



5.5 Corporate deforestation pledges: five risks and seven opportunities

DANIEL NEPSTAD, JOHN WATTS, JOKO ARIF, SILVIA IRAWAN and JOÃO SHIMADA

Introduction

Corporate zero-deforestation pledges have been the source of considerable enthusiasm in recent years. They could provide important market reinforcement for the many policies and programmes established by tropical nations and sub-national governments to slow deforestation. They could also lead to unintended consequences, however.

Deforestation commitments have been made by more than 300 major companies that buy large volumes of commodities whose production can drive tropical deforestation (Forest Trends 2015). The logic of these pledges is quite simple. When companies announce that they will no longer buy products that are associated with tropical deforestation, farmers and businesses that grow and sell these commodities 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 entire markets for a particular commodity excluding farmers and companies who continue to clear forests.



CORPORATIONS SHOULD COLLABORATE WITH THE FARM SECTORS AND LOCAL GOVERNMENTS OF THEIR SUPPLY REGIONS.

It is essential that these pledges succeed. But as with any proposal for slowing tropical deforestation in dynamic agricultural frontiers where the rule of law is often weak and land grabbing prevails, the details are important. Corporate zero-deforestation pledges are an important opportunity to reinforce the development and implementation of effective governance, public policies and programmes designed to slow deforestation and foster sustainable development (Nepstad et al. 2014). This positive influence is by no means assured, however, and there are risks that deserve special consideration.

This article builds on previous work on this topic (Pacheco 2015; Pirard et al. 2015; Rainforest Alliance 2015) by discussing case studies from Indonesia and Brazil that

Daniel Nepstad is Executive Director, Earth Innovation Institute, San Francisco, USA; **John Watts** is Research Associate, Earth Innovation Institute, Bali, Indonesia; **Joko Arif** is Managing Director, INOBU, Jakarta, Indonesia; **Silvia Irawan** is National Coordinator, Earth Innovation Institute and INOBU Board Chair, Bali, Indonesia; and **João Shimada** is Agribusiness Lead, Earth Innovation Institute, Cuiaba, Brazil.

highlight the fragility of these commitments in both their durability, their ability to ensure reductions in deforestation rates and their potential negative outcomes.

Five risks

1. *Splitting the market*

One way for a company to meet its deforestation pledge is by distancing itself from the problem; i.e., 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. For example, in 2006, McDonald's Brazilian branch (*Arco Dourado*) decided to end its sourcing of beef and soy grown in the Brazilian Amazon region in response to NGO campaigns (Kaufman 2007). But when companies vulnerable to reputational risks pull out of a region, others less committed to sustainability are ready to step in, and will face less competition. The net effect could be a split market, with responsible companies moving away from areas of active deforestation; this could result in an increase in tropical forest clearance.

2. *Deepening rural food insecurity and poverty*

Indigenous people and other smallholders throughout the tropics overcome low soil fertility and crop pests by clearing and burning patches of forest, then planting crops in the ash-enriched earth. These swidden agricultural systems can be sustainable and carbon neutral if fallow periods are long enough, but farmers who engage in this practice may be excluded from a potentially lucrative new form of revenue from growing commodities



because they are clearing forests (Greenpeace 2014). Smallholders can also be excluded from supply chains because they are difficult to monitor. For example, with small volumes of production, many more small farms are needed to supply commercial volumes of palm oil. This increases the costs of deforestation monitoring. Smallholder farm boundaries are often not clear and informally designated, with little data or information about them. Just as companies with zero-deforestation commitments may move 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 reported difficulties in selling their produce to companies who had made zero-deforestation commitments.

3. *Penalizing farmers and farm businesses who are striving to comply with the law*

Some companies make commitments without considering the laws, public policies and regulations for forest clearing in the tropical forest regions they buy from. This means that they may inadvertently penalize farmers and businesses who are striving to comply with the law. In Mato Grosso, Brazil, for example, there are 7 million ha 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 (Stickler et al. 2013), and there is currently no viable mechanism to compensate farmers who forego their legal right to clear forests on their land. This is one reason why few farmers have supported the soy moratorium. It imposes a restriction on forest clearing on private land that is more onerous than the Forest Code, and provides no compensation to law-abiding farmers for the opportunity costs associated with it.

4. Antagonizing governments and farmers in target regions

Corporate commitments to zero deforestation can trigger negative reactions from governments, farmers and other groups where deforestation is taking place. 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 dialogue, they can become opponents. A unilaterally announced commitment without discussion with key stakeholders is tantamount to defining forest cover goals without talking to those on the ground. Many nations have policies that discourage land grabbing and encourage the productive use of rural land that use forest cover as a metric for “unproductive use.” In Brazil and Indonesia, a private landholding or concession can be lost if it is kept in forest cover above the legal mandate. Commitments that are not well aligned with policies have little likelihood of success. In Indonesia, palm oil companies are operating in state lands allocated to them through concessions that are zoned for conversion to agriculture, and are expected to use land according to government designations and regulations. If the concept of zero deforestation proposed by a company is different than the government’s, it is unlikely that the commitment will be supported.



5. Companies creating too many new rules and requirements

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 makes a commitment must put in place. The proliferation of individual company rules and requirements that are passed along to processors and farmers increases the risk of failure.

Seven opportunities

Some companies have already embraced ways of mitigating such risks. The key conceptual shift is from a corporate risk management approach — in which companies seek to distance themselves from the problem — to a sustainable development approach, where companies become part of the solution. This forms the basis of a jurisdictional approach (Earth Innovation Institute 2017) to sustainable development, such as the territorial performance systems being implemented in Mato Grosso, Brazil (Box 1), Central Kalimantan, Indonesia (Box 2), and other regions (Nepstad et al. 2015).

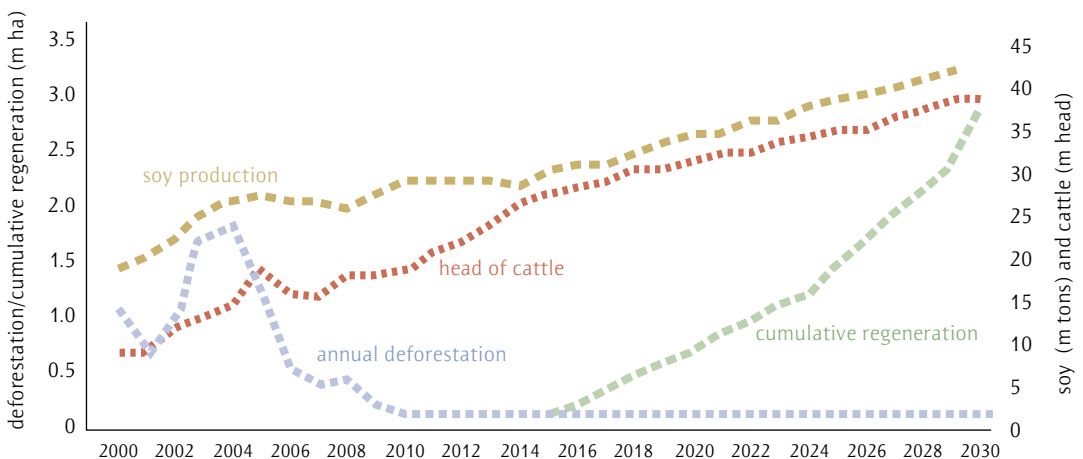
Box 1. Reducing deforestation in Mato Grosso, Brazil

The giant Brazilian state of Mato Grosso, more than twice the size of Germany, has launched the bold Produce, Conserve, Include plan. The plan aims to reduce deforestation, reestablish critical forests along streams and rivers, support small-holder farmers through technical assistance, increase the production of soy, beef and wood products, end illegal deforestation, and reestablish new forests (see Figure 1). If it succeeds, it will keep four million tonnes of CO₂ out of the atmosphere by 2030. The plan's chances of success have increased with the collaboration of companies that have pledged their support. The Brazilian soy conglomerate Grupo Amaggi, one of Brazil's largest meat processing companies, Marfrig, and the Norwegian food and feed industries, led by Denofa, have already stated their support. A formal multi-stakeholder governance structure has been established, and rules for a possible large-scale sustainable soy sourcing agreement between China and Mato Grosso are being investigated.

1. Support roundtables and other international certification standards

The Roundtable on Sustainable Palm Oil (RSPO), Roundtable on Responsible Soy (RTRS), Better Sugar Initiative (Bonsucro), and other international certification standards have developed rules and systems for measuring success, reporting, and for responding to grievances. Memberships are large and include businesses and farm organizations that are key to the success of deforestation strategies. They are also evolving to achieve greater impact. In 2015, for example, RSPO launched three pilot projects for the jurisdictional certification of palm oil production; i.e., certification across entire districts and states.

Figure 1. Goals of the Produce, Conserve, Include plan, Mato Grosso, Brazil



2. Collaborate with regional governments and farmer organizations

Companies can lower implementation costs and increase the impacts of their deforestation pledges through partnerships with producer organizations and governments within commodity sourcing regions. This helps avoid rejection of deforestation pledges, while building a shared and locally owned agenda for addressing deforestation and other sustainability issues. Cargill's recent forest policy, the Norwegian Feed and Food Companies' sustainability commitment, and Unilever's sustainability strategy are important examples of corporate commitments to such partnerships. There are excellent platforms for building these partnerships, including the Governors' Climate and Forests task force (GCF). The 35 states and provinces that make up its membership, many in Indonesia, Brazil and Peru, include about one third of the world's tropical forests. The GCF recently launched the Rio Branco Declaration, which commits members to an 80% reduction in deforestation by 2020.

Box 2. A jurisdictional approach in Central Kalimantan, Indonesia

On 17 November 2015, a Memorandum of Understanding was signed by the government of Seruyan District, Central Kalimantan, the provincial government, and the Indonesian Palm Oil Pledge (IPOP). This was the first formal public-private partnership involving the provincial and district government to promote sustainable palm oil production in Indonesia. It aimed to ensure that all palm oil produced and processed in the district would be certified as sustainable. Seruyan District covers 1.6 million ha, with 200,000 ha of oil palm plantations of which smallholders own 15,000 ha. Through this jurisdictional approach to certification, the government of Seruyan would implement a model of rural development to improve the welfare of the rural poor, reduce deforestation, and recognize the rights of indigenous people. This initiative was followed in April 2016 by the government of the neighbouring Kotawaringin Barat District; it signed an MOU with the provincial government and Unilever. These public-private partnerships have endured, although the IPOP was dissolved in September 2016 (Vit 2016).

3. Participate in processes that develop regional definitions for addressing deforestation

An important aspect of a more respectful, nuanced approach to deforestation is a commitment to participate in regional processes whereby the main sectors and stakeholders identify key issues, targets and milestones to define success. Companies can offer positive market signals to strengthen these processes, and their participation and support also provides political cover to governments that are preparing to establish formal sustainable development targets.

4. Help develop positive incentive systems for supporting the transition to sustainable production systems and for compensating for lost land revenues

Brazil has demonstrated that it is possible to slow deforestation across a large region (the Brazilian Amazon) through command-and-control measures. It has also revealed the fragility of this approach if it is not accompanied by positive incentives to establish agricultural systems that are less dependent on deforestation. Companies are well positioned to send immediate, positive incentives to farmers who make the transition to low- or no-deforestation production systems. This includes help in mapping and titling community or smallholder lands, investments in high-quality production systems, long-term purchase agreements, and better contractual terms. Also, companies may be better positioned than government agencies to provide technical assistance to smallholders.

5. Contribute to the development of monitoring systems

Reliable monitoring systems are essential to the success of regional approaches to deforestation and other dimensions of sustainable development. Monitoring allows companies to gauge how well they are meeting deforestation targets, and it facilitates the creation of regional incentive systems based on performance. For example, Brazil's annual publication and dissemination of data on deforestation patches for the Amazon region has been central to the success of policy interventions that reduced deforestation rates.

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; it must also allow for key decisions and adjustments as new issues arise. This structure must include representation from key stakeholders, governments, farmers, commodity-buying businesses, indigenous peoples, and civil society.

7. Be patient

Governments may have limited capacity for or initial interest in supporting regional sustainable development agendas. In these situations, companies should first seek local actors — farmer organizations, cooperatives, NGOs and local companies — who could become partners in developing strategies for regional, low-deforestation sustainable development.

Conclusions

Corporate zero-deforestation pledges are most successful if they are implemented with full understanding of both their potential and the risks. Risks include splitting the market, deepening rural food insecurity and poverty, penalizing farmers and farm businesses who strive to comply with the law, and antagonizing governments and farmers in target regions. Commitments are most effective if they are developed and implemented collaboratively — instead of unilaterally — through partnerships with farmers and local governments, and if they support sustainability certification systems such as RSPO and

RTRS, instead of trying to replace them. Companies can also help develop the monitoring and incentive systems that are essential elements of regional strategies for slowing deforestation.

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

Acknowledgements

This paper was made possible with funding from NORAD, the Gordon and Betty Moore Foundation, and the Grantham Foundation. It is a product of the Forests, Farms and Finance Initiative. Thanks for significant inputs go to Earth Innovation Institute deputy director David McGrath, research associates and scientists, Tathiana Bezerra, Claudia Stickler and Briana Swette, all based in San Francisco, USA, and the Colombia National Coordinator, Maria Teresa Becerra.

References

- Earth Innovation Institute. 2017. *Jurisdictional Sustainability: Primer for Practitioners*. San Francisco, USA: Earth Innovation Institute.
- Forest Trends. 2015. *Supply Change: Corporations, commodities, and commitments that count*. Washington, DC, USA: Forest Trends.
- Greenpeace. 2014. *The High Carbon Stock Approach: No deforestation in practice*. Greenpeace.
- Kaufman, M. 2007. "New allies on the Amazon." *The Washington Post*, 24 April 2007.
- Nepstad, D.C., D.G. McGrath, C.M. Stickler, A. Alencar, A.A. Azevedo, B. Swette, T. Bezerra, M. DiGiano, J. Shimada, R. Seroa da Motta, E. Armijo, L. Castello, P. Brando, M.C. Hansen, M. McGrath-Horn, O. Carvalho and L. Hess. 2014. "Slowing Amazon deforestation through public policy and interventions in beef and soy supply chains." *Science* 344 (6188): 1118–1123.
- Nepstad, D.C., J. Shimada, O. Carvalho and B. Swette. 2015. *Territorial Performance System: a framework for driving large-scale jurisdictional transitions to low-emission rural development in the tropics*. San Francisco, USA: Earth Innovation Institute.
- Pacheco, P. 2015. *One wicked problem, three major challenges*. Forest News blog, CIFOR, Bogor, Indonesia.
- Pirard, R., S. Gnych, P. Pacheco and S. Lawry. 2015. *Zero-deforestation commitments in Indonesia: governance challenges*. CIFOR Infobrief 132.
- Rainforest Alliance. 2015. *Halting deforestation and achieving sustainability: A Rainforest Alliance position paper on sustainable agriculture and forestry supply chains*.
- Stickler, C.M., D.C. Nepstad, A.A. Azevedo and D.G. McGrath. 2013. "Defending public interests in private lands: compliance, costs and potential environmental consequences of the Brazilian Forest Code in Mato Grosso." *Philosophical Transactions of the Royal Society B* 368 (1619): 20120160.
- Vit, J. 2016. "Under government pressure, palm oil giants disband green pledge." *Mongabay*, 1 July 2016.