production). In addition, Vigeo Eiris assesses companies' commitments and due diligence measures on different sustainability drivers linked to deforestation such as Biodiversity, Environmental and Social standards in the Supply Chain and Human Rights.

As indicated below, Vigeo Eiris findings show that investors should not only care for Amazon fires but also for deforestation in other vulnerable regions such as Indonesia and Malaysia, where the big majority of controversies are reported.

## Vigeo Eiris' key findings

- ▶ Overall, 90 controversies, related to deforestation, and involving 50 companies, were identified in Vigeo Eiris controversy database
- ▶ 22 cases also involved Human Rights violations with responsibility of companies
- ▶ The Food sector is the most exposed, facing 58 cases overall
- ▶ The most affected countries are Indonesia and Malaysia

## Context of global Deforestation

### Amazon fires

After a serious decline in the early 2000s, and a minimum reached in 2012, *deforestation in Brazil has re-emerged, reaching 7,900 km<sup>2</sup> lost in 2018. Between 2004 and 2018*, the rate of deforestation fell by 73% thanks to protective measures and then a moratorium on the development of soybean crops. But it has increased by 8% between 2017 and 2018. And according to the WWF, *the rate of deforestation increased by 278% between July 2018 and July 2019*. In total, from 1982 to 2016, the forest in the Brazilian Amazon has lost 8% of its area, or 385,000 km<sup>2</sup>.

It is estimated that the Amazon region alone captures a quarter of the *2.4 billion tons of CO<sub>2</sub>* absorbed by the world's forests. Deforestation reduces on the one hand the forest's absorption capacity - it also impacts the soil's storage capacity - and on the other hand emits CO<sub>2</sub>; the emission is even immediate in case of fire. In some years, forest fires accounted for half of Brazil's greenhouse gas emissions. It is estimated that deforestation in the Amazon represents 8% of global emissions of greenhouse gases of human origin (10 to 12% for all tropical forests).

No less than 24 million people live in the Brazilian part of the Amazon, among which more than 430,000 *indigenous people*. For these populations, the forest is vital. Its destruction means an irreparable loss of territory. However, it is already estimated that *68% of indigenous lands* and protected areas in the nine countries that encompass the Amazon region are *threatened by deforestation* caused by agriculture, roads, mines, dams, oil drilling, or forest fires.

### Not only the Amazon region hit by deforestation

It should also be noted that the Amazon is not the only forest to be hit by fires. Important fires are also taking place in *sub-Saharan Africa (Ghana and Ivory Coast), Indonesia and Siberia*. In *Indonesia and Malaysia*, more than 100,000 orangutans have been killed since 1999, according to a study published last year.

Also the increasing role of *biomass*, both for

power generation and for domestic use (wood pellets for domestic heating), is leading to more deforestation in areas of *Europe and North America*.

### G7 raises voice

The *G7 Summit* in France has reaffirmed the widening gulf between those demanding urgent climate action and the lack of real progress from the world's largest economies. During the Summit, G7 leaders also agreed on an international financial and logistical assistance package to help combat the Amazon forest fires.

However, *Greenpeace International* Executive Director Jennifer Morgan said: "While we welcome these immediate measures, ... G7 leaders must not use the Amazon fires to disguise their own failures to act at home, ... In addition, G7 countries must stop fuelling the destruction of the Amazon through the *import of agricultural products associated with deforestation and soil degradation*." Greenpeace France Executive Director Jean-François Julliard added: "France and other developed countries are responsible for the dire Amazon situation through their economies and contribution to imported deforestation, fuelled by ill-designed public policies in sectors like agriculture, timber and bio-energies."

### International trade in beef, soy and palm oil accelerate deforestation

Along with *beef* and *soy, palm oil* and other everyday foods have long been known to *accelerate deforestation* in countries such as Brazil and Indonesia. We could add maize, sugar cane (also used to produce agro-fuel), coffee, oranges, cotton, wood, paper pulp, minerals, etc. A study, published in April 2019 by Chalmers University in Sweden, found that *29-39 percent of the carbon dioxide (CO<sub>2</sub>) released through deforestation is driven by international trade* - with farmers felling forests to clear space for croplands, pastures and plantations that grow goods often consumed abroad. In many rich countries, the authors wrote, the deforestation-related emissions "embodied" in imports are greater even than those generated by domestic agriculture.

In a challenge to traditional carbon dioxide accounting practices, the researchers estimated about one-sixth of the CO<sub>2</sub> released into the atmosphere from a typical European diet could be linked to deforestation in the tropics through imported commodities. Experts fear deforestation and the associated destruction will continue to rise as *middle-income countries grow richer*.

### **Mercosur**

Palm oil, soy and beef markets are dominated by multinational companies, some of which are head-quartered in Europe and North America. "If the EU can pressure them to change their production practices, that can have an impact on other countries," said Persson, one of the contributors to the study. *In 2018, 78.8% of the EU's beef imports came from Mercosur (Brazil, Argentina, Uruguay and Paraguay)*. In the state in which it was negotiated, the EU-Mercosur agreement would allow more beef to be imported at lower cost. Some people state that this agreement would be an incentive to develop livestock and, consequently, increase deforestation. *The European Union, however, is committed to put an end to global deforestation by 2020 and to using trade agreements as a leverage to promote sustainable development and human rights*. Threatening not to conclude the *agreement with Mercosur* - which still has to be approved by the European Parliament and by the Member States - or to reopen the negotiations would be a leverage to put pressure on those countries.

### **Food companies most involved in deforestation**

Companies are one of the biggest drivers of deforestation. Companies, fulfilling consumer demands, generate the request for the four commodities or resources responsible for the majority of forest loss: *cattle products, timber products, palm oil and soy*. These resources are found in our daily-basis products and goods. The risks that companies are facing regarding the challenges associated with producing and sourcing commodities are putting revenues at risk. According the *Carbon Disclosure Project (CDP)*, if companies will not find alternatives or sustainable supplies of these commodities in the future, *up to USD 940 billion in annual turnover could be at risk*. Yet, only one in five companies assess risks associated with deforestation beyond a six year horizon. Additionally, the CDP reports that *investors in*

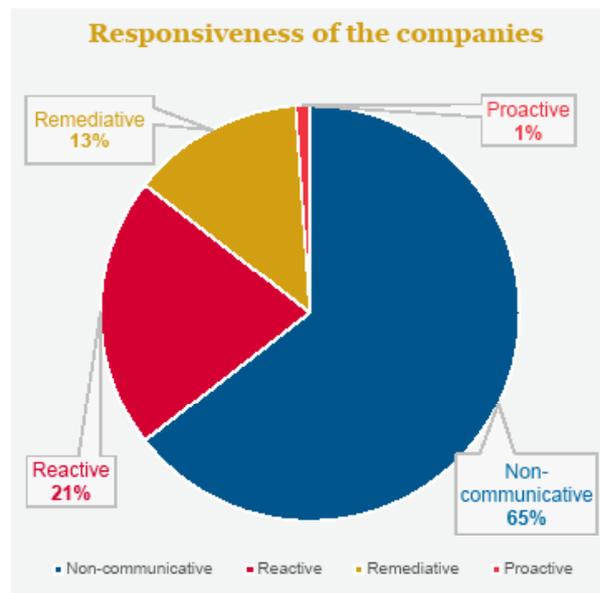
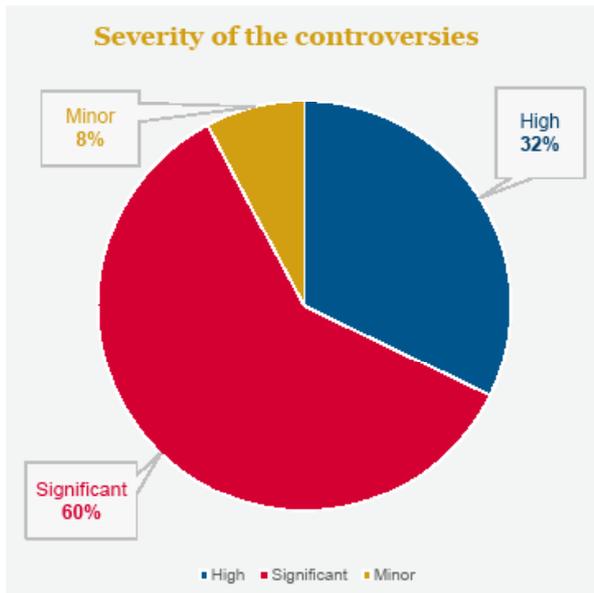
*2017, representing USD 29 trillion in assets, requested corporate deforestation data through CDP*. Furthermore, the FAIRR Index, an index that represents 60 companies which are a critical part of the global food chain, representing listed producers of animal proteins for human consumption, disclosed that *84% of meat and dairy companies do not report any targets or policies regarding deforestation*.

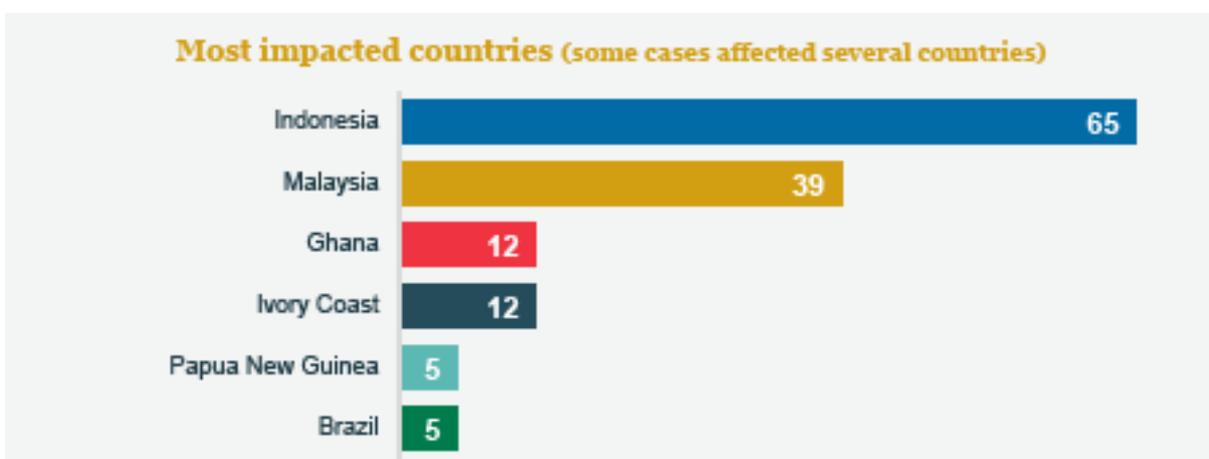
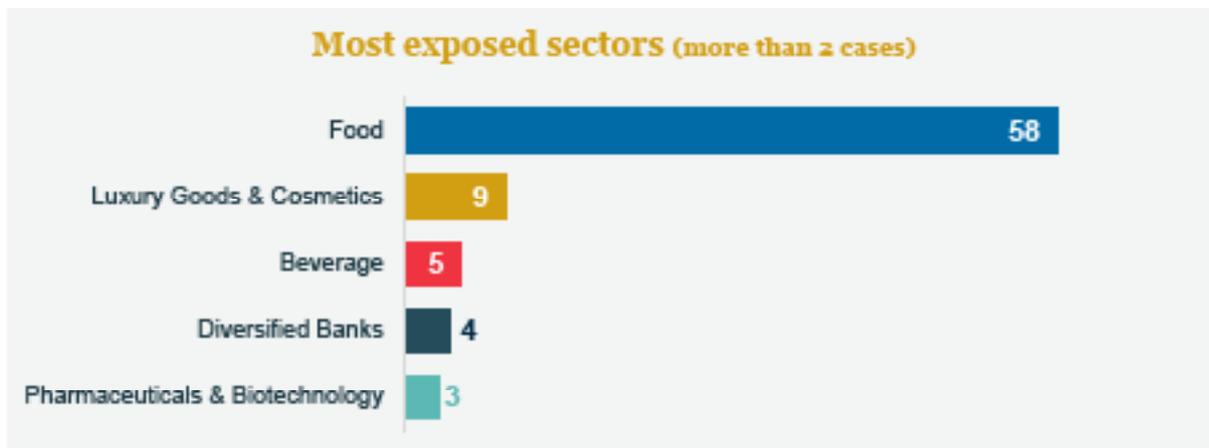
As expected, according to *Vigeo Eiris Controversy Risk Assessment Database*, the most exposed companies to deforestation operate in the Food sector. Indeed, out of the *90 deforestation cases* identified by Vigeo Eiris (see below), between December 2014 and July 2019, *64% were attributed to food companies*. Cargill, Golden Agri Resources and Kellogg were all involved in at least 4 controversies regarding deforestation during these last five years, over rainforest destruction in Indonesia for palm oil production, draining peatlands for industrial plantations, facilitating fire haze in Indonesia or destruction of biodiversity linked to palm oil sourcing.

# Vigeo eiris key findings\* on companies facing controversies related to deforestation

\*Based on Vigeo Eiris Controversy Risk Assessment database

- ▶ Overall, 90 controversies, related to deforestation, and involving 50 companies, were identified in our controversy database
- ▶ A big majority (65%) failed to show any corrective or remediative measures implemented as a reaction to the allegations faced
- ▶ Of the 29 cases of high severity, 19 took place in Indonesia and 3 in Brazil
- ▶ 6 cases related to the Amazon region impacting Brazil, Bolivia and Peru
- ▶ 22 cases also involved Human Rights violations with responsibility of companies
- ▶ Most exposed companies: Cargill; Pepsico; Golden Agri Resources, Kellogg
- ▶ The Food sector is the most exposed, facing 58 cases overall
- ▶ The most affected countries are Indonesia and Malaysia





## Good Practices

According to Vigeo Eiris analysis on the *integration of environmental factors in the supply chain* some Food companies managed to distinguish their performances with robust and advanced scores, including *Campbell Soup* 57/100 (United States), *Huon Aquaculture Group* 62/100 (Australia), *Unilever* 63/100 (United Kingdom) and *Danone* 66/100 (France). Regarding Luxury and Cosmetic companies, palm oil sourcing is the main cause of deforestation, yet companies such as *L'Oréal* disclose exhaustive and ambitious commitments linked to improving the traceability of supply chains within a short time frame. *L'Oréal set a target to reach 100% of palm oil sourced from deforestation-free sources by 2020* as well as measures like selecting suppliers based on their environmental and social performances. In addition, cosmetics companies are beginning to implement alternatives, with *L'Oréal*, for instance, partnering with independent American farmers for its sourcing of plants.

## What can investors do in order to reduce deforestation risk?

As investors also take more and more into account the climate resiliency and carbon footprint of their portfolios, they should consider risks associated with deforestation. Different actions can be taken:

- ▶ Investors can screen and grade companies in order to guide their investment decisions.
- ▶ Investors can demand that companies transparently report on their commitments, targets and due diligence, and how these are being implemented and monitored. Companies should measure and report on their deforestation actions.
- ▶ Investors can use their influence, including through shareholder resolutions and the threat of divestment, to push companies into better managing deforestation risks. For example, members of the CERES Investor Network on Climate Risk and Sustainability — comprising nearly 150 institutional investors who collectively manage more than \$23 trillion in assets — have pressed companies such as Kraft, DuPont, and Mondelez to address deforestation through shareholder resolutions.
- ▶ Investors can demand companies to make commitments to source only credibly certified commodities — such as RSPO-certified palm oil, timber products certified by the Forest Stewardship Council (FSC), and Round Table on Responsible Soy (RTRS)-certified soy.
- ▶ Investors can commit to specific investor initiatives such as the Investor Initiative for Sustainable Forests, a collaboration by the U.N.-supported Principles for Responsible Investment and U.S. non profit Ceres to foster engagement between investors and those companies exposed to deforestation risks linked to soy and cattle production in South America.

## Outlook

The recent *fires in the Amazon and the huge media exposure* and worldwide outrage these events created have put the issue of deforestation again in the spotlight of attention.

Companies and investors exposed to deforestation are increasingly aware of the *risks (reputation, licence to operate, boycotts, lawsuits)* they are facing when they fail to implement responsible due diligence measures.

*Vigeo Eiris data* show however that the largest and well known companies are still involved in controversies related to deforestation practices, as a result of their core business. In addition of the destructive impact on the environment and climate change, these *controversies go often hand in hand with violations of social and human rights*. Vigeo Eiris data also show that attention should not only be focussed on the Amazon region, but also on *other vulnerable*

*regions such as Indonesia, Malaysia, Ghana & Ivory Coast*, where the companies in Vigeo Eiris universe are facing the *highest number of controversies*.

With a growing middle-class in emerging countries and a changing food pattern towards more meat and dairy products, the *need for more engagement of companies* on this issue will only become *more important in the future*.

Finally, this can also be an opportunity. Companies and investors that are able to show they are dealing in a responsible way with deforestation can ultimately bear the fruits of their positive actions and be rewarded by stakeholders and financial markets, leading to better overall performances.

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Authors:



**Lauren Boulie**

Food & Health sector expert  
Paris



**Maria Juliana Ortiz**

Team Manager Food & Health  
Paris



**Mohammed Nkhili**

Specialized Research Analyst  
Controversies  
Rabat



**Albert Charlier**

Senior analyst Basic Resources  
Brussels

*This study was written under the direction of:*



**Fouad Benseddik**

Director of Methods and  
Institutional Relations



**Jordi Lesaffer**

Product Manager Controversy  
Risk Assessment  
Brussels

**For more information:**

Press contact: Anita Legrand - [anita.legrand@vigeo-eiris.com](mailto:anita.legrand@vigeo-eiris.com) / +33 1 55 82 32 44

General information: Amélie Nun - [amelie.nun@vigeo-eiris.com](mailto:amelie.nun@vigeo-eiris.com) / + 33 1 55 82 32 77



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