

## **\*Supply Chain Impact on Deforestation 2017 – Kroger Co.**

**WHEREAS:** Kroger Corporation (Kroger) utilizes beef, soy, palm oil, and pulp/paper in its business. These commodities are among the leading drivers of deforestation globally. Kroger's limited action on deforestation exposes the company to significant business risks including supply chain reliability, damage to its brand value, and failure to meet shifting consumer and market expectations.

Deforestation accounts for over 10% of global greenhouse gas emissions and contributes to biodiversity loss, soil erosion, disrupted rainfall patterns, community land conflicts and forced labor. Commercial agriculture accounted for over 70% of tropical deforestation between 2000 and 2012, half of which was illegal. Supply chain sources that are illegally engaged in deforestation are vulnerable to interruption as enforcement increases. Conserving forests by increasing agricultural productivity and the use of already cleared land will stabilize soils and climate while regulating regional water flows.

Companies that have failed to mitigate the impacts of their supply chain have faced reputational damage and consumer rejection of their products. "Consumers are increasingly demanding that businesses become more responsible and transparent," a whitepaper by Technomic, a leading food industry consultancy, stated. "In many cases, they are rewarding those they perceive to be good environmental stewards and corporate citizens."

Kroger scored 2 out of 5 in the Forest 500 2016 company scorecard and a 0 out of 100 on UCS's 2016 cattle scorecard. In contrast, companies such as McDonald's, Unilever and Nestlé have committed to eliminate deforestation in their global supply chains. Further, Kroger has yet to join its peers in signing the New York Declaration on Forests to help meet the private-sector goal of eliminating deforestation from the production of agricultural commodities by 2030.

Kroger asserts that it has begun addressing deforestation in its palm oil supply chains, as well as in other high risk commodities supply chains. The company's sustainability report notes a policy to address "high impact commodities" that "have potentially sensitive social, environmental and/ or economic impacts because of where they are harvested, produced, or processed." However, Kroger has no commitment to providing investors with detailed metrics on key issues such as deforestation that can aid in assessing the effectiveness of the policies on achieving sustainability and long term value.

**RESOLVED:** Shareholders request that Kroger issue reports to investors, at reasonable expense and excluding proprietary information, providing quantitative metrics on supply chain impacts on deforestation, including progress on time bound goals for reducing such impacts.

**Supporting Statement:** Proponents believe meaningful indicators in such reports could include:

- For key commodities that Kroger sources such as soy, beef, and pulp/paper, the percentage that can be traced back to its source and the percentage verified via credible third parties as not contributing to physical expansion into peatlands, HCV or HCS forests;
- Tracking these figures against an anticipated timeframe for 100% sourcing consistent with those criteria; and
- An assessment of reputational and operational risks facing Kroger in relation to supply chain and operational impacts on deforestation.