

# Written evidence submitted by to the Environmental Audit Committee by Global Canopy

September 2022

Global Canopy welcomes the opportunity to provide evidence to the Environmental Audit Committee on the UK's contribution to global deforestation. Global Canopy is a data-driven not-for-profit that targets the market forces destroying nature. We do this by improving transparency and accountability. We provide innovative open-access data, clear metrics, and actionable insights to leading companies, financial institutions, governments and campaigning organisations worldwide to help them make better decisions about nature, forests and people.

Our evidence focuses on the degree to which UK supply chains contribute to deforestation overseas, the effectiveness of the government's efforts to curb this, and how the UK works with international partners to tackle deforestation.

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## UK links to deforestation

UK imports of forest-risk agricultural commodities, such as beef, soy and palm oil are estimated to be linked to some 30,000 hectares of deforestation annually - an area [almost three times the size of Paris](#). These crops and cattle are produced on land that has been deforested for pasture and cropland.

At the current time, efforts to prevent global deforestation in supply chains depend on voluntary action by the companies involved. Global Canopy tracks the 350 most influential companies in these supply chains worldwide and assesses their performance on deforestation on an annual basis, looking at their exposure to six commodities - soy, cattle, palm oil, pulp & paper, timber, and leather (see [www.forest500.org](http://www.forest500.org)). While just 13 of these companies are based in the UK, more than one third (131) trade here.

Of the 13 companies based in the UK, 8 have a commitment to end deforestation for all of the commodities they are assessed for, four have made a commitment for some of those

commodities, and one company has made no commitments to address deforestation in any of the supply chains where it is exposed to deforestation.

Of the 131 companies trading in the UK, 48 have a commitment for all of the commodities in their supply chains, while 16 have no commitments at all to end deforestation.

Of the 350 companies overall, 117 have no deforestation commitments, and almost one third of the companies that do have a commitment, do not monitor their supply chains or their own operations to ensure they [comply with that commitment](#).

The UK's finance sector is also linked to deforestation with 11 of the 150 biggest sources of finance to these companies are headquartered in the UK. Our monitoring of these financial institutions shows that just two have policies in place to address deforestation risks in their portfolios for all commodities, while five had no policies in place on deforestation.

While there has been some progress, with 33 financial institutions announcing a commitment to eliminating commodity-driven deforestation from their portfolios by 2025 at COP26 last year, evidence from eight years of Forest 500 assessments suggests that while there are leaders, there are also laggards, who will not address these issues voluntarily. This year Global Canopy will assess the financial institutions who have signed up to net zero through the Glasgow Financial Alliance for Net Zero for their approach to deforestation. Initial findings suggest that most have much work to do if net zero is to be achieved.

## Government monitoring and indicators

Global Canopy is a partner in Trase, a data-driven transparency initiative that is revolutionising our understanding of the trade and financing of commodities driving deforestation worldwide. Our Trase partners at the Stockholm Environment Institution have worked in collaboration with the UK JNCC to develop a formal indicator of the overseas impacts of UK consumption, on behalf of Defra. This shows the deforestation and other environmental impacts of UK consumption - see:

<https://jncc.gov.uk/our-work/ukbi-a4-global-biodiversity-impact/>

Trase has also developed a dashboard to represent this data:

<http://www.commodityfootprints.earth>

## Effectiveness of Environment Act measures

The measures to improve due diligence included in the UK Environment Act are welcome, but their effectiveness will depend in many ways on the secondary legislation which is still to be published. This will crucially define the commodities covered, the minimum thresholds for volumes, and the threshold for business size, determining how much of this trade in forest-risk commodities is actually covered. The timeline for implementation and actual due diligence requirements and level of reporting, which will also be set out in the secondary regulations, are also critical.

Global Canopy was concerned that the [consultation](#) for the secondary legislation proposed a phased approach to including seven commodities, with a suggestion that business would be able to act faster if fewer commodities were included in the first phase.

These seven commodities – beef, palm oil, soy, maize, coffee, cocoa and rubber - are responsible for an estimated 65% of the UK's annual deforestation risk (30,000 hectares). Even if all of these commodities were included in the first phase, the legislation would miss a third of the UK's deforestation footprint.

Equally concerning is the suggestion that it will take five years before these measures can come into force. Some UK companies are already carrying out due diligence on these commodities.

Global Canopy argues that the data shows that cattle products, palm oil, and soy – the biggest drivers – must be included as a minimum in the first phase. But limiting the coverage of the legislation to these three commodities would only cover half of the overall deforestation footprint.

It is also important that the secondary legislation sets out robust due diligence requirements, with clear ambitions to minimise deforestation risk. Reporting standards will need to be transparent and detailed to ensure accountability

The measures included in the Environment Act are also limited by their narrow focus on companies - ignoring recommendations from the GRI taskforce to include due diligence measures for the finance sector. The most recent [GRI report on finance](#) highlights the significant exposure of UK finance to financing deforestation and recommends that the government introduce a legal duty for financial institutions to prohibit lending/ investments in illegally produced forest risk commodities.

- Data from Make My Money Matter (MMMM), Global Canopy and Systemiq estimates over [£300bn of UK pension fund investments](#) alone are in companies, sectors and financial institutions with high deforestation risk.

- In 2021 WWF estimated [the risk exposure](#) for lending and investments by UK FIs for just three commodities (beef, soy and palm oil) to be between £40 billion and almost £200 billion, with over 50% of this finance provided by only 15 large banks and investors.

The Environment Act is also limited as it only excludes products linked to illegal deforestation, whereas a significant amount of forest conversion is carried out legally. Limiting mandatory due diligence only to illegal deforestation will not prevent the loss of these natural ecosystems. Limiting efforts to illegal deforestation could drive deregulation measures in producer countries, increasing the amount of land cleared legally.

Global Canopy believes the government has also missed a critical opportunity to include human rights abuses within the scope of the due diligence measures in the Environment Act. Human rights abuses are far too frequent in forest-risk supply chains, with the rights of Indigenous people and local communities often ignored as land is cleared for agriculture.

## Implementation of GRI Taskforce recommendations

The UK Environment Act addresses in part the GRI recommendation that

***“the government urgently introduces a mandatory due diligence obligation on companies that place commodities and derived products that contribute to deforestation on the UK market and to take action to ensure similar principles are applied to the finance industry.”***

through its inclusion of due diligence on forest risk commodities for large businesses. The timeline and coverage of commodities is to be determined through the secondary legislation. It is also only limited to illegal deforestation, missing significant areas of forest that can be legally converted.

However the UK Environment Act does not meet either of the recommendations for:

- *“The government introduces a legally binding target to end deforestation within UK agriculture and forestry supply chains as soon as practicable, by no later than 2030”.*
- *“and to take action to ensure similar principles [due diligence] are applied to the finance industry.”*

These are two clear gaps. In particular the GRI Finance Working Group was tasked to continue work on how to deliver on this recommendation - see this report [here](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1087635/global-resource-initiative-finance-report-may-2022.pdf) [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\_data/file/1087635/global-resource-initiative-finance-report-may-2022.pdf] - which

reiterated this recommendation and extended it to reinforce the need for extending due diligence requirements to also cover legal deforestation as well as new recommendation on addressing knowledge gaps through guidance and a Central Point of Expertise (see below).

1. As a first step, in line with the forthcoming obligations on supply chain companies under the 2021 Environment Act, the government should provide a legal duty for financial institutions to prohibit lending/ investments in illegally produced forest risk commodities, and demonstrate leadership by extending this requirement to UK financial institutions lending/investments in other jurisdictions outside the UK.
2. As a second step, to take action to ensure financial institutions and supply chain companies act beyond the avoidance of illegality, to provide assurance on both the legality and sustainability of forest risk commodities. This must be the goal if government commitments on deforestation and climate mitigation are to be met and is in line with voluntary commitments made by leading financial institutions and supply chain companies, as well as regulatory proposals for due diligence in the EU.
3. Finally, the GRI Taskforce recommends government helps identify gaps and coordinate the development of finance sector-specific guidance on deforestation risk management, and fund the creation of a Central Point of Expertise that brings supply chain, deforestation and finance expertise together to share best practice globally.

There may be an opportunity to include this extension to the finance sector within the currently proposed [Financial Services and Markets Bill](#).

As discussed below, the UK government also made steps towards implementing GRI recommendations on convening a global call for action on deforestation and initiated efforts towards mobilising funds at COP26. Greater transparency and accountability is required on how these steps are progressing.

## Certification

Certification schemes can be useful assurance mechanisms for companies to verify that commodities they produce or source are produced to specific standards, which can include no deforestation and full respect for human rights.

However, not all certification schemes align with such criteria. In 2022, Global Canopy's Forest 500 project identified that the FSC and PEFC (for timber and pulp and paper), RTRS (for soy), and RSPO, MSPO and Rainforest Alliance (for palm oil) certification schemes aligned with these criteria.

Only certified materials sourced via segregated or identity-preserved supply chain models (and not mass-balance or book-and-claim) can be used to demonstrate sourced commodities are free from deforestation and human rights abuses.

Given the limited coverage of such schemes (particularly for soy and cattle), companies will also need to source non-certified materials and so will need a robust set of internal policies and processes to assess and mitigate environmental and social risks associated with sourced commodities.

Strong government buying standards that go beyond certification (and align with the [Accountability Framework](#)) could send a clear signal to companies on expectations. However, the greatest role the UK government can play in tackling deforestation is through strong secondary legislation on forest risk commodity due diligence under the Environment Act. Global Canopy [joined with NGOs](#) from across the UK in calling on the previous Prime Minister to ensure strong secondary legislation was introduced.

## Working with international partners to tackle deforestation

The UK played a key leadership role at COP 26 to mobilize the Glasgow Leaders Declaration, the Global Forest Finance pledge and discussions between producer and consumer countries through the FACT Dialogue and Roadmap. While these are all positive steps to engage with international partners to tackle deforestation, these need to move towards implementation. The UK government needs to continue to engage with other consumer market governments - particularly China, the US and the EU - to align efforts on due diligence regulatory frameworks, the disclosure of government data to support transparency, and engagement and support with producer governments to avoid confusion and wasted resources. Alignment with producer governments on data disclosure and investments required to support compliance with new demand side measures will also be critical.

UK funding commitment needs to be targeted both in terms of supporting producers to comply with new regulations and in supporting landscape transitions (as only half of deforested land becomes productive for agriculture within a few years) in deforestation frontiers as well as providing direct funding to local communities and Indigenous peoples to formalize land rights, build capacity, and recognise critical role in protecting forests.

## Impacts on producer countries, Indigenous peoples and local communities

We would encourage the Environmental Audit Committee and the UK government to reach out and consult with NGOs and community organisations to better understand such

impacts. The consultation on the Environment Act legislation and the FACT dialogue has not been transparent and there has been limited efforts to date to reach out to organisations in producer countries, with a continued reliance on engaging with producer governments, which in many cases will not reflect the views of local communities.

Furthermore as discussed above the due diligence legislation needs to explicitly include land rights and international human rights.