Deforestation-free global supply chains: Commitments and challenges ahead

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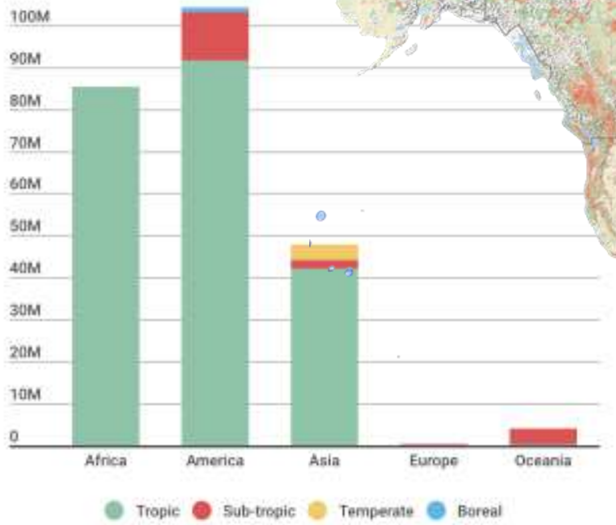
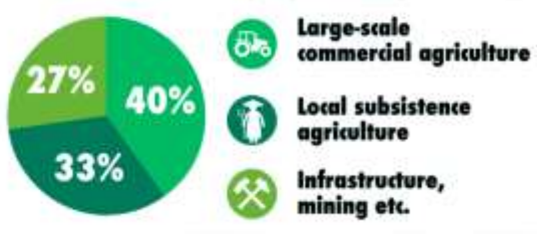
FRAMING THE ISSUE

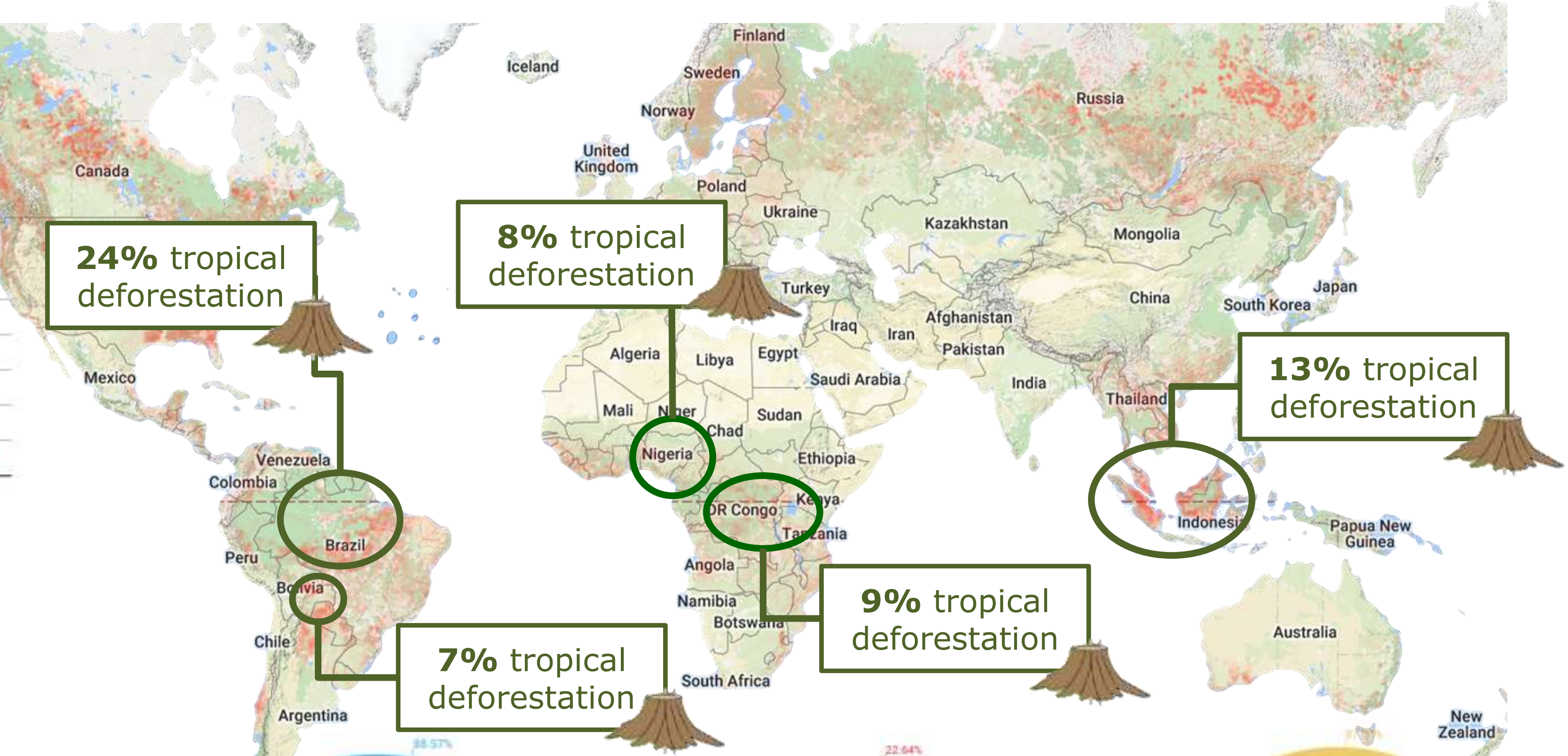
- **Agricultural expansion** and **commodification** are key drivers of deforestation
- We entered an **era of commitments** to delink supply chains from deforestation
- YET, **different views on what is desirable** given private versus social interests
- AND **moral, economic and social dilemmas** regarding what path to follow
- AND **intense politics** on **what rules to apply** and **who will pay the costs**
- Initiatives involve supply chain interventions, yet **effectiveness still in question**
- More attention given to solutions that work **at the territorial/landscape level**
- AND to **integrated approaches** addressing sustainable supply and climate

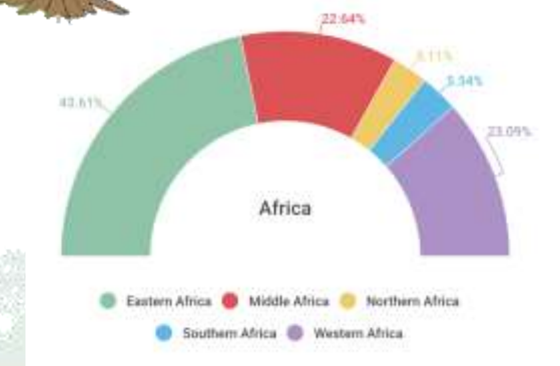
DEFORESTATION HOTSPOTS: A MOVING TARGET?

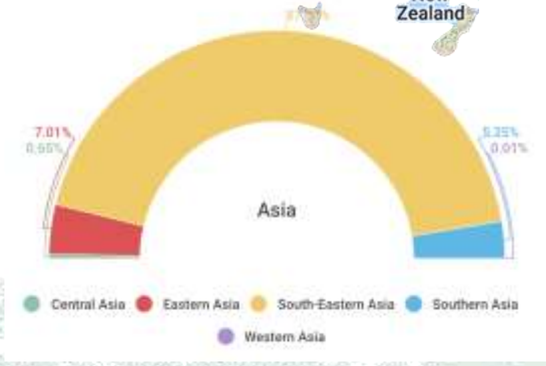


TOTAL FOREST LOSS, 1990-2015









Source: Global Forest Resources Assessment, FAO (2015), State of the World's Forests 2016, FAO (2017)

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DIFFERENT TRAJECTORIES ACROSS REGIONS

IN SOUTH AMERICA

- **Pasture for cattle** is the main driver, particularly in the **Amazon**
- **Soy** has produced **direct and indirect impacts** on forests, but also has expanded on low production **pasture lands,** mainly in Brazil

IN SOUTHEAST ASIA

- **Main drivers are oil palm** and **pulp and paper** plantations
- Part of that expansion occurs in **forests intervened by logging**

IN SUB-SAHARAN AFRICA

- Deforestation is mainly driven by **subsistence agriculture**
- **Cash crops** (e.g. cocoa and oil palm) are an important driver of deforestation in tropical **Central and West Africa**
- Increasing expansion of **sesame, soybean, maize, rice** production for commercial purposes, mainly in **Eastern Africa**

AND … GLOBAL SUPPLY CHAINS ALSO DIFFER

The **role of commodities** as major drivers of deforestation **is not the same** across regions

Figure, adapted from Union of Concerned Scientists (2016)

DEMAND SIDE

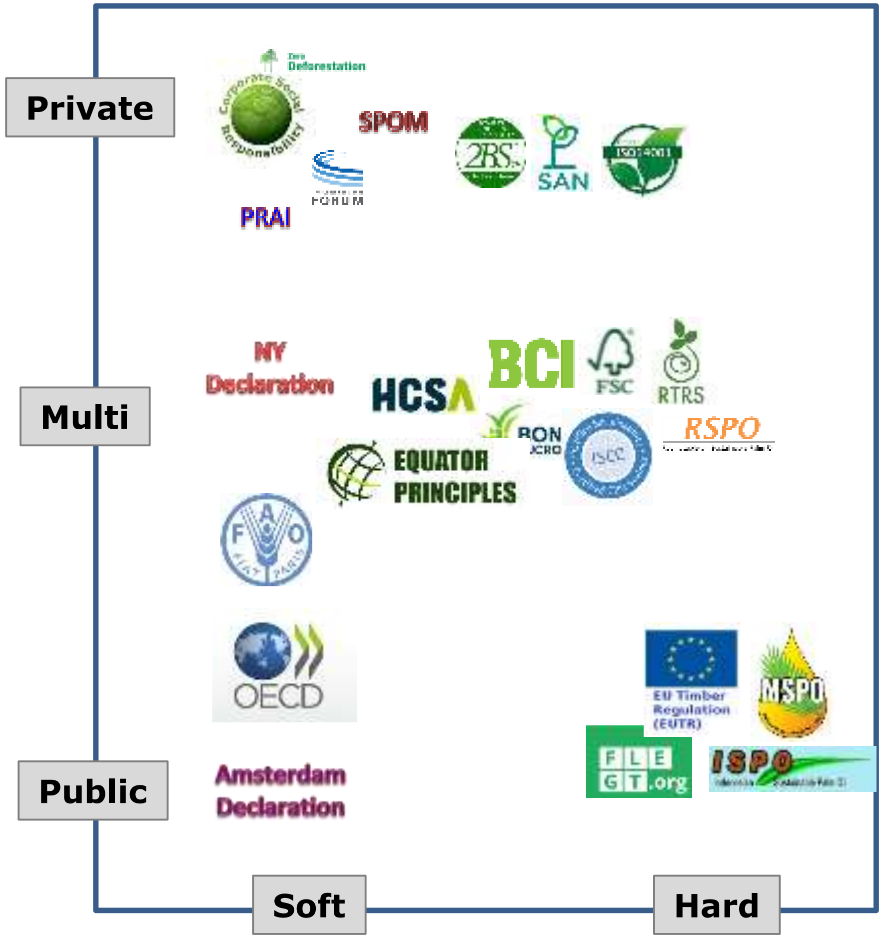
- The ultimate **influence of end-markets** depends on the global c**onfiguration of the supply chains**
- In some cases, segmented markets persist with a portion of **supply absorbed by domestic markets**
- In others, **emerging economies' growth in demand** absorb important supply vis-à-vis developed countries

SUPPLY SIDE

- **Expansion of roads** and **processing** facilities [e.g. mills, slaughterhouses] growing nearby forestlands
- A growing number of **smallholders** are **involved in supplying to global agrifood value chains**
- **Informalities** upstream the value chain (tenure, capital) **accentuate market imperfections**

REGULATORY INITIATIVES AS THEY STAND

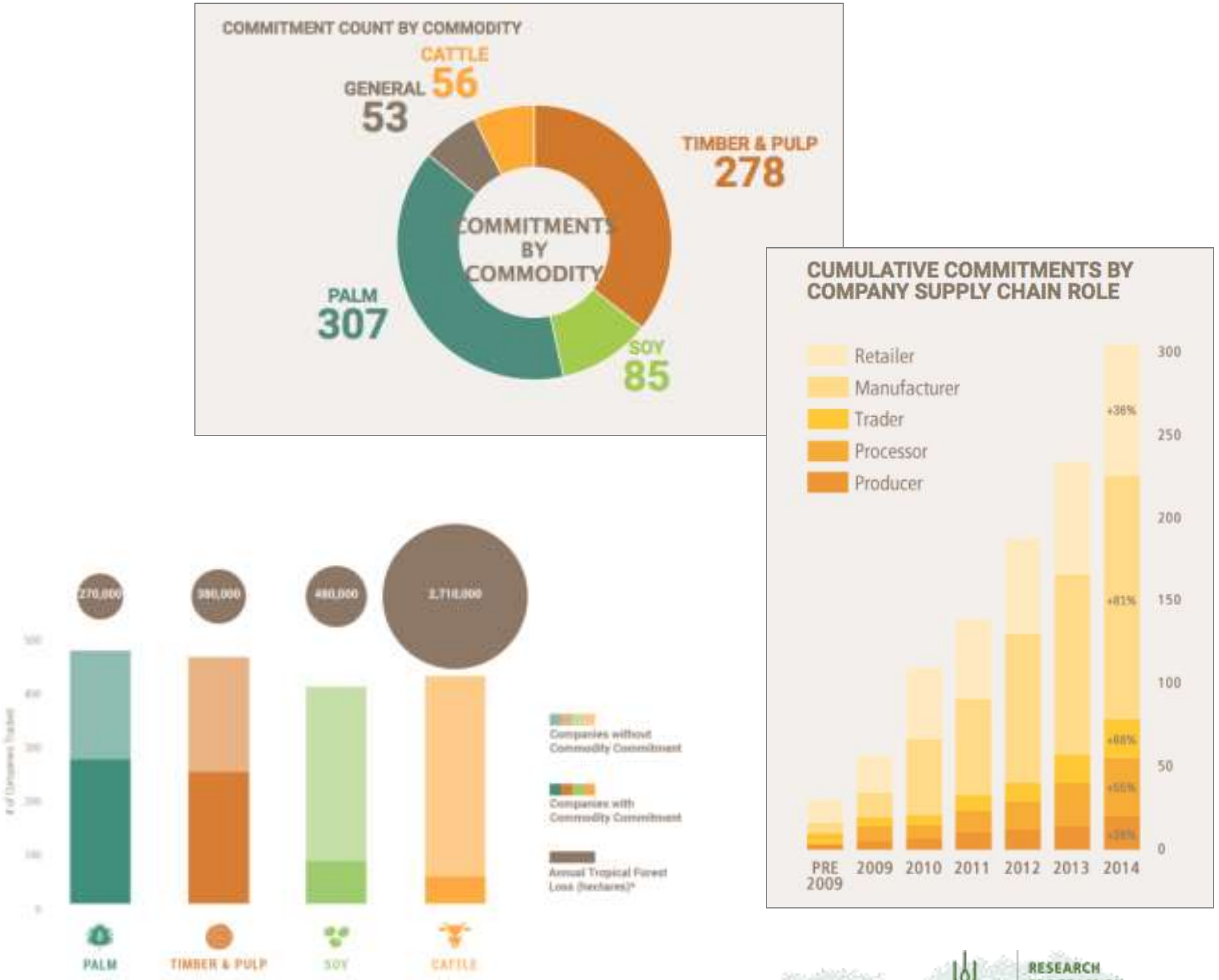
- **Prominent pledges** on ‘zero deforestation’, including consumer goods companies (CGC), producers, processors and traders are:
  - **Consumer Goods Forum** on zero net deforestation (2010)
  - **Sustainable Palm Oil Manifesto**, SPOM (July 2014)
  - The **New York declaration** on forests (Sep. 2014)
  - **Indonesian Palm Oil Pledge**, IPOP (Sep. 2014) (**disbanded**)
  - **Amsterdam Declaration** on sustainable palm oil (Dec. 2015)
  - **Framework for action** of the cocoa and forest initiative (Nov. 2017)
- The **implementation approaches** are diverse including
  - **Codes of conduct**, specific to companies and corporations
  - **Sectoral standards** (production and environmental performance)
  - **Certification systems** (social and environmental aspects)



PRIVATE COMMITMENTS TO ZERO DEFORESTATION

- The **number of corporate commitments** to deforestation-free supply **continues to grow**
- The **commitments are very diverse**, and are not necessarily comparable since **embrace different targets** and **timeframes**
- Most of the companies with commitments are **manufacturers and retailers**, nearly 90% of which are **headquartered in Europe**, **North America**, and **Australia**

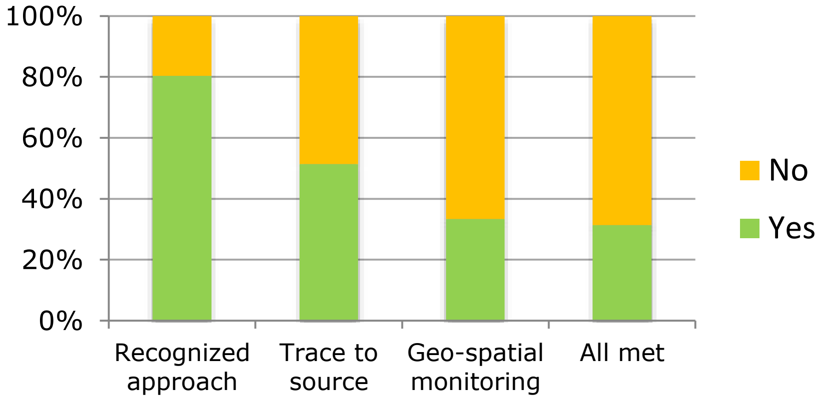
Source: Taken from Supply Change (2017), available at: http://www.supply-change.org/



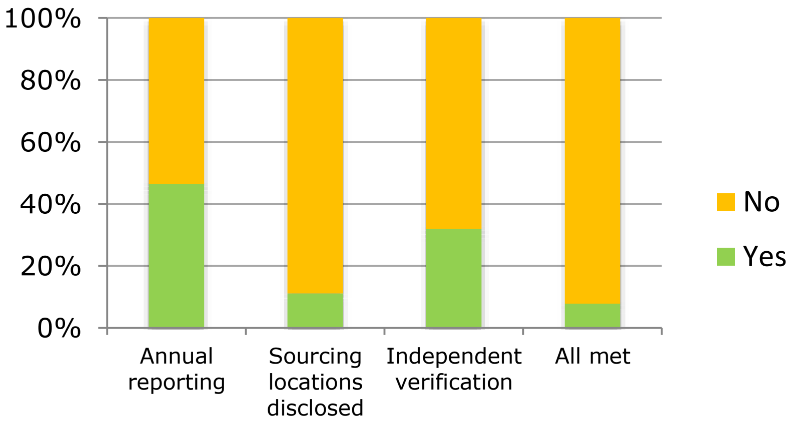
PROGRESS ON IMPLEMENTATION

- Strong **commitment to full adoption of traceability** systems, yet mills suffice
- **Weak commitment to plantation-level traceability**, difficult to trace smallholders
- Rely on **supplier declarations**
- **Limited commitment** to **disclosing sourcing locations** or **reporting progress**
- **Limited commitment** to **independent verification** of performance
- **Limited adherence to ZD certification systems** (e.g. SAN, RSPO Next)

Based on a **sample of 50 companies** considering *full* Zero deforestation (ZD) committers from Forest500 Project's commodity 'powerbrokers', including **ALL** geographies and **ALL** operations. Schoneveld et al. (2018)



Traceability and monitoring



Transparency and verification

COMMITMENTS TO REDUCE EXTERNALITIES

- Widespread **adherence to HCV and FPIC** for wood and oil palm
- **No peat conversion in oil palm**
- **No explicit commitment** to maintaining **smallholde**r supply base
- Only **few companies commit** to supporting **smallholder compliance**
- **No explicit recognition of iLUC**, and protection of forest estate
- **Food security** protection is more associated with **FPIC**

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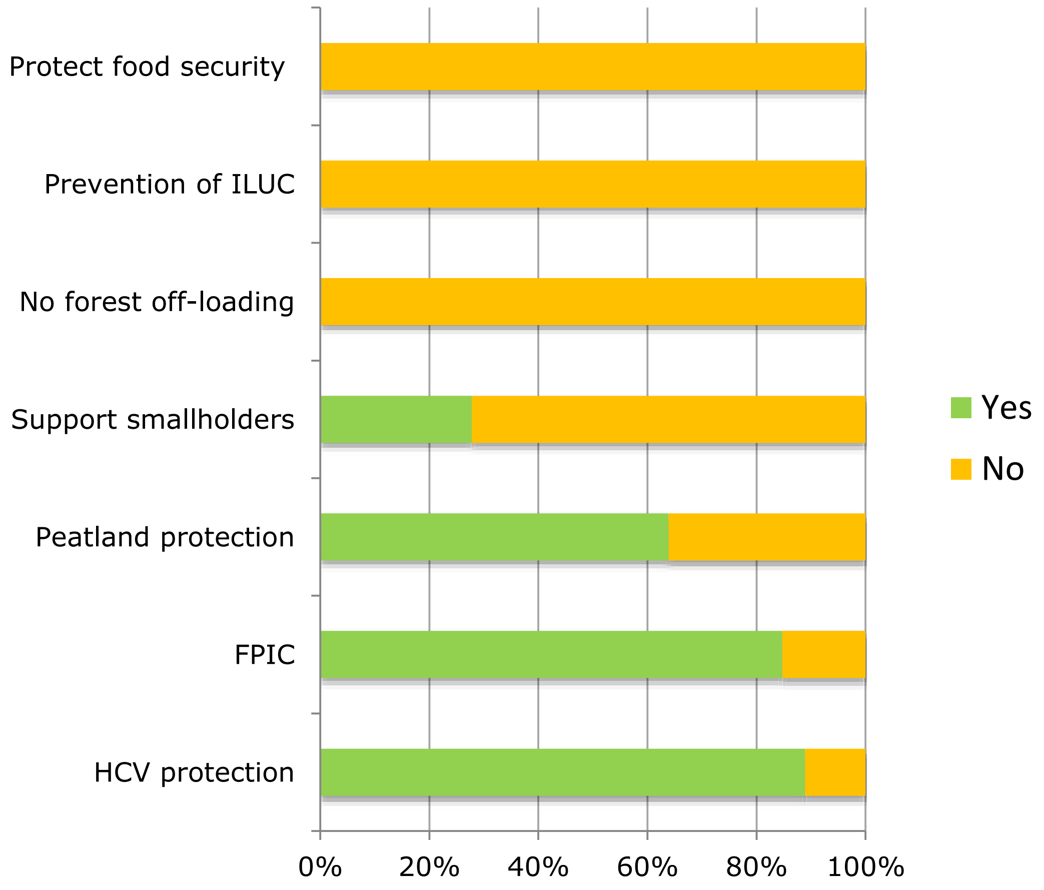

Commitment to safeguards

RISKS AND OPPORTUNITIES

- There are some **likely risks**
  - **Exclusion of smallholders** from deforestation-free supply chains due to legality issues and capacity constraints
  - **Pressures on community** and **smallholder lands** considered as 'low-carbon' lands may lead to people displacement
  - **Value chains segmentation** may lead to leakage effects
  - **Retarded economic development** of underdeveloped regions
- But also some **unique opportunities**
  - Incentives to **intensification** and **improved plantations' management** with more efficient use of inputs
  - **Upgrading of smallholders**' production practices/systems
  - **More productive use** of 'degraded' or 'low-carbon' lands
  - Meeting national **GHG reduction commitments**
  - Contributing to the **development of monitoring systems**

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CHALLENGES IN SUPPLY CHAIN GOVERNANCE

- Efforts to develop **coherent zero deforestation rules** (e.g. HCSA, SPOM) and integrate into certification (RSPO NEXT, SAN, ISCC) --> upward convergence
- Little apparent **corporate interest in comprehensive co-regulation**, yet some initiatives at sub-national level
- **Lack of commitment** to **smallholders,** weak consideration to **food security**, and **iLUC**
- **Challenging to address zero deforestation through certification** due to its supply chain orientation
- **Limited emphasis on territorial** and **landscape approaches** to address spillovers, and promote upscaling
- More **prominent role** of **state institutions required** (e.g. land use planning, tenure security, extension)

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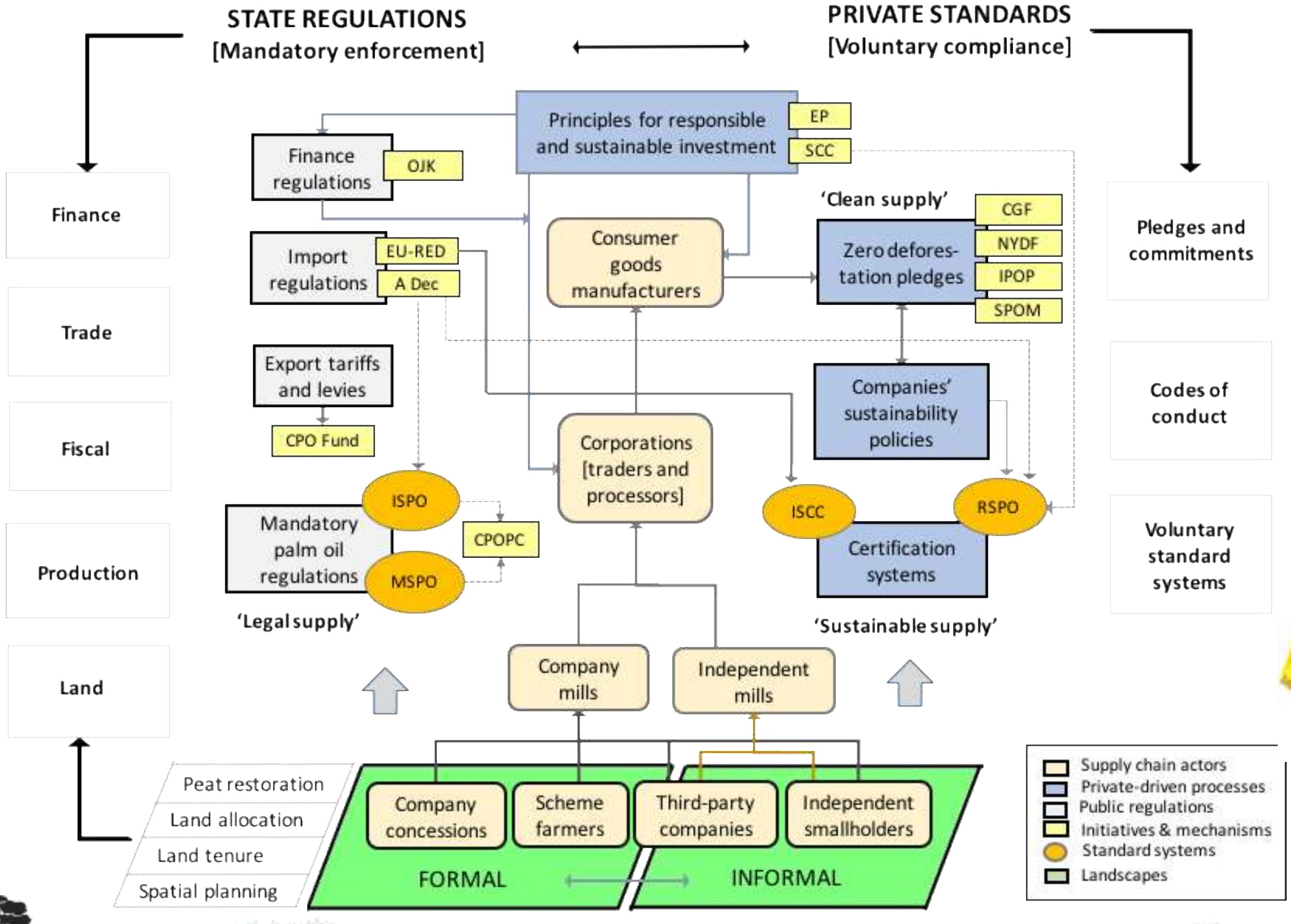
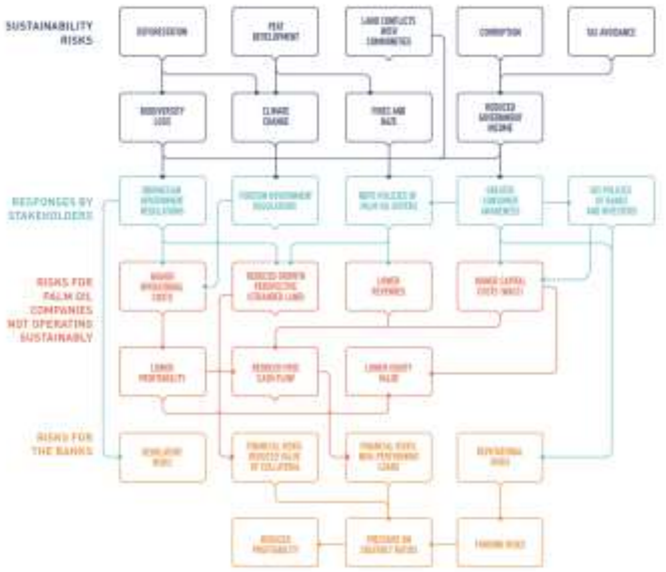
THE POLICY REGIME COMPLEX FOR PALM OIL



Source: Pacheco et al. 2017a



Source: van Gelder et al. 2017

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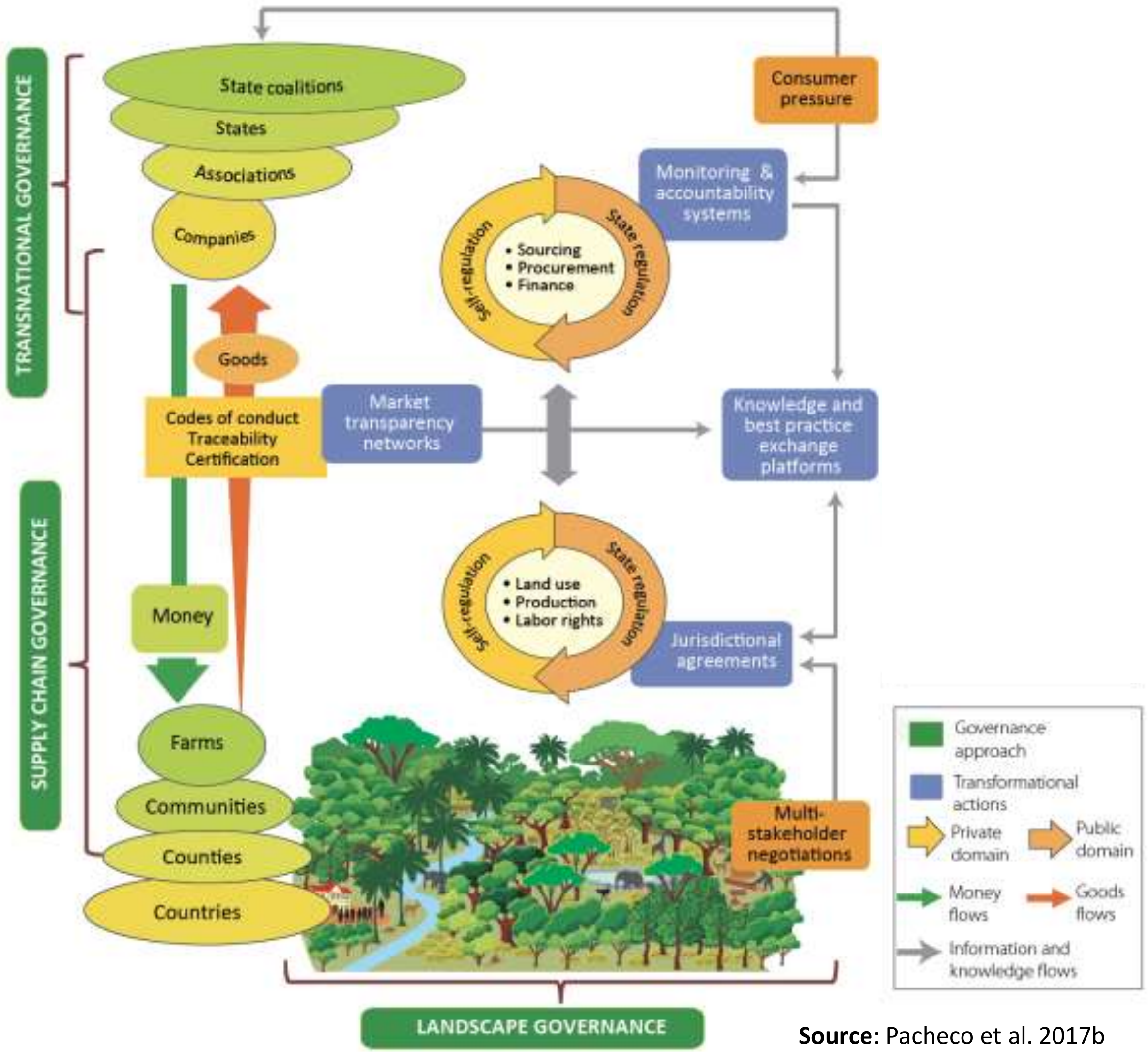
THE WAY FORWARD: RISING THE BAR



Source: Pacheco et al. 2017b

- Linking better **regulatory frameworks** and **private voluntary standards**
- Closing the gaps between international and national **sustainability criteria**
- Advancing agreements on **collaborative partnerships**, acknowledging local views
- Platforms for **knowledge exchange** on **innovations** and **best practices**
- Multistakeholder processes for building **monitoring** and **accountability systems**
- **Market transparency** with support to **inclusive business and financing**
- Embracing **jurisdictional/ territorial-based initiatives and interventions**

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