

Forests and Climate Change Science • Policy • Finance



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are needed to see this picture.



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REDUCING THE FOREST FOOTPRINT OF CORPORATIONS AND THE FINANCE SECTOR

Andrew W. Mitchell
Chair
FFD Steering Committee
Global Canopy Programme

www.forestdisclosure.com



How does Business Drive Deforestation?

- Beef and Leather
- Soy
- Palm Oil
- Paper and Pulp
- Bio-fuels
- Oil and Gas and Mining



Building Bridges

- Along the length of a supply chain
- Between corporates, NGOs and Researchers
- Between companies and their investors



Why Investors care about Forest Footprint Disclosure?

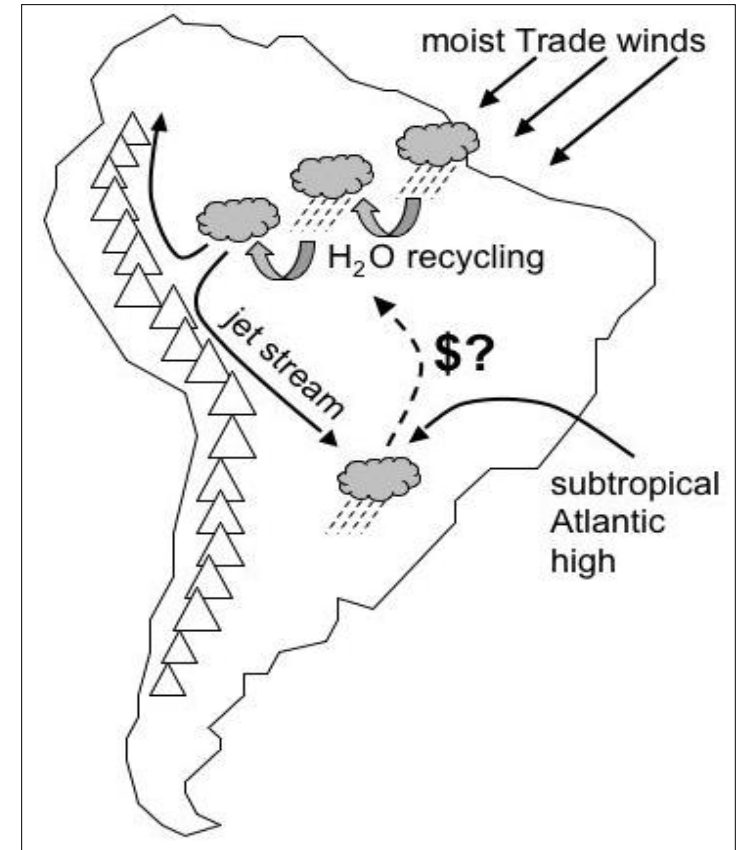
- Economics of much deforestation is driven by demand for commodities
- Halting deforestation is now a key action on climate change to 2020
- Political and Regulatory frameworks being put into place
- \$5+ billion has been pledged to make it happen



The Risks - Ecosystem Services underpin Climate, Water, Food, Health & Energy Security

EG: Amazonia

- \$1 trillion food industry share this eco-dependency
- 3 trillion tonnes of water stored
- 8 trillion tonnes of water vapour evaporated each year
- Deforestation may mean declining service provision
- Rising temperatures may compound the effects

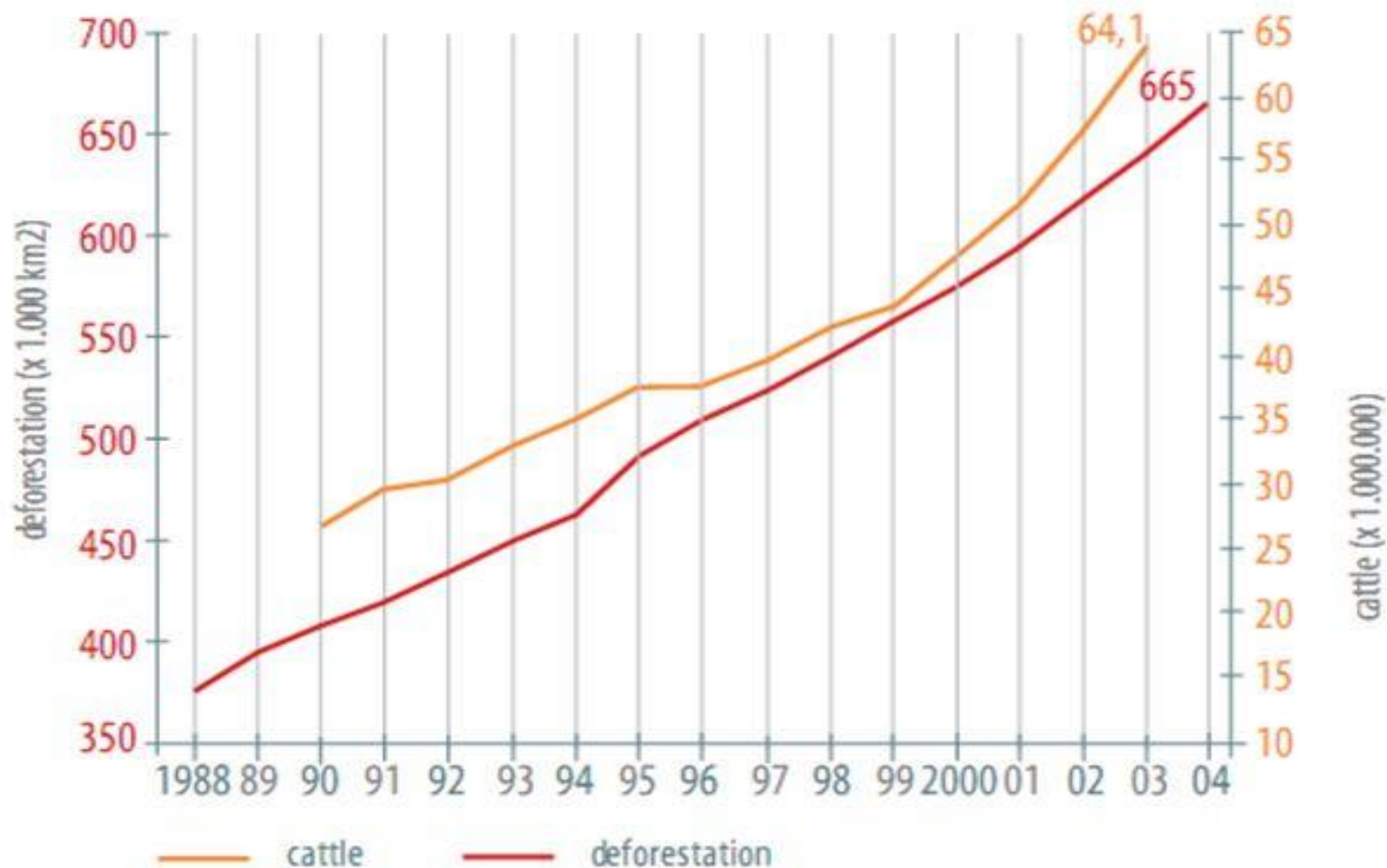


The Amazon's Rainfall Service?
After J. Marengo, INPE

13 Million hectares converted annually



TOTAL HERD AND TOTAL DEFORESTATION



SOURCE IMAZON

Global supply chains.... their lives.. and ours



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A New 21st Century Economic Opportunity?

Natural Capital & Ecosystem Services

Worth US\$1.4 - 4.5

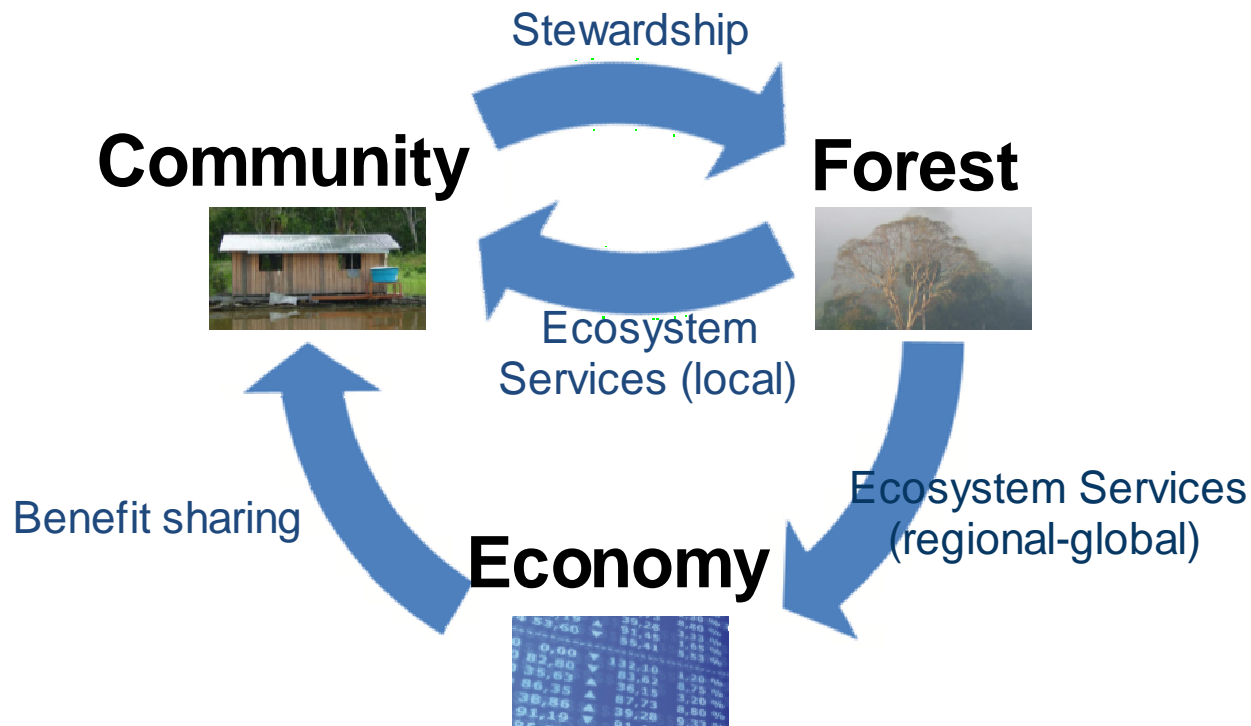
Trillion per year

UNEP- TEEB Review 2010

**Business in the future must account and pay for
the restoration, maintenance, and growth
of natural capital it uses**

Eco-Utilities & the 'Biosphere Economy'

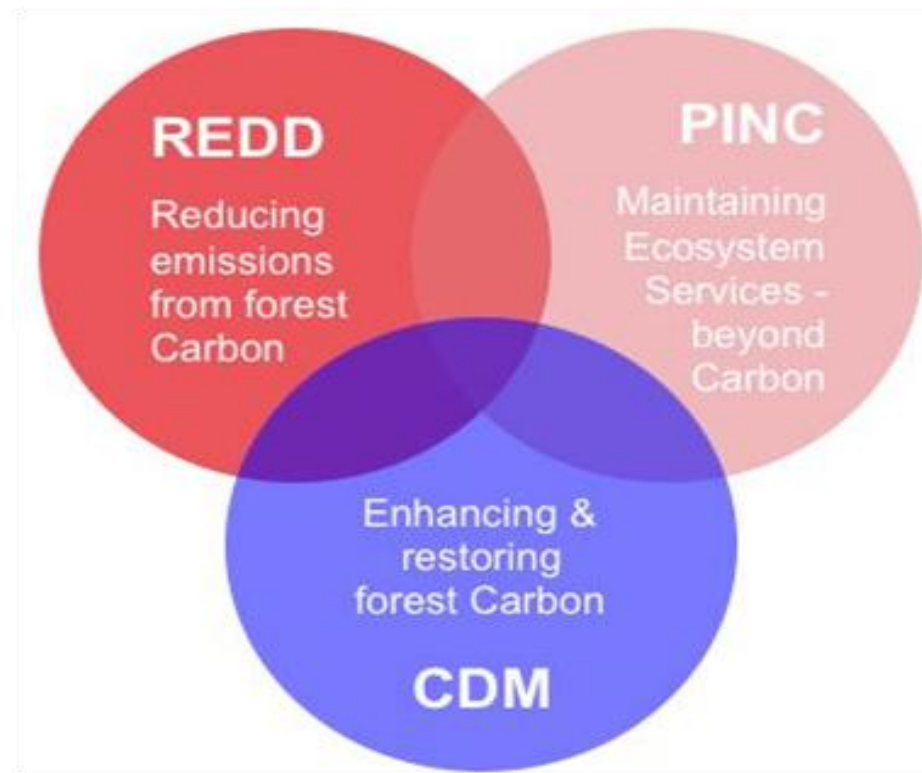
Amazon Eco-Utility draft framework



- Climate Security
- Water Security
- Food Security
- Energy Security
- Health Security
- Livelihoods

RELEVANCE IN THE UNFCCC PROCESS

UN CDM > REDD > REDD+ > PINC?



1t/CO₂

1 ha/forest?

Three complementary and reinforcing mechanisms for conserving and restoring forest and mitigating and adapting to climate change

HOW TO ENGAGE WITH CORPORATIONS AND FINANCE DRIVERS

STOP > **MOVE** > **INTENSIFY**

- Regulation - disincentivise bad behaviour
- Restore degraded land - perverse subsidies?
- Increase efficiency - sustainably
- Positive Incentives - market pull/Tax credits
- Operate at scale - aggregate projects
- De-risk investments - Eg. insurance



KEY ENTRY POINTS FOR REDD

- ROUND TABLES (Soy/Beef/Palm/Biof/ etc)
- FOREST RISK COMPANIES
- FOREST RISK INVESTORS
- DESIGNING FINANCE MECHANISMS
- FOOD/ENERGY/SUBSIDY REFORM
- PUBLIC PROCUREMENT
- CARBON/ATMOSPHERE > FOOD/WATER





**FOREST
FOOTPRINT
DISCLOSURE**

A Case Study: Forest Footprint Disclosure

- Understand and reduce the impacts of the use of Forest Risk Commodities on deforestation
- Review FRC supply chain 'better practice' annually
- Deliver relevant risk information to investors
- Identify sector leaders
- Build capacity for change

**TO REDUCE THE UNSUSTAINABLE
GLOBAL FOREST FOOTPRINT**



How does Forest Disclosure work?

- Global project - based in the UK
- A Disclosure Request is sent to companies asking them how deforestation risk is managed within their supply chains
- Key 'forest-risk commodities' covered: timber, soy, beef & leather, palm oil and biofuels
- US\$5.7 Trillion asset managers endorse the disclosure request
- Targets 300+ listed companies



Deliverables

- Disclosure Request data series
- Sector leaders highlighted in Annual Review
- Specific company reports for investors and participants
- Input into round tables and investor-focused events on FRC risks to business
- Private sector engagement on deforestation supply chains



Why is the Finance Sector Engaged?

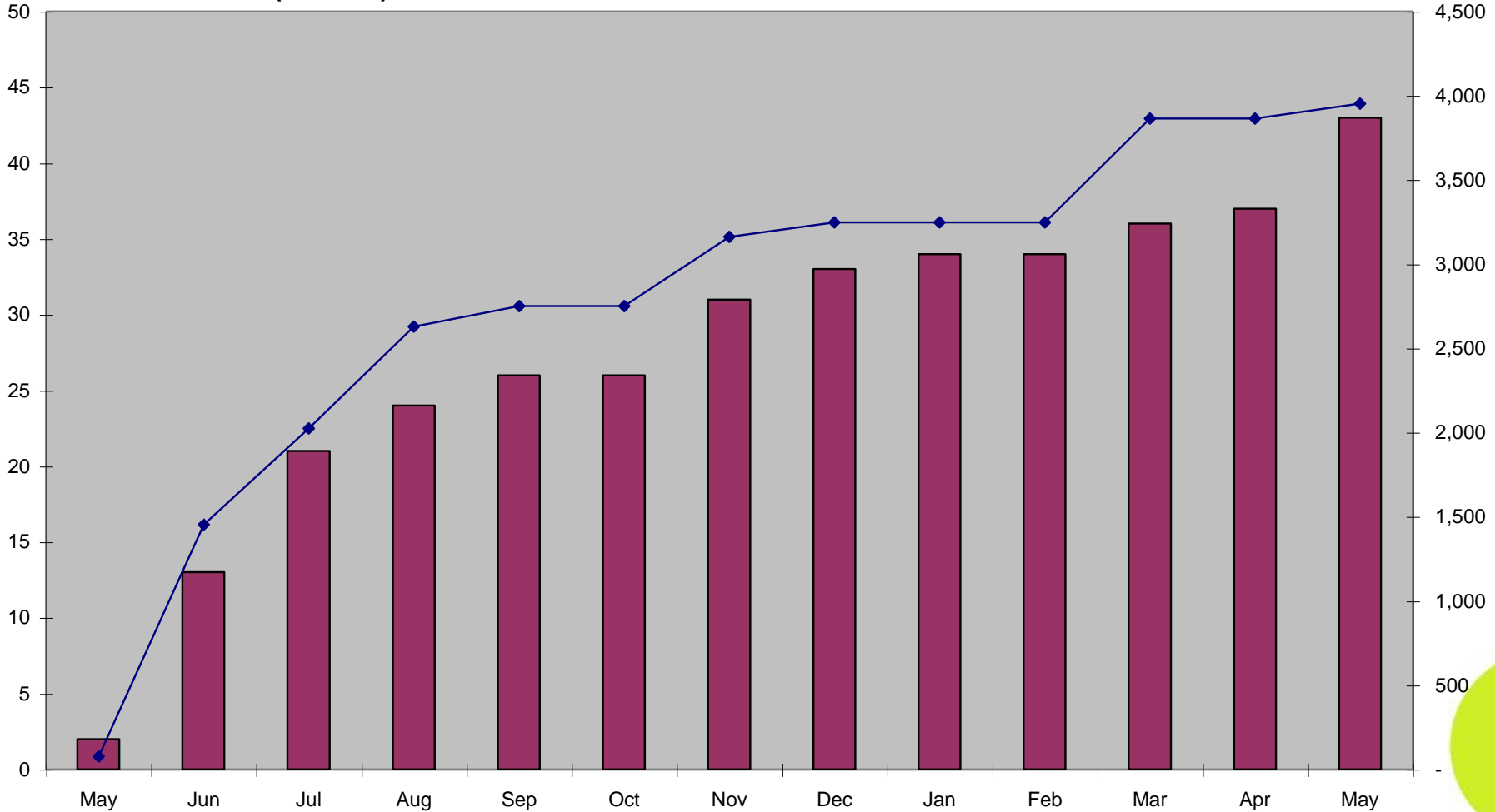
- Identifies risks and opportunities
- Provides a forum for deforestation issues within finance community
- Safeguards future financial risks
- Leads new dialogue with corporates
- Opens up potential new markets



Investor 'endorser' engagement is growing

Number of endorsers (Column)

AUM (USD) line



2009

2010



Deforestation: Downside Risks

- Reputation impact: Consumer/Customer/Staff
- Regulation is tightening
- Supply chain dislocation
- Commodity price inflation
- Decreased access to finance
- Exclusion from mature markets
- Carbon pricing impact (unclear)



Upside Opportunities: of Not deforesting

- New funding for agricultural reform
- Preparedness for new regulations and markets
- Marketing opportunities vary globally by consumer education and credibility of labelling
- Public procurement increasingly demands sustainability criteria
- Investor valuation opportunity (unclear)
- Staff and Consumers love you more!



Selection of Target Companies

- Sources: Global 500, FTSE 350 to 100, Eurostoxx and additional major players in key emergent stock markets
- Filtered according to known or anticipated Forest Risk Commodity profile
- Key privately owned companies known to have a high impact through growing, trading or buying + voluntary participants!



Performance Improvement

- FRC issues are not well understood
- Companies want neutral sources of expert support – FFD offers customised feedback
- More sophisticated are asking for standards and quantification of impact
- Public procurement has a big role to play
- FFD builds capacity: Metrics Workshop (Sep 2010) and Peak Soya? (May 2011)



The 2010 DR Cycle: Sector Leaders

- Basic Materials
- Biofuels
- Clothing/Accessories
- Farming and Fishing
- Food & Drug Retail
- Food Products/ Soft
- General Retailers
- Industrials/Construction
- Media
- Oil and Gas
- Personal care /Household
- Travel and Leisure
- Utilities

Stora Enso Oyj
Greenenergy
Adidas AG and Nike Inc
IOI Group
Carrefour and J. Sainsbury
Danisco
Marks and Spencer
DLH and Weyerhaeuser
Reed Elsevier
Neste Oil
Kimberly-Clark
British Airways
Drax Group



The FFD Disclosure Request



NEXT STEPS

1. Building Bridges between Commodity Round Tables and REDD

How to fund transition costs

IPAM + others

2. Innovation in Forests and Finance

How to leverage public funds

GCP + others



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