

Honorable Governor Newsom
1303 10th Street, Suite 1173
Sacramento, CA 95814

Sent via email and mail

[September 15, 2021]

Re: Investor support AB 416 (Kalra), the California Deforestation-Free Procurement Act and Request for Governor's Signature

Honorable Governor Newsom,

We, the undersigned institutional investors, representing over [X Assets Under Management], write to respectfully request that you sign Assembly Bill 416, the California Deforestation-Free Procurement Act, into law.

AB 416 will contribute to global efforts to end tropical deforestation and forest degradation, and associated human rights harms, by ensuring that entities contracting with the State of California do not contribute to tropical deforestation directly or through their supply chains. AB 416 will require state contracts that include forest-risk commodities entered or renewed after January 1, 2024 to certify that products supplied to the state have not contributed to tropical deforestation. The bill would require those state contractors dealing with forest-risk commodities to maintain clear policies and procedures to de-link their supply chains and operations from tropical deforestation and associated harms. This would provide investors with important information on material financial and climate-related risks to companies potentially linked to deforestation. Additionally, AB 416 would help investors mitigate material risks faced by our portfolios and the companies in which we invest, identify companies that are fulfilling their commitments to net-zero emissions, no deforestation, no peat, and no exploitation policies, as well as potentially offer opportunities to invest in deforestation-free government bonds.

As fiduciaries, we recognize the material systemic and specific risks posed by deforestation to companies, our portfolios, and markets broadly. Forests play an essential role in combatting climate change, reversing biodiversity loss, and protecting human health and human rights. Deforestation is one of the largest drivers of climate change: tropical deforestation is the third leading driver of global CO2 emissions and is often associated with violations of the land rights of Indigenous Peoples, exploitation of workers, forced labor and child labor, criminality and violence against land defenders, biodiversity loss, species extinction, and illegal wildlife trafficking. Deforestation and deforestation related biodiversity loss also pose systemic risks to public health and the global food system, which hold serious consequences for global markets.

Deforestation may also be a source of material company-specific risks, both for companies that impact deforestation and those that depend on forests. The main driver of tropical deforestation

is industrial-scale production of agricultural commodities known as “forest-risk commodities,” which include palm oil, soy, cattle, rubber, cocoa, pulp/paper, and timber. AB 416 will send an important signal to global markets that commodity-driven tropical deforestation is unacceptable.

While considerable responsibility has been placed on the exporting countries of forest-risk commodities, we recognize the importance of policy and practice in importing countries as well. As the fifth largest economy in the world, California’s purchasing power has significant market force. A preliminary study indicates that of the state’s roughly \$2.5 billion in annual procurement contracts for goods, some \$600 million – roughly a quarter of state purchasing – involves these forest-risk commodities, and thereby may be driving tropical deforestation. By shifting purchases away from causing tropical deforestation, AB 416 will allow the state to employ its purchasing power to halt, rather than enable, forest destruction in the tropics. AB 416 would help incentivize those companies that are already doing business in compliance with the law to enter the bidding process, while encouraging others to begin coming into compliance – rewarding the good actors and nudging those who need it. The requirements of AB 416 are based on best practice policies that are already being implemented by many companies, large and small, around the world in accordance with international standards and norms, and will support increasing harmonization of standards.

Finally, passage of this Act would mean that, after its effective date, 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. More broadly, “environmental, social and governance investing” has become increasingly mainstream for investors in the fixed-income markets. States implementing such legislation could be a leader in issuing sustainable government debt in the United States.

In conclusion, Governor Newsom, we respectfully encourage you to sign AB 416 into law.

Sincerely,

Domini Impact Investments, LLC
[Additional signatories]