




the sustainable
trade initiative

A lush tropical forest landscape with dense green trees and a misty atmosphere. The forest extends to a mountain range in the background under a hazy sky.

Key insights of: **The urgency of action to tackle tropical deforestation**

Protecting forests and fostering
sustainable agriculture

A calm body of water reflecting the dense green forest and sky above. The reflection is clear and detailed, mirroring the natural scene.

2020

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Tropical forests are globally significant – they are home to some of the most biodiverse ecosystems on the planet, sequester enormous quantities of carbon, and sustain local communities and businesses – and face great pressures from extractive deforestation and conversion to agriculture.

Commodity production is the single largest driver with 86% of cumulative tropical deforestation from 2010-2015 directly linked to agricultural expansion. This report describes the urgent need to take action to reduce the deforestation driven by eight deforestation-linked commodities (palm oil, soy, beef, cocoa, coffee, rubber, pulp & paper, and tropical timber) in 12 European markets and 7 producing countries. The report demonstrates that current efforts by the private and public sectors throughout supply chains are insufficient to halt commodity-driven deforestation. Accelerated ambition by stakeholders from producers to consumers could contribute to tackling deforestation and climate change, and improve economic livelihoods and sustainable development in producer countries and regions. Success hinges on cooperation between industry, civil society, and governments.

Despite increasing focus on sustainable production and praiseworthy initiatives by the public and private sectors, global deforestation continues to grow at record rates.

There are deforestation hotspots on every tropical continent, driven by a small group of key commodities. Brazil and Indonesia recorded the highest levels of tropical deforestation, while large forest landscapes were also cleared in other Latin American (Paraguay, Argentina, Bolivia) and Asian (Malaysia) countries. Deforestation levels are also increasing in Africa as new deforestation hotspots emerge in West Africa and the Congo Basin. Beef and soy are the main agricultural drivers in Latin America, while palm oil causes most of the forest loss in Southeast Asia and may grow in significance in the Congo Basin. Forestry is mainly driving temperate forest loss, and about 10% of tropical deforestation can be attributed to wood extraction, including wood pulp. Rubber, coffee, and cocoa are also gaining importance as global demand is growing and readily available substitutes do not exist.



86% of cumulative tropical deforestation from 2010-2015 is directly linked to agricultural expansion

Progress has been made in the sustainable production of palm oil, soy, cocoa, and coffee, but this generally does not account for a large share of global production. Voluntary certifications and standards are the main drivers of these shifts to sustainable production, supporting individual farms and concessions to improve. The voluntary schemes have especially reached frontrunning producers, many of whom have not had a return on investment. Landscape approaches are instrumental in reaching the remaining producers.

THE URGENCY OF ACTION TO TACKLE TROPICAL DEFORESTATION

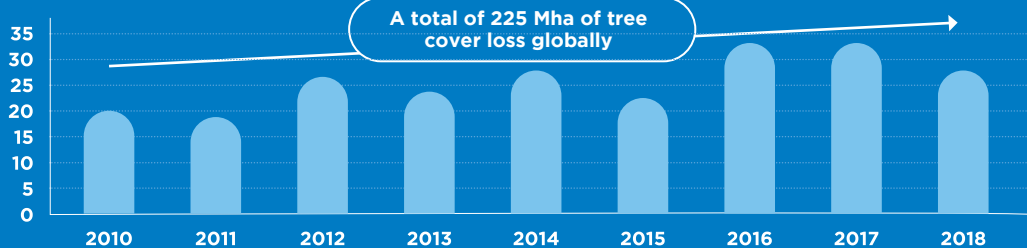
CURRENT DEFORESTATION HOTSPOTS, IN TERMS OF GROSS DEFORESTATION AND SHARE DRIVEN BY AGRICULTURAL ACTIVITIES



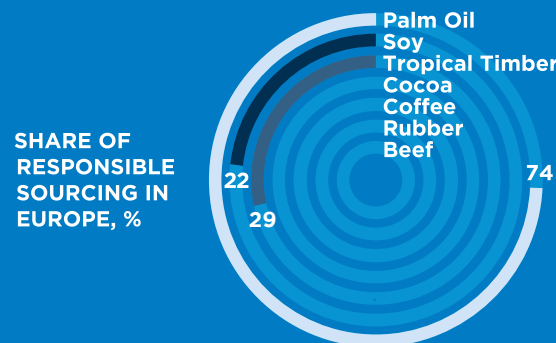
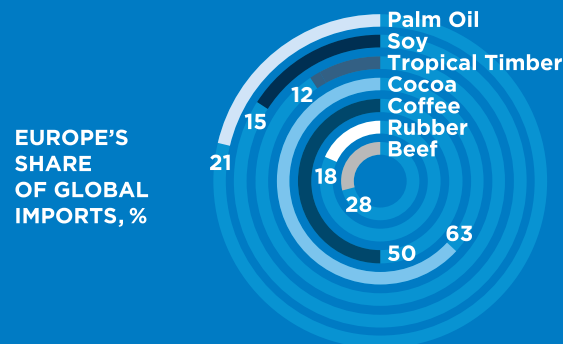
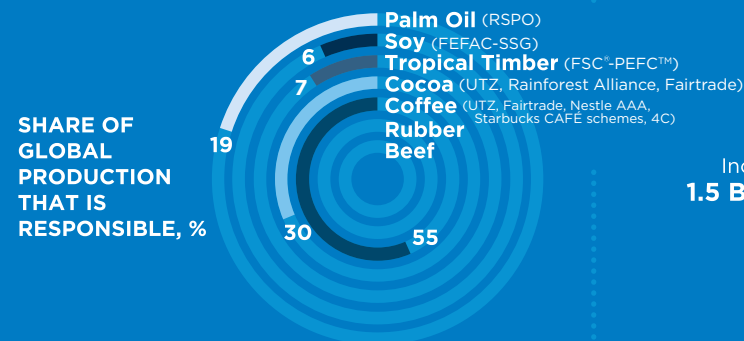
NO COMPANY IS ON TRACK TO ELIMINATE COMMODITY-DRIVEN DEFORESTATION, ACCORDING TO FOREST 500.

FOREST LOSS

Millions of Hectares



OVERVIEW OF KEY COMMODITIES



POTENTIAL BENEFITS OF AMBITIOUS SUSTAINABLE SOURCING



Increased income for **1.5 BILLION** smallholders



1.6 BILLION people are dependent on forests for food and livelihoods

IF EUROPE WAS TO ACHIEVE ZERO-DEFORESTATION IMPORTS BY 2025



an **ADDITIONAL 317 MILLION METRIC TONNES OF CO₂e** could be abated compared to the business-as-usual (BAU) scenario

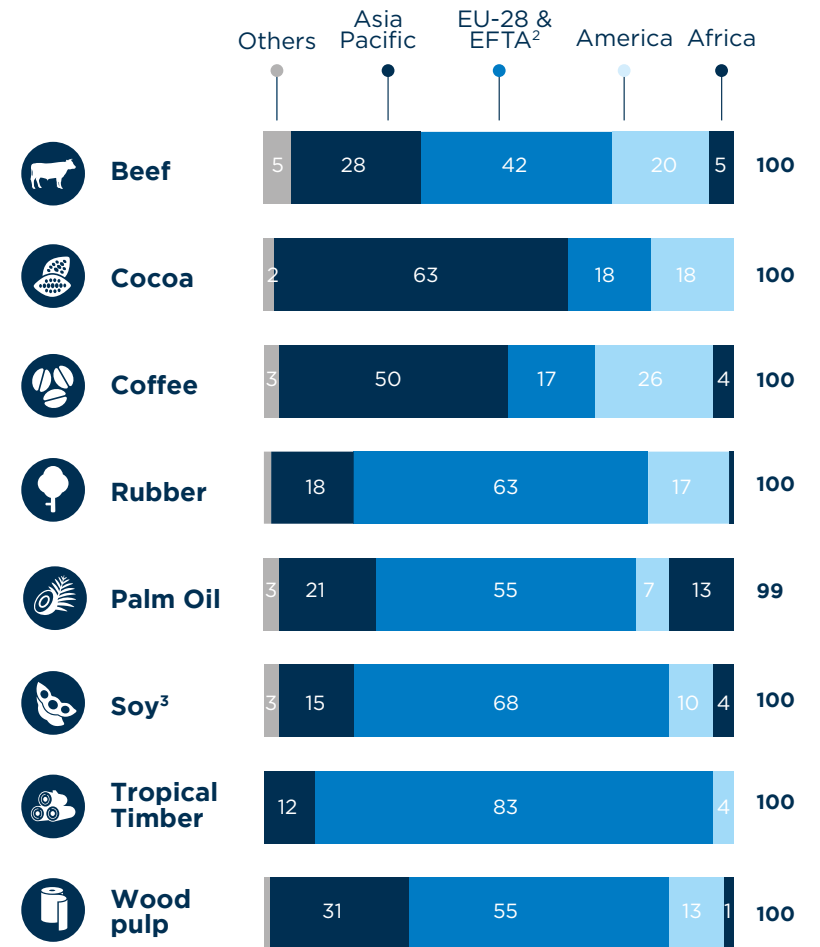


an **ADDITIONAL 3.6 MILLION HECTARES OF FORESTS** could be saved compared to the business-as-usual (BAU) scenario

European countries import a significant percentage of the global production of agricultural commodities. These imports cause externalities that impact forest degradation and global greenhouse gas emissions. European demand plays a significant role in agricultural expansion and sustainable production – increased leadership in sustainable commodity imports could drive significant industry change.

Direct consumption and processing industries in Europe are the main drivers for strong agricultural commodity demand. The region imports commodities like palm oil, rubber, cocoa, coffee, and tropical timber that can't be produced in Europe, and soy to complement its own production. The lion's share of European commodity net imports is attributable to just 12 countries, including the current signatories of the Amsterdam declaration. These 12 countries represent more than 95% of regional net imports of cocoa and soy, more than 90% of palm oil and timber, over 80% of beef, coffee, and wood pulp, and more than 70% of rubber. Sustainable sourcing performance varies significantly by commodity and country. No commodity is on track to achieve 100 percent sustainable sourcing by 2020. Limited data inhibits analysis of all commodities, but it's clear that the share of certified palm oil is higher than figures for responsible soy, and distribution of sustainable imports is unequal across countries (Norway and Switzerland source the highest share of certified palm oil and soy).

Europe accounts for a significant share of global commodity imports



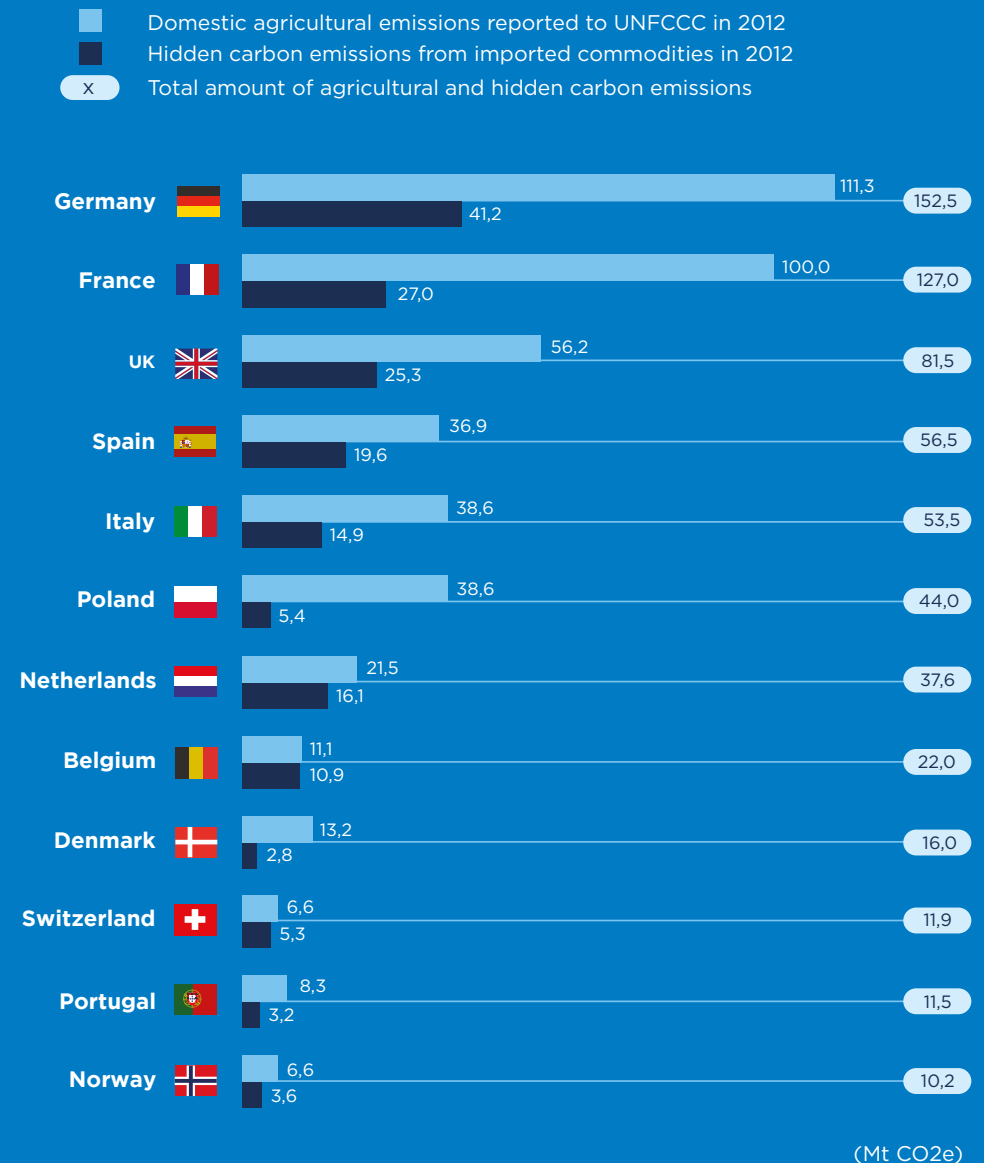
Share of global imports in 2016 (%)

There are gaps throughout the entire supply chain hampering efforts to reduce deforestation.

In producer countries, most initiatives have concentrated on supporting governments in tackling illegal activities, training and capacity building. Addressing lagging sustainable production will require continued investment in these successful initiatives and new innovations to address gaps along the entire supply chain. A scarcity of financing for sustainable production investments is a major unaddressed barrier. Traceability, limited by the proprietary nature of information on production and handling of commodities is also a major obstacle to growing sustainable demand. Information and transparency allows supply-chain actors to track products to point of origin, and verify the impacts of purchases. And on the demand side, the voluntary nature of consumer country sustainability initiatives means there is no clear signal market signal to producers to halt deforestation.

Europe should accelerate investment in sustainable production. Embodied emissions in EU commodity imports may fall to producer countries under current carbon accounting, but the consumption is clearly European. These unseen emissions are titanic, on average amounting to more than 50% of national agricultural emissions for the 12 European countries. In the case of Belgium, imported emissions linked to deforestation nearly exceed national agricultural emissions. Modeling of shifts to sustainable commodity consumption shows the potential for enormous environmental and economic benefits. Adopting a maximally ambitious sustainable sourcing approach in soy and palm oil could positively impact over 3.6 million hectares of forests by 2025. This forest preservation is linked to a reduction of up to half a billion tonnes (500 Mt) of CO₂e emissions over the next 12 years. These environmental benefits aren't necessarily at odds with economic growth - jurisdictional approaches that include stakeholders along the value chain have shown that sustainable practices can improve livelihoods while rendering operations more resilient.

Hidden carbon emissions from imported commodities compared with domestic agricultural emissions of European countries



European policymakers have a key role in the fight to halt tropical deforestation.



Nine recommendations that have the potential to drive industry-wide shifts to reduce tropical deforestation:

- 1** Adopt mandatory reporting guidelines and due diligence requirements. Policy mandating reporting of import volumes, sources, and share sustainably sourced alongside due diligence requirements would force companies to assess the risk of deforestation in their respective value chains and take remedial actions. It would also increase transparency on deforestation-linked commodities and provide levers for further policy applications.
- 2** Introduce mandatory sustainable sourcing requirements for public procurement across the EU. Public institutions are major purchasers for many commodities and aligning procurement policies throughout the EU would drive market uptake for sustainable commodities.
- 3** Mainstream investment in sustainable production. Development assistance should be used to leverage and coordinate private sector capital through blended finance structures.
- 4** Enhance traceability and transparency along the entire value chain. Any buyer, trader, consumer, or interested third party based in consumer countries should be able to easily assess a company or producing region's status and progress on key sustainability targets.
- 5** Develop sustainable sourcing roadmaps to guide industry efforts. EU governments have an important role to play facilitating and supporting industries in developing technical guidelines and implementing procurement procedures for products with high deforestation risk.

- 6 Establish G2G partnerships between European governments and governments in key producing regions to support capacity development and governance. EU governments can support strategic planning, technical assistance and capacity building, financing options and access to credit, and strengthening governance capacity in risk regions.
- 7 Introduce sustainability requirements for financial investments in agricultural and commodity production activities. Financial institutions should set 'No deforestation' targets similar to those committed to reduce financing for those actors still engaging in deforestation.
- 8 Sourcing from priority areas and using jurisdictional sourcing like Verified Sourcing Areas to target deforestation hotspots and alter producer landscape.
- 9 Mainstream sustainable production and consumption by introducing sustainability criteria in producing countries and working with importing markets. Supporting integration of sustainability criteria into producer country laws, fostering market access via mechanisms like tariff reductions and quotas for sustainably produced commodities from target regions, and interfacing with emerging markets like China and India are all crucial to shifting the global narrative on sustainable commodity production.

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