

Deforestation Framework



Executive Summary



At COP26 in 2021, more than 120 countries, representing 85% of global forests, agreed to stop and reverse deforestation by 2030. Financial services also stepped up. Fidelity International (Fidelity) joined over 30 financial institutions, now representing more than US\$8.9 trillion of assets under management¹, in signing the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation². We make this pledge because we understand the importance of assessing and addressing deforestation risks in our investment portfolios, having engaged with investee companies on palm oil related deforestation risks since 2019. While addressing deforestation is no simple task, we recognise the critical role forests play in achieving net zero greenhouse gas (GHG) emissions and biodiversity preservation. Our Deforestation Framework explains how we plan to engage with stakeholders to address agricultural commodity-driven deforestation risks across investment strategies in a way that aligns with our active, bottom-up research approach to investing. It also defines our minimum expectations of exposed investee companies, the objectives of our engagements, and our escalation approach where companies do not meet expectations, in line with our updated Voting Principles & Guidelines. The Deforestation Framework should be considered within the context and scope of our overarching Sustainable Investing Principles document³. Going forward, the Deforestation Framework will sit within our wider Biodiversity Framework that we will publish in 2023.

Jenn-Hui Tan,
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¹ [nature-and-tackling-deforestation - Climate Champions \(unfccc.int\)](https://unfccc.int/nature-and-tackling-deforestation-climate-champions)

² [DFF-Commitment-Letter.pdf \(unfccc.int\)](#)

³ [sustainable-investing-principles.pdf \(euissmultisiteprod-live-8dd1b69cadf7409099ee6471b87c49a-7653963.s3-eu-west-1.amazonaws.com\)](#)

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Introduction

Forests' critical role in climate change mitigation & biodiversity protection

Forests play a critical role in climate change mitigation, biodiversity protection and in supporting livelihoods. Forests absorb 2.6 billion tonnes of carbon dioxide every year, equivalent to one-third of the emissions released from fossil fuels, and yet they remain under intense pressure. Deforestation and forest degradation drive an estimated 11%⁴ of global CO₂ emissions, largely a result of tropical deforestation linked to 'forest-risk' agricultural commodities: palm oil, soy, beef, and pulp & paper, which represent 8% of all greenhouse gas (GHG) emissions, more than those of the European Union.

Forests are important carbon sinks, holding 80% of the Earth's above-ground terrestrial carbon and 40% of below-ground terrestrial carbon⁵. Emissions from deforestation happen quickly whereas carbon removal from planting new trees takes time.⁶ So while reforestation and afforestation are important, we must focus on ending deforestation as an integral part of achieving net zero GHG emissions. In fact, the UN Intergovernmental Panel on Climate Change's 1.5 degree 'safe landing' pathway assumes nature will continue to be a healthy provider of carbon sinks and ecosystem services. Forests have the potential to contribute up to 30% of total climate change mitigation required to reach the Paris Agreement⁷.

Forests also play a vital role in biodiversity protection, supporting the intended high-level goal of the Global Biodiversity Framework (GBF) at the upcoming Biodiversity Conference to the UN Convention on Biological Diversity (COP 15): the goal to stop and reverse nature loss by 2030⁸. They are home to 80% of the world's animals and plants⁹. Yet despite forests' critical role in climate change mitigation and biodiversity preservation, we lost 420 million hectares of tree cover between 1990 and 2020¹⁰. In 2021, 11.1 million hectares of tropical tree cover were lost or 3.75 million hectares of tropical primary forest. This is equivalent to losing 10 football pitches a minute¹¹. All told, changes in land and sea use, where deforestation is a contributing factor, cause 30% of biodiversity loss¹².

⁴IPCC, 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, <https://www.ipcc.ch/srccl/>

⁵ [What is REDD+? | Forest Carbon Partnership Facility](#)

⁶ [What is REDD+? | Forest Carbon Partnership Facility](#)

⁷ Y. Pan et al., "A Large and Persistent Carbon Sink in the World's Forests," *Science* 333, no.6045 (2011): 988-93; A Baccini et al., "Estimated Carbon Dioxide Emissions from Tropical Deforestation Improved by Carbon-Density Maps," *Nature Climate Change* 2, no. 3 (2012): 182-85

⁸ [UK takes lead to seek global action on nature at COP15 biodiversity conference - GOV.UK \(www.gov.uk\)](#)

⁹ IUCN Forests and Climate Change Issues Brief, Feb 2021 [forests_and_climate_change_issues_brief_2021.pdf \(iucn.org\)](#)

¹⁰ FAO. 2022. The State of the World's Forests 2022. Forest pathways for green recovery and building inclusive, resilient and sustainable economies. Rome, FAO. <https://doi.org/10.4060/cb9360en>

¹¹ University of Maryland via Global Forest Review, How much forest was lost in 2021?

[The Latest Analysis on Global Forests & Tree Cover Loss | Global Forest Review \(wri.org\)](#)

¹² Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), 2019

Why deforestation matters to investors

We believe deforestation can pose several risks within investee companies. These risks include:

- **Systemic risks:** Deforestation poses significant risk to climate change and biodiversity loss, both of which will impact investee companies.
- **Physical risks:** Forests play a critical role in regulating ecosystems and provide natural resources from which we derive economic benefit. Their decline could result in a range of physical risks, including but not limited to more extreme weather events, soil degradation, and reduced access to raw materials. This will impact companies' supply chains, operations, and profitability.
- **Legal & reputational risks:** Companies whose activities are associated with instances of deforestation may be subject

to regulatory restrictions on their activities and backlash from consumers and other stakeholders, while they may also be subject to litigation risk as impacted parties claim compensation for associated damages and breach of these regulations.

- **Capital market risks:** As more investors pledge to eliminate deforestation from their portfolios, access to capital for companies whose activities are associated with deforestation will become more limited.

To end deforestation across all commodities by 2030, in line with the country level pledges made at COP26, we believe collaborative effort and co-ordinated action is needed now across policy makers, business, technology, investors, and civil society.



Tackling Deforestation

Fidelity's role and approach

Our fiduciary role is to safeguard and enhance the assets that we manage. In the context of deforestation, this means understanding the key risks and their potential impact on the investments we make and ensuring that issuers integrate those risks into their business decisions. At Fidelity, we believe the biggest impact we can have is through investment and engagement. In 2021, Fidelity conducted 1,464 ESG engagements with 1,113 companies, demonstrating our active approach to engagement. We believe divestment and exclusion can be useful tools in the right circumstances but can result in unintended consequences. Instead, by engaging with companies exposed to deforestation risks, we can drive more impact.

We have conducted an initial assessment of exposure to deforestation risk, considering high-risk companies, and widened the scope of our long-standing thematic engagement on palm oil to create our deforestation thematic engagement, incorporating key forest-risk agricultural commodities: palm oil, soy, beef & leather and pulp & paper. Governance and oversight of the engagement strategy will be provided by Fidelity's Engagement and Oversight Group (EOG). We will monitor the progress of our engagements and escalate as we see appropriate. Where companies in scope do not meet our minimum expectations, we intend to hold members of the board accountable through voting from 2024.

To identify how deforestation affects our investee companies, we leverage our fundamental research and analysis capability. At the heart of this sits our proprietary ESG rating as a tool for gaining comprehensive insight into companies' various sustainability characteristics, including their approach to addressing deforestation for relevant sectors. While data on deforestation is improving, challenges remain relative to other ESG disclosures. However, this is not an excuse for inaction. We are working with companies and ESG data providers to improve measurement, due diligence, and disclosures.

Figure 1 Key pillars of Fidelity's deforestation approach

Assess	Influence	Report
<ul style="list-style-type: none"> ▪ Exposure assessment: Assessment and ongoing monitoring of our equity and fixed income holdings to identify material deforestation risk exposure ▪ Research: Deforestation is explicitly assessed within our proprietary ESG ratings and within our Climate Rating for relevant sectors ▪ Data integration: Work with issuers and data providers to encourage improved disclosures and data availability 	<ul style="list-style-type: none"> ▪ Company engagement: Conduct deforestation-related engagement with exposed companies ▪ Policy engagement: Engage with policy makers to help shape incentives to end deforestation ▪ Voting: Hold companies to account through our deforestation Voting Principles and Guidelines ▪ Capital allocation: Invest in solutions to address the natural capital crisis ▪ Corporate sustainability: Improve our own corporate footprint 	<ul style="list-style-type: none"> ▪ Report: Monitor and report credible progress on the milestones ▪ Governance: The Sustainable Investing Operating Committee (SIOC) has responsibility for the oversight and implementation of sustainable investing frameworks and principles

Deforestation is a systemic risk, requiring a response at multiple levels. Therefore, we have created an influence framework to help us identify where and how we can align and further our efforts. To influence real world outcomes, company-level engagement should be complemented by a holistic, system-wide response, helping to shape the incentives needed to deliver on commitments. When we act alongside other investors and stakeholders, such engagement becomes even more powerful. Below is an illustration of how these distinct levels of influence relate to deforestation and examples of how Fidelity is acting at each level.

Figure 2 Fidelity’s spheres of influence

Level of influence in relation to deforestation	Examples of Fidelity’s actions
System Level	
<p>Our economic, social and ecological systems are interconnected, and affected by the loss of natural capital, including deforestation, in ways that are not yet fully understood but that have wide-ranging implications for capital markets.</p>	<ul style="list-style-type: none"> ▪ Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation signatory ▪ Finance for Biodiversity member ▪ Natural Capital Investment Alliance member ▪ Taskforce on Nature-related Financial Disclosures (TNFD) Forum member ▪ Signatory to the Financial Sector Statement on Biodiversity for COP15
Industry, sector, and/or portfolio	
<p>Addressing global deforestation is already starting to inform change across industries, particularly in high-impact sectors. This change requires collaborative efforts to accelerate the necessary transition.</p>	<ul style="list-style-type: none"> ▪ Deforestation thematic engagement ▪ Satellite collaborative engagement ▪ Bioacoustics study ▪ Advocate for sectoral decarbonisation pathways
Firm, entity	
<p>Capital allocation, engagement, and voting inform company behaviour change.</p>	<ul style="list-style-type: none"> ▪ Fidelity’s proprietary ESG Ratings ▪ Company engagement ▪ Voting ▪ Fidelity’s proprietary Climate Rating ▪ Sustainability-linked/Green bonds ▪ Task Force on Climate-related Financial Disclosures Report (TCFD) ▪ Annual and Quarterly Sustainable Investing Reports
Individuals	
<p>Individuals’ knowledge, skills, and experience are key to effecting and informing change.</p>	<ul style="list-style-type: none"> ▪ Internal training webinars ▪ Client engagement ▪ Quarterly internal sustainable investing townhalls ▪ Sustainable Investing Team collaboration with portfolio managers and analysts

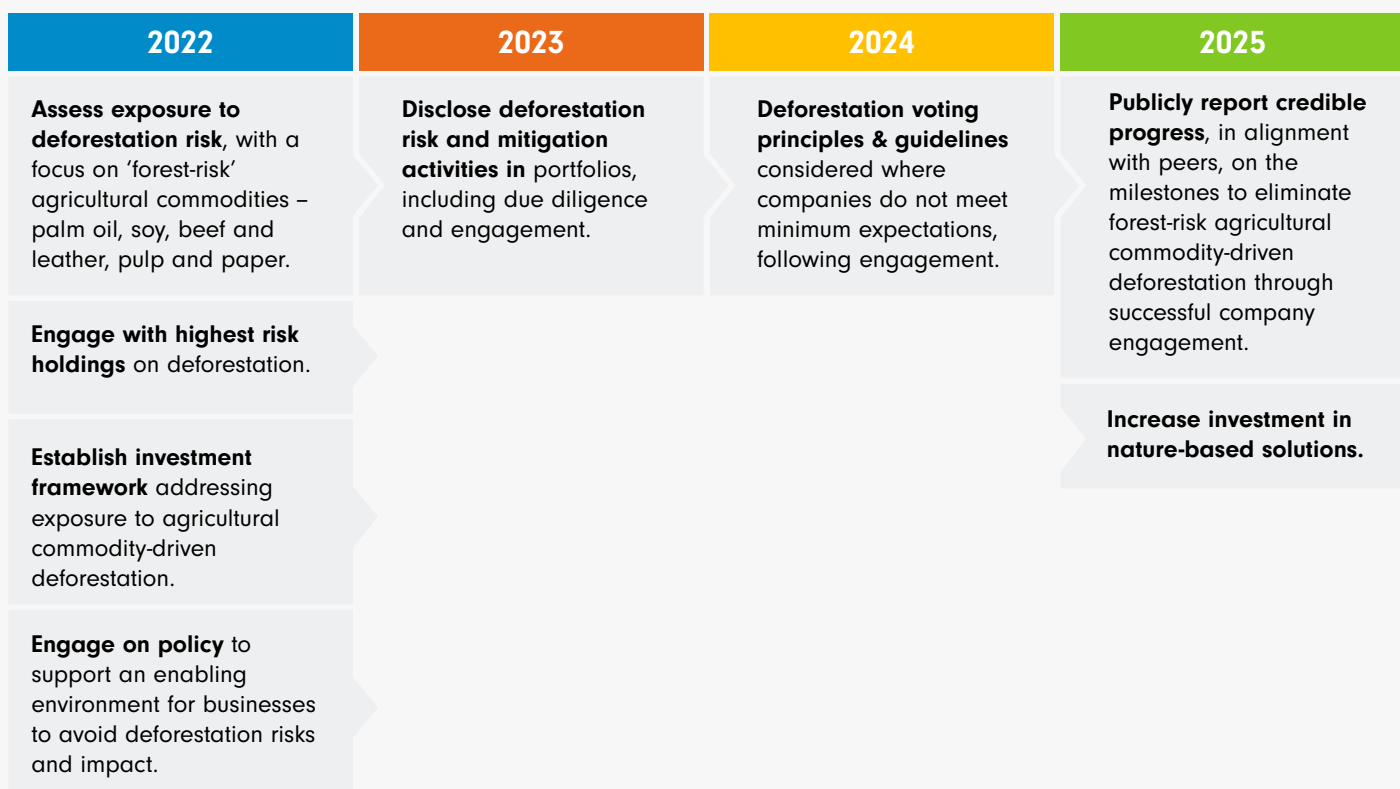
Finally, addressing deforestation also means directing capital to where it will have a positive impact and investing in those companies that are spearheading the transition to a more sustainable economy. We believe that investing in solutions to address the biodiversity crisis represents a significant investment opportunity.

Fidelity's deforestation commitments

In 2021, Fidelity signed the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation. The commitment emphasises the role of active ownership and ongoing stewardship and the importance of collaboration with wider stakeholders to meet these goals.

To meet our commitments, we plan to follow the roadmap outlined in Figure 3, which details our engagement-led approach.

Figure 3 Fidelity's roadmap to address deforestation



As data availability improves and the pace of innovation increases, we will continue to review our framework to ensure we remain ambitious and able to respond to significant developments in the space. Our Sustainable Investing Operating Committee (SIOC) has responsibility for the oversight and implementation of sustainable investing frameworks and principles.

Deforestation and Stewardship

Fidelity takes an active approach to ownership and stewardship. Engagement is a key pillar of this approach. In 2021, Fidelity conducted 1,464 engagements with 1,113 companies, of which around 14% related to nature including biodiversity, waste management and water usage.

2021 Fidelity biodiversity-related engagement and voting data

198

Engagements related to nature including biodiversity, waste management and water usage

73%

Support for nature-related shareholder proposals, including those focussed on plastics, terrestrial biodiversity, and water management (8/11)*.

Including abstentions
Source: Fidelity International (2022), ISS (2022)

Thematic engagement

Deforestation has long been a focus of our engagements. Fidelity has run a thematic engagement on palm oil since 2019, advocating for an end to tropical deforestation. We focused these engagements on palm oil growers in Southeast Asia. For example, in 2021, we engaged with five upstream growers in Indonesia and Malaysia, where palm oil production accounts for over 80% of global output, to understand their progress and approach towards achieving sustainable palm oil. Moving forward, we continue to push for companies to align with the seven principles of the Roundtable on Sustainable Palm Oil (RSPO) through better disclosures and best-in-class management practices.

In 2022, we widened the scope of our existing palm oil thematic engagement to create a deforestation thematic engagement covering the key forest-risk commodities identified by the pledge: palm oil, beef/leather, soy, and timber products. Our deforestation thematic engagement prioritises companies with weak practices that are materially exposed to potential tropical deforestation risk. We also prioritise our engagements based on our holdings. To identify our target list of companies, we leverage third-party data, including Global Canopy's Forest 500 data¹³, to determine those companies most exposed and able to influence tropical deforestation risk, complemented by bottom-up due diligence by our analysts.

In 2023, we will continue our thematic engagement on deforestation. To address agricultural commodity-driven deforestation risks we will focus on encouraging boards to act on the issue as a matter of urgency, communicating the practices we highlight within 'Investor expectations' below. We will continue to report on the progress of our deforestation thematic engagement in our quarterly stewardship report and in our annual sustainability reporting.

Investor expectations

We believe that corporate disclosure around deforestation exposure and risks must improve. To effectively manage deforestation risk, companies with material direct or indirect deforestation exposure should have practices covering material key forest-risk commodities (including: palm oil, soy, beef and leather, pulp and paper) that include:

1. Assessment and public disclosure of deforestation risk and a plan to address the risk.
2. A timebound deforestation-free commitment.
3. Effective supply chain traceability and engagement.
4. Monitoring and disclosure against deforestation commitments.
5. Board-level oversight of forest related issues.

¹³ Forest 500 assessment data [2021], Global Canopy, [Forest500.org](https://www.forest500.org)

Collaborative engagement

To meet our commitments, we will also continue to participate in several collaborative initiatives and investor working groups, helping to develop standards and address deforestation at the system level.

For example, in 2020, Fidelity joined a collaborative engagement led by ACTIAM.¹⁴ ACTIAM partnered with Satelligence, a company that uses satellite images and artificial intelligence to identify cases of deforestation across palm oil supply chains, to inform evidence-based engagement. The engagement programme enables financial institutions to challenge and work with companies using real-world data to enhance traceability and disclosure and reduce deforestation in the supply chain. Following a successful first phase of engagement, where Fidelity acted as co-lead, the engagement has now moved into its second phase, in which Fidelity is leading three engagements with Chinese companies. The innovation around the engagement was recognised at the UK's Environmental Finance Awards 2021, where it won 'ESG Engagement Initiative of the Year'.

In parallel, Fidelity, in partnership with three other investors is co-sponsoring a collaborative project with Green PRAXIS, a nature-based solutions provider using bioacoustics technology to measure biodiversity impacts. The aim of the project is to develop a new biodiversity metric for understanding impacts and risks associated with land-use developments of investee companies. The insights gained can help inform more responsible land management practices and aid effective engagement with investee companies to promote more sustainable management.

While metrics on deforestation are improving, challenges remain relative to other ESG disclosures. However, this is not an excuse for inaction. We are working with companies and ESG data providers to improve measurement, due diligence, and disclosures. Importantly, in connection to this we have also signed a collaborative investor letter to ESG data providers identifying the data needed on issuer exposure to deforestation risks and metrics around management of those risks. Furthermore, we have also engaged data providers one-to-one on this topic and expect that the development of the Taskforce on Nature-related Disclosures (TNFD) framework will help to accelerate greater transparency and data availability from investee companies.

Finally, we are signatories to and active participants in several key industry initiatives that are focused on improving the financial sector's understanding and action on biodiversity:

Finance for Biodiversity Pledge (FfB) - Signatory & Foundation Member: In 2021, Fidelity became a signatory of the Finance for Biodiversity pledge. The pledge now brings together over 110 financial institutions representing €16.3 trillion AuM¹⁵, committing to collaborate and knowledge share, engage with companies, assess impact, and set targets to report on biodiversity matters before 2025. We are active participants in three working groups on Engagement with Companies, Impact Assessment and Target Setting. Jenn-Hui Tan, Global Head of Stewardship and Sustainable Investing, also sits on the Finance for Biodiversity Foundation's Advisory Board.

Natural Capital Investment Alliance (NCIA) - Member: The NCIA unites investors to adopt Natural Capital as an investment theme and targets the mobilisation of US\$10 billion into Natural Capital by the end of 2022. Fidelity is an active participant in the alliance, participating in the Policy, Industry and Government Liaison working group and co-chairing a working group on metrics and disclosures.

WWF Biodiversity Risk Method for Investors - Advisory Investor Group Member: Fidelity is a part of the investor advisory group helping to highlight the financial industry's needs. Its goal is to develop a methodology to allow investors to actively manage biodiversity-related financial risks for assets and across portfolios.

Taskforce on Nature-related Financial Disclosures (TNFD) - Forum Member: The TNFD aims to develop a risk management and disclosure framework to incorporate evolving nature-related risks. This will promote a shift in global financial flows away from negative nature outcomes to nature-positive outcomes.

¹⁴ [ACTIAM engagement program Land & biodiversity - ACTIAM](#)

¹⁵ [Home - Finance for Biodiversity Pledge](#)

Policy engagement

Through our engagements with corporates and our investment research, we have identified policy barriers that impede supporting an enabling environment for businesses to address deforestation risks and impact. Governments are already working to address these policy barriers but more work needs to be done. At COP26 in 2021, more than 120 countries, representing 85% of global forests, agreed to stop and reverse deforestation by 2030 and significant steps are being taken on deforestation by policy makers, for example, in the United Kingdom and the European Union. We will work bilaterally and collaboratively with other investors and stakeholders to engage policy makers to support national and international policy efforts to end deforestation and minimise the risks deforestation presents for the companies we invest in and our clients, with the overall goal of promoting a nature-positive future.

For example, in July 2022, for the second consecutive year, Fidelity signed the annual Global Investor Statement to Governments on the Climate Crisis¹⁶, calling for governments to increase their ambition and commitment towards the goals of the Paris Agreement, limiting global warming to 1.5 degrees and building on the commitments agreed at COP26. The letter includes a call on governments to establish new or more ambitious commitments to end all deforestation globally.

In addition, Fidelity signed the Private Financial Sector Statement on Biodiversity for COP15, a statement drafted by Principles for Responsible Investment (PRI), the United Nations Environment Programme Finance Initiative (UNEP FI) and the Finance for Biodiversity Foundation calling for an ambitious Global Biodiversity Framework at COP15.

Finally, Fidelity also signed the investor letter, coordinated by FAIRR calling for the Food & Agriculture Organization (FAO) to produce a Global Roadmap to 1.5 degrees. The Food and Agriculture sector contributes to around a third of GHG emissions. Around 75% of deforestation in the Amazon between 1978-2020 was caused by cattle ranching. Decarbonising the sector is critical to addressing its climate, deforestation, and natural capital impacts and dependencies.¹⁷

Voting

We believe companies should meet minimum standards of deforestation oversight, practice, disclosure, and action on deforestation disclosures and activities. We expect investee companies to have a plan in place to address deforestation, underpinned by deforestation-free commitments. Following continued deforestation related engagement in 2023, we intend to begin the application of our voting principles and guidelines on deforestation effective from 2024.

We plan to vote against members of the board at companies in high-risk sectors that do not adequately meet our deforestation-related expectations. We will take into account the company's position within the supply chain, industry exposure, operating and supply chain location, engagement progress, and the urgency with which we believe they should be addressing deforestation.

We believe that companies with material exposure to deforestation, whether in direct operations or indirect exposure in their supply chain, should be disclosing information covering material key forest-risk commodities (including: palm oil, soy, beef and leather, pulp and paper), on the following:

- Timebound deforestation-free commitment
- Deforestation approach or plan underpinning the timebound commitment

Our assessment of the deforestation-related disclosures and practices that companies should be considering and implementing will develop and evolve over time as reporting standards and best practices are finalised and assessment tools improve.

¹⁶ <https://www.iigcc.org/download/2021-global-investor-statement-to-governments-on-the-climate-crisis/?wpdmdl=4555&refresh=60c32944090db1623402820>

¹⁷ [Summary for Policymakers – Special Report on Climate Change and Land \(ipcc.ch\)](#)

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