Friends of the Earth United States

Fact Sheet

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CalPERS' Exposure to Risk in the Palm Oil Sector

The California Public Employees' Retirement System (CalPERS) is the largest public pension fund in the United States, with $320 billion in assets under management. Within the field of pension finance, CalPERS positions itself as a public agency with a strong commitment to environmental and social responsibility in its investments[i] and an outspoken leader in corporate engagement on climate change,[ii] and claims to be giving increased attention to financial climate risk. CalPERS implements its approach to climate risk and to Environmental, Social and Governance (ESG) largely through proxy votes at the annual general meetings of the fossil fuel companies in which it holds positions,[iii] as well as through direct engagement with company boards and staff.

However, CalPERS' attention to climate risk and ESG issues is not uniform across all its equity holdings. Roughly 12 percent of total Greenhouse Gas Emissions globally are caused by deforestation, and some 80 percent of global deforestation is driven by agriculture.[iv] The vast bulk of this deforestation, including the conversion of Southeast Asia's carbon-rich peat lands, is caused by industrial-scale commodity crops: palm oil, soy, timber, pulp and paper, cattle, and rubber. In Indonesia alone, estimated CO^2 emissions from the palm oil sector is around 250 million tons per year – roughly equivalent to the annual emissions of Spain.[v] The palm oil sector is also widely implicated in labor abuse (forced and child labor), and social conflict including land grabbing and abuses of indigenous peoples rights.

CalPERS holds about $400 million worth of shares in palm oil plantation companies[vi] — investments which bring serious material risks including climate risk, land-rights risk, reputational risk, and stranded assets risks. In order to address these risks, CalPERS should take an approach aligned with the UN Guiding Principles on Business and Human Rights and the OECD Guidelines on Responsible Business Conduct for Institutional Investors, by:

1) **Evaluating** its exposure to deforestation and land risk, and disclosing the associated material risks. This is in keeping with calls that CalPERS disclose climate risk in its portfolios.

2) **Committing** to a set of investment guidelines and due diligence practices to address climate-related deforestation and land-rights risks.

3) **Excluding** companies that do not meet CalPERS' stated policy on climate, deforestation and land-rights risk, and that fail to respond to engagement.

4) **Repairing** the harm that's been done by requiring investee companies to provide remedy for past harms, implementing robust grievance mechanisms, committing to ecosystem restoration and, fundamentally, supporting models of agriculture that transform it from a climate problem to a climate solution. CalPERS can and must do more to support this transformation.

Friends of the Earth United States

Fact Sheet

Business risks associated with palm-oil sector companies in CalPERs' portfolios

Numerous CalPERS' investee companies have made a business model of cutting down rainforests, including within forest reserves and on lands claimed by indigenous communities; burning peat lands, one of the most carbon-dense ecosystems in the world; and employing forced and child labor. Palm oil is also associated with forest crimes such as illegal logging,[vii] and widespread corruption.[viii] Not surprisingly, many companies in the sector go to great lengths to cover their footsteps, thereby misleading investors and the public, leading to a persistent climate of risk.

> When IOI Group was suspended from the Roundtable on Sustainable Palm Oil (RSPO) for failing to protect peat areas and forests[ix] it's share price dropped 18 percent — from positive $30 million in the second quarter of 2015 to negative $14.8 million a year; several major brands including Unilever, Kellogg and Nestlé canceled supply contracts with IOI Group, and Moody's downgraded the company's credit rating.[x] ***CalPERS holdings (2016): $12,016,712 USD***[xi]

> Felda Global Ventures (FGV) faces a possible $5 million liability for violating RSPO's principles and criteria because the company's wholly-owned subsidiaries deforestation practices are not compliant with their buyers' procurement policies.[xii] ***CalPERS holdings (2016): $2,309,381 USD***[xiii]

> In 2012, Kuala Lumpur Kepong (KLK) planned to develop 30,000 hectares of oil palm estates in Collingwood Bay, Papua New Guinea.[xiv] In 2014, indigenous peoples' communities contested KLK's plantation plans and the Papua New Guinea courts declared KLK's leases null and void.[xv] These concessions may become stranded land, leading to financial write-offs by KLK management.[xvi] ***CalPERS holdings (2016): $10,359,770 USD***[xvii]

> Wilmar International was subject to a 2016 Amnesty International investigation revealing systemic forced labor and child labor on its plantations and those of several of its suppliers.[xviii] Wilmar was named in a 2017 court ruling[xix] that ordered the provincial government of Central Kalimantan to review the permits of companies associated with the massive forest and peat land fires in 2015. Ongoing social conflict that plague Wilmar's Guatemalan suppliers could result in suspension of Wilmar's European supplies from that region. ***CalPERS Holdings (2016): $12,472,193 USD***[xx]

> Land rights conflicts and failure to obtain free, prior and informed consent (FPIC) delay and derail project operations and disrupt cash flows, often despite government assurances. In 2009 Sime Darby, the world's largest palm oil producer, signed a 63-year concession agreement with the government of Liberia for 220,000 hectares of land. By 2016, due to ongoing land conflicts, the company had planted only 10,440 hectares;[xxi] investors continue to value Sime Darby's Liberian project assuming full concession development, having not yet recognized serious stranded assets risk.[xxii] ***CalPERS holdings (2016): $17,145,900 USD***[xxiii]

> Contested land banks reduce the present value of future cash flows, leading to stranded assets, which negatively affect financial valuation.[xxiv] Currently in Indonesia, 6.1 million hectares comprise "stranded land" on the balance sheet of palm oil estates, an area slightly less than the size of the Republic of Ireland and equal in size to 10 million football fields.[xxv]

CalPERS is in a uniquely powerful position to become a leader in addressing the material climate and human rights risks related to palm oil. CalPERS can continue to risk driving human rights abuses and environmental destruction that are contrary to its values and the material and ethical interests of its beneficiaries – or it can lead the way by developing a No Deforestation investment policy.

Friends of the Earth United States

Fact Sheet

Endnotes

1 https://www.calpers.ca.gov/page/investments/governance/sustainable-investing/esg

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