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Arnold Schwarzenegger's ties to tropical deforestation

A briefing note for journalists

Summary

New research shows that Arnold Schwarzenegger, whose public record ties him strongly to environmental causes and leadership on climate change, has significant financial ties to forestry and palm oil companies responsible for massive deforestation in the tropics. Deforestation accounts for upwards of fifteen percent of global greenhouse gas emissions, and the fastest growing cause of deforestation in the tropics is the clearcutting of forests to make way for plantations to grow palm oil, timber, pulp and paper. Mr. Schwarzenegger's financial ties to Dimensional Fund Advisors, a U.S.-based investment fund that also manages money for a wide range of private and public entities, links him to some of the biggest and most destructive palm oil, timber, pulp and paper interests in the world.

Background

Dimensional Fund Advisors, a U.S.-based investment fund holds significant shareholdings in some of the most destructive companies in the world, new research shows. This includes tropical logging companies, as documented by Global Witness, and the world's largest palm oil growers and traders, as documented by Friends of the Earth.

Palm oil, used in over half the food and cosmetics on our shelves, is the single fastest growing driver of deforestation, greenhouse gas emissions, and displacement of forest-dwelling communities across the tropics. The expansion of oil palm plantations has led to massive forest destruction and ongoing conflicts with indigenous groups and local communities in Southeast Asia, Africa and Latin America.

The rapid growth of the palm oil industry has several causes, among them European biofuel mandates, the U.S. FDA mandate that all food labels must list trans fat content, and the ease and efficiency of producing oil from palm at a vast scale. But these drivers are accompanied by sector-wide disregard for environmental and human rights standards, which makes growing and trading palm exceedingly cheap, and gives it a high profit margin. According to the Malaysia Estate Owners Association, development of new palm plantations in Malaysia can bring up to 22.5 percent return on investment,¹ while investing in established plantations can give nearly 10 percent. The vast portion of financing for palm oil has few or no environmental and social strings attached.

Every 10,000 acres of new palm oil plantations requires roughly \$100 million in capital investments. Indonesia's largest bank disbursed more than \$4.4 billion U.S. dollars to large palm oil growers in 2013, and plans to lend more in 2014.ⁱⁱ According to the Jakarta Globe, the Indonesian Palm Oil Producers Association has called for investment of 300 trillion rupiah, or some \$25 billion dollars, by 2020 to replace three million hectares of forest with new palm oil plantations. Institutional investors account for about six percent of the financing for palm oil in South East Asiaⁱⁱⁱ Dimensional Fund Advisor is the 7th largest shareholder in palm oil in the United States, after Van Eck Associates, BlackRock, The Vanguard Group, Northern Cross and Fidelity Investments.

DFA and its investments in tropical deforestation

Friends of the Earth has documented the links between private financial institutions and the world's largest palm oil growers and traders, with a focus on Wilmar International, the company that controls 45 percent of the global palm oil market. Dimensional fund advisors has over USD \$775 million in over 80 companies involved in palm oil and deforestation – the largest number of palm oil companies held by a single financial institution. DFA's holdings include USD \$20.25 million in Wilmar, USD \$13.5 million in IOI and USD \$12.5 million in KLK, as of the first quarter, 2014.

In addition, Global Witness has documented that DFA holds shares totaling USD \$174 million in 20 forestry companies, representing the highest incidence of relationships between any financial institution and the 50 companies reviewed by Global Witness. DFA's holdings includes firms that have been implicated in highly destructive and sometimes illegal activities.^{iv}

DFA is one of United States' biggest mutual funds, managing USD \$338 billion for clients worldwide, including the management of investments for Pepsi, Kellogg's and Boeing,^v as well as many public sector investment funds including the California Public Employees Retirement System, the City and County of San Francisco and numerous universities and non-profits. DFA is a privately owned company that operates a type of mutual fund known as an index fund. Stock in the company Dimensional Fund Advisors is not publicly traded. Ownership of the firm is limited to its directors, employees and select individuals by invitation.

Arnold Schwarzenegger and DFA

According to his Statement of Economic Interests, submitted to the California Fair Political Practices Commission in 2011, Arnold Schwarzenegger's stock in DFA is in the highest category of 'more than USD \$1 million', and his annual dividends in the same year from DFA of 'more than USD \$100,000,' also the highest available category. Press reports indicate that Schwarzenegger's ownership stake in the company is an estimated five percent^{vi}. If this is accurate, then the value of his stock and dividends is likely to be considerably higher than USD \$1 million/USD \$100,000 respectively.

It has been reported that Schwarzenegger acquired his stake in DFA in 1996 from brokerage firm Schroder Wertheim, where his long-time friend and financial advisor Paul Wachter worked.^{vii} Schwarzenegger appointed Wachter as trustee of the Schwarzenegger Blind Trust from 2003 until 2011, whilst Schwarzenegger was Governor of California.^{viii} Wachter was also appointed by Schwarzenegger to the Board of Regents of the University of California in 2004,^{ix} where Wachter is chair of the Investments Committee, which manages UC's large investment and retirement funds including investments in DFA.^x

Nobel Prize winning economist Eugene Fama, who is a director and consultant to DFA, was reportedly appointed as economic advisor to Schwarzenegger when he became governor in 2004.^{xi} Schwarzenegger also appointed DFA CEO and co-founder David G. Booth to the California Commission of Jobs and Economic Growth.^{xii}

Schwarzenegger's environmental credentials

Arnold Schwarzenegger's investments in DFA directly contradict his high profile work in tackling climate change and deforestation. Above and beyond his current role as producer and star in *Years of Living Dangerously*, Schwarzenegger's prominent climate and forest publicity includes:

- Spearheading California's efforts to lead the world in 'ending global warming'
- [Leaders From Indonesia, Brazil Join 3 U.S. States in Deforestation Accord](#)
- Initiating the [Governor's Climate & Forests task force](#) and promoting action to [Reduce Emissions from Deforestation and Degradation](#)
- Launch of the '[sustainable world project](#)' with Europe's climate chief Connie Hedegaard
- Attending the [International Forum on Sustainability](#) in Brazil, with Bill Clinton and James Cameron
- Arnold made '[Honorary US forest Ranger](#)'
- [LA Times op-ed](#): Arnold champions continued efforts on global warming
- Arnold [leads conservative politicians' call to reclaim the green agenda](#)

What is Friends of the Earth calling for?

Friends of the Earth believes DFA should immediately **implement a robust forest policy** across all its products to address the grave environmental and human rights impacts associated with its palm oil holdings. It should have a **clear and effective implementation system** in place that is transparent to all stakeholders. In case of a complaint, there should be a clear and effective procedure in place with a timeframe to ensure that direct action is taken and followed up on.

Given the high risk of illegal activity, money laundering, environmental violations, and human rights abuses associated with the palm oil sector, DFA should **employ heightened due diligence procedures and eliminate the most egregious and recalcitrant companies** from all of its portfolios. DFA's environmentally and socially screened products are natural starting points, but such due diligence and screening procedures should apply across all its portfolios.

In addition, as an investment firm known for actively engaging with the companies it owns, DFA should **use its shareholder power** to improve companies' environmental and human rights performance, particularly in the palm oil sector.

Clients of DFA that do not wish to be associated with tropical deforestation should **divest from DFA until it commits to implementing** the abovementioned steps.

There are a growing number of large companies, palm oil and other commodity traders and forestry companies pledging to implement 'zero deforestation policies.'^{xiii} Similarly, banks and investment funds are also implementing policies to exclude clients known to operate in ways which are illegal or unethical. Notably, the Norwegian Government Pension Fund has blacklisted more than 20 forestry companies since 2010 due to concerns that their long-term business models are unsustainable.^{xiv} In 2012, it sold stakes in some of the world's largest palm oil companies, including Golden Agri-Resources, Indofood Agri Resources, Kuala Lumpur Kepong, Ta Ann Holdings, United Plantations and Wilmar International, all of which are held by DFA.

Endnotes

ⁱ <http://www.thestar.com.my/Business/Business-News/2013/04/27/Analysts-see-huge-potential-in-the-palm-oil-industry-for-small-time-players.aspx/>

ⁱⁱ <http://www.thejakartaglobe.com/business/mandiri-lends-4-4b-to-palm-oil-producers/>

ⁱⁱⁱ Profundo. Financing oil palm expansion in Indonesia and Malaysia. June 2013.38

^{iv} DFA hold shares in some of the world's most notorious forestry companies such as Sinar Mas, Ta Ann, Barito Pacific, WTK, DLH and Rimbunan Hijau. All of these companies have been linked to highly destructive operations while some, including WTK and DLH, have also been implicated in illegal activities.

^v DFA listed a wide range of prominent clients on its website: <http://www.dfaau.com/firm/clients.html> -- but appears to have removed the list upon learning of Global Witness' investigation.

^{vi} http://www.ifa.com/articles/Terminator_Pulls_Trigger_on_Indexing_Sort_of/

^{vii} http://www.ifa.com/articles/Terminator_Pulls_Trigger_on_Indexing_Sort_of/

^{viii} Attachment to the Statement of Economic Interests of Arnold Schwarzenegger, Statement of filer re blind trust, 28/01/2011

^{ix} <http://regents.universityofcalifornia.edu/about/members-and-advisors/bios/paul-wachter.html>

^x <http://regents.universityofcalifornia.edu/about/committees.html>

^{xi} New York Times, 11/01/14, 'Reading the index to beat the index', reprinted with permission

<http://rrcapital.com/files/Reading%20Index%20to%20Beat%20Index.pdf>

^{xii} <http://gov.ca.gov/news.php?id=3191>

http://www.businesswire.com/news/home/20050708005505/en/California-Commission-Jobs-Economic-Growth-Releases-Mid-year#_UvDnVvl_vTo

^{xiii} Companies which have recently announced 'zero deforestation' commitments include Wilmar and Kellogg's

^{xiv} <http://news.mongabay.com/2013/1014-norway-pension-fund-logging-divestment.html>