

## Stepping up EU action against deforestation and forest degradation

### Global Canopy and Stockholm Environment Institute Position Paper

February 2019

#### Introduction

Global Canopy and SEI welcome the European Union's (EU) stated intention to develop a more coherent and comprehensive approach to the problem of tropical deforestation and forest degradation, but is disappointed by the limited scope of the proposals put forward. The EU's own *Feasibility study on options to step up EU action against deforestation* is clear that the EU will have little impact if it doesn't consider regulatory action.

The EU has been a leader in addressing illegality in timber imports through the EU Timber Regulation and Forest Law Enforcement, Governance and Trade (FLEGT) Voluntary Partnership Agreements. More broadly, the EU has signed up to high-level goals to address deforestation, including the Sustainable Development Goals (SDG 12 and 15), and action to address tropical deforestation is also essential to meet the overall ambition set out in the Paris Agreement.

The EU has also endorsed the [New York Declaration of Forests](#) which calls on governments to "support and help meet the private-sector goal of eliminating deforestation from the production of agricultural commodities such as palm oil, soy, paper and beef products by no later than 2020" (Goal 2).

Six EU member states are also signatories to the Amsterdam Declarations "[Towards eliminating deforestation from agricultural commodity supply chains with European countries](#)" and "[In Support of a Fully Sustainable Palm Oil Supply Chain by 2020](#)".

Yet as 2020 approaches, it is clear that while some progress has been made, these commitments will not be delivered. Despite regional differences and efforts by governments, conservationists, and companies to stem the losses, the overall rate of commodity-driven deforestation has not declined since 2001.

This illustrates the need for the EU to go beyond its stated intention to develop more coherent and comprehensive approach to the problem, and to explore a comprehensive framework that addresses the interlinked issues of EU consumption, trade and production in forest-risk areas, including regulation where required.

Such measures must necessarily include action to address deforestation in trade agreements. Addressing the illegal trade in forest-risk commodities is of course essential, but much legal

trade is also strongly associated with deforestation activity. The EU is an important trading bloc, and as such can have an influential role in ensuring that trade agreements do not directly or indirectly incentivise deforestation (through tariff-free access to forest-risk commodities for example).

The EU must recognise the important influence it holds over the financial sector who are funding deforestation through their loans and investments for agricultural commodities.

### **Key 'forest-risk' commodities to include**

The main forest-risk commodities that contribute to tropical deforestation are soy, palm oil, rubber, cocoa, cattle (beef and leather), maize, and coffee (see *Feasibility Study* for proportions imported into EU markets).

As highlighted in the *Feasibility Study*, deforestation associated with the cultivation of forest-risk commodities can be driven by factors on the supply side, i.e. in the country of origin (eg. low productivity); by factors on the demand side, e.g. in the EU; and by flows of investments and finance from EU-based institutions to producer countries and companies.

To effectively address these drivers, a coherent framework is needed, which addresses the roles of food and fuel consumption in driving deforestation, and recognising the interface with health policies and the links to overseas development and trade policies. For example, the EU's Renewable Energy Directive should address deforestation impacts from biofuels in a way which is consistent with the identification of high risk commodities in the *Feasibility Study*. Without such a framework, any broad package of measures risks being a piecemeal approach.

### **EU action on improving supply chain transparency**

As recognised by the *Feasibility Study* and as also clear from our work, the complexity and lack of transparency in 'forest-risk' agricultural supply chains are major obstacles for downstream companies that want to understand their exposure to environmental and social risks.

Equally the availability of company-specific information on deforestation policies and performance remains patchy and limits the ability of companies to assess supplier risks and compliance with their sourcing standards. For many companies, it is not feasible to segment supply chains to assess risk because of the value chain structure and the cost premiums involved. This also means that technical solutions to increase "traceability" are difficult and often costly. This lack of traceability, also hampers accountability measures from civil society. Increased data transparency can help, alongside multi-stakeholder partnerships.

New tools such as Trase ([trase.earth](https://trase.earth)), a collaboration between Global Canopy and Stockholm Environment Institute (SEI), make it possible for consumer markets, including EU member countries, to identify their exposure to deforestation risk. Trase is a cutting-edge research and data project, supported by an extensive stakeholder engagement programme, that brings

greater transparency to agricultural commodity supply chains by linking exports back to the place of production, via traders, and revealing the links to environmental and social risks. It is the only current system that maps the entirety of the middle-section of the supply chain, from landscapes of production to countries of import, and to do so for the entirety of exports of a given commodity, e.g. Brazilian soy. This provides a practical and actionable alternative to farm-to-fork traceability information (which is often not feasible or prohibitively expensive to develop in the timescales in which action is needed). Buyers and investors can use this information to understand sourcing patterns and risk profile, creating opportunities to improve the sustainability of how these commodities are produced, traded and consumed.

The importance of this information is highlighted in [France's National Strategy to Combat Imported Deforestation](#) which identifies the need to create a national platform to increase access and transparency to information on commodity flows and at risk imports (Objective 16).

The use of trade data, including customs declarations and per-shipment bills of lading, is at the heart of these approaches. However, the EU is one of the least transparent regions/countries globally in terms of access to the depth of information available. While detailed customs declaration information on exports and imports is available for a wider number of emerging and developed economies including the US, China, and Brazil, it is not available for the EU. Eurostat datasets do not include names of individual companies trading specific shipments and are aggregated to such levels that it is impossible to do meaningful tracking of the implementation of companies' zero deforestation commitments.

For many other countries it is possible to acquire such data generally through trade intelligence companies that collect and compile bills of lading and/or customs declarations or directly from governments. The US government makes the information available directly to the public either free of charge or purchasable against a fee.

We strongly recommend that the EU uses this opportunity to set a new precedent in transparency around global trade and makes this information publicly and freely available to support supply chain transparency and monitoring of deforestation risk in imports, as envisioned in France's strategy to remove deforestation from its imports. Such a move would catalyze sustainability investments and drive positive action across actors in all stages of the supply chain.

### **EU legislative action on corporate due diligence**

The EU has recognised that a comprehensive package of measures is needed to ensure a more coherent approach to tackling deforestation, and the *Feasibility Study* highlighted that there is currently a lack of public policies designed to promote the consumption of more sustainably produced forest-risk commodities, leaving the private sector seeking solutions.

Companies have a crucial role to play in achieving legal and sustainable forest-risk commodity supply chains. Growing momentum for action is evidenced by commitments under the New York

Declaration on Forests (NYDF), the [Consumer Goods Forum](#) (CGF), and most recently the [Cerrado Manifesto](#).

Yet Global Canopy's most recent [Forest 500](#) assessment of the 250 most influential companies in the deforestation economy clearly shows that these ambitious 2020 commitments are not yet translating into sufficient policies or action at the level of individual companies.

- Many influential companies in forest-risk commodity supply chains have yet to adopt deforestation policies and remain invisible - fewer than 20% of companies have commitments covering all relevant forest-risk commodities.
- Many existing policies remain weak and do not include a clear implementation pathway of time-bound, measurable actions - only 18 of the 250 assessed companies score the highest ranking of five points. Companies achieve this rating by committing to sourcing all forest-risk commodities sustainably across their entire operations, reporting against their commitment and addressing human rights issues.
- There remains a policy implementation gap - over one-third of existing company policies are either future commitments, with a deadline for implementation beyond 2020, or have no deadline for implementation. In addition, more than 40% of companies with a forest-risk commodity policy are not reporting on their progress in implementation.

Our findings are mirrored in [deforestation statistics](#) which show that forests in Brazil, Paraguay, and Indonesia are still being cleared to make way for agriculture.

This demonstrates that while voluntary corporate action on removing deforestation from agricultural supply chains should be encouraged, it is not sufficient.

Similarly, certification schemes, such as the Roundtable on Sustainable Palm Oil (RSPO), the Roundtable on Responsible Soy (RTRS) and the Rainforest Alliance certification scheme could provide a partial (niche) solution to this issue, but there is a lack of coherent policy to address consumer awareness and improve labelling, for example. This is particularly the case in sectors where consumer awareness is especially low (eg soy and beef). Without a clear signal from consumers, market-based solutions will not achieve the level of transformation that is needed across supply chains.

To ensure greater coherence, legislative action on corporate due diligence and reporting must be included as part of that package of comprehensive measures. This would ensure action at the scale needed, and a level playing field for all.

The EU's *Feasibility Study* highlights how regulating EU market access can be used to promote sustainable, deforestation-free products. The EU's FLEGT programme provides a good example of how the EU can improve supply chain governance by requiring that all timber entering the EU market has a licence which shows that it is legally felled. Voluntary Partnership Agreements between the EU and timber producing countries support this by providing

assistance to countries to improve their land-use governance, enabling greater access to EU markets.

As the *Feasibility Study* highlights, there are strong arguments for going beyond “deforestation” to include a much broader range of sustainability or deforestation-free criteria in a new regulation. Any new legislative measure should include verification of legal production (both in relation to national laws and international agreements), as well as criteria relating to direct and indirect impacts on forests and other ecosystems, the treatment of workers and the rights of forest communities and indigenous peoples, particularly in regard to land tenure and access. This would fit with a comprehensive approach to meeting other EU commitments under the Sustainable Development Goals, for example.

Under [EU law](#), large public-interest companies are currently required to disclose certain information about the way they operate and manage social and environmental challenges. This includes reporting on the steps they are taking to ensure environmental protection. This legislation could be extended to ensure that companies active in forest-risk supply chains report on efforts to eliminate deforestation from those supply chains.

Member State actions, provide examples of approaches where lessons can be learned. For example, The French Government has introduced such measures in the [Loi de Vigilance](#), requiring companies over a certain size to identify the risk of causing serious harm and take measures to prevent that harm. The UK’s [Modern Slavery Act](#) provides for a similar vigilance over supply chains where individuals are at risk of exploitation.

Improved due diligence would help those EU Member States that have signed up to the Amsterdam Declarations on eliminating deforestation from agricultural commodity supply chains. It would also benefit Member States who are seeking to support action by the private sector by bringing together industry platforms such as the UK Roundtable on Sustainable Soy.

It would also help companies identify the risks and opportunities in their supply chains, and by clearly identifying criteria for reporting, would make it easier to for companies to assess the activities of others in their supply chain. Financial institutions would similarly benefit from greater insight into the risks faced by the companies in their portfolios.

Finally, the EU could also introduce a requirement for member states to introduce public procurement policies to ensure that public monies were not contributing to deforestation and as a demand signal for legal and sustainable sourcing of agricultural commodities.

### **EU action on finance**

The financial sector invests billions of euros in agricultural commodity production in tropical countries, which gives it the power to play a significant role in ending deforestation by ensuring that loans and investments are not funding activities that drive deforestation, or that result in

human rights abuses overseas. And instead that conditional, sustainable finance is used to catalyse positive action amongst suppliers and producers of forest-risk commodities.

The EU should require greater transparency in financing of high deforestation and forest degradation risk sectors, for example through disclosure of information on financial sector policies and actions on mitigating deforestation risks in investments and lending.

An investigation by the NGO, Fern, found that EU-based banks including HSBC, BNP Paribas (France), Standard Chartered (UK), Rabobank (Netherlands) and Crédit Agricole (France) were [financing companies](#) that were allegedly involved in land disputes. Activities to extend agricultural activities through illegal land acquisitions can often involve the clearing of forests and natural vegetation.

Global Canopy's work with financial institutions (through [SCRIPT](#) and the [Natural Capital Finance Alliance](#)) shows that while individual banks and institutions are taking steps to address deforestation risks within their portfolios, there is a need for much greater understanding of the material risks involved and a broader understanding of how to address these risks.

Global Canopy and SEI believe that a coherent framework for addressing deforestation risks would include legislation to require financial institutions to comply with the Task Force on Climate Related Financial Disclosures (TCFD) as a minimum, as this would ensure financial institutions recognise the material risks related to investment in and lending to forest-risk commodities. But the material risks resulting from deforestation extend beyond climate-related risks, including impacts on biodiversity, water resources and soils. So we would urge EU policy to move more towards a broader mandatory natural capital reporting framework which would help ensure financial institutions capture these additional risks more comprehensively.

TCFD is also relevant because deforestation is both a physical and a transition risk to emissions reductions (LULUCF emissions reductions are central to many countries nationally determined contributions). The French Government's Article 173 demonstrates a possible approach to regulation through its requirement on annual disclosure on climate risk and ESG.

### **Supply-side actions**

Private sector companies seeking to eliminate deforestation from their supply chains are finding that supply chain interventions alone are not enough - and that support is needed on local governance issues, such as land-use planning and local, regional and national governance.

The EU's *Feasibility Study* suggests that bilateral partnership agreements with producer countries on forest-risk commodities could be effective in helping drive better production methods on the ground. This includes increasing access to finance needed for transition to more sustainable production, particularly for small-holders who produce significant quantities of

some forest-risk commodities (for example coffee, cocoa and palm oil). This is essential in ensuring supply chains are inclusive and smallholders have access to European markets.

Similarly, the EU should provide technical and financial support for jurisdictional approaches that seek to support the sustainable production of agricultural commodities at scale. A number of companies are involved in partnerships (with local government authorities, NGOs and others) to develop such approaches, seeing them as a practical way to deliver on deforestation commitments. EU support would help to bridge the gap between such initiatives and downstream buyers. This could benefit the companies, for example, who are actively engaged through the Amsterdam Declaration Partnership, and send an important signal to producer governments and upstream companies of the importance of this approach.

## **Recommendations**

Global Canopy and SEI urge the European Union to:

- Facilitate the consumption and production of sustainable and deforestation-free products through improved transparency and information and/or private sector initiatives
- Introduce legislative measures to require companies to perform and report on due diligence on the deforestation risks in their supply chains
- Require EU-based financial institutions and others operating within the EU to identify, manage, and report the deforestation risks faced by companies in their portfolios
- Engage with producer countries and provide financial and technical support for production of sustainable and deforestation-free commodities, for example through support for and championing of emerging jurisdictional approaches.

### **About Global Canopy**

Global Canopy is a UK-based non-governmental organisation that works on the market-drivers of tropical deforestation. Our research focuses on the production, trade and financing of the key commodities responsible for agricultural expansion into tropical forests, and working in partnership with others, we have developed a number of tools designed to help companies and financial institutions develop more sustainable forest-risk commodity supply chains. See [globalcanopy.org](https://globalcanopy.org)

### **About Stockholm Environment Institute (SEI)**

SEI's mission is to support decision-making and induce change towards sustainable development around the world by providing integrative knowledge that bridges science and policy in the field of environment and development. SEI combines scientific research with policy analysis, turning knowledge into action by connecting our work to decision-makers and civil society, linking science with development, and promoting social and environmental sustainability. SEI takes a highly collaborative approach: stakeholder involvement has always been at the heart of our efforts to build capacity, strengthen institutions, and equip partners for the long term.

SEI's work tackles a range of issues from climate change, energy systems, vulnerability and governance, to land-use sustainability, sustainability finance, trade, sanitation and air pollution. See: [sei.org](https://sei.org)