

Senate Standing Committee on Governmental Organization
1020 N Street, Room 584
Sacramento, CA 95814

July 9, 2019

Re: the California Deforestation-Free Procurement Act AB572

Dear Chairman Dodd and Vice-Chairman Wilk,

We, investors representing \$400 billion in assets under management, are writing to express our support for the California Deforestation-Free Procurement Act, AB572 (the “Act”). The Act’s mandate for No Deforestation, No Peat, and No Exploitation (NDPE) policies, certification and public disclosure from specific state contractors and subcontractors helps to provide investors with necessary information on material financial and climate-related risks on companies potentially linked to deforestation. Passage of AB572 will help mitigate the material climate risk faced by our portfolios and the companies in which we invest, assist investors to identify companies that are fulfilling their commitments to zero-deforestation and NDPE policies, as well as offer investors an opportunity to invest in tropical-deforestation-free government bonds.

Deforestation presents material risks to companies that rely on forest services, which is relevant to two of California’s major sectors: agriculture and the pharmaceutical industry. Agricultural companies and those relying on stable agricultural yields are exposed to a number of potential risks throughout their supply chain due to unmanaged exposure to deforestation. Agricultural outputs are directly affected by the loss of forests’ cooling and water cycling services, regardless of proximity to the forests being lost. Deforestation in the Amazon, for example, is predicted to decrease rainfall in the US Midwest, Northwest, and parts of the South during the agricultural season.¹ Forests also harbor vital pollinators improving harvest quality and size. Pharmaceutical companies also face material risk from deforestation: up to fifty percent of pharmaceuticals are derived from the genetic compounds present in forests.

Deforestation is also one of the largest drivers of climate change, making it a material risk across our portfolios. Currently an estimated 15% of all greenhouse gas emissions result from deforestation. In the tropics, logging and burning now account for up to 40% of total above-ground carbon emissions.² Climate risk, exacerbated by deforestation, can manifest as physical risk to assets from changing global temperatures and rainfall patterns and extreme weather, including heat waves, wildfires, flooding, and drought. Curbing deforestation is one of the most cost-effective ways to address climate change. As more state and national governments pass legislation to align with the Paris Accord, companies associated with deforestation are more likely to face regulatory risks and other financial risks, like stranded assets.

¹ *Lawrence, D., Vandecar, K., (2014) Effects of tropical deforestation on climate and agriculture, Nature Climate Change, vol. 5, pages 27–36.*

² *Houghton, RS., (2012) Carbon emissions and the drivers of deforestation and forest degradation in the tropics, Current Opinion in Environmental Sustainability, 2012, 4:597-603.*

Compliance with the Act will also provide useful information to investors seeking to mitigate exposure to deforestation in their portfolios and choosing to invest in deforestation-free companies. Many investors were encouraged by the numerous corporate pledges made over the past decade to rid supply chains of deforestation by 2020. The Act will help ensure that companies fulfill these commitments and incentivize compliance where NDPE policies already exist. It will further aid companies and their investors by mandating public disclosure of their policies and corresponding data. Ultimately the Act will assist investors in conducting due diligence of their holdings in an effort to limit exposure to deforestation and climate-related risks, and help to prepare for climate readiness in our portfolios.

Finally, passage of the Act would mean that, beginning in 2022, California 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.³ More broadly, “environmental, social and governance investing” has become increasingly mainstream for investors in the fixed-income markets.⁴ California could be a leader in issuing sustainable government debt in the United States.

We appreciate your attention to this timely issue and for the reasons stated above, we respectfully encourage the members of the Senate Standing Committee on Governmental Organization and the California Senate to support the passage of AB 572.

Signed,

As You Sow

Boston Common Asset Management

Carbonfund.org Foundation

Dignity Health

Domini Impact Investments

Dominican Sisters of Mission San Jose

Dominican Sisters of San Rafael

Friends Fiduciary Corporation

Green Century Funds

Impact Shares

Interfaith Center on Corporate Responsibility

Jantz Management LLC

³ *Katugampola, Navindu (2018) Ten Years In, The Green Bond Market is Poised for Growth, Morgan Stanley Global Capital Markets.*

⁴ *Id.*

Maryknoll Sisters
Newground Social Investment
NorthStar Asset Management, Inc.
Northwest Coalition for Responsible Investment
Region VI Coalition for Responsible Investment
Religious of the Sacred Heart of Mary
Seventh Generation Interfaith Inc.
Sisters of St. Francis of Philadelphia
Sisters of St. Joseph of Orange
Sisters of the Holy Cross
SRI Investing LLC
Trillium Asset Management
Tri-State Coalition for Responsible Investment