

March 28, 2022

To: United States Senate and House

Re: Investor Support for the Fostering Overseas Rule of Law and Environmentally Sound Trade (FOREST) Act

Dear Senators and Representatives,

We, the undersigned investors, representing over \$**xx** trillion in assets under management, write to express our support for the Fostering Overseas Rule of Law and Environmentally Sound Trade (FOREST) Act.

This bill would **provide investors with important information on material financial and climate-related risks** to companies potentially linked to 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 contribute to curbing global deforestation, thereby helping reduce climate risk and protecting our investments in vulnerable sectors. Moreover, the procurement piece of 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. 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**

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.

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, MERS, 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 establishes a framework and set of standards that would likely shape industry practice to address risks and impacts associated with deforestation. Its passage would be a meaningful step forward. The FOREST Act would:

- Direct new avenues of foreign assistance to support producer countries' efforts to tackle deforestation;
- Establish a prohibition on imported commodities sourced from illegally deforested land, starting with some of the highest risk commodities - palm, soy, cattle, cocoa, and rubber;
- Oblige importers to carry out supply chain due diligence for high-risk commodities and declare sourcing information to Customs;
- Contribute to overall risk reduction by improving corporate supply chain due diligence with regards to deforestation and legality/good governance;
- Reduce risks in U.S. supply chains;
- Establish a U.S. government procurement preference for zero deforestation products;
- Level the playing field for industry leaders;
- Promote systemic change.

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 by suppliers to the federal government, of their policies and corresponding data, supporting due diligence processes.

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.

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.

Furthermore, the provision of financial and technical assistance under the FOREST Act, enabling companies and countries to coordinate solutions to deforestation, would facilitate achievement of deforestation-free goals and mitigate systemic and company-specific financial risks.

Thousands of businesses and investors have already spoken out in favor of EU and UK laws designed to curb deforestation in high-risk agricultural commodities,⁵ which were publicly proposed long before the FOREST Act – giving businesses more time to analyze and speak out for these regulations. 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.

For the reasons stated above, we support the passage of the bill 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/>