



Evaluating Corporate Actions to Eliminate Deforestation

Key Engagement Questions

As a major driver of climate change and biodiversity loss, global deforestation and conversion of other natural ecosystems [create material financial risks for investors](#). Companies with exposure to deforestation and conversion must develop robust no-deforestation and no-conversion commitments and policies to reduce the risks posed by deforestation and its impacts on climate and biodiversity. The following engagement framework outlines the elements of strong policy implementation. Investors can use this information to guide their engagements with companies focused on deforestation, climate change, or nature loss. The engagement framework is aligned with the [Operational Guidance from the Accountability Framework initiative \(AFi\)](#). To note, climate engagement asks are not included in this framework, but it is recognized that deforestation is a key component of climate policies and companies should set targets and disclose land use change emissions. Investors can refer to [Food Emissions 50 Company Benchmark](#) for a climate engagement framework for food companies.

The engagement strategy outlined here is an update to the engagement strategy and KPIs described in the [2020 Investor Guide to Deforestation and Climate Change](#). While most of the engagement strategy remains the same, notable changes include:

- Ceres now recommends that investors ask companies to develop a policy that covers conversion of natural ecosystems in addition to deforestation.
- Ceres also recommends that investors ask for no-deforestation and no-conversion policies to be fully implemented by 2025, adding more specificity to the previous ask for a time-bound policy.
- While the entire engagement framework applies to any forest-risk commodity, this info note also includes additional engagement questions specific to timber, pulp and paper supply chains.

No-Deforestation and No-Conversion Policy

- **Does the company have a policy that includes both deforestation and conversion?**

What this means: A company policy should include both deforestation and conversion. Deforestation includes the conversion of natural forests to agriculture, tree plantations, livestock production, or other land uses, as well as severe or sustained degradation. It includes both [legal and illegal deforestation](#). Conversion is the change of a natural ecosystem (grasslands, peatlands, savannas, wetlands) to another land use or profound change in a natural ecosystem's species composition, structure, or function.

Why this is important: A no-deforestation commitment is a key component of a more comprehensive no-conversion approach. Many companies' no-deforestation commitments do not protect critical ecosystems like the Brazilian Cerrado, where soy cultivation is a key driver of ecosystem conversion. The conversion of these ecosystems can result in loss of biodiversity, ecosystem services, and carbon sinks, which exacerbate systemic business risks as well as create specific risks to the company. To fully address these risks, companies should implement a comprehensive policy that includes no-conversion.

- **Does the company have a cross-commodity policy that covers all commodities that the company sources?**

What this means: No-deforestation and no-conversion policies should apply to all commodities sourced by a company. Policies should also include commodity-specific language, including a risk-based approach to expanding the policy beyond core raw materials.

Why this is important: A no-deforestation and no-conversion policy that covers all commodities is a first step to signify that a company strives for production, sourcing, and financial investments that do not cause or contribute to the loss of forests or natural ecosystems. A cross-commodity policy ensures that a company mitigates risk across its entire supply chain.

- **Does the company's policy apply to all operations and geographies, and all direct and indirect suppliers?**

What this means: Policies should cover all regions where commodities are being sourced or may be used for future sourcing. Policies should cover the entire supply chain, including indirect suppliers.

Why this is important: Broad scope is essential for the policy to effectively mitigate risk. Media, consumers, and downstream buyers do not distinguish between direct and indirect suppliers when deforestation is discovered in a company's supply chain. Coverage of all operations, including indirect suppliers, mitigates market and reputational risk for a company that may otherwise be tied to deforestation through its indirect suppliers. It also ensures a company can accurately account for its total GHG emissions.

- **Does the company have a time-bound policy with a target date of no later than December 31, 2025?**

What this means: Companies should fully implement their no-deforestation and no-conversion policies by December 31, 2025, or sooner.

Why this is important: A target date holds a company accountable for its commitments and provides a clear benchmark for disclosure of progress. AFI recently developed a [consensus recommendation that companies set a target date of 2025](#) or earlier. This reflects the urgent need for action to avoid forest and nature loss and reduce emissions from land use change in order to limit global temperature rise to 1.5°C. Furthermore, new guidance from the Science Based Target initiative on Food, Land, and Agriculture (SBTi-FLAG) now requires that companies have no-deforestation commitments with a target date of 2025 or earlier for their FLAG target to be validated.

- **Does the company commit to secure Free Prior and Informed Consent (FPIC) prior to any activity that may affect Indigenous Peoples/Local Communities (IP/LC) rights, land, resources, territories, livelihoods, and food security?**

What this means: FPIC is a specific right that pertains to IP/LC and allows them to give or withhold consent prior to any activity that may affect their rights, land, resources, territories, livelihoods and food security.

Why this is important: Securing FPIC facilitates dialogue and mutual recognition between the company and IP/LC. This process ensures the rights and interests of IP/LC are protected and their cultural identity is preserved. By securing FPIC, the company minimizes reputational and litigation risks and enhances its social license to operate in the long term.

Supply Chain Implementation Plan

- **Does the company have traceability to the production unit for direct and indirect suppliers?**

What this means: Upstream companies that own, control, or manage production sites for commodities should be able to trace commodities from direct and indirect suppliers to the farm, estate, plantation, ranch, or forest management unit where they were produced. Downstream buyers such as manufacturers and retailers should be able to trace commodities from direct and indirect suppliers to the point at which the company can assure compliance with its policies.

Why this is important: Traceability is an important prerequisite for implementing and managing compliance with

no-deforestation and no-conversion policies. Indirect supply chains, where commodities are sourced through multiple intermediaries, can make it difficult to track the origin of commodities and ensure compliance with policies. Implementing traceability can help address this blind spot and reduce the risk of commodities being sourced from areas with deforestation and conversion. If companies do not trace and monitor their indirect supply chains, they cannot comply with the new [EU Deforestation Regulation](#) and it exposes them to legal and reputational risks.

- **Does the company perform on-going monitoring and verification of its operations and/or sourcing areas and suppliers for compliance with its no-deforestation and no-conversion policy?**

What this means: [Monitoring and verification](#) are iterative, ongoing processes that companies use to detect and demonstrate compliance, performance, and progress towards their commitments. Monitoring uses data to assess and document the extent to which compliance, performance, and progress are being carried out or achieved while verification is an assessment and validation of those actions.

Why this is important: Monitoring and verification are critical to enable the company to detect and remedy policy violations, mitigating some of the reputational risk that can come from media campaigns when violations are uncovered by other organizations.

- **Does the company have a grievance mechanism?**

What this means: A [grievance mechanism](#) is a formal, legal or non-legal complaint process that individuals, workers, communities and/or civil society organizations can use to report instances where certain business activities and operations negatively affected them.

Why this is important: Effective grievance mechanisms are a crucial component of corporate human rights due diligence and can protect companies from reputational and litigation risks. Companies should develop and disclose a clear process for stakeholders to report deforestation, including disclosure of its process for investigating grievances. Read more: [Investor Primer on Grievance Mechanisms](#)

- **Does the company have a supplier non-compliance protocol?**

What this means: A [non-compliance protocol](#) articulates how the company addresses any instances of supplier non-compliance, any consequences for the supplier, and contains a time-bound action plan for suppliers to achieve remediation and resume supply.

Why this is important: A no-deforestation policy is only effective if the company ensures implementation of the policy throughout its supply chain. Without non-compliance protocols, non-compliant suppliers will remain non-compliant which exposes companies to reputational and legal risks. Read more: [Investor Primer on Non-Compliance Protocols](#)

- **Does the company provide incentives for suppliers to adhere to no-deforestation and no-conversion policies?**

What this means: Supplier incentives are support mechanisms to help suppliers—especially agricultural producers—meet company policies. Incentives can include technical assistance, educational support and/or financial support such as financing linked to improved performance, sharing costs, market access and longer-term contracts. Companies should also describe how they plan to scale these incentives to move beyond pilot phase and cover a larger portion of their supply chain over time.

Why this is important: Suppliers, especially smallholder farmers, often lack the capacity to adhere to policies and some will continue to legally deforest their land if there is no financial support to transition away from deforestation and conversion. By providing incentives to suppliers, companies can reduce operational and market risks and build resilient supply chains. Read more: [Investor Primer on Financial Mechanisms to Incentivize Deforestation-Free Commodity Production](#)

Annual Disclosure of Progress KPIs

- **Does the company disclose progress on the following metrics annually for each relevant commodity it sources:**
 - » % traceable to the production unit?
 - » % of supply verified as deforestation-conversion free?
 - » % of suppliers in compliance?

What this means: Verified deforestation-conversion free (DCF) signifies that the relevant commodity did not originate on production units where conversion from forests or other natural ecosystems occurred after a specified cutoff date. Companies can demonstrate DCF status using a [combination of approaches](#) and should disclose the approaches used.

Why this is important: Public disclosure of progress towards targets holds companies accountable for their commitments. Few companies disclose quantitative progress toward eliminating deforestation from their commodity supply chains. As a result, it is difficult for investors to analyze and mitigate risks within their portfolios. Given improving and increasingly accessible datasets and traceability tools, companies should report on the recommended metrics, which provide deep insights into corporate progress and impacts. Read more on these KPIs: [Out on a Limb: The State of Corporate No-Deforestation Commitments and Reporting Indicators that Count](#).

Timber, Pulp and Paper Specific Asks

- **Does the company have a commitment to minimize use of virgin fiber and/or maximize the use of recycled fiber content?**

What this means: Companies that source timber, paper and pulp should set a commitment to minimize their use of virgin fiber and maximize their use of recycled content as part of their no-deforestation and no-conversion policies.

Why this is important: The sourcing of virgin fiber is driving the destruction of ecologically important forests across the globe, such as the boreal forest, which has the highest carbon density of any region on earth and stores large amounts of [irrecoverable carbon](#). Shifting to recycled fiber mitigates this systemic risk.

- **Does the company have a policy to not source from Intact Forest Landscapes (IFLs) or High Conservation Value areas (HCV)?**

What this means: Companies should set a policy to not source from [IFLs](#) or HCV landscapes. IFLs are defined as an unbroken expanse of natural ecosystems within areas of current forest extent, without signs of significant human activity, and having an area of at least 500 km². [HCV areas](#) have a biological, ecological, social or cultural value which is of outstanding significance or critical importance at the national, regional or global scale.

Why this is important: IFLs and HCVs are areas that have been identified as harboring important species and provide important ecosystem services and as such companies should ensure that they are not driving the degradation of these areas through their sourcing practices.

- **What percent of the company's fiber content is recycled?**

What this means: Transparency about the volume of recycled fiber sourced demonstrates that a company is working towards sourcing less virgin fiber.

Why this is important: Quantitative, public disclosure of progress towards targets holds companies accountable for their commitments and enables investors to understand, analyze and mitigate risks within their portfolios.

For a comprehensive assessment of a company's performance against this framework, email ffinvestorengagement@ceres.org to request a company brief.