



# MAKING CORPORATE DEFORESTATION PLEDGES WORK

*Companies that are ready to collaborate with local governments and farmers to build sustainable development strategies can translate their deforestation pledges into lasting solutions.*

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## CONTEXT

ONE OF THE BIGGEST SUCCESS STORIES IN THE FIGHT AGAINST CLIMATE CHANGE IS THE DECELERATION OF DEFORESTATION IN THE BRAZILIAN AMAZON REGION<sup>1</sup>. THIS SUCCESS IS FRAGILE, HOWEVER, AND HAS YET TO BE REPLICATED IN THE WORLD'S OTHER MAJOR TROPICAL FOREST REGIONS. THIS IS ONE REASON THAT CORPORATE "ZERO DEFORESTATION" PLEDGES (CZDPS) HAVE BEEN THE SOURCE OF CONSIDERABLE ENTHUSIASM IN RECENT YEARS. THESE PLEDGES COULD PROVIDE IMPORTANT MARKET REINFORCEMENT OF THE MANY POLICIES AND PROGRAMS ESTABLISHED BY TROPICAL NATIONS AND SUBNATIONAL GOVERNMENTS TO SLOW DEFORESTATION. HOWEVER, THEY COULD ALSO LEAD TO UNINTENDED CONSEQUENCES.

## THIS REPORT DESCRIBES A STRATEGY FOR MAKING CORPORATE DEFORESTATION PLEDGES WORK.

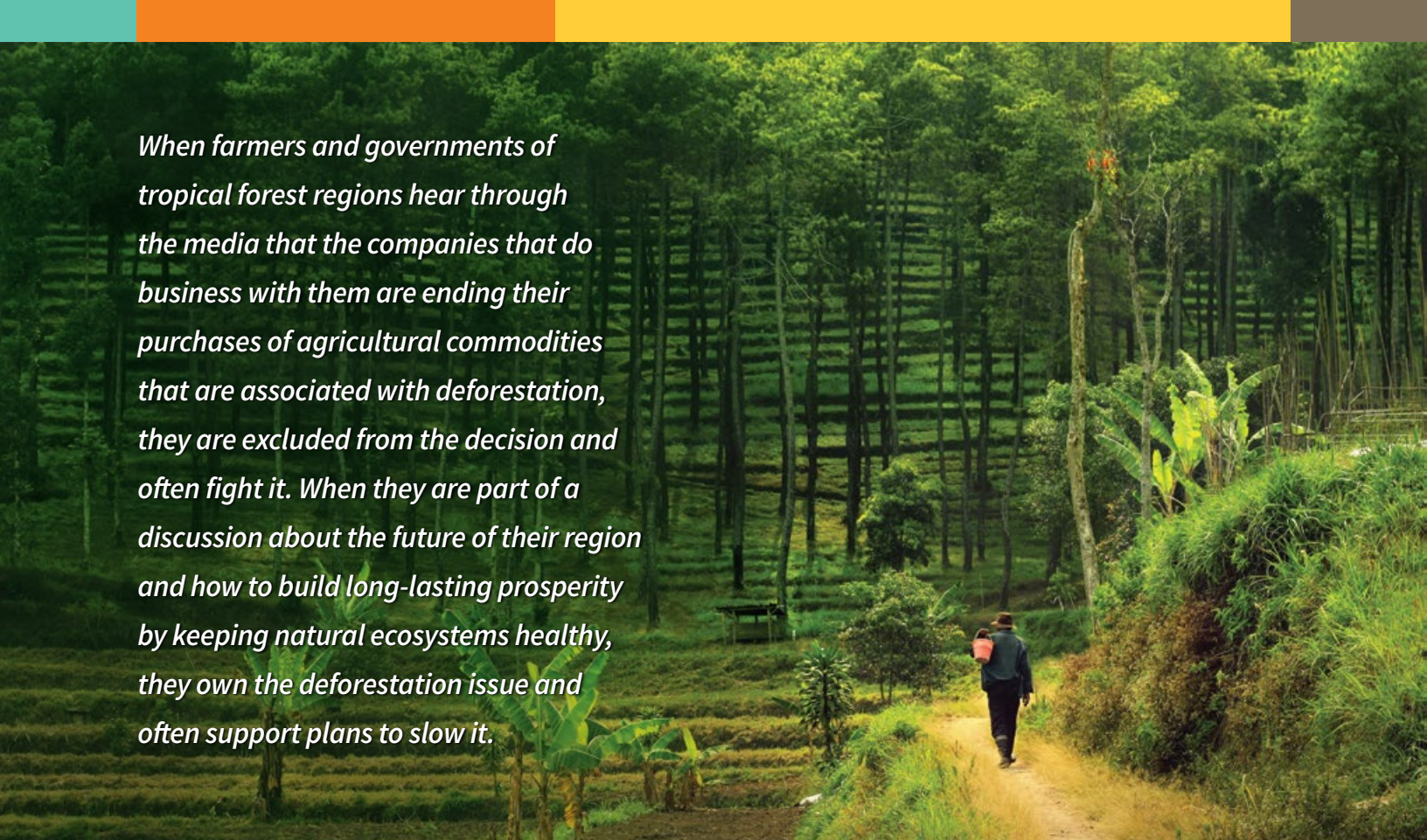
Deforestation pledges have been made by more than 300 major companies that buy large volumes of commodities whose production can drive tropical deforestation<sup>2</sup>. The logic of these pledges is quite simple. When companies announce that they will no longer buy products that are associated with tropical deforestation, then the farmers and businesses that grow and sell commodities to these companies will no longer cut down trees. If enough companies come forward with these commitments—as has happened for palm oil—then it is possible to imagine market transformation to essentially exclude deforesters from markets. Farmers who continue to clear forests will have a hard time finding buyers for their products and will stop the clearing.

It is extremely important that these pledges succeed. However, as with any proposal for slowing tropical deforestation in dynamic agricultural frontiers, where rule of law is often weak and land-grabbing prevails, the devil is in the details. CZDPS are best viewed as an important opportunity to reinforce the development and/or implementation of good "frontier governance", public policies and programs designed to slow deforestation and foster sustainable development.<sup>17</sup> This positive influence is by no means assured, however. And there are some important risks posed by CZDPS that deserve special consideration. We highlight five of these risks here and a strategy for managing them. This report builds upon previous work on this topic.<sup>3,4,5</sup>



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*When farmers and governments of tropical forest regions hear through the media that the companies that do business with them are ending their purchases of agricultural commodities that are associated with deforestation, they are excluded from the decision and often fight it. When they are part of a discussion about the future of their region and how to build long-lasting prosperity by keeping natural ecosystems healthy, they own the deforestation issue and often support plans to slow it.*

## THE CHALLENGES OF CZDPs

### 1 | THE RISK OF SPLITTING THE MARKET

One way for a company to meet its deforestation pledge is by distancing itself from the problem—by pulling out of regions where deforestation is taking place. Companies are already choosing not to buy commodities from, or make investments in, regions with deforestation<sup>6</sup>. When companies that are vulnerable to reputational risks pull out of a region, others that are less vulnerable to these risks and less committed to sustainability are ready to step in, with less competition. The net effect could be a split market, with responsible companies migrating away from areas of active deforestation. The result could be an increase in tropical forest clearing.

### 2 | THE RISK OF DEEPENING RURAL FOOD INSECURITY AND POVERTY

Indigenous and traditional peoples and other types of smallholders throughout the tropics overcome the low fertility of their soils and crop pests by clearing and burning patches of forest then planting crops in the ash-enriched earth. As the pulse of post-burning nutrients passes, the recovering forests are often managed for the long-term provision of food, medicines, building materials and wild game for years to come. These “swidden” agricultural systems can be sustainable—and carbon neutral—if the fallow periods are long enough.

In the face of a CZDP, swidden agriculture can become a liability to the farmer. Communities and farmers who are engaged in swidden agriculture may be excluded from a potentially lucrative new form of revenue—growing commodities—because they are clearing forests. One possible farmer response to CZDPs could be to abandon their swidden fallow production system, choosing a higher risk of food insecurity and lost income from their traditional production systems in order to reduce the risk of being excluded from commodity supply chains. Another response could be to shorten fallows—to make sure that their forests never reach the size at which they are considered to be “forests”<sup>7</sup>.

Smallholders can also be excluded from supply chains through CZDPs because they are difficult to monitor. With small volumes of production, many more small farms are needed to supply commercial volumes of palm oil, increasing the costs of deforestation monitoring. Smallholder farm boundaries are often poorly known and informally designated, with little data or information about them. Just as companies with ZDPs may migrate away from areas of active deforestation, companies may also shift their procurement strategies away from smallholders. By October 2015, smallholder oil palm farmers in Indonesia had already reported difficulties in selling their fresh fruit bunches to companies who had made zero deforestation commitments.<sup>8</sup>

### 3 | THE RISK OF PENALIZING FARMERS AND FARM BUSINESSES WHO ARE STRIVING TO COMPLY WITH THE LAW

Most companies make CZDPs without reference to the laws, public policies and regulations for forest clearing in the tropical forest regions they buy from. This means that they can inadvertently penalize the rural actors who are critical proponents of sustainable rural development: the farmers and businesses who are striving to comply with the law. Let's take the state of Mato Grosso, Brazil, as an example. There are 7 million hectares of forests that can be legally cleared for agricultural expansion. If farmers and businesses lose their legal right to clear these forests, the future value of their properties will decline by several billion dollars<sup>9</sup>. The zero deforestation pledge agenda reduces land values, especially for those landholders who have maintained more than the legal requirement of forest on their land. There is currently no viable mechanism in place to compensate farmers who forego their legal right to clear forests on their properties. This is one reason farmers have never supported the Soy Moratorium. It imposes a restriction on forest clearing on private land that is more onerous than the Forest Code, but provides no mechanism for compensating law-abiding farmers for the opportunity costs associated with these restrictions.

### 4 | THE RISK OF ANTAGONIZING GOVERNMENTS AND FARMERS IN TARGET REGIONS

In a similar vein, CZDPs can trigger negative reactions from the governments, farm sectors and other members of regional societies where deforestation is taking place. The government agencies responsible for law enforcement, public policies, economic development, rural extension and agricultural credit are critically important actors in the fight against deforestation. If they are not engaged in the deforestation dialogue, they can become opponents of CZDPs.

The biggest opportunity represented by CZDPs is the chance to encourage national and subnational governments around the world to develop and implement policies for fostering sustainable development—including policies that drive steep declines in deforestation and forest degradation across vast forest estates. A CZDP that is announced unilaterally, without discussion with key stakeholders, is tantamount to defining the forest cover goals for a region without talking to the key stakeholders on the ground—governments and farmers.

The top-down, declaratory nature of CZDPs is also not conducive to collaborative solutions to policy barriers. Many nations have policies to discourage land grabbing and encourage the productive use of rural lands that use forest cover as a metric for “unproductive use”. In Brazil and Indonesia, for example, a private landholding or concession can be lost if it is kept in forest cover above and beyond the legal mandate. CZDPs that are not well aligned with policies will have diminished likelihood of success.

In the case of Indonesia, palm oil companies are operating in state lands that are allocated to them through concessions and are zoned for conversion to agriculture. It is expected that companies will cultivate the land according to the government's designations and regulations. The concept of zero deforestation proposed by the companies is different than the Government's. Without a meaningful dialogue with the government, who controls the land, it is unlikely that the company's commitment will be supported by the government.

### 5 | THE RISK THAT COMPANIES CREATE TOO MANY NEW RULES AS REQUIREMENTS FOR PRODUCERS AND PROCESSORS

As anyone who has worked with global standards for agricultural certification knows, the task of implementing performance criteria across tens of thousands of farms is difficult and costly. Reliable traceability and monitoring systems, third party audits, and systems for reporting and responding to grievances are essential features of farm-by-farm or mill-by-mill performance systems that each company that issues a CZDP must now put in place<sup>4</sup>. If the wave of CZDPs is accompanied by a proliferation of individual company rules and requirements that are passed along to processors and farmers, the risk of failure will increase.



## MAKING THE MOST OUT OF CZDPs

There are ways of mitigating the risks of CZDPs that some companies are already embracing. The key conceptual shift is from a “corporate risk management” strategy, in which companies seek to distance themselves from the problem, to a “sustainable development” strategy, in which companies become part of the regional solution to the problem. We offer some options through which companies can put this conceptual shift into practice, helping to solve the problem of deforestation regionally instead of distancing themselves from it. These options form the basis of an approach to sustainable development that we call the “territorial performance system”<sup>10,11,12</sup>, that is being implemented in Mato Grosso, Brazil, Central Kalimantan, Indonesia, and in other regions.

### OPTIONS FOR IMPLEMENTING DEFORESTATION PLEDGES AT LOW COST AND HIGH IMPACT

#### 1 | SUPPORT ROUNDTABLES AND OTHER INTERNATIONAL CERTIFICATION STANDARDS

RSPO (Roundtable for Sustainable Palm Oil), RTRS (Roundtable for Responsible Soy), Bonsucro (Better Sugar Initiative), and other international certification standards have developed the rules and systems for measuring success, monitoring success and reporting and responding to grievances. Their memberships are large and include many of the businesses and farm organizations that are key to the success of deforestation strategies. They are also evolving to achieve higher impact. Last year, for example, RSPO launched three pilot projects for jurisdictional certification of palm oil production—certification across entire districts and states. Bonsucro is analyzing all of its criteria through the lens of jurisdictional sustainability.

#### 2 | PARTNERSHIPS WITH REGIONAL GOVERNMENTS AND FARMER ORGANIZATIONS

Companies can lower the implementation costs and increase the impacts of their deforestation pledges through partnerships with farm organizations and governments within their commodity sourcing regions. These partnerships can help avoid the rejection of deforestation pledges that is being voiced by some governments<sup>13</sup> and farm organizations<sup>14</sup>, while building a shared agenda for addressing deforestation and other sustainability issues that is feasible and locally “owned”. Cargill’s recent forest policy<sup>15</sup>, the Norwegian Feed and Food Companies’ sustainability commitment<sup>16</sup>, and Unilever’s sustainability strategy are important examples of corporate commitments to these partnerships.

There are excellent platforms for building these partnerships. The “**Governors’ Climate and Forests task force**” (GCF) has a membership of 29 states and provinces that include one fourth of the world’s tropical forests, including most of the forests of Indonesia, Brazil, Peru and Mexico. GCF states & provinces recently launched the “Rio Branco Declaration”, committing these members to reduce deforestation 80% by 2020.


The government of Seruyan District, Central Kalimantan, recently established a formal collaboration with the companies of the Indonesia Palm Oil Pledge to bring the entire District under RSPO certification (see Box 1).

### BOX 1

#### A NEW PARTNERSHIP BETWEEN THE GOVERNMENT OF SERUYAN DISTRICT GOVERNMENT, CENTRAL KALIMANTAN GOVERNMENT, AND IPOP

The MOU signed November 17th 2015 between these parties is the first formal public-private partnership involving provincial and district government to promote sustainable palm oil production in Indonesia, and is supported by INOBU and Earth Innovation Institute. The MoU was signed on the sideline of the RSPO RT13 in Kuala Lumpur, where Hon. Sudarsono, the Head of Seruyan district announced a landmark initiative for ensuring that all palm oil produced and processed in District will be certified as sustainable. Seruyan district covers 1.6 million hectares of land; around 200,000 hectares are planted by palm oil, of which smallholders currently own 15,000 hectares. These smallholders are targeted to be all surveyed and mapped in 2016, the first government-led initiative in Indonesia.

Through the jurisdictional approach to certification, the government of Seruyan will implement a model of rural development that improves the welfare of the rural poor, while reducing deforestation and recognizing the rights of indigenous people. In his remarks during the announcement of Seruyan’s pathway towards jurisdictional certification, the head of the district, Hon. Sudarsono reiterated: “Our dream in Seruyan is to ensure that all commodities coming from the district, such as palm oil, are produced sustainably. By purchasing palm oil from Seruyan, buyers and consumers will know that companies and smallholders are producing them without causing deforestation or degrading peatlands. They will also know that there was no burning when clearing land or seizures of indigenous lands.”



*One of the biggest success stories in the fight against climate change is the deceleration of deforestation in the Brazilian Amazon region<sup>1</sup>.*

**3 | COMMIT TO PARTICIPATE IN PROCESSES THAT DEVELOP REGIONAL DEFINITIONS OF SUCCESS FOR ADDRESSING DEFORESTATION AND OTHER ISSUES**

One important aspect of a more respectful, nuanced approach to deforestation is a commitment to participate in regional processes in which the main sectors and stakeholders identify the key issues, targets and milestones that should define success. Companies can send important positive market signals that can strengthen these processes; company participation and support can also provide political cover to government authorities who are preparing to formally establish sustainable development targets. An important example of such a process, in Mato Grosso, is described in Box 2.

**4 | HELP DEVELOP POSITIVE INCENTIVE SYSTEMS FOR SUPPORTING TRANSITIONS TO SUSTAINABLE PRODUCTION AND FOR COMPENSATING LOST LAND REVENUES**

Brazil has demonstrated that it is possible to decelerate deforestation across an enormous region through largely command-and-control measures<sup>1</sup>. It has also demonstrated the fragility of this approach if it is not accompanied by positive incentives for agricultural systems that are less dependent on deforestation. Companies are well-positioned to send immediate, positive incentives to farmers who are making the transition to low- or no-deforestation production systems, including help in mapping and titling community or smallholder lands, investments in high quality production systems, long-term purchase agreements and better contractual terms. Companies are often better positioned than government agencies to provide technical assistance to smallholders.

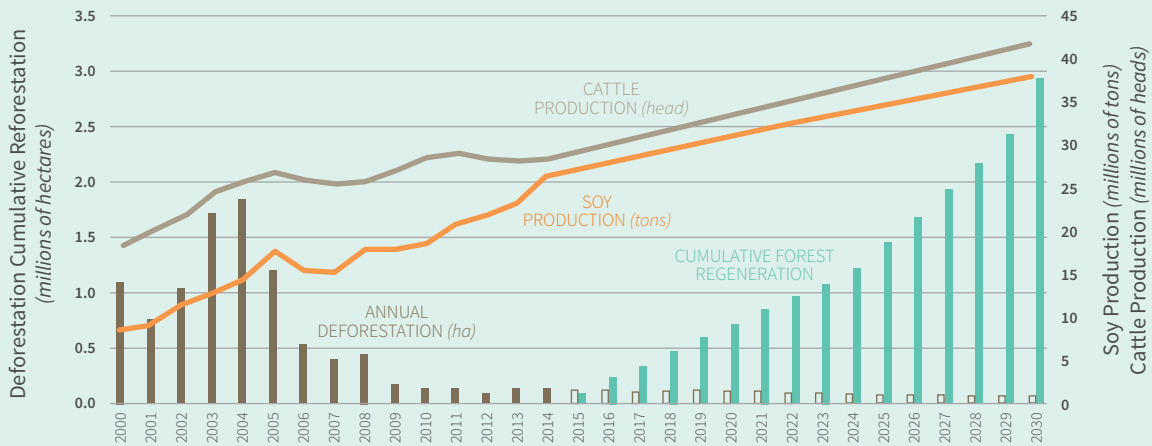
## BOX 2

### MATO GROSSO LAUNCHES ITS “PRODUCE, CONSERVE, INCLUDE” PLAN

The giant Brazilian state of Mato Grosso—more than twice the size of Germany—has launched a bold plan for slowing deforestation, re-establishing critical forests along streams and rivers, supporting smallholder farmers through technical assistance, increasing production of soy, beef and wood products, ending illegal deforestation, and re-establishing new forests. If successful, the PCI Plan will keep six million tons of carbon dioxide (equivalent) out of the atmosphere by 2030, more than twice the reduction in carbon pollution that will be achieved by President Obama’s “Clean Power Plan”. Some of the main goals of the plan are summarized graphically below. The chances of the PCI strategy succeeding are increased through

the collaboration of companies that have pledged their support. Grupo Amaggi, a Brazilian soy conglomerate, and Marfrig, one of Brazil’s largest meat processing companies, have already stated their support for the plan. The Norwegian food and feed industries have also formalized their support for the Mato Grosso plan, led by Denofa. A formal governance structure is under development in which the production goals will be led by the Secretary of Economic Development, the conservation goals will be led by the Secretary of Environment, and the inclusion goals will be led by the Secretary of Family Agriculture.

#### MATO GROSSO: DEFORESTATION, REGENERATION, AND PRODUCTION





## 5 | CONTRIBUTE TO DEVELOPMENT OF MONITORING SYSTEMS FOR TRACKING PROGRESS TOWARDS REGIONAL TARGETS AND MILESTONES

Reliable monitoring systems are essential to the success of regional approaches to deforestation and other dimensions of sustainable development. These systems allow companies to gauge how close their supply sheds are to the deforestation targets that are being discussed and facilitate the creation of regional performance-based incentive systems. Brazil's annual publication and dissemination of annual deforestation polygons for the Amazon region has been central to the success of the policy interventions that drove down deforestation rates. A monitoring platform for tracking progress towards multi-stakeholder targets for deforestation, labor infractions and other issues can be seen at [monitoring.earthinnovation.org](https://www.monitoring.earthinnovation.org).

## 6 | PARTICIPATE IN MULTI-STAKEHOLDER GOVERNANCE STRUCTURES

Once goals, incentive systems and monitoring systems are in place, a governance structure is needed to drive implementation of the jurisdictional plan while making key decisions and adjustments to the plan as new issues arise. This structure must include representation of the key stakeholders— governments, farmers, commodity-buying businesses, indigenous/traditional peoples, and civil society.

## WHAT TO DO IF GOVERNMENTS ARE NOT READY TO COLLABORATE

In many regions, governments have little capacity or interest in supporting a regional sustainable development agenda. In these situations, companies should seek local actors—farmer organizations, cooperatives, NGOs, local companies—who could become partners in developing strategies for regional, low-deforestation sustainable development. Over time, governmental interest and capacity can change, as we have seen in many place around the world.

## CONCLUSION

Corporate deforestation pledges have sent a powerful signal to the farmers and local governments of tropical forest provinces, states and nations: clear forests and you may be cut out of markets. Now, a second message is urgently needed from these same corporations: we are ready to work with you to achieve sustainable, equitable development. Some corporations have already made this transition.



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