

ACHIEVING ZERO (NET) DEFORESTATION COMMITMENTS

What it means and how to get there

THIS REPORT

The Global Canopy Programme was commissioned by the International Sustainability Unit (ISU) to produce this report. It represents a brief review of the challenges facing governments, companies, NGOs and the financial sector in meeting the increasing number of commitments across sectors to remove deforestation from global supply chains. The report is informed by a series of interviews with key experts, and draws upon the GCP's Forest 500 database (www.forest500.org) and Forest Trends' Supply Change database (www.supply-change.org).

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ABOUT THE GLOBAL CANOPY PROGRAMME

The Global Canopy Programme is an international tropical forest think-tank and NGO focused on accelerating the world's transition to a deforestation-free economy. Our team of policy experts, researchers, communicators, and support staff is headquartered in Oxford, and works closely with networks of decision-makers in the financial sector, corporations, government and civil society across the world. We are dynamic, determined and creative in pursuit of our objectives. For more information about GCP's work visit www.globalcanopy.org.

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EXECUTIVE SUMMARY

Political and corporate momentum is accelerating. At no time in history has there been greater political and corporate awareness of the need to curb tropical deforestation for water, climate, food, energy, and livelihood security and as a means of conserving life on earth. Attendant reputational, legislative and operational risks have all been brought more sharply into focus. But the scale and pervasiveness of the deforestation economy means that, to go further, a momentum shift is required with a new set of incentives that promote sustainable, deforestation-free agriculture.

Time-bound corporate commitments towards zero deforestation are sending a dramatic signal to the global marketplace. The New York Declaration on Forests symbolically aligns leaders across sectors and geographies behind common ambitious commitments, building on earlier individual and collective pledges by major global companies. This is creating powerful momentum for change across global supply chains, but for companies there are major practical obstacles to success on the ground, and most investors funding the production of forest risk commodities (FRCs) are not yet engaged.

Major markets in India and China offer huge opportunities for action on forest risk commodities. India is the largest importer of palm oil; China depends on huge imports of soya and cattle products. Neither region yet demonstrates political or corporate commitment towards zero deforestation. Defining routes to awareness raising and action at the highest level are essential in both countries.

Sector leaders can demonstrate to laggards that sustainable sourcing is good for business. Worldwide corporate commitments vary geographically and in scope. Of the 250 key companies worldwide with perhaps the greatest influence over tropical deforestation: over 60% now have either strong or some form of forest-related sustainability policies, 40 per cent have weak

policies or none at all and only 7 per cent have full, cross-commodity commitments on deforestation. Strong leadership can help close the variance gap in the scope and strength of corporate policies among and between supply chain segments, commodities, sectors and regions.

Clarity is needed to overcome problems of definition that hamper progress. A lack of clarity around how zero net deforestation commitments in particular are understood and therefore implemented increases concerns of potential perverse outcomes. Definitions of other key terms – and indeed of what constitutes forests themselves – divide actors across sectors and geographies.

Certification and roundtables have been key tools for companies to ensure the sustainable sourcing of commodities. They will continue to play a key role, as more companies make zero deforestation commitments and should be strengthened accordingly. However, reporting and auditing frameworks should be consolidated to reduce inefficiencies and costs. Multiple certifications for the same area of land overload suppliers and certification schemes have generally had limited take-up relative to overall supply. More proactive action from the Tropical Forest Alliance (TFA) and Consumer Goods Forum (CGF) is needed to rationalise these processes and deliver workable consensus that might help to overcome this gap, guide action by companies and foster engagement by other actors, to ensure more rapid progress towards a deforestation-free economy.

Forest risk assessment toolkits can support companies to identify and act upon risks and opportunities linked to commodities that drive deforestation in their supply chains. Companies and financial institutions first need to understand their impacts and dependencies on forests, and the range of risks that they are exposed to through forest risk commodities. This understanding should be reflected

in relevant decision-making processes and across operations, while ensuring alignment with their other CSR strategies. Interpretation of data can be complex and time consuming, and there is a clear need for simple and cost-effective tools for companies to assess their own risk of exposure and increase their capacity to meet sustainability targets. This is particularly important for small and medium-sized enterprises (SMEs) and other companies that have limited resources to assess this risk themselves.

Lenders and investors lag behind and need a better understanding of the opportunity of removing deforestation risk across portfolios.

Forest 500 rankings show that no investors and lenders have zero deforestation policies in place. Most financial institutions do not fully understand deforestation risk, so regard it as non-material to investment decisions. Most fail to offer favourable terms to sustainable commodity production. This drives investment towards deforestation, rather than away from it. The Principles for Responsible Investment has nearly 1400 signatories and provides relevant guidance on how Environmental Social Governance (ESG) criteria can be incorporated into investment practice while the Natural Capital Declaration (NCD) and the Banking Environment Initiative (BEI) are working closely with financial institutions to develop and pilot the toolkits that financial institutions need to achieve this.

Greater transparency and accountability are needed among the key powerbrokers across sectors and geographies that are driving tropical deforestation. Increasingly available data on forest cover, concessions, trade and corporate policies is providing new insights into corporate impacts and dependencies on forests and overall progress towards zero deforestation commitments. Better linkage between emerging transparency initiatives is required to monitor global progress effectively towards 2020 and 2030 targets.

Companies need to strengthen key building blocks towards zero deforestation in their policies and operations. Achieving traceability, maintaining social inclusion and environmental integrity, and preventing leakage are four key areas companies need to understand and embed within their implementation strategy towards zero deforestation commitments:

- **Traceability** is an important first step in understanding and mitigating deforestation risk exposure. More collaborative effort between businesses, their suppliers, and independent third parties is needed to implement a common approach to traceability across commodities.
- **Social inclusion:** The right to Free Prior Informed Consent (FPIC) is vital for communities whose livelihoods rely heavily on forests.
- **Environmental integrity:** A landscape approach and stronger land-use planning toolkits are essential to maintain the integrity of forest ecosystems in the face of competing demands for land and resources.
- **Preventing leakage:** Stronger forest governance, including strengthening existing moratoria, is needed to minimise the risk of displacement of deforestation across commodities, ecosystems and jurisdictions.

Donors and International Finance Institutions (IFIs) can co-ordinate their support globally to fill funding gaps in zero deforestation commitments through public-private partnerships. Smallholders face particular cost and capacity barriers in transitioning to sustainable production. Climate finance (adaptation and mitigation) including REDD+ and development of public-private partnerships offer ways to pay for the up-front costs of transition to sustainable supply, particularly for smallholders and SMEs. Efforts to provide smallholders with the means and incentives for certifying their production should be strengthened.

Large-scale commitments to forest landscape restoration offer a major opportunity for companies to meet their zero deforestation commitments.

Financing forest restoration offers great opportunity for companies to meet zero net deforestation commitments but this must not occur at the expense of natural forests. A major commitment towards forest restoration under the Bonn Challenge offers an opportunity for donor and private sector commitments to intersect.

Governments, civil society and the finance sector all have key roles to play in enabling companies to achieve their zero deforestation commitments.

Collaboration between all these actors is vital for progress, and cross-sectoral initiatives like the Tropical Forest Alliance will have an increasingly important role to play.

ABOUT THIS REPORT

This report takes stock of zero deforestation commitments made by companies and provides an insight into the barriers that need to be overcome and the actions to be taken to achieve them.

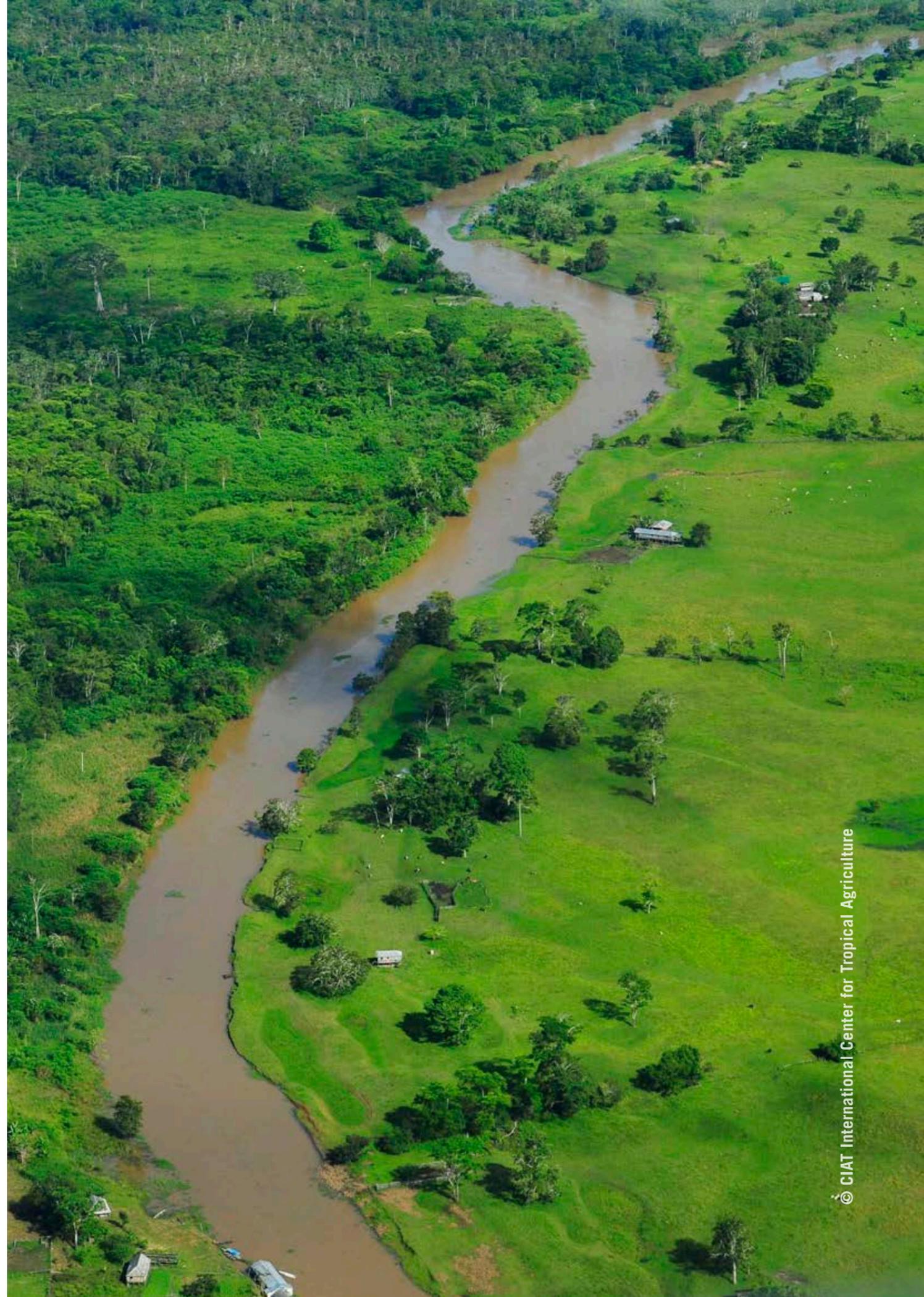
The report is broken into 4 main sections:

- 1. The current situation:** Drawing on insights from two recent analyses of corporate policies and commitments, the Forest 500 and Supply Change, this section provides a brief insight into Forest Risk Commodities (FRCs) as a leading cause of deforestation and the pledges that corporates have made to remove deforestation from their agricultural supply chains.
- 2. Building blocks of zero deforestation:** In light of these commitments, this section surveys important areas that companies need to understand and embed in their strategies to implement zero deforestation pledges.

3. Tools and opportunities for the successful implementation of zero deforestation pledges:

This section considers a range of tools and approaches being adopted, including certification, monitoring, and the role of forest restoration.

4. Enabling conditions: This section analyses the role of forest-owning governments, donor governments, financial institutions, and NGOs in supporting companies to achieve their zero deforestation commitments.



1. THE CURRENT SITUATION: A BRIEF OVERVIEW

Over 50 per cent of the world's tropical forests have been lost over the last half-century. Historically, the highest rates of tropical forest loss have been in Brazil, but in recent years this has shifted to Indonesia. The growing global demand for consumer goods is set to increase pressure on forests worldwide. Over the last decade, some two thirdsⁱ of global deforestation has been driven by the production of a small number of agricultural forest risk commodities (FRCs): palm oil, timber and paper products, soya, beef and leather, and to a lesser extent biofuelsⁱⁱ. Via complex and obscure supply chains, these commodities feed consumer markets worldwide (palm oil derivatives are in 50 per cent of packaged products in supermarkets). This c. US \$135 billion export trade in these forest risk commodities drives forest conversion for land, but is central to the economy in producer countriesⁱⁱⁱ. Yet these huge economic benefits have also been unevenly distributed, contributing to inequity, conflict and a degraded landscape. The unsustainable production of agricultural commodities and its associated deforestation not only compromises ecosystem services^{iv} but also contributes significantly to global greenhouse gas (GHG) emissions^v. Local communities suffer a host of negative social impacts^{vi}. The combined effect of this process undermines climate, food, energy, water and livelihood security locally and regionally and this in turn threatens supply chains globally.

Increasingly, leading market powerbrokers themselves are gaining a stronger understanding of the reputational, legislative and operational risks of exposure to deforestation, and the business case for the transition to demonstrably legal and sustainable commodities in their procurement, supply chains and investments.

In the last couple of years, this momentum has been multiplied by high profile commitments by key powerbrokers in government and the private sector. In 2013, a number of major producers, traders and buyers made groundbreaking pledges to remove deforestation from their supply chains. Commitments made by the Consumer Goods Forum (CGF), Tropical Forest Alliance (TFA) and, in September 2014, under the landmark New York Declaration on Forests, hold out the promise of positive action on a sweeping scale over the next 5 years:

CGF: *“As the Board of The Consumer Goods Forum, we pledge to mobilise resources within our respective businesses to help achieve zero net deforestation by 2020.”*

TFA: *“TFA 2020 will contribute to mobilizing and coordinating actions by governments, the private sector and civil society to reduce tropical deforestation related to key agricultural commodities by 2020.”*

New York Declaration on Forests: *“At least halve the rate of loss of natural forests globally by 2020 and strive to end natural forest loss by 2030.”*

These commitments have already created a powerful new climate of ambition and activity towards zero deforestation supply chains. But in many cases, rhetoric will be slow to translate into results as significant barriers to implementation remain. Notably, the complexity of supply chains continues to be a major obstacle, hindering accountability and hiding important actors from view. Others are discussed below.

And while the value of personal leadership by the CEOs of a number of companies in this process has been significant, ultimately achieving sustainability requires the business case to be clearly evidenced and widely understood. For many companies identified as important in these FRC supply chains by the Forest 500, limited understanding of exposure to deforestation and associated risks on account of complex supply chains and a lack of effective pressure or consequences associated with those risks means that a business-as-usual approach persists.

If these ambitious goals are to be achieved, it is essential that key obstacles are understood and tackled, that

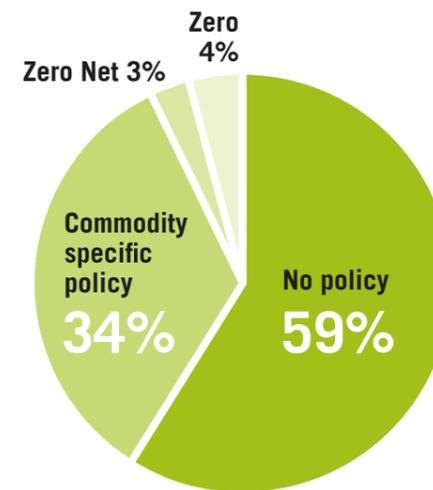


Fig.1 The percentage of Forest 500 companies that have made cross-commodity zero or zero net deforestation pledges or have commodity-specific sourcing policies.

powerful laggards come to the table, and that progress towards the recent wave of commitments is effectively tracked and delivered.

ANALYSIS OF CORPORATE COMMITMENTS

The momentum behind corporate commitments on deforestation is remarkable, but there is great disparity in their relative strength and scope, and whole sectors and regions are yet to be meaningfully represented. The Forest 500 and Supply Change platforms (See Boxes 2 and 3) provide a means of tracking progress towards recent overarching pledges.

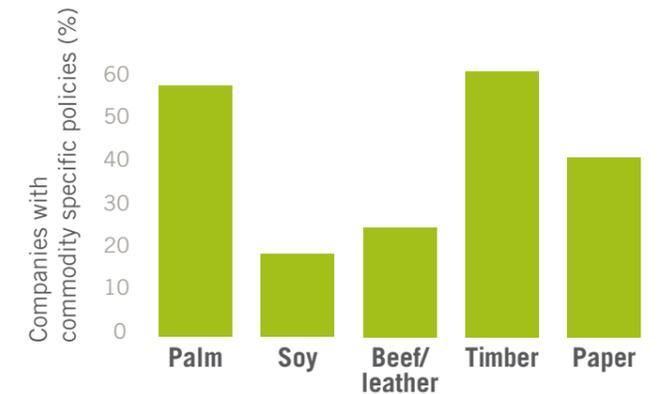


Fig. 2 Proportion of companies identified in the Forest 500 that have commodity-specific sourcing policies.

Leaders vs Laggards: Momentum remains with sector leaders. While they seek practical ways of implementing their sustainability policies, key individual actors and whole sectors and geographies are yet to commit meaningfully to change. Out of the 250 companies assessed as part of the Forest 500, 30 had no sustainability policy related to forests and a further 81 had weak public procurement policies that need to be improved if they are to translate into an impact on deforestation.

Few deforestation pledges are across commodities: Despite the recent wave of zero and zero net deforestation pledges, few cut across all of the

commodity supply chains that companies are involved with. Of the 250 companies identified in the Forest 500, only 7 per cent have cross-commodity (i.e. those that cover the entirety of a company's activities) zero or zero net deforestation policies (Fig. 1).

Soya and cattle products lag behind paper, timber, and palm oil: Commitments to sustainable practice vary by commodity. More companies operating in palm oil supply chains have made commitments than those operating in soya and cattle supply chains (Fig. 2), where experience and guidelines are more limited, and challenges caused by supply chain complexity have yet to be overcome^{vii}.

BOX 1. CHINESE AND INDIAN COMPANIES NEED TO BE ACTIVELY ENGAGED

China is the largest single market for FRCs while India is the largest import market for palm oil (8 million tonnes in 2012). Of the 47 Forest 500 companies headquartered in China and India, only 31 had any form of sustainability policy related to forests. Of these, none had made overall zero deforestation pledges and all lacked comprehensive commodity-specific commitments. Uptake of certification has been poor - for example, despite regionally consuming roughly 50 per cent of the global volume of palm oil produced, only ~4 per cent of RSPO members are headquartered in China and India.

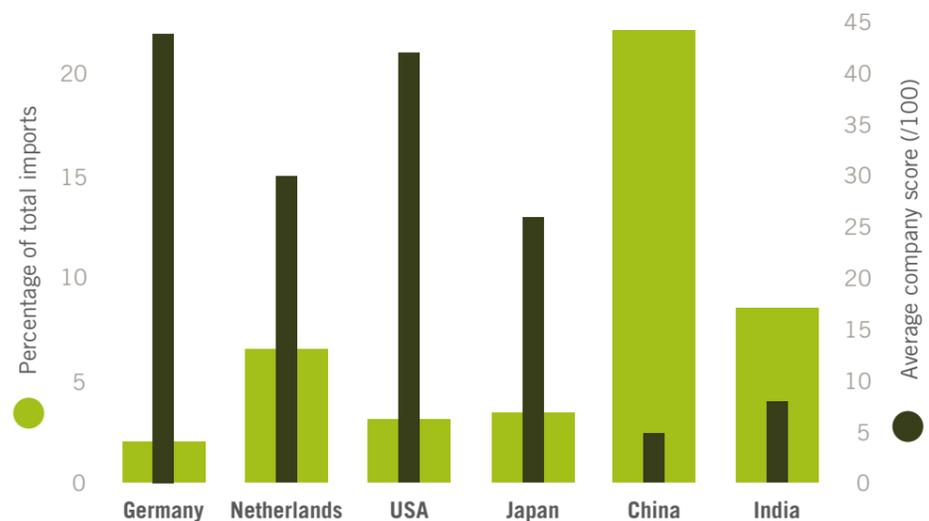


Fig.3 Average score awarded for company sustainable sourcing policies on the Forest 500 and the total trade value of forest risk commodities for each country.

BOX 2. THE FOREST 500

www.forest500.org

The Forest 500 identifies, assesses, tracks and publicly ranks progress towards the adoption and implementation of policies on deforestation-free supply chains among the 500 most influential governments, companies and financial institutions in the deforestation economy. Powerbrokers are included on the platform if they have been identified as an important actor in FRC supply chains, with or without commitments.



BOX 3. SUPPLY CHANGE

www.supply-change.org

Supply Change makes publicly available the commitments of companies to source legal and sustainable commodities. Companies are included on the platform if they have made a commitment towards sustainable or legal sourcing of FRCs.



Processors are lagging behind on making commitments: Consumer-facing sectors such as homecare, personal care and cosmetics have developed strong commodity-sourcing policies while processors with little consumer profile, such as producers of animal feed, lag far behind^{viii}.

Company commitments vary geographically: Companies with headquarters in tropical forest jurisdictions with high rates of deforestation and a large area of standing forests have yet to match the commitments made by those based in Europe and North America. For example, the Forest 500 shows that companies headquartered in North America and Europe scored more than twice the number of points for their sustainable procurement policies than their counterparts with headquarters in the Asia-Pacific region.

PROGRESS TOWARDS IMPLEMENTATION

Company disclosure is improving: Alongside the growing number of commitments, many companies,

through platforms such as the CDP Forests Program, are disclosing their total production or consumption of FRCs along with their progress towards sustainable production and sourcing. Similarly, a number of companies are reporting their progress towards goals within their annual sustainability reports and through dedicated Corporate Social Responsibility (CSR) sections online.

The ability to trace commodities to their source remains poor: Despite traceability being an essential step to achieving zero deforestation commitments, only 35 per cent* of commodity-related responses to the CDP Forests disclosure request report that the location of the commodity source is known. For example, although a number of companies involved in the palm oil supply chain report that they are able to trace back to the mill level, few can trace back to the plantation of commodity origin. Yet, leaders are showing that it can be done – Ferrero, for example, reported that 92 per cent of their palm oil was traceable back to plantation in November 2014^x.

Certification is growing but still covers a small part of the global production: Despite a push for commodity certification, uptake and coverage across supply chains remains small. For example, only 20% of the global production of palm oil is RSPO-certified^{xi}, while an estimated two per cent of the global production of soya in 2012 was certified^{xii}. Furthermore, a large proportion of products produced under these schemes is certified through credits. Whilst this offers companies an intermediate step in the process towards procuring fully certified commodities, it offers no guarantee that they have not caused the loss of native forests^{xiii}.

Third-party auditing remains costly but new transparency platforms will allow informed, cost-effective decision making: Despite increased corporate disclosure, third-party evidence for effective

implementation of zero deforestation pledges is largely lacking. However, the growing availability of data and transparency platforms (such as Global Forest Watch) will help to support third-party verification. Such platforms will provide buyers with an insight into the deforestation risk associated with the products that they intend to purchase. It is hoped that this information will then be used to make informed decisions when choosing suppliers.

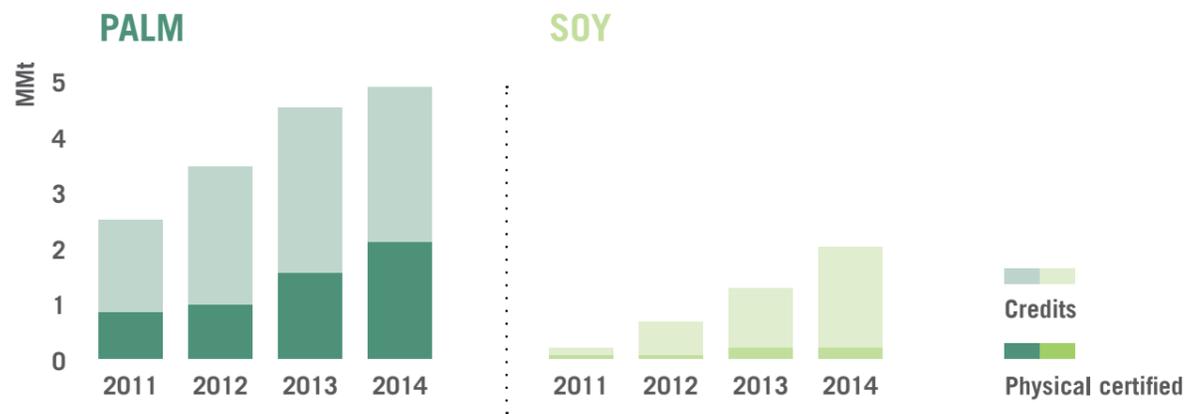
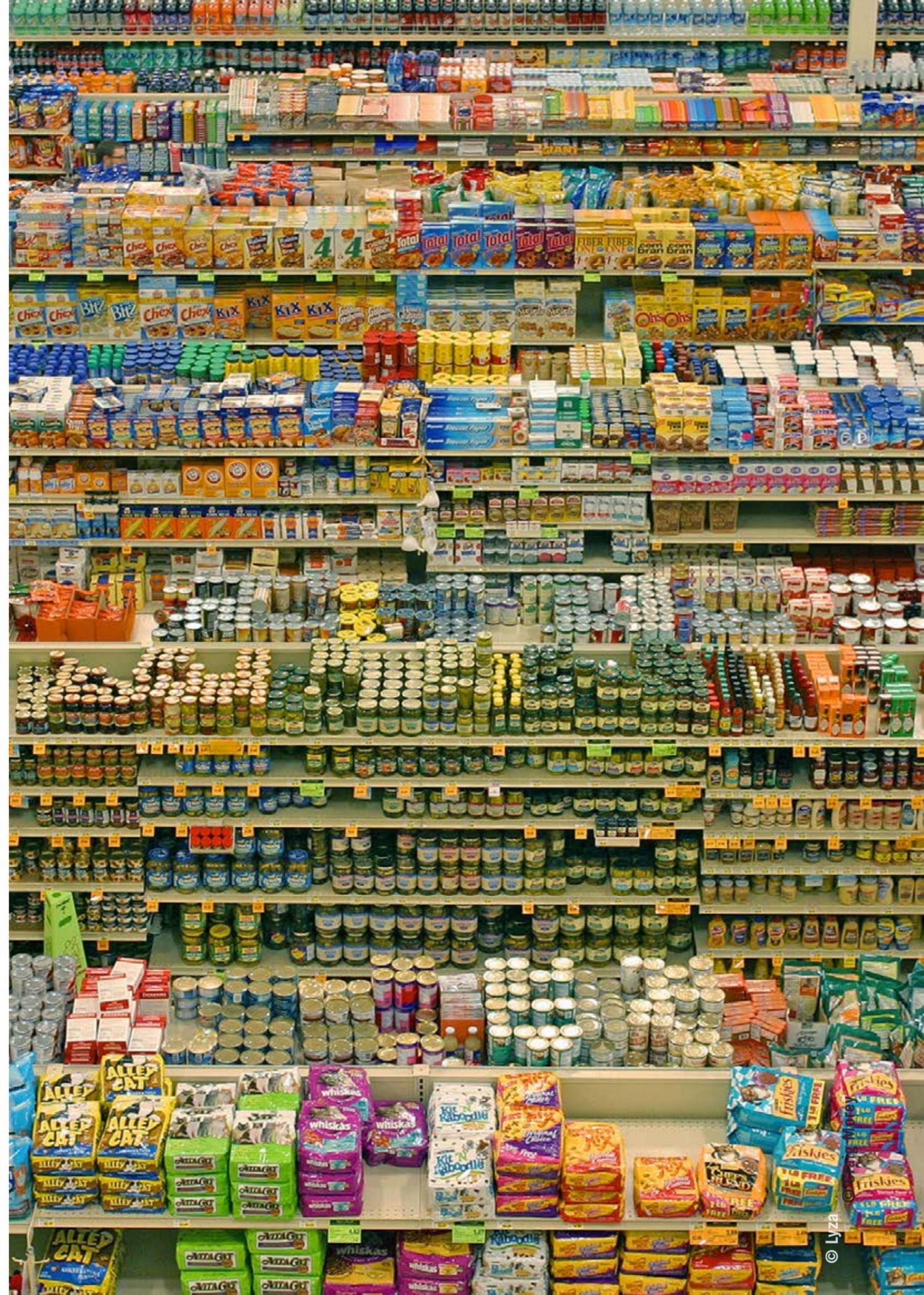


Fig. 4 Global production of certified palm and soy that is physically certified versus credits/certificates – adapted from Figure 9 Forest Trends report. versus credits/certificates – adapted from Figure 9 Forest Trends report.



2. BUILDING BLOCKS TO ACHIEVE ZERO DEFORESTATION

ACTION POINTS FOR COMPANIES

- 1. Understand impacts and dependencies on forests to inform a clear and integrated corporate vision for the preservation of tropical forests.**
- 2. Adopt forest policies that are aligned with their global CSR strategy and embed them across all operations.**
- 3. Externally communicate a measurable, achievable, and time-bound commitment to removing deforestation from their supply chains.**

WHAT ARE ZERO DEFORESTATION PLEDGES?

Recently, companies have made a number of high-profile cross-commodity zero and zero net deforestation pledges^{xiv,xv}. (Gross) zero deforestation pledges commit companies involved in the production or sale of goods derived from forest risk commodities (FRCs) to the removal of deforestation from their supply chains. By contrast, zero net deforestation allows for the replacement of deforested areas with trees that maintain overall forest “quantity, quality and carbon density”^{xvi} but the term has been criticised for a lack of clarity that could lead to perverse outcomes (Box 5).

The majority of overall zero deforestation pledges made to date have come from consumer-facing companies and producers. These pledges have acted as an important signal to the wider market, underlining the need for robust commodity-specific interventions and putting pressure on suppliers further upstream in their supply chains. It is essential that buyers build on this by working directly with their suppliers to promote best practice throughout their supply chain.

WHY ARE COMPANIES MAKING ZERO DEFORESTATION PLEDGES?

There is a growing understanding amongst companies that growth and profits can be protected and improved in

the long term only if sustainability is a core part of their business strategy. The removal of deforestation from supply chains offers companies the opportunity to:

- 1. Reduce reputational risks:** Public scrutiny surrounding deforestation is growing, increasing reputational risks particularly for consumer-facing sectors.
- 2. Reduce legislative risk:** By acting early, companies can ensure that they are protected against future changes in public policies and new regulations.
- 3. Reduce operational risk:** By securing supply of sustainable commodities, and understanding impacts and dependence on forests.

BOX 4. A QUESTION OF DEFINITIONS

Despite much discussion, there remains confusion over the definition of the term “forest”. A commonly used definition is that of 10 per cent tree cover. However, this one-size-fits-all approach does not take into consideration local context and how forests differ in their ecological structure across and between continents. One way of moving beyond this arbitrary definition, and classifying forests according to their value, is to define a forest using High Conservation Value and High Carbon Stock toolkits (See Section 2.3).

This problem of definition extends to other vital terms as discussed elsewhere in this report. The criteria used to define ‘degraded’ landscapes for instance remain ambiguous, with practical implications for the many companies committed to prioritising the use of degraded lands for the production of agricultural commodities without new deforestation.

SETTING A UNIFIED CORPORATE VISION

To set strong and effective policies related to deforestation, companies first need to understand their impacts and dependence on forests, and the range of risks that they are exposed to through FRCs. This should inform a wider corporate sustainability vision, and be reflected in policies that are embedded across all operations and decision-making. This is often a difficult task and companies need to close discrepancies between:

- 1. Headquarters and regional offices:** Policies and commitments are often developed at company headquarters, whereas, responsibility for implementation generally rests with regional offices.
- 2. Strategies:** Despite clear synergies, companies’ water, climate change, and forest strategies are often not aligned. The sustainable use of forests is essential to each of these areas and integrated approaches are therefore essential.
- 3. Policies:** There are often difficulties reconciling commodity-specific policies, such as the use of land-use planning tools to prioritise the protection of certain forest areas, with zero deforestation pledges as they have different short-term goals (i.e. land-use planning tools often allow the loss of some forested areas while, by definition, zero deforestation pledges do not).

A FRAMEWORK FOR IMPLEMENTING ZERO DEFORESTATION PLEDGES

Four key areas are explored in the sub-sections below, with actions recommended in each area to help companies make progress towards zero deforestation supply chains:

- 1. Traceability:** Achieving traceability is an important step towards achieving zero deforestation as it gives companies a better understanding of the deforestation risks in the supply chains in which they are involved.
- 2. Social inclusion:** Ensuring that the rights of indigenous peoples and forest communities are respected is key in achieving equity, meeting legal obligations and ensuring long-term success.

- 3. Maintaining environmental integrity:** It is essential that companies identify important forests at both the local and landscape scales to ensure the protection of key ecosystems and their services. It is particularly important that a landscape approach is taken when protecting critical and unique habitats, such as peatlands, as their loss will have disproportionately large implications for climate change and biodiversity.
- 4. Preventing leakage:** Efforts to remove deforestation from agricultural supply chains could merely shift the issue elsewhere. Measures to avoid displacement of forest loss are essential if deforestation is genuinely to be removed from agricultural supply chains.

BOX 5. CONTROVERSY SURROUNDING THE IMPLEMENTATION OF ZERO NET DEFORESTATION PLEDGES

Since the concept of zero net deforestation was introduced, it has been challenged by a number of criticisms, principally related to how it will be implemented. The most pertinent of these are:

1. Companies offset using forest that was not originally threatened by deforestation.
2. If the forest is threatened then it is too costly or difficult to protect.
3. Ensuring that replacement forests provide equal value to those that are lost is near impossible (See Section 3.3).

Given that these issues can have far-reaching impacts for the protection of key ecosystem services, it is essential that zero net deforestation pledges are implemented cautiously. Focusing on achieving zero, rather than zero net, deforestation offers a clear way of circumventing these issues.

2.1 TRACEABILITY

ACTION POINTS FOR COMPANIES:

1. Collaborate with suppliers to share information and develop common tools and approaches to traceability, improving robustness and reducing costs.
2. Where supply chains are opaque, retailers and manufacturers need to demand traceability from suppliers as a first step.
3. Processors and intermediaries should cooperate with buyers to open up supply chain transparency and share information about sources, performance and risks.

THE IMPORTANCE OF TRACEABILITY

In order to achieve zero deforestation pledges, companies must fully understand their exposure to forest risk commodities and their impacts on people and the environment.

By implementing traceability systems, companies develop a better understanding of their deforestation risk exposure and are able to prioritise the issues that need to be dealt with on the ground and the suppliers that they need to engage with to successfully implement their commitments.

Depending on the company size and sector, businesses undertake traceability programmes to improve their supply chain management in various ways. Large corporations with a strong understanding of their supply chains and leverage over their main suppliers have developed their own traceability programmes for certain commodities, particularly when those commodities are a critical resource for their products. Others often lean heavily on certification bodies to ensure the traceability and sustainability of their product.

CHALLENGES

Supply chain complexity: Forest risk commodities have complex supply chains. Multiple stakeholders with different systems, processes and requirements contribute to production across several countries, and some areas in a supply chain are opaque. This is a complex issue and sometimes very difficult for companies to deal with as traceability requires the engagement of all actors along

the entire supply chain to trace a product back to the source of raw materials.

Traceability is only a first step: Even though traceability is a prerequisite for change, it alone will not deliver sustainability. Once risks are assessed and priority areas identified, clear practical implementation steps must be put in place. This is often a challenge for SMEs that lack the support and resources to implement sustainable practices.

Costs for all supply chain stakeholders: Traceability requires up-front investment in processes and technology in order to track products along the supply chain. These costs are a key concern for many stakeholders, but collaboration and common approaches along the supply chain can lower costs for individual actors.

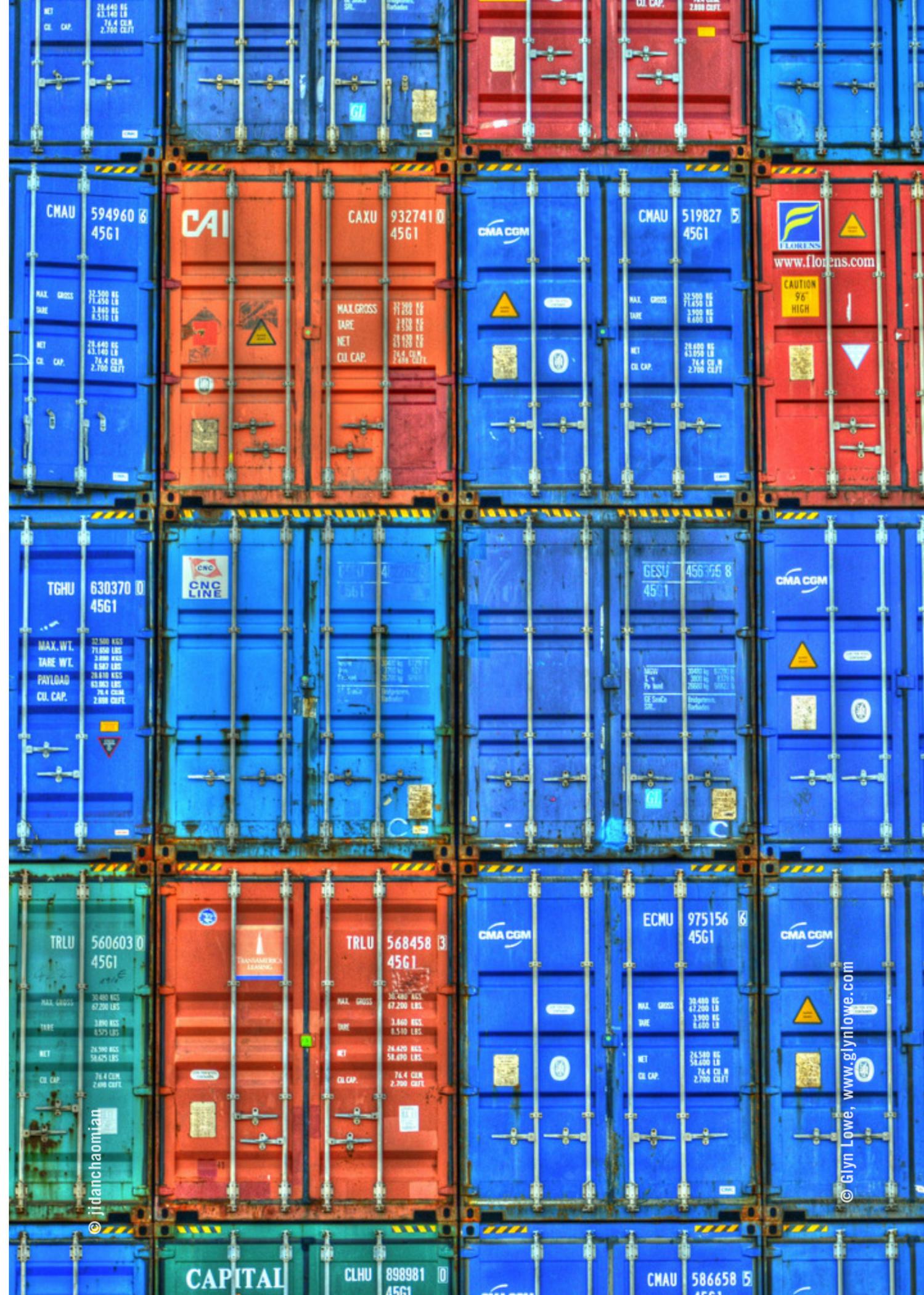
APPLYING LESSONS ACROSS COMMODITIES

Traceability systems developed for palm oil and timber could be used to support the cost-effective traceability of other forest risk commodities, such as soya, that have complex supply chains.

BOX 6. PROGRESS IN THE PALM OIL SECTOR

The recent shift in attitude of those involved in the palm oil sector towards deforestation-free production has been followed by commitments to trace raw materials back to source. Thanks to the hard work of corporates and civil society, a significant volume of the total amount of palm oil produced is now traceable back to the mill level.

However, despite this progress in traceability few companies have managed to trace the source of their raw materials beyond mill level, which is needed to ensure deforestation-free commodity production. This is largely because of complexities in palm oil supply chains caused by the mixing of oils upstream. Generally, these oils originate from multiple sources and individual smallholders each contribute a relatively small volume. For example, in Indonesia, smallholdings are thought to account for 45 per cent of the total area used for palm oil production.



2.2 ENSURING SOCIAL INCLUSION

ACTION POINTS FOR COMPANIES:

1. **Understand and respect the land rights of local communities and indigenous peoples: Companies should develop measurable business standards to facilitate the implementation of Free Prior Informed Consent (FPIC) in their land bank prior to the commencement of activities.**
2. **Create incentives for smallholders: Embed incentives for smallholders within zero deforestation policies, to balance food security, forest preservation and cash crop production.**
3. **Observe international human rights standards and the rights to FPIC, even when local and national laws are weak in this regard.**

THE IMPORTANCE OF SOCIAL INCLUSION

The unsustainable use of forest landscapes directly impacts on people's rights and livelihoods. Around 1.6 billion people are reliant on forests and forest products, 350 million people are highly dependent on forest resources for their livelihoods, and 60 million indigenous people are totally dependent on forests. However, the development of agricultural commodities is vital for the economies of producing countries as well as providing income and employment for many rural people. Safeguarding social values and community rights, and developing activities that promote social inclusion needs to be an integral part of companies' management plans to implement zero deforestation policies.

IMPACTS ON PEOPLE OF THE TRANSITION TO ZERO DEFORESTATION

Livelihoods of some smallholders depend on deforestation: The current or future livelihoods of some communities may be dependent on deforestation (in part because they may have been "pushed" further into forested areas), for example, logging and subsistence agriculture. Companies that are pursuing zero deforestation might exclude these smallholders from their supply chains. Smallholders with forested land should be given incentives to balance food security, forest

preservation and cash crop production. These incentives must be defined and embedded with zero deforestation policies.

Competition between plantations and subsistence farming: The pressure on cleared land for the development of plantations to meet zero net deforestation goals will increase competition with food crop production which may reduce the ability of communities to grow sufficient food crops.

CHALLENGES TO ACHIEVING EFFECTIVE FPIC

Inadequate processes for FPIC implementation: One way that risks can be addressed is through proper implementation of the FPIC process. However, very few companies have good enough processes in place to enable the full implementation of FPIC. The right to FPIC is often limited to the company informing the communities of the developments that will take place on their lands, rather than seeking their consent. Furthermore, many local communities are unaware of the potential social and environmental impacts of plantation development on their livelihoods and future access and use of the land.

Gaps between local and international law: The implementation of FPIC is even more complex when legal frameworks don't recognise the right of ownership that indigenous peoples have over their ancestral lands and do not provide restitution for lands that traditionally belong to those indigenous people. Inconsistencies within and between local and national laws, such as in relation to land tenure and land-use rights in some countries, might be used by some companies to selectively implement these laws in ways that disadvantage communities.

Landscape impacts beyond company landbanks: Company commitments largely focus on FPIC in their land bank. However, the impacts of commodity production permeate across the landscape. Corporate policies need to be holistic and consider actions and impacts on lands not owned by local communities but which may still affect their wellbeing. For example, even if one community is consulted regarding development on their land, the runoff of pollutants from these activities into upstream river courses can impact communities downstream.



2.3 MAINTAINING ENVIRONMENTAL INTEGRITY

ACTION POINTS FOR COMPANIES:

- 1. Work with other companies and civil society organisations to develop a unified framework for defining and aligning HCV/HCS approaches with zero deforestation commitments.**
- 2. Improve auditor capacity: Increase the capacity of HCV/HCS auditors to ensure higher quality, standardised assessments.**
- 3. Adopt a landscape approach: It is essential to engage other stakeholders across sectors to understand competing interests and balance tradeoffs.**

THE IMPORTANCE OF MAINTAINING ENVIRONMENTAL INTEGRITY

Maintaining environmental integrity involves the preservation of environmental and ecological processes at local and regional scales. In relation to forests, it requires important high conservation areas to be protected locally while maintaining the overall services provided by forests at a landscape scale. If either of these is neglected then forests will cease to perform their ecological function with far-reaching impacts for human health and the provision of ecosystem services.

Protecting HCV and HCS forests: High Conservation Value (HCV) and High Carbon Stock (HCS) approaches have been put forward as tools useful in defining important forests at a local scale (See Box 8). In theory, by prioritising the protection of forests according to a number of environmental and social criteria, these approaches minimise the likelihood that forest integrity is lost.

However, despite their widespread adoption, there are definitional and practical barriers hindering their effective use.

Protecting critical and unique ecosystems:

The loss of certain critical ecosystems may also have a disproportionate negative global impact. For example, peatlands are a unique habitat responsible for the storage of large quantities of carbon and maintenance of biodiversity. Alone, Indonesian peatlands are responsible for the storage of 35,000 megatonnes of soil carbon, and are essential for the conservation of a large number of charismatic species such as the Orangutan and Sumatran Tiger. Yet, because these habitats are sparsely populated, they are logged and drained for the production of palm oil. Even though downstream companies in supply chains have commitments not to develop on peatlands, some suppliers further upstream are continuing to deforest areas of these critical ecosystems.

Preventing burning: The burning of forests is a widely used method of clearing space for the development of new crops as well as for re-planting. This burning is damaging to the global environment as it adds carbon dioxide directly into the atmosphere while recent evidence has highlighted the role of degraded forest burning in generating haze over Singapore and Malaysia (See Box 7). Haze has important implications for regional air quality and public health. Many palm oil producers have no-burn policies in place, but without a clear system of traceability and chain of custody, implementation cannot be verified. Coupled with an increase in the frequency of dry periods, haze, caused by forest and peat burning, will become an even bigger issue over the next decade.

CHALLENGES

No clear framework for integrating HCV and HCS approaches:

- 1. Overlap between HCV and HCS:** There is considerable overlap between the concepts of HCV and HCS. HCS explicitly incorporates the findings of an HCV assessment. However, as yet there is no formal practical method for combining HCV and HCS approaches.
- 2. Differences between Golden Agri-Resources/Greenpeace/The Forest Trust (GAR/GP/TFT) and Sustainable Palm Oil Manifesto (SPOM) approaches:** The GAR/GP/TFT approach focuses on the above-ground carbon stock to define HCS forests. The SPOM approach does not use carbon stocks to define forests, and instead focuses on producing scenario estimates for GHG emissions useful for land-use planning.
- 3. Poor monitoring and auditing:** Currently, there is very little standardisation of HCV/HCS implementation practices across companies, countries, and within concessions. This is compounded by differences in the quality of monitoring and auditing.

Incentives for smallholders are unclear: Though smallholders make up a significant proportion of the upstream supply chain, there is currently no clear economic incentive for them to maintain high value forests and peatlands.

Tools focus at a concession level: Practical tools, including HCV/HCS assessments, are focused at the scale of concessions. Therefore, they inherently do not consider wider landscape implications of agricultural commodity production.

BOX 7. PALM OIL PRODUCTION AND HAZE

To deal with haze associated with burning forests in Indonesia, Singapore has passed a resolution that allows its government to fine local and foreign companies up to US\$1.6 million if they are found to be engaging in activities that contribute to the creation of haze over Singapore above a specified level. Similarly, if companies are found to be managing operations leading to the haze-causing fires then they are equally liable.

Yet, this penalty alone is unlikely to be successful in changing attitudes and contributing to the implementation of no-burn policies. There must also be better education of smallholders, and stronger, practically implementable national legislation in Indonesia.

SOLUTIONS

A unified land-use decision-making tool: HCS and HCV approaches need urgent reconciliation. Without a unified framework, monitoring and auditing costs will remain too high for numerous SMEs and smallholders.

Implement solutions at a landscape scale:

Deforestation from mining, logging, agricultural commodity production and subsistence farming threatens critical ecosystems. With these various stakeholders involved, developing a cross-sector approach is essential to moving forward. Landscape level approaches seek to link site level (i.e. concession/farm) to the broader landscape scale. Solutions at a landscape level offer an opportunity to consider the impacts of actions beyond the immediate locality. In particular, more needs to be done to integrate local level issues (i.e. social inclusion, peatland loss, HCV/HCS, lack of smallholder uptake) with decisions at a sub-regional scale (i.e. sub-state level).

BOX 8. DEFINING HCV AND HCS FORESTS

High Conservation Value (HCV)

The HCV approach was first developed by the Forest Stewardship Council (FSC) to protect six High Conservation Values of forests, including biodiversity concentration and ecosystem service provision. The HCV approach has now been incorporated into several certification schemes including the FSC, RSPO, and RTRS.

High Carbon Stock (HCS)

The more recent HCS approach provides a methodology to identify areas of land suitable for plantation development and forest areas that should be protected in the long term. Two HCS methodologies have been developed:

- 1. Approach 1 (GAR/GP/TFT HCS):** The first approach was originally developed by Greenpeace (GP), The Forest Trust (TFT) and Golden Agri-Resources (GAR). It offers a practical and cost effective methodology for the development of palm oil plantations while protecting natural forests, areas of HCV, and community lands.
- 2. Approach 2 (SPOM HCS):** The second approach, undertaken by signatories to the Sustainable Palm Oil Manifesto, is a scientific study that seeks:
 1. define HCS forests using potential GHG emissions.
 2. to understand socio-economic implications of different GHG emissions.
 3. to provide guidance on how the welfare and rights of local communities and indigenous peoples can be practically incorporated into the HCS approach.



2.4 PREVENTING LEAKAGE

ACTION POINTS FOR COMPANIES:

1. **Develop and strengthen current moratoria: If strengthened, moratoria have an important role to play in preventing leakage across ecosystems.**
2. **Support public-private partnerships that strengthen international and national forest governance.**

THE IMPORTANCE OF PREVENTING LEAKAGE

The implementation of zero deforestation pledges should increasingly mean agricultural production without deforestation. However, an underappreciated side effect of these commitments is the displacement (or “leakage”) of deforestation between commodities, ecosystems, and jurisdictions. Leakage is generally unpredictable but the direction of displacement tends towards countries with weak levels of national governance. Moratoria have been suggested as one way in which leakage within ecoregions and across commodities can be prevented. In theory, by removing the risk of deforestation from entire sub-national or national jurisdictions, moratoria negate the need to physically trace products back to source in order to ascertain whether they are deforestation-free. Furthermore, as the area over which these are enforced is typically large, they can overcome the current lack of appetite for ‘premium cost’ agricultural commodities. However, by definition moratoria are temporary measures and should be a stepping stone towards permanent legislative change.

CHALLENGES

Lack of coverage across ecosystems and forest types: The Brazilian soy moratorium does not protect

the forested Cerrado, which has continued to experience annual rates of soy expansion of some 11-23 per cent between 2007-2013^{xvii}. Furthermore, the Indonesian forest moratorium only provides protection for primary forests and peatlands, and exemptions for existing concessions means that 3.5 Mha of these habitats are unprotected^{xviii}.

Leakage between crops: While the Brazilian moratoria protects against all deforestation on properties, others do not prevent the production of other commodities. For example, the production of rice and sugarcane is exempted from the Indonesian forest moratorium.

Transnational leakage: Though there is some evidence to suggest that the Amazonian moratoria led to transnational leakage into eastern Paraguay and Bolivia^{xix}, recent studies have shown that the increasing international demand for soy was largely met by increasing agricultural efficiency and expansion into degraded pastures^{xx}.

SOLUTIONS

Creating international and international production standards: By reducing the benefit of relocating abroad, the development of international production standards offers an opportunity to minimise leakage between jurisdictions.

Ensure moratoria have corporate buy-in: Supply chain actors have driven forward the development of the Brazilian moratoria. The Indonesian forest moratorium has been less effective as it lacks strong corporate buy-in.

Expand existing moratoria: Moratoria have generally been seen as a major success in removing deforestation from agricultural supply chains, particularly in Brazil. However, these need to be strengthened to include more ecosystems and cover more commodities.

BOX 9. THE SUCCESS OF THE BRAZILIAN FOREST MORATORIA

The Amazonian Soy Moratorium has been effective in ensuring that, despite an increase in total output, Amazonian soy production has not contributed significantly to the loss of native Amazonian forest since 2006. Compliance has been monitored using a combination of satellite and airborne imagery, with non-compliant suppliers being blacklisted from selling their produce. This moratorium has largely been successful as it was initiated through a voluntary agreement made by soy traders that had a large share of the overall market.

Similarly, though the cattle moratorium was born out of pressure from Greenpeace and threats of litigation for retailers who sourced products from slaughterhouses connected to illegal deforestation, it has still had an impact in reducing deforestation. Buy-in by the three biggest meatpackers in Brazil (JBS, Marfrig, and Minerva) has meant that a clear market signal has been sent to ranchers – “deforestation means reduced market access”.

3. TOOLS AND OPPORTUNITIES FOR THE SUCCESSFUL IMPLEMENTATION OF ZERO DEFORESTATION PLEDGES

3.1 STRENGTHENING CERTIFICATION SCHEMES AND COMMODITY ROUNDTABLES

ACTION POINTS FOR COMPANIES:

1. Collaborate with certification bodies to consolidate reporting and auditing framework, reducing inefficiencies, cost and the need for multiple audits.
2. Provide incentives and technical support to enable smallholder certification.

COMMODITY ROUNDTABLES

Certification schemes and roundtables are the most commonly used method of ensuring agricultural commodities are sustainably sourced. However, whilst they have been particularly effective in focusing attention in the timber (e.g. Forest Stewardship Code) and palm oil supply chains (Fig. 5), they only cover a small proportion of global production. Key barriers include weak demand in buying markets, overreliance on credits to meet deforestation commitments, high transaction costs for smallholders, and multiplicity of schemes.

CHALLENGES

Varying criteria: A key problem with current certification schemes is that they each have different priorities and therefore different criteria. Some are judged to have stronger criteria than others, and some commodities, such as timber, have more developed

schemes (i.e. Forest Stewardship Council). Due to differences and limitations of current certification schemes, buyers vary in their certification requests. This means that suppliers and SMEs face multiple reporting and auditing which is costly and inefficient.

Smallholder inclusion: These issues are particularly acute for smallholders who often do not have the capacity or money required to achieve certification. Some certification schemes have developed mechanisms that support individuals or groups to attain certification. For example, the RSPO has developed specific guidelines for smallholders that allow them to be assessed as a group. However, not all certification schemes have well-developed processes that include smallholders, and it is unclear how guidelines apply to group members that have HCVs or other irreplaceable forests within their landbanks. Given that certification often provides little direct benefit for smallholders, care needs to be taken that a focus on these instruments does not shift attention from interventions that offer clearer value for smallholders and local communities (e.g. credit and technical assistance)^{xxi}.

Limitations to the roundtable approach: The roundtable approach has been instrumental in bringing together multiple stakeholders, each with different views. However, the downside to this approach is that it may lead to weakened guidelines as some stakeholders may oppose rigorous criteria. Furthermore, due to the number of stakeholders involved, decision-making processes are often slow. This has meant that some companies are driving forward other initiatives that strengthen responses to social issues as well as HCS approaches.

STREAMLINING APPROACHES

There has been a recent move to streamline certification schemes to ensure strong, clear messages are passed to supply chain actors. For example, “RSPO+”, a voluntary scheme, incorporates the key criteria of both the RSPO and the Palm Oil Innovation Group. Other groups, such as the Leather Working Group that initially focused on the tanning industry, have changed their criteria to include environmental auditing protocols for upstream actors.

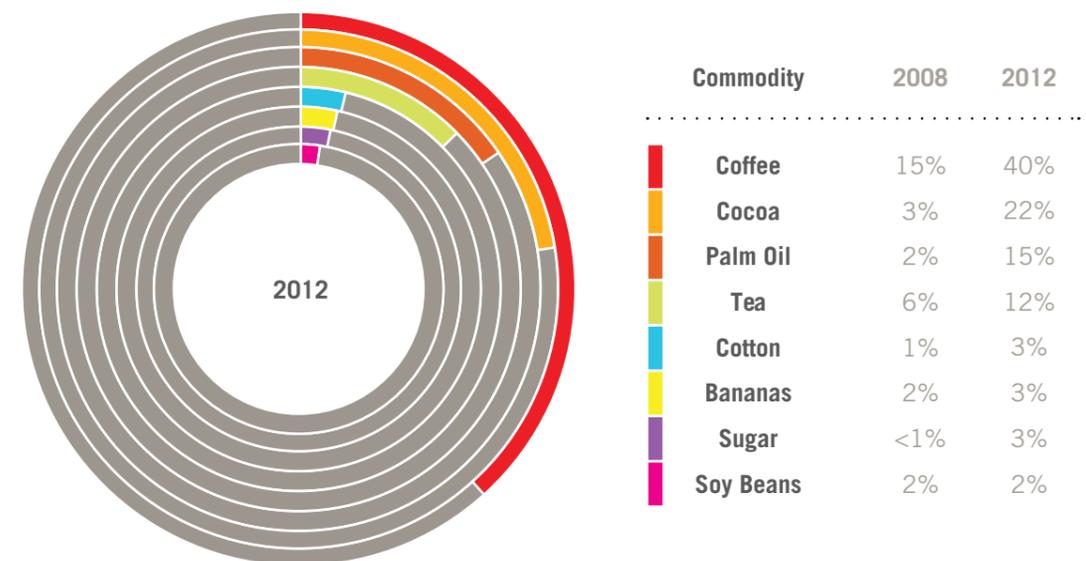


Fig. 5 Sustainable markets: Compliant production as a percentage of global production – adapted from Figure 4.2 IISD report. Figure shows the percentage of markets that were certified in 2008 and 2012.

3.2 USING MONITORING AND TRANSPARENCY TOOLS TO ACHIEVE ZERO DEFORESTATION

ACTION POINTS FOR COMPANIES:

1. **Support the development of forest risk models that analyse supply chain linkage to deforestation enabling better procurement choices.**
2. **Develop or use standardised metrics to report progress towards commitments.**
3. **Support the development of a globally integrated transparency and accountability platform across all FRCs.**

MONITORING TOOLS

Satellite monitoring: Satellite monitoring provides a relatively cheap means of tracking deforestation. Tools such as The World Resources Institute's Global Forest Watch platform provide an important insight into forest cover change. When combined with the location of commodity concessions, forest fire data, and protected areas, such tools offer a deeper insight into the impacts of agricultural supply chains across broad extents.

Interpretation is vital: However, it is essential that this wealth of information be interpreted appropriately, taking account of local and regional contexts. For example, differences in ecological structure of forests between continents mean that a given decrease in tree cover may not have the same impact on the ecosystem and the services that it provides.

Developing forest risk models: A useful avenue yet to be fully pursued is the integration of supply chain information (i.e. international trade data) with recent forest cover information to generate sub-regional deforestation risk estimates. It is hoped that by using these tools, buyers will include the risk of being associated with deforestation into their business models. This would also aid deforestation-free procurement by governments.

TRANSPARENCY TOOLS

Reporting on progress towards commitments is key to the removal of deforestation from global supply chains. However, at present, there is no standard way in which companies report their progress, and some are wary of publicly reporting on progress to avoid criticism from NGOs, buyers, and the public. However, it is clear by the actions of market leaders that we are in the "decade of disclosure". The recently released Wilmar Transparency Dashboard provides an insight into the complexities of palm oil supply chains and brings clarity to the progress and steps that they are taking to overcome key challenges. More broadly, the Forest 500 offers the most comprehensive independent assessment of progress on policy commitments across governments, companies and investors in the deforestation economy (Page 8).

BOX 10. CARBON DISCLOSURE PROJECT'S FORESTS PROGRAM

Acting on behalf of 298 signatory investors with US\$19 trillion in assets, CDP's Forests Program sends out information requests to gain a better understanding of how companies are addressing their exposure to deforestation risk. The information request focuses on key FRCs and questions whether companies, through their own activities or those of their suppliers, are exposed to reputational, legislative, or operational risks associated with deforestation. This disclosure program provides participating companies with a score to benchmark against others in their sector, allowing them to understand their performance and progress. Importantly, this disclosure process is focusing company attention on reviewing internal risk management processes while enabling investors to take a proactive role in the shift towards sustainable agricultural supply chains. The initiative started in 2008 as GCP's Forest Footprint Disclosure Project, and merged into CDP in 2014 to create the world's first unified disclosure programme on carbon, water and forests.



3.3 USING FOREST LANDSCAPE APPROACHES TO MEET ZERO NET DEFORESTATION PLEDGES

ACTION POINTS FOR COMPANIES:

1. **Promote and prioritise integrated planning of development on degraded lands.**
2. **Form public–private partnerships with governments, companies and financial institutions to achieve financing at the required scale to unlock degraded lands.**
3. **Engage forest-owning governments on collaborative approaches to zero deforestation commitments that benefit smallholders.**

Degraded forest landscapes should not be overlooked by companies seeking to remove deforestation from their agricultural supply chains or undertake reforestation to meet zero net deforestation pledges. Whilst estimates vary hugely, the Global Environmental Facility estimates that up to 40% of agricultural land is seriously degraded. Ambitious commitments by governments, companies, and community groups to restore millions of hectares, including the 2011 Bonn Challenge (150 million hectares by 2020) and the 2014 New York Declaration on Forests that calls for the restoration of an additional 200 million hectares by 2030 provide momentum and an opportunity for companies to engage with governments to achieve restoration at scale.

OPPORTUNITIES

Increasing agricultural productivity: One way to meet zero deforestation goals while protecting forests is to increase commodity yield or farming intensity^{xxii}. By being more efficient with the use of land, agricultural commodities can still be grown while reducing the risk of deforestation.

Agroforestry: Agroforestry approaches where multiple crops are grown side-by-side offer another option to reduce deforestation, increase carbon stocks, and meet the livelihood demands of local communities. Recent experiments have suggested that this framework can be used for the production of FRC crops such as palm oil^{xxiii}.

Promote connectivity between remaining forests: Restored landscapes can play an important role in aiding the movement of animals that are essential for promoting landscape resilience and reducing the impact of climate change. However, this opportunity will only be realised if there is a robust planning system, otherwise it will allow further forest fragmentation.

Benefits of landscape restoration may extend past the local landscape: Aside from improving connectivity and the functioning of ecosystems at a local scale, landscape restoration, through the regulation of water flow and nutrient cycling, can offer disproportionate benefits to companies and communities seeking to improve water stewardship.

CHALLENGES

Unlocking finance at the required scale: While major commitments to restore degraded landscapes have been made, limited progress has been made on securing the required finance. Given that the goal of forest landscape restoration sits so closely with zero net deforestation pledges, company finance could be a key catalyst.

Ensuring equity when using restoration as a deforestation offset: If forest landscape restoration is to be used to meet zero net deforestation pledges, it is essential that the new planting is at least equal to the forest that is removed. Depending on the forest removed, this might include the assisted recovery of secondary forests or the planting of new trees in open habitats. It is essential to consider the lag time for carbon to be sequestered and for diversity to return to restored forests.

Competition with bioenergy production: The demand for land to expand the production of biofuel feedstocks has grown significantly over the last decade. If plantations are developed for bioenergy rather than for agriculture or forest restoration, companies will be unable to take advantage of these degraded lands to meet their sustainability commitments.

Intensification does not always reduce deforestation: It remains uncertain whether agricultural intensification prevents additional deforestation, as farmers may still decide to expand their operations in order to maximize profit.



4. ENABLING CONDITIONS

4.1 THE ROLE OF FOREST-OWNING GOVERNMENTS

ACTION POINTS FOR FOREST-OWNING GOVERNMENTS:

1. **Create economic and policy incentives, and improve legal frameworks for the sustainable production of FRCs.**
2. **Support and implement bilateral agreements with consumer markets to receive their financial and technical support.**

Just 25 national governments manage 87 per cent of the world's remaining tropical forests. Their adoption of public policies towards zero deforestation varies considerably with some, such as Colombia, Peru and Brazil scoring the highest under the Forest 500 ranking and others such as Thailand, Myanmar and Madagascar scoring poorly.

The sustainable use, conservation and restoration of forests needs to be central to national development plans. Current climate negotiations and the upcoming Sustainable Development Goals can be used as a catalyst to set clear, measurable and time-bound targets for forest use. It is essential that these targets make clear the baseline to which future change is compared and the means by which they will be achieved^{xxiv}.

The effective implementation of these policies alongside incentives for sustainable production can support both producers and companies sourcing forest risk commodities from these countries to achieve their own zero deforestation commitments.

CREATING ECONOMIC AND POLICY INCENTIVES FOR SUSTAINABLE PRODUCTION OF FOREST RISK COMMODITIES

1. **Economic incentives:** New and reformed incentives to support the business-case for sustainable production including introducing tax incentives; reforming agricultural subsidies e.g. the budget of Brazil's low-carbon agriculture ABC programme is significantly lower (3.15 billion Reals in 2011-2012) than for traditional agriculture (107.2 billion Reals in 2011-

2012); linking domestic credit lines to compliance with policies and best-practices e.g. agro-ecological zoning; and investing in payment for ecosystem services^{xxv}.

2. **Resolve land ownership and tenure issues:** This would enable smallholder farmers willing to adopt sustainable practices to access relevant credit lines, such as the ABC low carbon agriculture programme in Brazil. This can also support implementation/development of land use zoning strategies for the sustainable production of forest-risk commodities such as Brazil's National Agro-Ecological Zoning of Sugarcane^{xxvi}.
3. **Restoring deforested landscapes for agricultural production:** Restoring millions of hectares of previously deforested tropical lands for agricultural production offers a means to deliver the scale of increasing demand for food, pulp and paper without increased clearance of primary forest. Large scale financing and technical capacity building remain key challenges.

IMPROVING REGULATORY FRAMEWORKS FOR FOREST RISK COMMODITIES

1. **Effective enforcement:** The effectiveness of legislative and regulatory efforts to support the production of sustainable FRC, such as Indonesia's Sustainable Palm Oil (ISPO) certification programme for national production sustainability standards, is dependent of monitoring and enforcement of compliance.
2. **Bilateral agreements with consumer markets:** The EU FLEGT plan is central to efforts to remove illegally sourced timber from the EU market. Under this plan, bilateral Voluntary Partnership Agreements (VPAs) are negotiated between the EU and timber-producing countries. Under these VPAs, timber-producing countries establish a legality assurance system to ensure timber licensed for export is legally produced. Whilst 15 countries have signed or are negotiating VPAs, so far no FLEGT licensed timber has been exported. There is a lot of interest in extending this model to the sourcing of other forest risk commodities^{xxvii}.

4.2 THE ROLE OF DONOR GOVERNMENTS

ACTION POINTS FOR DONOR GOVERNMENTS:

1. **Introduce public procurement policies that prioritise the sourcing of sustainable products.**
2. **Invest in public policy reforms that create the enabling conditions for the transition to a zero deforestation economy.**
3. **Develop public-private partnerships to create innovative funding mechanisms and drive private capital into sustainable production.**

Governments have donated around US\$7.6 billion since 2006 towards efforts to reduce deforestation, primarily under REDD+. In 2013, the total donated was just under US\$1 billion. This can be contrasted with the c. US\$135 billion annual export value of the forest risk commodities that drive deforestation. Given this unequal situation, what can donor governments do to help facilitate the implementation of zero deforestation pledges?

SETTING CLEAR POLICY SIGNALS TO CREATE DEMAND FOR SUSTAINABLE FRCs IN BUYER MARKETS

1. **Public procurement:** Donor governments can introduce public procurement policies that ensure public purchasers only source products derived from legal or sustainable forest risk commodities, for example through buying criteria or certification requirements.
2. **Policies and measures:** Introducing policies, which exclude illegal or unsustainable forest risk commodities, from buying markets e.g. FLEGT which aims to exclude illegal timber from EU markets^{xxviii}.
3. **Legislation:** Regulate the trade of forest risk commodities through legislation, such as the Lacey Act in the US that bans the import, sale or trade of wood and wood products that are illegally harvested in the country of origin.

UNLOCKING FINANCE

1. **Invest in public policy reform:** Government donations (to forest governments and through public-private partnerships) can help finance key building blocks towards zero deforestation, such as monitoring and enforcement, and land titling. Capitalisation of the Amazon Fund by donor governments, including Norway and Germany has helped finance the Rural

Environmental Registry (CAR) which can be used to identify land cover change in private properties supporting transparent supply chains.

2. **Create public-private investment partnerships:** Donor governments can use their influence to create broad partnerships with the private investment and business communities. In particular, coalitions of governments, producers, buyers, development finance institutions, climate funds, commercial banks and potentially capital market investors will be crucial in developing joined-up funding mechanisms, and ultimately unlocking large-scale investment in sustainable production.
3. **Invest in public-private investment partnerships:** Going one step further, donor governments could invest directly in the funding mechanisms developed within these or other public-private coalitions. For example, bilateral performance-based REDD+ payments could be used to lower the cost of raising private capital for sustainable landscape programmes/green growth in a sub-national region (see GCP's Unlocking Forest Finance Programme online), or multilateral climate finance could be invested directly into these same programmes in combination with private capital. Alternatively, donor governments could use their influence within mechanisms such as the Green Climate Fund to deploy innovative risk-mitigation mechanisms, for example underwriting the credit risk of large-scale bond issuances.

BOX 11. INCREASING SOYABEAN FARMER COMPLIANCE WITH BRAZILIAN FOREST CONSERVATION LAWS:

This US \$24 million project was initially funded by the UK Embassy and brought together Cargill, The Nature Conservancy, and local farmer unions to increase soya bean farmer compliance with Brazilian forest conservation laws. The project, helped to develop the Rural Environmental Registry (CAR) used to track compliance with forest laws in Brazil. In total, the project has engaged over 17,000 farmers across 13 municipalities and has been successful in significantly reducing deforestation on partner farms.

4.3 THE ROLE OF FINANCIAL INSTITUTIONS

ACTION POINTS FOR FINANCIAL INSTITUTIONS:

1. **Develop forest risk commodity policies and ensure that they are applied to their investment portfolio.**
2. **Actively engage with companies that they invest in to ensure they are developing and implementing sustainable procurement policies for FRCs.**

It is well recognised that the financial sector as a whole lags behind their corporate peers when it comes to addressing deforestation risk across its products and services, yet they are in a unique position to contribute to a rapid transition to a deforestation-free economy.

Recently, the Forest 500 found that of the 150 leading financial companies assessed, none had made commitments to overall zero or zero net deforestation for forest risk commodities. Furthermore, a recent UNEP-FI and Natural Capital Declaration report concluded that there was wide variation in how banks and investors were positioned to tackle forest-related risks linked to soya, palm oil and beef and that very few actively and systematically quantified and managed this exposure^{xxix}.

ENGAGING ON DEFORESTATION RISKS

1. **Growing momentum:** Despite this somewhat pessimistic picture, there is emerging ambition across the sector. A range of different initiatives designed to tackle the issue include:
 - The PRI's Sustainable Palm Oil Investor Working Group which aims to decouple palm oil production from deforestation.
 - The Banking Environment Initiative's (BEI) Soft Commodities Compact which aims to transform how banks finance forest risk commodity supply chains to help companies (and the CGF) achieve zero net deforestation by 2020.

- The Natural Capital Declaration that has just launched a 'Soft Commodities Deforestation Risk Assessment' tool to provide a framework through which financial institutions can assess and manage exposure to the deforestation and degradation risk inherent in the supply chains for soft commodities.

2. **Apply lessons from palm oil:** The limited actions taken by financial institutions have so far focused on the palm oil supply chain. For example, the majority of shareholder resolutions, relevant to agricultural supply chains, reported on the Ceres platform^{xxx} have centred on development and implementation of palm oil policies.

TAKING A STRONGER LEAD

1. **Develop and scale principles of best practice:** Significantly scale up multi stakeholder platforms such as the NCD, BEI and PRI to benchmark, build capacity and communicate best practice across all FRC supply chains. Ensure emerging markets are a key focus.
2. **Develop forest risk commodity policies:** Create, adopt and publicly disclose a formal policy that addresses the environmental and social impacts associated with specific forest risk commodities and embed these as part of a systematic due diligence and risk assessment process.
3. **Better disclosure and reporting:** Improve practices around the implementation and monitoring efforts linked to all soft commodity policies. Utilise initiatives like CDP's Forests Program that has been working with investors to provide them with decision-relevant data.
4. **Expand active ownership:** Widen the scope of active ownership beyond palm oil to encompass all FRC supply chains. Work with NGOs to develop clear time-bound pathways to ensure companies transition to more sustainable practices.

4.4 THE ROLE OF NGOS

ACTION POINTS FOR NGOS:

1. **Push forward whole sectors by engaging with market laggards to help apply pressure on those who are not progressing.**
2. **Define collective ambitions to better coordinate resources and reduce overlap in efforts.**

Non-governmental organisations (NGOs) play a diverse set of roles in helping companies develop and implement zero deforestation and commodity-specific commitments. These roles range from stimulating companies to make commitments through campaigns and working groups, to monitoring progress towards these goals, and providing solutions to ensure commitments are successfully implemented.

CATALYSING PROGRESS

1. **Initiate campaigns:** The most high-profile role played by NGOs is that of a campaigner. Campaigns by NGOs such as Greenpeace have been key in driving change across sectors. For example, the Greenpeace "Slaughtering the Amazon" campaign was instrumental in the development of the 2006 Amazonian cattle moratorium, which itself has been essential in reducing the amount of deforestation associated with cattle production in Brazil.
2. **Drive collaboration:** NGOs are also important in driving forward working groups, certification schemes, and other public-private partnerships. For example, they are key members of the Tropical Forest Alliance, responsible for bringing together public and private sector actors to reduce deforestation.
3. **Monitor commitments and progress:** Zero deforestation and commodity-specific commitments are growing. NGOs have an important role to play in monitoring and highlighting progress across sectors. At present, three platforms monitor and report company commitments related to the removal of deforestation across multiple commodities; the Forest 500, CDP's Forests Program, and Supply Change. Others are monitoring and reporting on progress. For example, The Zoological Society of London's (ZSL) SPOTT tool combines in-depth sustainability assessments of palm oil companies with satellite mapping.

4. **Advice and solutions:** One of the key roles that NGOs play is helping companies achieve their commitments through providing implementation advice and solutions. For example, The Forest Trust (TFT) works with a number of high-profile supply chain actors. Similarly, the Rainforest Alliance, through its SmartSource programme, offers companies comprehensive supply chain risk assessments for wood products.

INCREASING EFFECTIVENESS

1. **Reduce overlap and define collective ambition:** There is an ever-growing number of NGOs focused on deforestation issues. Care needs to be taken to ensure that research and reports are not replicated. To ensure this, efforts need to be better coordinated. Key to achieving this are organisations such as the CGF and TFA who, through their links with key powerbrokers, can help to align and prioritise sustainability initiatives.
2. **Help market laggards:** Coupled with the desire of some companies who see the competitive value in sustainable supply chains, the actions of NGOs have been effective in creating a number of market leaders. However, there are a number of market laggards who, for different reasons, do not have well-developed sustainable sourcing policies. If NGOs are to bring about real change in agricultural supply chains then they need to work more closely with companies that are not engaged on the issue. This is inherently difficult, not least because these companies have allocated little money to fund the implementation of policies that they do have in place. Partnerships between corporate leaders and NGOs that focus on driving sector-wide change will be key in bringing these laggards to the table.
3. **Target the finance sector:** In the same way that corporate market leaders are driving change through their supplier decisions, financial institutions need to integrate deforestation-specific ESG criteria into their investment decisions and portfolio management. NGOs have a key role to play here by providing data and sector-specific knowledge to those responsible for making investment decisions.

5. CHANGING THE RULES OF THE GAME - THE BIG OPPORTUNITY FOR THE NEXT DECADE

Much of this report has dealt with the key barriers that companies must overcome to realise their zero deforestation commitments and ambitions for sustainable FRC supply chains. The big opportunity now is to match these commitments with enabling conditions that create a market which favours accelerated implementation of sustainable production and sourcing policies.

Corporate commitments to exclude deforestation from supply chains would broaden and deepen if they were encouraged by global market demand for the sustainable commodities that will result. Small to medium producers would then have a financial incentive to invest in the production improvements required. Market premiums sufficient to pay for the transition costs incurred by smallholder farmers do not yet exist.

Government aid can be deployed to pick up some of these up-front costs, in partnership with IFI and private sector finance. In addition, the private sector itself would make the improvements, if market 'pull' for sustainability was greater than it is. This will not occur unless the business case for sustainability is supported by solid economic demand in all major markets.

Together, the following tools could be used to shift the balance towards the production of legal and sustainable FRCs.

The key is to build the business case in favour of sustainable production:

- 1. Tariffs and Trade:** Import tariffs that differentiate between sustainable and unsustainable commodities have the advantage of changing incentives rapidly. This need not attract a World Trade Organisation (WTO) challenge, particularly if bi- and multi-lateral agreements between countries are made e.g. FLEGT VPAs for timber^{xxxii}.
- 2. Public Procurement:** Governments have a big role to play in creating demand by meeting often-existing policy commitments, to purchase sustainably produced goods. The EU has a Green Procurement Policy of 50 per cent, a target rarely met^{xxxiii}. FRCs should be a priority.
- 3. Taxes:** Taxes on 'bads', not 'goods', can shift incentives from business-as-usual production of FRCs that causes deforestation, to favour production that is sustainable. Indonesia proposes a US\$50 tax on exported Crude Palm Oil (CPO), and plans to hypothecate some of the money raised into support for smallholder farmers.
- 4. Subsidies:** Some of the global US\$450 billion in annual agricultural subsidies including US\$550 billion in annual fossil fuel subsidies could be shifted away from business-as-usual towards sustainable FRCs and biofuels. This requires significant political will in many cases. Payments for ecosystem services, such as water from forests, could be funded by this means as well as reductions in the cost of credit.
- 5. Cost of credit:** Differentiating bank interest and charges to favour sustainable production over business-as-usual is being considered by a number of banks, notably those in the Banking Environment Initiative. Banks need to be incentivised to sell green credit products.
- 6. Regulation:** Indonesia's ISPO initiative is a legality standard to which all producers must increasingly adhere. Singapore has ratified a law enabling the prosecution of companies linked to causing 'haze' from Indonesia in the city-state. Brazil withdrew access to bank accounts and credit among farmers identified by satellite as causing illegal deforestation. The EU's FLEGT regulation could, in time, be expanded to cover all FRCs, not just timber.



6. GLOSSARY

BEI	Banking Environment Initiative	PRI	Principles for Responsible Investment
Brazil's ABC Programme	Funding programme launched by the Brazilian government in 2010 aimed at mitigating carbon dioxide emissions from agriculture.	REDD+	Reducing Emissions from Deforestation and Forest Degradation (REDD) coupled with the conservation and management of forests and the enhancement of forest carbon stocks.
Ceres	Ceres is a non-profit organisation advocating for sustainability leadership.	RSPO	Roundtable on Sustainable Palm Oil
CGF	Consumer Goods Forum	RTRS	Roundtable on Responsible Soy
CSPO	Certified Sustainable Palm Oil	SMEs	Small-Medium Enterprises
CSR	Corporate Social Responsibility	SPOTT	Sustainable Palm Oil Transparency Toolkit developed by the Zoological Society of London.
ESG	Environmental Social Governance	Supply Change	A transparency project developed by Forest Trends that collates sustainability commitments made by companies.
EU FLEGT	EU Forest Law Enforcement, Governance and Trade	TFA	Tropical Forest Alliance
Forest 500	A transparency platform developed by the Global Canopy Programme. It identifies, assesses, and tracks the progress of key players in agricultural supply chains towards 2020/2030 goals.	UNEP-FI	United Nations Environment Programme Finance Initiative
FPIC	Free Prior Informed Consent	VPA	Voluntary Partnership Agreement
FRCs	Forest Risk Commodities	WRI	World Resources Institute
FSC	Forest Stewardship Council	Zero Deforestation	(Gross) Zero deforestation is the exclusion of all forest conversion.
GHG	Greenhouse gases	Zero Net Deforestation	Zero net deforestation does not completely exclude deforestation but allows offsetting.
HCS	High Carbon Stock		
HCV	High Conservation Value		
ISPO	Indonesian Sustainable Palm Oil		
NCD	The Natural Capital Declaration		
NGOs	Non Governmental Organisation		

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