

Briefing

Forests

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Policy pointers

NGOs, civil society groups, certification schemes, governments, forest producers and managers, and investors should collaborate synergistically to investigate deforestation risks and impacts throughout supply chains and at landscape levels.

A strategic and coordinated mix of demand-side measures is urgently needed, involving actors throughout supply chains.

Demand-side initiatives must work with supply-side measures and the needs of producers, reducing the costs of producing deforestation-free commodities and framing sustainability as an opportunity.

Given their size and likely growth, it is crucial to engage with emerging markets (particularly in Asia) in developing and implementing demand-side measures.

Reducing 'forest footprints': tackling demand for forest-risk commodities

Global commodity consumption continues to soar, and the planet is expecting some five billion new middle class consumers by 2030. Demand for palm oil, soy, beef, leather, timber and biofuels is driving tropical forest conversion, damaging the livelihoods of forest-dependent people and forest ecosystem services, and exacerbating climate change. Demand is so strong that it frequently frustrates national 'supply-side' efforts to curb deforestation. So it is now essential to also address the 'demand' or consumer end, including through regulations, public procurement policies, industry-led standards, certification schemes and campaigns. Too often such measures are delivered in isolation, limiting demand for 'deforestation-free' commodities. Public sector, industry players and civil society need a more coordinated approach that considers the 'mix' and interplay between different 'demand-side' measures and creates partnerships along supply chains.

International trade plays an important role in matching supply and demand for products linked to deforestation, and is increasingly dominated by a few multinational traders and retailers. The top five 'forest risk commodities' are timber, soy, palm oil, beef/leather and biofuels, and the volume and value of international demand for these products is vast.

In 2011, the global timber trade was worth US\$246 billion,¹ while commodity production in the tropics was valued at US\$47 billion for soy, US\$15 billion for cattle and US\$31 billion for palm oil.² Agriculture alone is thought to drive 80 per cent of tropical deforestation, and global shifts in diet will continue this pressure.

Demand is so powerful that national regulatory and legislative measures to curb deforestation or improve governance for forest assets are often frustrated by illegal harvest and trade. So it is

increasingly imperative to involve 'demand-side' interventions — ranging from loosely organised consumer campaigns through to certification schemes and to legislation in 'demand-side' countries — in efforts to limit commodity-driven deforestation.

Demand-side measures, though they cannot directly improve forest governance, can limit the take up of forest risk commodities and can support or catalyse governance reforms. And because coercion (law) and persuasion (campaigns) are often complementary, there are opportunities for private/public alliances, and for governments and industry groups to work together.

Demand-side measures can redistribute risks and benefits along the supply chain, favouring products with higher environmental and social standards. They can realign incentives in producer countries and encourage forest and agricultural production

Demand-side interventions are imperative to limit commodity-driven deforestation

to adopt certification or avoid recently deforested areas. They can stimulate or create markets, and challenge existing ones. They can also help

establish internationally agreed sustainability standards, create new levers for civil

society-led change, and make it harder for demand to 'leak' around sustainability standards. Lastly, they can promote international cooperation on research and technology transfer.

But their impacts on the ground will depend heavily on their scope, enforceable mechanisms, cost, the supply chain and their ability to generate market demand.

At present, demand side measures rarely act synergistically. Legislation and certification schemes may have broadly similar aims but few practical links. Campaigns or regulations that focus on specific areas or niche markets can simply displace commodity-driven deforestation elsewhere. Price premiums for deforestation-free commodities rarely compensate the producers for changes they are investing in, and demand for sustainable goods can be erratic. Added to this, there are few public statistics showing how well demand-side measures work.

The range of demand-side measures

Legislative measures involve enacting or revising legislation. Examples are the Lacey Act in the USA, which makes it illegal to import sell or trade timber and plant material that was harvested illegally in its country of origin. It was the first demand-side government ban on illegally traded wood, requiring importers to exercise 'due care' including naming timber products' component species and country of origin. Potential enforcement actions range from seizure of goods/vessels to fines and imprisonment, and although the act does not support any particular system, it has encouraged certification, which is sometimes the only way to ensure legality.

Australia's Illegal Logging Prohibition Bill (2012) was modelled on the Lacey Act and requires similar 'due diligence', and the EU Timber Regulation (2013) plays a similar role. Although the Timber Regulation does not require proof of legality, it does require due diligence. It is intended to strengthen Europe's Forest Law Enforcement Governance and Trade (FLEGT) licensing system (see below), and stop products being routed through countries that do not have FLEGT voluntary partnership agreements with the EU.

The EU's Renewable Energy Directive, adopted in 2009, sets ambitious targets for moving both

overall and transport energy to renewable sources by 2020. But in the light of concerns about greenhouse gas emissions from crop-based biofuels, a limit of 5 per cent biofuel is proposed for Europe's overall transport energy.

Biofuels in the EU must also meet sustainability criteria, set either by Member States or voluntary schemes approved by the European Commission. Approved schemes include those of the biofuels, palm oil, soy and sugar 'roundtables' (see below), offering a direct synergy between public and private demand-side measures.

Public sector measures are state-implemented and -set policy, agreements, directives or guidance. They may include voluntary agreements between nations and nationally agreed procurement policies.

Perhaps the most prominent is the EU's Forest Law Enforcement Governance and Trade (FLEGT) Action Plan. Its measures include Voluntary Partnership Agreements (VPAs) between the EU and tropical wood-exporting countries. These require development of a national system to identify and license legal timber products. However, no such systems are fully operational as yet and the system is vulnerable to being bypassed. Nevertheless, the FLEGT/VPA system has improved forest governance, increasing transparency and driving greater public participation in decision making.

In addition, several countries both within and beyond the EU (including Austria, Denmark, Finland, France, Germany, Mexico, the Netherlands, New Zealand and the UK) now also have government policies that aim to ensure public sector purchases are sustainable — or at least legal. Most rely on certification schemes such as the Forest Stewardship Council (FSC), and the Programme for the Endorsement of Forest Certification (PEFC).

Private sector measures can include certification schemes, 'roundtables', voluntary disclosure, investor activism, or moratoria. Forest Certification schemes (for example, the FSC and the PEFC) and agricultural commodity 'roundtables' (which involve civil society as well as industry), usually aim to boost the profitability of sustainable supply. But both struggle to attain market share. The main roundtables are the Roundtable on Sustainable Palm Oil (RSPO), the Roundtable on Responsible Soy (RTRS), the sugarcane roundtable (BonSucro), and the Roundtable on Sustainable Biomaterials (RSB). Roundtables are generally 'younger' than forest certification schemes.

Consumer measures are designed to push or pull demand from consumers using awareness-

Table 1. Demand side interventions, benefits and challenges

	Benefits	Challenges
<p>Legislative measures involve enacting or revising legislation. Examples are the Lacey Act in the USA, which makes it illegal to import sell or trade timber and plant material that was harvested illegally in its country of origin, and the EU Timber Regulation, which prohibits the sale of illegally logged or traded timber and requires due diligence checks.</p>	<ul style="list-style-type: none"> Can 'back up' producer country legislation, speeding up progress towards sustainability. Offers regulatory certainty and creates predictable environments for finance, investments and aid. 'Levels the playing field', particularly helping 'early adopters' of sustainability criteria. In some cases (eg the US Lacey Act) money from fines can be shared with companies who assist prosecutions. 	<ul style="list-style-type: none"> Can change under successive governments, and negotiations / enforcements can become 'political hostages'. May overlook local needs, especially those of small-scale locally owned forest enterprises. Eg. traceability or certification may prove too costly. Need resources for enforcement. Can be 'by passed' by selling to emerging markets.
<p>Public sector measures use state-implemented policy, agreements, directives or guidance, rather than a specific law. Examples include public procurement policies and the EU's Forest Law Enforcement Governance and Trade (FLEGT) measures and accompanying Voluntary Partnership Agreements (VPAs).</p>	<ul style="list-style-type: none"> Often include capacity building support, eg to develop licensing system. Policy development can involve local stakeholders. Can help 'level the playing field', providing regulatory certainty and a predictable business environment. Can be highly influential, setting standards for sustainable businesses 	<ul style="list-style-type: none"> Largely new and unproven at scale, and under-developed for agricultural commodities. Slow to set up. May suffer from loopholes. Difficult to measure effectiveness.
<p>Private sector measures may include certification schemes such as FSC/ PEFC; 'roundtables' involving industry and civil society (such as the Roundtable on Responsible Soy); codes of conduct; voluntary moratoria on unsustainable products or deforested areas; voluntary disclosures (usually driven by civil society) and investor activism.</p>	<ul style="list-style-type: none"> Can reallocate accountability on the commodity supply chain. Certification can sometimes boost profitability by cutting costs or charging premiums. Company-driven approaches can change markets and behaviour, and enforce recognition of social and environmental aspects of production. Wide-ranging and potentially complementary, eg a 'quick fix' moratorium that makes way for standards set at a roundtable. 	<ul style="list-style-type: none"> Certification struggles with market share and low demand for premium products, and schemes may compete, undermining the most stringent. For timber, much demand is national, meaning certification needs considerable local buy-in to be effective. Participation costs or difficulties providing sustained supplies may put off small-scale producers, who also often don't get the benefits of higher prices 'filtering down'. Usually 'reactions' to pressure from civil society, rather than proactively seeking sustainability.
<p>Consumer measures may include consumer campaigns and boycotts, often using social media.</p>	<ul style="list-style-type: none"> Can create markets for certified products Can shift the procurement policies of larger brands that want to avoid reputational risk The impetus for most of private sector measures. Have forced numerous companies to pull out of destructive operations. 	<ul style="list-style-type: none"> Struggle to maintain long-term impact, so can be unreliable as drivers of new demand. Risk unfairly demonising a wide group of products. Risk consumer fatigue. Easy-to-target brands may not be the worst or even significant offenders. May lack synergy in their end goals.

raising or other action-based campaigning. They may be enforced or driven by public pressure, and they increasingly use social media to rapidly apply pressure. Although they can't directly improve forest governance they have helped promote legality, environmental sustainability and social responsibility. But they are often short term, may not necessarily choose the most effective target, and although they can drive consumers away from 'bad' products, may not drive much-needed demand to more sustainable alternatives.

Cutting the cost of deforestation-free commodities

At present, demand for sustainably traded forest commodities remains limited, primarily because of

cost. The market is unwilling to pay the implementation costs of demand-side schemes, and 'upfront' certification costs put many potential suppliers off. So it is imperative to cut finance costs, to simplify supply chains, to make efficiency gains, and to introduce fiscal policy incentives. The financial sector needs to be meaningfully involved in addressing the skill or financial gaps that prevent some producers from adhering to certain standards or demonstrating traceability, and also in the search for appropriate incentives for deforestation-free commodity production.

There are also technological improvements that can facilitate traceability in supply lines and cut the costs of enforcement and monitoring, for example remote sensing is getting better and cheaper.

'Sustainability' should be an opportunity to secure supply, markets and tenure.

'Sustainability' demands that environmental gains must be achieved by economically viable and socially acceptable means. Yet in the forest sector, consumers, corporations, investors and producers all define sustainability differently.

'Security of supply, markets and tenure' could be a concept that builds common ground, since it encapsulates long-term production, economic viability and social protection. Such an approach would also put the emphasis on opportunities rather than risks, adding an incentive. There is a need to develop and test a framework for measuring sustainability that is widely accepted. Such an approach would make it easier to measure how well demand-side measures support sustainable development, strengthening support for their widespread adoption and coordination. NGOs, civil society groups, certification schemes, governments, forest producers and managers, and investors should collaborate to investigate the risks and impacts throughout supply chains and at landscape level.

Demand- and supply-side concerns are intrinsically linked. Demand-side initiatives cannot be isolated from supply-side concerns. For example, price premiums must be fed down to producers if they are to bear the greater costs of sustainable supply. And producers need to see a clear long-term benefit from a more sustainable market if they are to invest. Some will need help adhering to standards or showing traceability, and there is a need to work more with trade associations and smallholder groups (demand-side legislation in particular needs to be more compatible with small-scale producers' needs). Companies further along the supply chains should act more as partners, helping their suppliers deliver certified, sustainable products. New stakeholder networks, for example networks involving associations that represent smallholder producers and intermediary businesses in major processing countries, could improve the lines of communication by reaching out to previously excluded actors.

Engage emerging markets. The biggest challenge in reducing commodity-driven deforestation is the huge and growing demand in Asian markets, and their relative lack of engagement (of market actors as well as government) with sustainability. International traders know that if Europe or North America

acts to prevent imports of certain products, there is a ready and growing market in Asia, meaning many demand-side measures can be profitably sidestepped.

There is fertile ground for Asia catching up with the demand-side measures developed in the EU, Australia and North America. Factors like freedom of press, consumer responsiveness, corporate responsibility and political leadership would direct the best 'mix' of measures. In emerging economies and less developed countries, domestic and intra-regional markets are driving trade dynamics, and so support for locally controlled enterprises needs a central focus. Specifically, local forest groups require assistance with four pillars of 'enabling investment': (i) securing commercial forest resource rights; (ii) building business capacity; (iii) organising themselves for scale; and (iv) brokering fair market access and investment.

Building synergy and collaboration. The best way to meet these challenges will be to build synergy between disparate demand-side measures, creating new networks and collaborations between industry, governments, public sector organisations and civil society. Robust analyses of demand-side measures' efficacy could encourage participation in voluntary measures. Legislation needs to work with existing standards. Companies need to work with their supply chains (and even with development programmes), and trade associations and smallholder groups need support, for example joint certification and assistance with affordable finance for improvements. There is momentum towards new collaborations, but the mechanisms still need exploration.

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This briefing summarises a longer IIED Issue Paper: *Demand-side interventions to reduce deforestation and forest degradation*, <http://pubs.iied.org/13567IIED>, which was in turn based on wide discussion. IIED undertook structured interviews with seventeen civil society and industry representatives, whose expertise covered the range of commodities and demand-side measures. At a one-day workshop in London (21 February 2013), 35 experts from industry, standards-setting associations, civil society and government shared their knowledge.



Knowledge Products

The International Institute for Environment and Development (IIED) promotes sustainable development, linking local priorities to global challenges. We support some of the world's most vulnerable people to strengthen their voice in decision making.

The Global Canopy Programme is a tropical forest think tank working to demonstrate the scientific, political and business case for safeguarding forests as natural capital that underpins water, food, energy, health and climate security for all.

The Prince's Rainforests Project, part of the International Sustainability Unit, was set up by the Prince of Wales to find practical solutions to slow tropical deforestation and combat climate change.

CDP is an international, not-for-profit organisation providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information.

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Notes

¹ FAOSTAT-Forestry database - Timber / ² Oakes, N., Leggett, M., Cranford, M., Vickers, H. (eds.) 2012. *The Little Forest Finance Book*. Global Canopy Programme, Oxford. See: www.globalcanopy.org/materials/little-forest-finance-book