

Supply Chain Impact on Deforestation 2017 – McDonald's Corp.

WHEREAS: McDonald's Corporation (McDonald's) utilizes beef, soy, palm oil, and pulp/paper in its business. These commodities are among the leading drivers of deforestation globally. McDonalds' limited action on deforestation exposes the company to significant business risks including supply chain reliability, damage to the company's 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."

McDonald's acknowledges this trend in the company's 10-K: "the ongoing relevance of our brand may depend on the success of our sustainability initiatives to support our brand ambition of good food, good people and good neighbor...If we are not effective in achieving our stated sustainability goals and addressing these and other matters of social responsibility in a way that inspires trust and confidence, trust in our brand could suffer."

Investors require transparent, rigorous reporting on relevant key performance indicators in order to make informed risk assessments and investment decisions. McDonald's has begun to address deforestation in its supply chains; however, the company has failed to adequately report its progress and lacks an overall implementation plan inclusive of the other leading drivers of deforestation that the company is exposed to.

McDonald's scored a 48 out of 100 on UCS's 2016 beef scorecard and 24.4 out of 100 on UCS's 2015 palm oil scorecard, drawing negative media attention. Proponents are encouraged by McDonalds's commitment to eliminate deforestation from its supply chain, and the company's signature to the New York Declaration on Forests to support and help meet the private-sector goal of eliminating deforestation from the production of agricultural commodities no later than 2030. However, public reporting and an implementation plan is still needed.

RESOLVED: Shareholders request that McDonald's develop an implementation plan to eliminate deforestation and related human rights issues from its supply chain.

Supporting Statement: Proponents believe a meaningful response could include:

- Evidence of proactive implementation efforts, such as a time-bound plan, verification processes, non-compliance protocols and regular reporting on a public platform;
- A commitment to work towards strengthening third-party verification programs and multi-stakeholder initiatives to achieve compliance with the company's policy.