



## COP26 & the bid to end deforestation: How will it impact supply chains?



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The fight to mitigate against harmful deforestation had one of its biggest ever endorsements last November during the COP26 event, when a commitment was agreed by global leaders to end or reduce deforestation. Over 141 countries committed to “working collectively to halt and reverse forest loss and land degradation by 2030” while “delivering sustainable development and promoting an inclusive rural transformation.” It does not only refer to “illegal” deforestation as many other pledges do, it covers all deforestation, not just logging or land clearance in violation of local laws but all logging and loss of forest through land-use changes.

In this article we consider what this pledge will mean for the supply chain for forestry and agricultural products.

## **The role of commercial agriculture in deforestation**

Commercial agriculture drives over 70% of forest destruction in tropical and sub-tropical countries. Commodities most strongly linked to deforestation include palm oil, soy, timber, pulp, and cattle. This is often due to illegal logging and changes in land use.

A growing number of retailers, manufacturers, processors and traders in the food, fuel, and fibre sectors are making public commitments to establish deforestation-free supply chains. The rise of net-zero emissions commitments may provide the strongest impetus yet to eliminate deforestation from commodity production, sourcing, and financing. Such commitments doubled in 2020 alone and have now collectively been issued by companies with combined revenue of more than half the US’s annual GDP.

To tackle agricultural emissions, UK supermarket Tesco has recognized the need to follow its supply chain upstream – to origins in Brazil, Indonesia, and elsewhere – and institute a strong no-deforestation and no-conversion strategy. For instance, the difference between conversion-free sourcing and conversion-intensive sourcing for Tesco’s 500,000-ton annual soy purchases (primarily for animal feed) could be more than 100,000 tons of CO<sub>2</sub>-equivalent per year, which is equivalent to roughly 20% of the company’s supply chain emissions.

Companies also need to be aware of the potential for reputational damage. Recently some of the UK’s best-known brands such as Cadbury’s Chocolate, Anchor Butter, and Cathedral City Cheddar have been linked to the destruction of Brazilian forest through soya – a protein-rich cattle feed supplement.

## **What can be done to stop deforestation?**

According to a 2015 report by SMART Development Works, three key practices are needed to help shift to deforestation-free supply chains.

### ***Traceability and forest monitoring***

It is crucial that production is traced back to the farm and that a system is in place which monitors forest cover. Although systems exist that can achieve this, the main challenge is to deliver this at a low cost to make it work in a smallholder context.

### ***Incentives for smallholders***

To ensure that smallholders and the poorest groups are included in supply chains, and to support them in making the transition to sustainability.

### ***Working across the landscape***

A landscape approach must be adopted to prevent leakage and to balance the objectives for agricultural production with forest protection. To be able to operate beyond plantation boundaries and have an impact at scale, activities should align with government planning and activities wherever possible.

## **Regulations versus voluntary measures**

The discussion on stopping deforestation has focused on regulations versus voluntary initiatives. Voluntary measures include certification with some certification schemes well established. For example, over the past 30 years the Rainforest Alliance has developed a comprehensive, 360-degree approach to protecting the world’s forests however, the rules are being tightened. New standards will require farmers to increase native tree cover on existing farms and in agroforestry systems or conservation lands.



Certification schemes can contribute to building sustainable supply chains, but they often have limited capacity for monitoring and enforcement. Evidence exists of the difficulties certification schemes experience in ensuring compliance with sustainability criteria such as a recent study which found that up to 30% of UTZ Certified coffee farms in Vietnam were not in full compliance with the standard.

## Proposed regulations

The European Commission has proposed laws to restrict products linked to deforestation from entering the EU. The proposals would require all companies selling beef (including leather), soy, palm oil, timber, coffee, and cacao in the EU market to conduct “due diligence” to prove they are legal and have not caused deforestation or forest degradation. Companies would need to do a different level of due diligence depending on a country’s risk rating.

The Commission proposes assigning a high, medium, or low rating to producer countries based on deforestation rates verified through satellite monitoring, producer country legal frameworks, countries’ deforestation pledges, and agreements between the EU and third countries. Importantly, companies could no longer rely on certification schemes to prove their deforestation-free status. There would also be sanctions on companies selling illegal or deforestation-causing products. The regulation would apply to all companies selling in the EU, regardless of where they are domiciled. However, NGOs have claimed that the proposals are not strong enough to protect forests and the rights of people living in them.

According to the WEF (World Economic Forum), there is a need to avoid a ‘top-down’ approach. Partnership with producer countries needs to be at the core of any attempt to reverse deforestation. However, the effectiveness of due diligence will be limited without incentives that foster action on the ground to address the root causes of deforestation in producer countries.

## Partnerships

Producer partnerships are agreements between consumer and producer countries, which can include governments, private sector players, and other stakeholders. For example, the European Union and the Republic of Ghana have signed a producer partnership agreement on forest law enforcement, governance, and trade in timber products. Such agreements can encourage sustainable practices across commodity supply chains and help to ensure decent livelihoods for producers. Trade and green finance can become strong drivers of positive change.

## The role of technology in deforestation

The European Commission is investigating the potential of blockchain to improve sustainability and sourcing. The European Blockchain Services infrastructure, or ‘EBSI’, is due to enter its second phase towards the end of this year, and upon completion aspires to be facilitating up to 15 billion transactions per minute, a world-first for blockchain technology. Technology firm iov42 is working with the EU to leverage blockchain to improve standards of cross-border services for governments and organizations. The company launched Timber Chain this year - an application that imparts blockchain digital identities to each of the stakeholders that are part of the supply chain and represents timber as digital assets.

## Balancing deforestation with supply chain management

Reducing deforestation could go a long way towards cutting carbon emissions, whilst at the same time enhancing biodiversity and protecting forest communities. There is no one single solution, but it can only be achieved by a range of market-led, voluntary, technical, and regulatory approaches.



## Fear of prolonged disruption

Our agribusiness consultants at Farrelly & Mitchell work across the global agricultural industry giving us a unique bird's-eye perspective on how different activities can have an impact on each other. From government policy to agricultural techniques to consumer trends, we help our clients to find the linkages, relationships and unintended consequences that occur in the agricultural supply chain. We can add value to your project or investment by sharing our knowledge on how policies and practices such as deforestation may influence the outcome of your interests.

*Talk to us today about your project or investment,  
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