

March 28, 2022

Assembly Member Ash Kalra
State Capitol
P.O. Box 942849
Sacramento, CA 94249-0027

CC: Members of the California Legislature
CC: Governor Gavin Newsom

Re: Investor Support for the AB1979 California Deforestation-Free Procurement Act

Dear Assembly Member Kalra, Honorable Members of the California Legislature and Governor Newsom,

We, the undersigned investors, representing over \$xx trillion in assets under management, are writing to express our support for AB1979, the California Deforestation Free Procurement Act.

AB1979 will contribute to global efforts to end tropical deforestation and forest degradation and associated human rights harms, by ensuring that entities contracting with the State of California do not contribute to tropical deforestation directly or through their supply chains.

This bill would **provide investors with important information on material financial and climate-related risks** to companies potentially linked to tropical deforestation. Additionally, this bill would help investors **mitigate material risks facing our portfolios** and the companies in which we invest. We believe it will effectively curb global deforestation, thereby helping reduce climate risk and protecting our investments in vulnerable sectors. Moreover, this bill would help investors **identify companies that are adequately mitigating climate and forest risk by fulfilling their commitments to net-zero emissions and zero deforestation.**

As fiduciaries, we recognize material systemic and specific risks posed by deforestation to companies, our portfolios, and markets broadly. In the US, 40% of GDP is generated from sectors directly exposed to tropical forest, food, and land risk.¹ Forests play an essential role in combating climate change, reversing biodiversity loss, and protecting human health and rights.

Deforestation is one of the largest drivers of climate change: currently an estimated 15% of all greenhouse gas emissions result from deforestation and forest degradation.² Evidence is emerging that we may be approaching tipping points in key forest biomes like the Amazon rainforest, where recent studies suggest portions of the forest are releasing more carbon than they store.³ Deforestation may be a source of material company-specific risks, both for companies that impact deforestation *and* for those that depend on forests. Deforestation-related loss of biodiversity, especially pollinators, may **jeopardize the global food system**, which many of us are invested in. Agriculture depends on ecosystem services supported by forests: agricultural outputs are directly affected by the loss of forests' cooling and water cycling services.

¹ The agriculture sector is responsible for most of the deforestation and is also the sector most reliant on other ecosystem outputs. See e.g. "Climate-Related Forest, Food, and Land Risks Threaten US Financial Stability," by Climate Advisers. <https://www.climateadvisers.org/wp-content/uploads/2022/01/Climate-Advisers-Climate-Related-Forest-Food-and-Land-Risks-Threaten-US-Financial-Stability.pdf>

² Intergovernmental Panel on Climate Change, "Climate Change and Land: An IPCC Special Report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems", 2020.

³ Welch, Craig. "First Study of All Amazon Greenhouse Gases Suggests the Damaged Forest Is Now Worsening Climate Change." National Geographic. Last modified March 11, 2021.

Deforestation-related droughts have caused substantial effects to the food and agriculture industry, and this in turn affects stability of markets and our investments. We see the agricultural sector facing lower yields, stranded land assets, and market risks. Other water-intensive sectors such as **tourism, metallurgy, energy and construction are also affected by droughts** tied to deforestation. **Pharmaceuticals also depend on forests**, with over one quarter of all pharmaceuticals derived from the genetic compounds of wild plants.⁴ Effects on each of these sectors hold serious consequences for global markets.

Companies involved in sourcing inputs and products from forests may face significant **reputational risks associated with adverse human rights impacts**. Tropical deforestation is driven primarily by the clearing for cultivation of cattle, soy, palm oil, wood products, cocoa, coffee, and rubber, and it is often associated with corruption, illegality, organized crime, and human rights abuses including violation of indigenous land tenure and rights, particularly with respect to human rights defenders. Human rights violations as agricultural expansion encroaches on indigenous territories carry a risk of social conflicts, violence and illegality, and therefore generate legal risks for companies sourcing forest risk commodities.

The global economy has been hit hard by COVID-19. It is thus noteworthy that reducing deforestation **will reduce the likelihood of new global pandemics**. Deforestation is linked to increased contact with wild animals, heightened risk of zoonosis, and risk of infectious diseases like COVID-19, SARS, and HIV. This reinforces the urgency of reversing deforestation. As investors, we support efforts to increase resilience against future pandemics, and this must include legislation to curb deforestation that drives outbreaks in the first place.

This bill would help address deforestation risk by both **shifting corporate behavior and improving corporate transparency**. Many companies committed to reaching ‘zero deforestation’ by 2020 as part of the New York Declaration on Forests, yet few commitments were met. New commitments were made at COP26 in Glasgow, including a commitment by ten of the world’s largest agricultural commodity companies to accelerate sector-wide action to eliminate commodity-driven deforestation. Furthermore, financial institutions representing nearly \$9 trillion in assets under management committed to address commodity-driven deforestation impacts in their investment and lending portfolios by 2025. The passage of this bill would help ensure that relevant companies and investors can better fulfill deforestation commitments in the future. It would incentivize compliance where best-practice No Deforestation, No Peat, No Exploitation (NDPE) policies exist. The bill would further aid companies and their investors by mandating public disclosure of their policies and corresponding data, supporting due diligence processes.

Numerous businesses want to stop deforestation and are both hard hit by, and worried about, climate change. However, **few corporate actors can act robustly at the scale needed without laws to set the pace and create a level playing field**. A recent survey of 2,000 C-suite executives conducted by professional-services organization Deloitte revealed that over 97% of respondents said climate change already negatively affected their businesses, but only 19% implemented the most common tools across their firms to address the challenge. Corporate action cannot be fully empowered and unleashed without the right laws to create a level playing field and positive incentives. This bill, if passed into law, would create the right conditions for corporate action.

Passage of this bill would also mean that state and municipal government bond issuances would offer investors a new way to manage deforestation in their debt portfolios. The market has demonstrated strong growth in demand for sustainable debt products like green bonds. More broadly, “environmental, social and governance (ESG) investing” has become increasingly mainstream for investors in the fixed-income

⁴ See US Forest Service, <https://www.fs.fed.us/wildflowers/ethnobotany/medicinal/index.shtml>. “A full 40 percent of the drugs behind the pharmacist’s counter in the Western world are derived from plants.” Accessed March 2022.

markets. States implementing such legislation could be leaders in issuing sustainable government debt in the United States.

Thousands of businesses and investors have already spoken out in favor of laws designed to curb deforestation in high-risk agricultural commodities,⁵ several of which were publicly proposed long before the California Deforestation-free Procurement Act – giving businesses more time to analyze and speak out for them. Such widespread, vocal, multi-commodity industry support demonstrates that many of the world’s largest brands want regulators to act to stop deforestation, rather than leaving this thorny problem for voluntary corporate actions to solve.

We understand that Governor Newsom expressed support for the intent of the CA Deforestation-Free Procurement Act in 2021 but vetoed the bill due to concerns around implementation. We appreciate that Assembly Member Ash Kalra is currently working with the Governor’s office and the CA Department of General Services to come to an agreement on amendments.

For the reasons stated above, we support the passage of the California Deforestation-Free Procurement Act this legislative season.

Signed,

⁵ Business and Human Rights Resource Centre, “List of large businesses, associations & investors with public statements & endorsements in support of mandatory due diligence regulation.” <https://www.business-humanrights.org/en/latest-news/list-of-large-businesses-associations-investors-with-public-statements-endorsements-in-support-of-mandatory-due-diligence-regulation/>