

Company promises

How businesses are meeting commitments to end deforestation

Acronyms

APP	Asia Pulp and Paper
EU	European Union
FLEGT	Forest Law Enforcement, Governance and Trade
FSC	Forest Stewardship Council
FPIC	free, prior and informed consent
HCS	high carbon stock
HCV	high conservation value
IPOP	Indonesia Palm Oil Pledge
MDF	medium density fibreboard
NGO	non-governmental organisation
NYDF	New York Declaration on Forests
PEFC	Programme for the Endorsement of Forest Certification
REDD+	Reduced Emissions from Deforestation and Degradation
RSPO	Roundtable on Sustainable Palm Oil
TFA 2020	Tropical Forest Alliance 2020
UNDP	United Nations Development Programme
VPAs	voluntary partnership agreements

Acknowledgements

This briefing has been produced with the financial assistance of the European Union and the UK Department for International Development. The contents of this publication are the sole responsibility of the authors and can in no way be taken to reflect the views of the European Union or the UK Government.

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Photo front page: Aceh province in northern Indonesia contains the largest single forested area in south east Asia. Photo by Abbie Trayler-Smith / Panos / Department for International Development (flickr.com/CC)

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ISBN: 978-1-906607-73-9

March 2017



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Foreword

This report follows a spate of recent work examining company commitments to reduce or end their role in deforestation. What makes this report different is that it looks at the issue from the companies' perspective, asking them why they have made these commitments; how they monitor progress; the economic costs of these commitments and, importantly, what they perceive as the barriers to achieving their commitments.

It is based on interviews with senior figures in the sustainability departments of 15 major companies producing and supplying palm oil, cocoa, rubber and timber (products that are significant drivers of deforestation). The interviews were backed up by an analysis of these companies' policy documents. The text has been checked and commented on by the companies we interviewed,¹ and does not set out Fern's opinion or position.

Fern commissioned the report to better understand why companies made these commitments and what they see as the obstacles to achieving them. We believe that while these commitments are an important step towards freeing consumption and production processes from deforestation and land conflicts, companies lack the power to singlehandedly achieve the transformation required.

Some companies had, in addition to making promises about their own operations, signed up to global-scale targets to eliminate deforestation from supply chains under the New York Declaration on Forests or through membership of the Consumer Goods Forum. The businesses we spoke to thought it was unlikely that these targets would be met by all the companies which had agreed them. Our conclusions on this point are echoed by other recent studies, which have found little evidence that enough is happening on the ground to achieve these targets.²

Fern believes that the lack of good governance, clarity of tenure rights, and law enforcement in producer countries all make it difficult for companies to meet their commitments. The lack of regulation in consumer countries to ban illegally and unsustainably sourced products further undercuts companies that are willing to change their practices. Hence, there needs to be an enabling environment for companies to meet their commitments, which is simply not there.

So, what's next? How do we shift consumption and production patterns to truly legal and sustainable practices that respect local peoples' rights and stop deforestation? Focusing only on supply chains is obviously not sufficient. Governments must create the conditions that enable companies to meet their commitments to stop deforestation and respect community rights.

Hence, rather than just focusing on the company commitments, or dismissing them, we believe that they should be used as a springboard for governments to work with companies, local NGOs

¹ All except one company gave comments. We were unable to contact Delhaize, which merged with another retailer, Ahold, after we interviewed them.

² See, for example, Tom Bregman, Katie McCoy, Rafel Servent and Christina MacFarquhar, Turning Collective Commitment into Action: Assessing progress by Consumer Goods Forum members towards achieving deforestation-free supply chains (Global Canopy Programme and CDP, 2016), www.supply-change.org and forest500.org. For an analysis of implementation, see Charlotte Streck, Franziska Haupt, and Stephanie Roe, Progress on the New York Declaration on Forests: Eliminating Deforestation from the Production of Agricultural Commodities – Goal 2 Assessment Report (Climate Focus, 2016).

and local communities to start a process to assess the legislative changes needed at producer and consumer country level.

We are not starting from scratch. There are positive lessons for agricultural supply chains to be learned from initiatives to reduce illegalities and deforestation which are already taking place in other areas. The EU Forest Law Enforcement Governance and Trade process dealing with illegal timber is a good example. This process is transforming the forestry sector in countries such as Indonesia, Liberia and Ghana.

The report ends with ways forward suggested by interviewees. They conclude that action is needed from companies, producer and consumer country governments and other stakeholders.

Saskia Ozinga

Fern campaign coordinator

Executive summary

The aim of this research was to examine a number of corporate zero-deforestation commitments and analyse how the companies in question were implementing, monitoring and reporting them. We were interested in the challenges the companies were facing in meeting their targets, and whether they considered that any government actions in producer or consumer countries would help them meet their commitments. Fifteen companies covering four commodities (timber, palm oil, cocoa and rubber) were interviewed and their commitments on deforestation analysed (see Annex 2 for details).

Company commitments

Companies possess a wide range of commitments, expressed as zero deforestation, zero net deforestation, no deforestation of valuable forests, sustainable or responsible forest management, or a commitment to a net increase in forest area.

All the companies we interviewed have set out detailed definitions of what they mean by these top-level commitments. In some cases (particularly retailers) these may be the criteria included in certification schemes such as those of the Forest Stewardship Council (FSC) or the Roundtable on Sustainable Palm Oil (RSPO). More commonly, the companies have devised their own criteria; most have built them around a common core of protecting high conservation value (HCV) and high carbon stock (HCS) areas, respecting the free, prior and informed consent (FPIC) of local communities and indigenous peoples, and establishing the traceability of products up the supply chain.

Companies say that they have adopted these commitments in response to growing public concern (often triggered by non-governmental organisation (NGO) campaigns), a desire to protect brand reputation, awareness of the company's impacts on forests and climate change, the need to ensure long-term security of supply, and the advantages of establishing long-term relationships with producers, suppliers and customers. The personal commitment of the company's chief executive is often important.

In general, the companies we interviewed believed they could meet their own targets, but that the broader targets of the Consumer Goods Forum and the New York Declaration on Forests (NYDF) were probably not achievable. Achieving targets for cocoa and rubber was seen as more difficult than for timber and palm oil.

Implementing the commitments

Companies possess similar structures for implementing their commitments, relying on (usually small) central sustainability teams to draw up detailed targets and criteria and monitor their implementation. Most companies had encountered some internal resistance in implementing their commitments, but most did not regard this as a serious obstacle. Some companies had experienced problems with investors more focused on short-term profits; none reported pressure from investors to increase their levels of ambition.

Certification systems play an important role. For some companies (particularly retailers), achieving 100 per cent certified products in their supply chain is the primary means through which they meet their commitments. Even for larger companies with more impact on the market, the criteria developed by certification schemes provide the core of their own commitments, though most of them add additional requirements (e.g. protection of HCV and HCS forests, respect for FPIC of forest communities and full traceability). Certification is also seen as having value in providing platforms for discussion amongst diverse stakeholder groups. The United Nations Development Programme (UNDP)'s development of national sustainable commodity platforms is seen as a similar and worthwhile initiative.

Drawbacks with certification include the cost (particularly for smallholders), a failure to gain acceptance outside Europe and North America, and for the RPSO, inadequate provision in its rules for tackling deforestation.

Providing full traceability is seen as an important element, but can often be complex and difficult, particularly for tracing palm oil before it reaches the mill. Some companies, however, are making progress in establishing these systems.

Direct engagement with a company's suppliers to increase their capacity to meet the company's criteria is increasingly being adopted by trading and processing companies, particularly for cocoa and to a certain extent for palm oil. Producer companies are similarly investing in their own concessions and plantations, and attempting to reach landscape-scale solutions, integrating forest management and farming systems and providing livelihoods for local communities that do not involve clearing forests.

The cost to companies of meeting their commitments are difficult if not impossible to calculate, but in general are seen as significant but not excessive for large companies, and possibly beyond the capacity of smaller companies.

Monitoring, auditing and reporting

Companies possess similar structures for internal monitoring of the implementation of their commitments, using their sustainability and internal audit teams to receive and review reports from procurement and production teams. Certified products sourced or produced by the companies are also subject to the certification schemes' audit systems. Specialist organisations such as TFT, Proforest and Rainforest Alliance are often used to map and verify companies' supply chains. NGOs are often seen as having a role in reporting suppliers' transgressions.

External reporting on progress against commitments and targets is generally included in annual sustainability reports, or sustainability sections of company reports, but some companies issue commodity-specific updates and some now list their suppliers in detail.

Systematic external monitoring of overall company commitments and progress towards them is not common, though there are some examples, and some companies are working on developing systems. External monitoring of labour standards appears to be more common and may provide a model that plans to monitor deforestation-related commitments could build on.

A number of studies and websites track and compare corporate commitments, but to date there have been very few analyses of the progress companies have made towards meeting them

(Climate Focus and the NYDF Assessment Coalition published an assessment in November 2016).

Challenges and barriers

Social issues, including disputes over land tenure and ownership, were viewed by many companies as crucial problems, and in general far more difficult to resolve than environmental issues. The lack of clarity over legal concession and plantation boundaries and protected areas – including local communities encroaching on concessions in the absence of clear legal rights – was seen as a particular problem.



Rubber plantation worker.

Photo: Bo Nielsen/Flickr.com/CC

Many companies believed that producer country governments have an important part to play in creating an enabling framework of rules, regulations and effective administration without which private sector commitments to tackle deforestation can only have limited impact.

Labour issues, including the treatment of bonded or migrant workers and child labour, were also seen as problematic.

Several companies perceived improving standards (including achieving certification) amongst smallholders and local companies as a significant challenge.

Almost all of the demand for certified or deforestation-free products has so far come from Western Europe and North America, yet China and India are more important markets for most agricultural commodities. Some developing countries are increasingly likely to view sustainability standards as a neo-colonialist imposition by Western governments and NGOs.



Rubber tree, Java, Indonesia.

Photo: Peter Nijenhuis/Flickr.com/CC

Consumers and some NGOs are sometimes perceived as lacking a full understanding of the complexities of supply chains and the difficulty in sourcing acceptable products.

The absence of global agreement on definitions and standards was seen as a problem; virtually every company we interviewed possesses slightly different standards and criteria. Failures of government regulation and enforcement were also identified as problems.

Ways forward

The companies interviewed suggested many opportunities for making progress. Potential actions by companies themselves included greater investment in smallholder production; building genuine partnerships with local communities; more participatory planning, identifying conservation areas together with local communities; making greater use of satellite data; and accessing new sources of financing, such as Reduced Emissions from Deforestation and Degradation (REDD+) finance.

Potential actions by producer-country governments included the adoption and implementation of clear and consistent policies regarding customary land tenure, landscape-level land use planning and concession allocation; better protection of HCV and HCS areas; mandatory registration of farmers; regular dialogue with the companies; and more, and more effective, law enforcement.

Potential actions by consumer-country governments included the provision of financial and technical support to producer countries; the application of Forest Law Enforcement, Governance and Trade (FLEGT)-style voluntary partnership agreements (VPAs) to agricultural commodities; the development of common standards and reporting frameworks for sustainability; the use of public procurement policies to grow the market for sustainable products; and support for the development of a European Union (EU) action plan on deforestation. Several companies expressed scepticism about trade interventions, however.

Potential actions by NGOs included helping to draw up common definitions of terms such as 'zero deforestation', exposing irresponsible claims by companies and engaging more with the investment community.

1 Introduction

In recent years, many private companies have adopted commitments to eliminate or reduce deforestation associated with their supply chains, in particular focusing on commodities such as palm oil, soy, beef and timber. While a number of studies and websites have tracked and compared these corporate commitments, to date there have been very few analyses of the progress these companies have actually made – perhaps surprisingly, given that the target date that many of them have adopted for the fulfilment of their commitments (2020) is just three years away.³

This research aims not just to analyse the commitments selected companies have made, but to assess the progress they are making in implementing, monitoring and reporting them, to examine the challenges they are facing in meeting their targets, and to consider what actions by other stakeholders (governments, other companies and NGOs) could assist them. We conducted the research through analysis of the information the companies make publicly available, together with in-depth interviews with relevant personnel in the companies. (See Annex 3 at the end of the report for a summary of the terms of reference of the study.)

This research takes place against a general growth of interest in measures designed to eliminate, or at least reduce, levels of deforestation associated with the production and trade of timber and agricultural commodities. In 2010, the Consumer Goods Forum, a global industry network of retailers, manufacturers and service providers, adopted a target of achieving zero net deforestation in its membership's supply chains by 2020.⁴ In September 2014, the New York Declaration on Forests (NYDF), signed by governments, corporations and NGOs at the UN Climate Summit, committed its signatories collectively to 'at least halve the rate of loss of natural forests globally by 2020 and strive to end natural forest loss by 2030'. It also included the commitment to: 'support and help meet the private-sector goal of eliminating deforestation from the production of agricultural commodities such as palm oil, soy, paper and beef products by no later than 2020, recognising that many companies have even more ambitious targets'.⁵

Despite these initiatives and commitments, public policy measures aimed at agricultural products remain relatively rare. No systematic attempt has yet been made by any national government, or the EU, to regulate forest risk supply chains apart from timber products, though the European Commission is currently considering the development of an EU action plan on deforestation, designed to address the role of the EU as a major importer of many agricultural commodities associated with deforestation. There are, however, relatively successful models from which to learn, including the EU's FLEGT programme aimed at excluding illegal timber from EU markets, and comparable initiatives on illegal fishing and conflict minerals. One of the aims of this research was to examine what the companies we interviewed thought producer or consumer country governments could do to help them eliminate deforestation from their supply chains.

3 For analyses of commitments, see Tom Bregman, Katie McCoy, Rafel Servent and Christina MacFarquhar, *Turning Collective Commitment into Action: Assessing progress by Consumer Goods Forum members towards achieving deforestation-free supply chains* (Global Canopy Programme and CDP, 2016), www.supply-change.org and forest500.org. For an analysis of implementation, see Charlotte Streck, Franziska Haupt, and Stephanie Roe, *Progress on the New York Declaration on Forests: Eliminating Deforestation from the Production of Agricultural Commodities – Goal 2 Assessment Report* (Climate Focus, 2016).

4 See <http://www.theconsumergoodsforum.com/sustainability-strategic-focus/climate-change/deforestation>

5 Climate Summit (2014), *Forests: Action Statements and Action Plans*. New York: United Nations.

2 Methodology

The aim of this research was to examine a number of corporate zero-deforestation commitments and analyse how the companies in question were implementing, monitoring and reporting them. We were interested in the challenges the companies were facing in meeting their targets, and whether they considered that any government actions in producer or consumer countries would assist their ability to meet their commitments.

2.1 Commodities

Most of the companies we interviewed deal in many different commodities, but we limited our coverage to four: timber (including paper and packaging), palm oil, cocoa and rubber. We chose these four because:

- *Timber and palm oil* are two of the main four commodities associated with deforestation (alongside beef and soy). They have also been the main focus of the debate to date, in terms of government action, NGO campaigns and research and analysis.
- *Cocoa* is less important at a global scale, but significant in terms of deforestation in West Africa – and, unlike the other commodities listed here, Europe is the world's biggest importer. Cocoa supply chains have been the subject of debate for many years, initially focusing on child labour but now also extending to deforestation. There are also parallels with palm oil in terms of the proportion of production accounted for by smallholders.
- *Rubber* is a key cause of forest destruction in regions in which Fern and its partners operate. It is also interesting because it has not so far been a major focus of the debate around deforestation and supply chains; for example, no sustainability certification system for rubber yet exists.

In addition, all these four commodities' supply chains are clearly linked to the EU market.

2.2 Companies

We approached a total of twenty-seven companies with requests for interviews, either face to face or by telephone or Skype. The companies were chosen to give a mixture of producers, traders, processors and retailers across the four commodities, another criteria was the level of ambition of the company's commitments and the length of time for which they had possessed them; in this respect we were approaching leading companies.

We emphasised that the information they gave us would be kept confidential, in the sense that we would not use it to identify any company publicly; their responses would be anonymised for the purpose of publication. Where companies are identified by name in this report, the reference is to material that is publicly available.

Fifteen of those we approached agreed to conduct interviews, and one more to answer questions

by email; the remaining eleven either did not answer or told us they were too busy (a number of them mentioned increasing time pressure from requests for surveys from NGOs). The companies we interviewed are listed in Table 2.1.

Table 2.1 Companies interviewed and commodities they handle

Company	Timber	Palm oil	Cocoa	Rubber
<i>Primary producers^a</i>				
Asia Pulp and Paper Group	■			
Golden Agri-Resources		■		
Musim Mas		■		
Sime Darby		■		
<i>Processors / manufacturers / traders</i>				
Cargill ^b		■	■	
Michelin				■
Mondelez		■	■	
Neste		■		
Nestlé		■	■	
Olam International ^b	■	■	■	■
Unilever	■	■	■	
<i>Retailers</i>				
Delhaize ^{c,d}	■	■	■	
IKEA ^e	■	■	■	
Kingfisher	■	■		
Marks & Spencer ^c	■	■	■	

a All these companies also have considerable processing, trading and sometimes manufacturing operations, but our interviews focused primarily on their activities as producers.

b Cargill and Olam International both have some primary production activity, but the bulk of their operations lie in trading, sourcing and processing.

c Commitments cover own-brand products only. (In Marks & Spencer's case, this is almost all the food they sell; for Delhaize, own-brand products represented about 50 per cent of their total sales in Belgium, and about 30 per cent in the US.)

d In July 2016, after our interview, Delhaize completed its merger with Ahold and now operates as Ahold Delhaize.

e IKEA also has some primary production activities, mainly outsourced to its suppliers; our study focuses on its activities as a retailer.

The eleven companies which failed to respond or declined to be interviewed were Carrefour, CEMOI, Danone, Ferrero, Johnson & Johnson, L'Oreal, Mars, Reckitt Benckiser, Tesco, Wal-Mart and Wilmar. Lindt declined to be interviewed, but did agree to answer any questions by email; we did not, however, follow this up as we believed we had gained enough information through the interviews.

Semi-structured interviews were conducted, starting from the questions included in Annex 1. In addition to the companies, we also interviewed key individuals in CDP, the Consumer Goods Forum, TFT and Tropical Forest Alliance 2020 to discuss their perspectives on the issues. The interviews took place between January and April 2016.

3 Company commitments

This section reviews the commitments adopted by the companies we interviewed and their progress in meeting them. Alongside our analysis of the information the companies make publicly available, we asked our interviewees a series of questions about why their companies had adopted their commitments and whether they thought they were achievable.

Summary

- Companies possess a wide range of commitments, expressed as zero deforestation, zero net deforestation, no deforestation of valuable forests, sustainable or responsible forest management, or a commitment to a net increase in forest area.
- All the companies we interviewed have set out detailed definitions of what they mean by these top-level commitments. In some cases (particularly retailers) these may be the criteria included in certification schemes such as those of the Forest Stewardship Council (FSC) or Roundtable on Sustainable Palm Oil (RSPO). More commonly, the companies have devised their own criteria, often building on those in certification schemes.
- Most companies have built these criteria around a common core of protecting high conservation value (HCV) and high carbon stock (HCS) areas, respecting the free, prior and informed consent (FPIC) of local communities and indigenous peoples, and establishing the traceability of products up the supply chain.
- Companies say that have adopted these commitments in response to growing public concern (often triggered by NGO campaigns), a desire to protect brand reputation, awareness of the company's impacts on forests and climate change, the need to ensure long-term security of supply, and the advantages of establishing long-term relationships with producers, suppliers and customers. The personal commitment of the company's chief executive is often important.
- In general, the companies we interviewed believed they could meet their own targets, but that the broader targets of the Consumer Goods Forum and New York Declaration on Forests were probably not achievable. Achieving targets for cocoa and rubber was seen as more difficult than for timber and palm oil.

3.1 What commitments do companies have?

Annex 2 sets out the companies' overall commitments on deforestation and some details on the criteria they have adopted or developed. In general this information is available from the companies' websites and annual or sustainability reports. Their overall commitments on deforestation associated with the products in their supply chains are summarised in Box 3.1.

Box 3.1 Interviewed companies' deforestation-related objectives

- **Zero deforestation (no forest areas associated with the products' supply chains should be cleared or converted):** APP, Cargill, Delhaize, Golden Agri-Resources, Marks & Spencer, Neste, Nestlé, Olam (palm oil), Sime Darby
- **Zero net deforestation (clearance or conversion of forests is allowed in one area as long as an equal area is replanted elsewhere, provided that the net quantity, quality, and carbon density of forests is maintained):** Mondelez, Unilever
- **No deforestation of valuable forests:** Musim Mas
- **Sustainable or responsible forest management (various definitions):** Michelin, Olam (timber)
- **Net increase in area of responsibly managed forests as part of company's activities:** IKEA, Kingfisher

Note: these are brief summaries of companies' overall objectives. For more details of each company's definition, see Annex 2.

In some cases the companies have adopted the targets set by the Consumer Goods Forum (zero net deforestation by 2020) or the NYDF (at least halve the rate of loss of natural forests by 2020 and end natural forest loss by 2030); in others they have signed up to these commitments while possessing more ambitious targets of their own. Table 3.2 identifies the companies supporting these two commitments. It also lists those which have joined the Tropical Forest Alliance 2020, a global partnership formed by the US government and Consumer Goods Forum in 2012 with the aim of reducing the tropical deforestation associated with the sourcing of commodities such as palm oil, soy, beef, and paper and pulp; its partners now include a wide range of governments, companies and other organisations.⁶ The table also identifies those companies which are partners of TFT, an organisation which has played a pioneering role in advising companies on how to tackle environmental and social issues in supply chains and in verifying implementation of policies adopted.⁷

The table in Annex 2 includes a summary of the key elements of the criteria the companies have adopted for defining more precisely their deforestation-related commitments. In some cases the companies have adopted the criteria included in the main relevant commodity certification schemes, such as those of FSC or RSPO. This is most likely to be the case for retailers with limited influence over their supply chains, particularly where they are sourcing very small volumes or where the commodity is simply one ingredient among many in the products they procure (for example, Marks & Spencer and Delhaize purchase palm oil only as a component of biscuits, cakes and other processed foods).

6 See <https://www.tfa2020.org>

7 See <http://www.tft-earth.org>

Table 3.2 Companies' external commitments

Company	Consumer Goods Forum	New York Declaration	Tropical Forest Alliance (TFA) partner	TFT member
<i>Primary producers</i>				
Asia Pulp and Paper Group	■	■	■	■
Golden Agri-Resources		■	■	■
Musim Mas				
Sime Darby		■	■	
<i>Processors / manufacturers / traders</i>				
Cargill	■ ^a	■	■	■
Michelin				
Mondelez	■	■	■	
Neste				■
Nestlé	■	■	■	■
Olam				
Unilever	■	■	■	
<i>Retailers</i>				
Delhaize	■			■
IKEA				
Kingfisher				■ ^b
Marks & Spencer	■	■	■	

^a Cargill is a member of the Consumer Goods Forum but has not endorsed its commitment of zero net deforestation by 2020.

^b Some of Kingfisher's brands, including B&Q and Bricot Dépôt, are members of TFT.

Most of the companies we interviewed, however, have defined their own criteria, sometimes as supplementary requirements to those in the certification schemes, sometimes as completely independent criteria. In many cases these criteria are extensive and detailed; in general they are most complex for palm oil – the agricultural commodity most exposed to deforestation-related concern – and least for rubber, where no certification scheme yet exists.

Setting objectives and commitments is often not straightforward. One common theme in the companies' responses to our interviews was their concern at the lack of precision of the terms 'deforestation' or 'zero deforestation' (or even 'forest'), and the impossibility of measuring the amount of deforestation embedded in a given product, or the extent of change in levels of deforestation year by year. It was this lack of clarity that had prevented some companies from signing up to a zero deforestation commitment. One company observed that a common definition of 'zero deforestation' would be helpful, but it was not clear who could develop it. In one case – Olam – the company sources palm oil mainly from Gabon, a country with a high degree (88 per cent) of forest cover and where government policy aims at the conversion of some forest to agriculture; in those circumstances adopting a zero-deforestation commitment would oblige the company to leave the country.

In practice, all companies which have adopted zero deforestation commitments have found it necessary to specify what they mean, and for most this means a common core of:

- Protecting high conservation value (HCV) areas (see Box 3.2).
- Protecting high carbon stock (HCS) forests (see Box 3.3).
- Respecting the free, prior and informed consent (FPIC) of local communities and indigenous peoples. Generally this is limited to new developments, (with no mention of restitution or compensation in relation to historic land disputes).
- Establishing the traceability of products as far up the supply chain as possible.

Box 3.2 High Conservation Value (HCV)

The concept of HCV was originally developed in 1999 for use in the FSC forest management certification scheme, but is now much more widely applied, to other areas as well as forests. There are six types of HCV:⁸

- Concentrations of biological diversity – including endemic species, and rare, threatened or endangered species – that are significant at global, regional or national levels.
- Intact forest landscapes and large landscape-level ecosystems and ecosystem mosaics that are significant at global, regional or national levels, and that contain viable populations of the great majority of the naturally occurring species in natural patterns of distribution and abundance.
- Rare, threatened, or endangered ecosystems, habitats or refuges.
- Basic ecosystem services in critical situations, including protection of water catchments and control of erosion of vulnerable soils and slopes.
- Sites and resources fundamental for satisfying the basic necessities of local communities or indigenous peoples (such as livelihoods, health, nutrition, water), identified through engagement with these communities or indigenous peoples.
- Sites, resources, habitats and landscapes of global or national cultural, archaeological or historical significance, and/or of critical cultural, ecological, economic or religious/sacred importance for the traditional cultures of local communities or indigenous peoples, identified through engagement with these local communities or indigenous peoples.

Box 3.3 High Carbon Stock (HCS)

HCS approaches aim to identify and protect forests with high stocks of carbon, differentiating them from degraded land potentially suitable for establishing plantations and crops. In 2011–12, Greenpeace, TFT and Golden Agri-Resources began working on a methodology to identify natural forest areas; pilots were carried out in Indonesia and Liberia, combining carbon storage, biodiversity conservation and local community rights and livelihoods. In 2014, a multi-stakeholder HCS Approach Steering Group was formed to oversee the further development of the methodology and its use in the field, and a comprehensive toolkit was released in March 2015.⁹

In 2014, a group of palm oil companies led by Sime Darby and Unilever announced the 'Sustainable Palm Oil Manifesto' which, among other things, contained a commitment to develop a science-based definition of HCS, taking into account forest peoples' rights and livelihoods. In December 2015 the group announced the 'HCS+' approach, integrating methods for assessing changes in below-ground carbon stores with the use of LiDAR techniques to estimate above-ground carbon. Seeking to ensure carbon-neutral development, the HCS+ approach allowed companies that could show carbon sequestration from plantations on open lands and degraded areas to trade those gains for carbon losses in forest clearance, thus allowing some forests to be cleared.

The two approaches remained separate until November 2016, when agreement was announced to work together to develop a single, coherent set of rules initially covering oil palm plantations in fragmented landscapes in moist tropical forest.¹⁰ Drawing on elements in both approaches, signatories aim to release a revised toolkit in early 2017 and to work further on social elements and other issues.

Many other criteria are added round this core. The lack of consensus round the definition of 'high carbon stock' was mentioned by almost all our interviewees as a particular problem, given the critical nature of HCS as a criterion (our interviews took place in the first few months of 2016, before the two HCS groups agreed to work together to develop a single set of rules (see Box 3.3)).

The Consumer Goods Forum's target of zero net deforestation does not feature in many of our interviewees' commitments: only Mondelez and Unilever. Another company argued that they assumed that in reality the Forum's target must require a 'zero deforestation' approach for companies' activities; while there may be a social or environmental rationale for deforesting some areas and compensating elsewhere (i.e. zero net deforestation), this was a decision which only governments, not companies, could make.

Two companies, IKEA and Kingfisher, possess overall commitments not of avoiding deforestation

⁹ See <http://highcarbonstock.org>

¹⁰ 'HCS Convergence Agreement', 4 November 2016, available at <http://highcarbonstock.org/wp-content/uploads/2016/11/Final-HCS-Convergence-Agreement-.pdf>

but of increasing the extent of forests as part of their activities – part of the ‘Net Positive’ concept, ‘a new way of doing business which puts back more into society, the environment and the global economy than it takes out.’¹¹ (In more detail, IKEA aims to increase sourcing from responsibly managed FSC-certified forest and extend the area of such forests, while Kingfisher supports sustainable forest management practices and direct forest interventions that can enhance or improve the forest, including planting and reforestation.) Another company, Michelin, was similarly working on replanting in the rubber concession it jointly managed in Indonesia, since the forest had already been degraded before it took it over.

Almost all of the companies we interviewed applied criteria to their suppliers which went beyond the products being purchased. In most cases the criteria covered the employment conditions of the supplier’s workforce, but Neste, Nestlé and Unilever went further still, and sourced – or aimed to source – only from suppliers possessing the same commitments as they did on deforestation. In this way, they aimed to drive broader market transformation. By the end of 2015, for example, all of Nestlé’s biggest palm oil suppliers had committed to Nestlé’s no-deforestation principles in their procurement from third parties. Similarly, Kingfisher requires their suppliers to hold forest management certificates (either from FSC or the other main global forest certification system, the Programme for the Endorsement of Forest Certification (PEFC)).

All of the companies stated that they were prepared to drop suppliers which did not meet their criteria, and often had done so, but they also expressed a preference for working with suppliers to improve their performance rather than dropping them. If the company ended the relationship, it also ended its ability to exercise any influence over the supplier.

3.2 Why did companies make these commitments?

Companies generally identified a number of reasons for their adoption of deforestation commitments. Underlying many of these was the need to respond to issues of growing public concern, including deforestation, climate change and sustainability, often triggered by NGO campaigns and awareness-raising.

The most commonly cited reason was the company’s desire to be seen as an industry leader or pioneer in responding to public concern. This was particularly true of those companies with a major impact on supply chains – Olam, for example, buys about 16 per cent of the world’s cocoa,¹² Sime Darby is the world’s largest planter of palm oil (by land area) and the world’s largest producer of certified sustainable palm oil,¹³ and Asia Pulp and Paper (APP) is the largest pulp and paper company in Indonesia, and one of the largest in the world. In contrast, for others, the spread of commitments across the industry, for example through the Consumer Goods Forum, had made it easier for them to adopt commitments, in the knowledge they would be less likely to be undercut by competitors without such targets.

Brand reputation was sometimes seen as important – the sustainability of some companies’ products was something they believed their customers expected and valued. Pressure from customers in the supply chain was also mentioned.

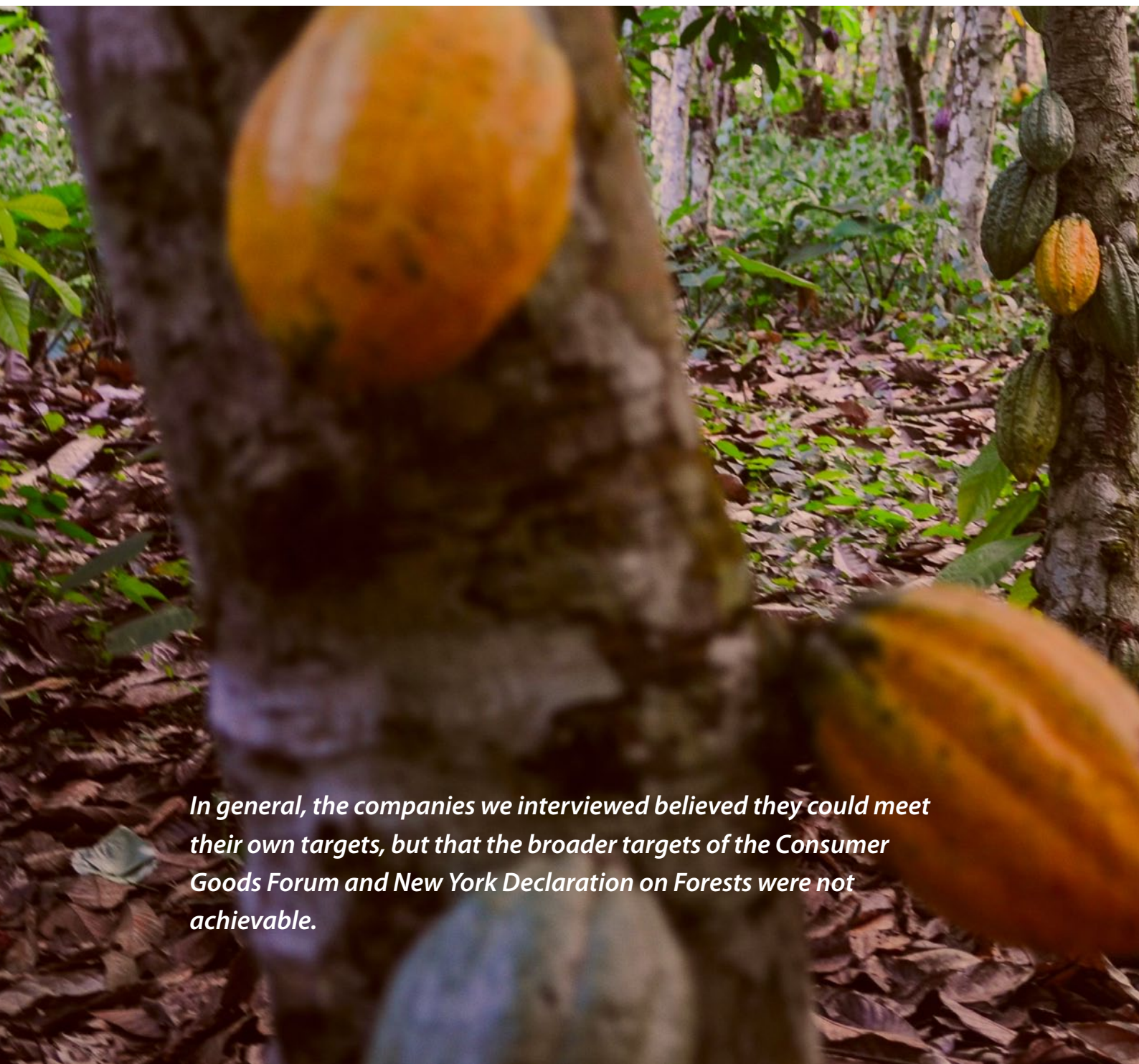
11 See <https://www.forumforthefuture.org/project/net-positive-project/overview>

12 Estimated figure after Olam’s acquisition of ADM’s cocoa business in December 2014; see ‘Analysts Updates: Olam International To Be third Largest Cocoa Processor, Shares Investment, 24 December 2014.

13 Sime Darby, Annual Report 2015.

The impact of the industry on forests, and therefore on climate change, was cited by some companies as an important driver, while others saw the sustainability of food production as key. Supply chain factors were also seen as important, including the need to ensure long-term security of supply (although one company thought the security-of-supply argument was too long-term for most business models), and the advantages of establishing long-term relationships with producers, suppliers and customers. For one company adopting the commitment was seen as linked to a gradual shift in its business model from primary production to upstream operations.

The human element was also important. One company argued that adopting the commitments had proved a positive factor in employee retention and recruitment. The personal commitment



In general, the companies we interviewed believed they could meet their own targets, but that the broader targets of the Consumer Goods Forum and New York Declaration on Forests were not achievable.

of the company's chief executive was often cited as a driver behind the company's position, both in adopting the original commitments and then in ensuring their implementation. (TFT asks Chief Executives of the companies they work with personally to sign documents setting out the company's sustainability aims, in the belief that buy-in from the top is essential to making real progress.)

3.3 Do the companies think they will meet their commitments?

In general, the companies we interviewed believed that they could meet their own targets, but that the broader targets of the Consumer Goods Forum or NYDF were probably not achievable. This is not necessarily inconsistent; the companies we interviewed are by and large the best



Harvesting cocoa beans, Ghana.

Photo: Carsten ten Brink/Flickr.com/CC



Cocoa plantation in Ghana.

Photo: jbdodane/flickr.com

performing of those with commitments on deforestation and had often been in the process of implementing them before they signed up to these broader targets.

Several of our interviewees believed that many of the signatories had not understood what they were signing up to and had significantly over-estimated the likely or possible pace of change. One of our interviewees admitted that their own company had had no idea how to implement the Consumer Goods Forum's target when it signed up to it, but had subsequently worked with TFT to put systems in place. Other companies had avoided signing up to one or both of these commitments explicitly because they did not believe, or were not sure, that the targets could be met, partly because they depended on too many factors outside the company's control. Others observed, similarly, that the targets could only be met if wider systemic changes took place.

All the companies we interviewed were reasonably confident of meeting their own commitments on palm oil and timber, though a lack of availability of RSPO-certified palm oil and FSC-certified timber were seen as potential problems. Extending traceability for palm oil beyond the mill was often seen as difficult – mills typically process palm oil from thousands of sources, including smallholders as well as company-owned plantations – and some companies queried whether it was in reality worth the effort (see Section 4). Others, however, with more control over their supply chains (i.e. less reliance on traders) were more confident of achieving or maintaining full traceability.

Cocoa and rubber have been less high-profile commodities than palm oil and timber in the debate over deforestation, and achieving specific targets for them was generally seen as more difficult. Neither are included in the New York Declaration's four priority commodities, and companies tend to have less specific targets for them. For cocoa in particular, several companies have adopted the approach of working directly with cocoa producers rather than setting sourcing and traceability targets, as for palm oil and timber (see Section 4.4).

Although soy was not one of the commodities we were covering, several companies mentioned that they thought meeting the international targets for that commodity would be impossible – which is a matter of concern since soy cultivation is the agricultural commodity responsible for the second highest extent of global deforestation (after beef). Very little certified soy is available, and soy is included as an ingredient in a very wide range of products (particularly animals fed on soymeal), making achieving traceability very challenging.

4 Implementing the commitments

This section covers questions related to the implementation of the companies' commitments and targets: who sets the targets and who puts them into practice; what are the main tools through which they are implemented – particularly certification systems and direct investment on the ground – and what does meeting the commitments cost overall?

Summary

- Companies possess similar structures for implementing their commitments, relying on (usually small) central sustainability teams to draw up detailed targets and criteria and monitor their implementation.
- Most companies had encountered some internal resistance in implementing their commitments, but most did not regard this as a serious obstacle. Some companies had experienced problems with investors more focused on short-term profits; none reported pressure from investors to increase their levels of ambition.
- Certification systems play an important role. For some companies (particularly retailers), achieving 100 per cent certified products in their supply chain is the primary means through which they meet their commitments.
- Even for larger companies with more impact on the market, the criteria developed by certification schemes provide the core of their own commitments, though most of them add additional requirements (e.g. protection of HCV and HCS forests, respect for FPIC for forest communities and full traceability).
- Certification is also seen as having value in providing platforms for discussion amongst diverse stakeholders. UNDP's development of national sustainable commodity platforms is seen as a similar and worthwhile initiative.
- Drawbacks with certification include the cost (particularly for smallholders), a failure to gain acceptance outside Europe and North America, and for the RPSO, inadequate rules on deforestation.
- Providing full traceability is seen as an important element, but can often be complex and difficult, particularly for tracing palm oil before it reaches the mill. Some companies, however, are making progress in establishing these systems.
- Direct engagement with a company's suppliers to increase their capacity to meet the company's criteria is increasingly being adopted by trading and processing companies, particularly for cocoa and to a certain extent for palm oil.
- Producer companies are similarly investing in their own concessions and plantations, and attempting to reach landscape-scale solutions (covering large areas not just individual

plots of land), integrating forest management and farming systems and providing livelihoods for local communities that do not involve clearing forest.

- The cost to companies of meeting their commitments are difficult if not impossible to calculate, but in general are seen as significant but not excessive for large companies, although possibly beyond the capacity of smaller companies.

4.1 Implementation and oversight

All the companies we interviewed possessed essentially the same system for setting the specific targets and implementing the activities associated with their overall deforestation commitment.

A (usually small) sustainability team at the centre of the company was responsible for drawing up the detailed criteria and targets, reviewing them periodically and monitoring overall progress (see Section 5). It was also this team's responsibility to communicate the commitments and targets, and the arguments for them, within the company. Tools used to achieve this included rating systems to help buyers choose the right products, training resources such as guides or webinars, and helplines. The sustainability teams often spent considerable time and effort on internal 'roadshows', explaining the targets to company employees. In some cases the sustainability teams also have direct operational responsibilities.

Most companies had encountered some internal resistance in implementing their commitments – particularly in operations in countries with a generally low level of environmental awareness (e.g. in Eastern Europe) – but most companies did not regard this as a serious obstacle; at the worst it required the sustainability team to expend more time and effort in internal education and awareness-raising. Most companies had a clear lead set from the top and this helped overcome any resistance. In general internal resistance was not a permanent phenomenon; the longer companies had possessed the commitments, the less it was a problem. The development of data systems incorporating the required data also helped, as it made reporting on the commitments part of normal operations. Primary producer companies, which in our sample operated mainly in Indonesia, tended to face more of a problem with internal resistance, but our interviewees felt that they were making progress in embedding sustainability requirements in employees' key performance indicators.

None of our interviewees mentioned that they were under any pressure from their companies' investors to achieve more ambitious targets or to accelerate progress. In fact if anything the opposite was true: two companies mentioned that they had experienced occasional problems with their investors who, they felt, tended to possess much shorter-term perspectives than the companies, and had accordingly expressed concern over the impact of sustainability investments on short-term profits. This was suggested as a potential area for campaigning NGOs to focus on.

Day-to-day implementation of the company commitments was the responsibility of the product or procurement teams sourcing the products; often sustainability specialists were embedded in the teams to provide appropriate expertise and report back to the central team. The companies generally went to some lengths to ensure that these teams or units felt they understood and owned the policy rather than it being imposed on them from above; this included regular discussions of the strategy and any necessary modifications between the procurement and central teams. Developing appropriate data systems to capture and report the required data

often proved to be difficult and expensive, particularly where the organisation was a group of several companies, often possessing different systems to start with.

4.2 Certification systems

Certification systems play an important role in almost all our interviewees' deforestation commitments. In some cases the criteria companies set for meeting their commitments are exactly the same as those included in the main commodity certification schemes, and therefore achieving 100 per cent certified products in their supply chain effectively means that they have met their commitments. This is particularly true for retailers at the end of the supply chain, who generally purchase the products only as ingredients of other products rather than as commodities in themselves; in these cases, certification schemes are almost the only systems they can rely on.

Even for larger companies with more impact on the market, the complex and sophisticated criteria developed by certification schemes may spare them the effort of drawing up similar criteria themselves; one company, for example, pointed to TFT's recommendation to use FSC rather than to devise its own system from scratch. Another company pointed to the beneficial effect of its pressure on suppliers to provide certified material, which meant that more certified products became available to other purchasers as well. And even large primary producers may still source products from independent suppliers; using certification systems means that they do not need to investigate every aspect of their suppliers' products themselves. Certification systems also offer a means of demonstrating to customers that they comply with standards.

Only one of the four commodities our interviews focused on has no sustainability certification system in place: rubber (the International Rubber Study Group's Sustainable Natural Rubber initiative may develop into one, but at the moment it is a voluntary process based on self-certification). For timber, the main certification system used by the companies we interviewed is FSC; the other major international system, PEFC, was almost universally not favoured. Cocoa is certified by a number of systems, including UTZ, Rainforest Alliance and Fairtrade (though Fairtrade does not include any specific criteria relating to forests).

For palm oil, overwhelmingly the main system is RSPO, though the International Sustainability and Carbon Certification (ISCC) scheme is used for palm oil destined for use as a biofuel, as it meets the EU's mandatory sustainability criteria (one of our interviewees saw RSPO's decision not to account for greenhouse gas emissions as a mistake, allowing ISCC largely to capture the palm oil biofuel market). RSPO palm oil can be certified in three ways:

- Full segregation throughout the supply chain of traders, storage tanks, pipelines and oil tankers: generally regarded by our interviewees as expensive and difficult. (Identity preserved palm oil is segregated palm oil from a single certified source.)
- Book and claim systems: similar in principle to offset schemes, these are a certificate trading scheme through which a company buys certificates to cover the quantity of palm oil used; although the palm oil that it actually uses in its supply chain may not be from certified sources, it is supporting sustainable palm oil through the purchase of these certificates. Until January 2017, RSPO endorsed the GreenPalm certificates issued by Book & Claim Ltd; now RPSO only recognises book and claim trading through its own eTrace platform.

- The mass balance option permits traders or refiners of palm oil to buy RSPO palm oil but then mix it with non-RSPO supplies, though certified volumes sold cannot exceed certified volumes bought.

The use of GreenPalm certificates was disliked by most, though not all, of the companies we interviewed; although many had purchased certificates in the early years of implementing their commitments, all of them were phasing this out and replacing it with requirements to buy segregated or mass balance palm oil. Equally, however, none of these companies insisted on segregated sources; this option was viewed as too expensive and, as one company put it, prone to creating 'islands of good practice' without affecting the supply chain more widely. The use of the mass balance option, particularly where the supply chain in use had been fully mapped, was viewed as just as good as segregation in practice.

One problem identified by some companies was a lack of certified material from some regions – e.g. FSC timber from North America (where PEFC is more common) or from East Asia, or certified palm kernel oil or soy globally – though their uptake is spreading, and availability is better than it was a few years ago.

The companies we interviewed were all well aware of the shortcomings of certification systems, particularly in dealing with complex and deep-rooted issues such as deforestation, landscape planning (i.e. what happens to land at a larger scale than individual certified concessions or plantations) and the management of land tenure. Some companies saw certification as a starting point, helping to put suppliers into a low-risk category and as the first step down a road leading to more comprehensive criteria.

One general problem perceived by many companies, however, was the overhead costs of the certification schemes, which made them an expensive means of supplying the products companies needed. In particular, the cost of certifying smallholders – mainly in palm oil, but also in timber and cocoa – was often seen as prohibitive.

Several companies also pointed to the inadequacy of the RSPO's criteria with regard to deforestation, and many consumers' and NGOs' awareness of this. It is concerns such as this that led to the creation of the Palm Oil Innovation Group in 2012,¹⁴ and to the adoption of the 'RSPO Next' standard in February 2016, which adds criteria such as no-deforestation, and traceability to the plantation, to the RSPO's core principles and criteria.¹⁵ FSC was also seen as trying to improve its own criteria, particularly in relation to engagement with indigenous peoples and the preservation of intact forest landscapes, although one company still saw it as failing to deal adequately with smallholder forests.

Another company felt that the move towards certification in general was running out of steam because of its costs, and was generally failing to gain acceptance outside the EU and US markets. They preferred to try to mainstream sustainability throughout their entire operations and those of their suppliers, though of course this is an option only available in practice to very large purchasers with a large impact on the market and effective control over their supplies.

¹⁴ See <http://poig.org>

¹⁵ See <http://www.rspo.org/certification/rspo-next>

Several companies saw the main value of certification systems as providing platforms for discussion, helping to bring a wide range of supply chain stakeholders together to discuss common challenges and attempt to define what is meant by 'sustainability'. Even bearing in mind the shortcomings of certification, this was seen as a very valuable characteristic.

4.3 Additional criteria and traceability

Most companies have added their own criteria alongside those of the certification systems. Commitments to protecting HCS forests, guaranteeing FPIC for local communities and indigenous peoples and providing traceability information (including publishing details on all suppliers), have been widely adopted. In particular, providing traceability was seen as at least a partial solution to the shortcomings of the RSPO, helping to ensure that the particular suppliers used were not associated with deforestation.

Achieving traceability is often a complex and difficult undertaking, however, with some resistance from suppliers to sharing information on their own sourcing. Achieving full traceability from beginning to end of a supply chain was viewed by many of our interviewees as verging on impossible – or at least too costly in relation to the benefits. This is particularly true for tracing palm oil before it reaches the mill, due to the millions of smallholders who supply oil palm fruit to mills, but also more broadly, because many agricultural commodity traders buy from a wide range of sources. One producer company felt that the current focus on traceability was proving to be something of a distraction from the core objective of sustainability. Nevertheless, some companies were attempting to develop traceability to all smallholders in a 50 kilometre radius of the mill (roughly the maximum distance fresh palm fruit can be transported within 24 hours, the period during which it must be processed).

The desirability of having an impact on the whole supply chain from the start, or across entire regions or countries, was mentioned by many of our interviewees. One company saw itself as having a positive role in helping to bring governments and NGOs in producer countries together to discuss common problems. UNDP's development of national sustainable commodity platforms, bringing together all stakeholders in a particular supply chain, was seen as a worthwhile initiative. Three of the companies we interviewed, IKEA, Mondelez and Musim Mas, have worked together with UNDP and many other partners to establish the Indonesia Palm Oil Platform, a forum for all palm oil sector stakeholders – government, private sector, farmer communities, financial institutions and civil society – to agree and act on a common agenda to maximise palm oil productivity (especially for smallholders) while mitigating negative environmental impacts.¹⁶

One additional option adopted by some companies was to avoid sourcing from particular companies, areas or countries, or particular product types (such as tropical timber) seen as high risk. One company had gone so far as to avoid buying palm oil altogether from Indonesia and Malaysia, and had similarly stopped sourcing commodities from the Democratic Republic of the Congo. In general, though, companies were reluctant to abandon countries or categories or products altogether, as this meant that they lost any chance to affect developments or to be part of the solution.

16 See <http://www.inpop.id/en/home/>

4.4 Direct engagement and investment

If companies wish to influence an entire supply chain, or to increase the volume of products they view as acceptable, one option is to engage directly with their suppliers to increase their capacity to supply the products, or to invest directly in production themselves. This approach is increasingly being adopted by several of the trading and processing companies we interviewed.

Of the four commodities we looked at, this option has been most strongly taken up for cocoa. Cargill's Cocoa Promise, Mondelez's Cocoa Life programme and Nestlé's Cocoa Plan all involve the companies working directly with cocoa farmers and their communities (and, usually, NGOs) in the countries of production (mainly Côte d'Ivoire and Ghana, but also Cameroon, Indonesia and Brazil). This includes the provision of training in farming and agroforestry practices, agricultural inputs such as fertiliser and plant protection products, and community benefits. The overall aims include increasing farmers' productivity and therefore income, reducing the pressure on forests and the landscape and improving livelihoods. There seems little doubt that productivity can be improved; many cocoa trees are old and disease-prone and most smallholder farms are too small to be able to generate any significant surplus for new investment.

In Ghana and Côte d'Ivoire, Mondelez is leading the involvement of private sector partners in the national REDD+ agreements. The governments identify the forests to be protected, and in Côte d'Ivoire support forest mapping and monitoring; Mondelez, together with other companies, deliver inputs to the farmers. Carbon finance was viewed by at least one other company as a potential source of investment capital for these kinds of activities.

Similar, though less extensive, initiatives are also under way for palm oil. Some companies were working directly with palm oil smallholders, aiming to bring growers and suppliers into a closer relationship and encouraging the uptake of RSPO certification. Building these types of links with suppliers was seen as a means of increasing confidence and raising the likelihood of long-term investment in sustainable production, such as installing methane capture systems at palm oil mills. In Indonesia a number of companies have invested in peatland restoration initiatives.

In rubber, Michelin has undertaken a joint venture with an Indonesian company to manage a forest concession with the aim of developing sustainable natural rubber.

This approach, of direct investment, seems to be less common for timber, perhaps because of the wider availability of certified material and the wider acceptance of FSC certification. One company stated that direct engagement was necessary when insufficient supplies of FSC-certified products were available, but otherwise the company could rely on adequate supplies of certified material in the market.

Primary producer companies may also engage in this kind of activity on their own concessions or plantations. One of those we interviewed observed that communities were coming to expect more and more from companies, including not just assistance with farming but also investment in education or health facilities, for example, or providing training in book-keeping to local co-operatives. This is particularly true of cocoa production, which takes place mainly in poor countries where state provision of public services is limited.

Several companies pointed to the need to develop landscape-wide solutions that go beyond individual plantations or concessions to the problem of deforestation, integrating forest

management and farming systems and providing livelihoods for local communities that did not involve clearing forest – and the impossibility of achieving this through certification systems alone. As one company put it, they had to invest in landscapes or they would go out of business.

The experience of soy production in Brazil was cited by another company as a positive example. Aiming to replace the soy moratorium, the Brazilian government has introduced compulsory registration and compliance with the Forest Code for soy farmers; the company is working with NGOs to provide training and accelerate registration. When the process is complete, it should at least solve the problem of illegal – though not legal – deforestation from soy production. The attitude of the Brazilian government in this respect was contrasted favourably with that of the Indonesian government towards palm oil, though the company recognised that trying to replicate the system in Indonesia could be impossible, given the huge task of mapping the palm oil supply chain to source; the company was working with Proforest to identify high-risk areas on which attention could be focused. Other companies were working with sub-national governments in Indonesia and Malaysia to try to develop entire areas as sources of deforestation-free products (a ‘jurisdictional approach’).

Another advantage of the direct investment approach was the increased influence this gave the companies over their suppliers; although every company we interviewed was prepared to (and generally had) dropped some suppliers for failure to meet their commitments, in general they preferred to work with them to improve their performance. Even retailers, who may have more scope to switch suppliers, preferred to engage directly with their suppliers. Marks & Spencer is a leading member of the Retail Palm Oil Group, which is developing common criteria and assessing importers (processors and refiners), to provide information to all retailers.

4.5 Costs

We asked all our interviewees about the costs of implementing their deforestation commitments. Very few of them had tried to calculate this, and in many cases it is virtually impossible, as the process involves changes in sourcing policy and business attitudes which are difficult to quantify.

Costs faced by all companies include those of:

- Employing sustainability teams and specialists, though in some cases these personnel also check compliance with other standards and product characteristics.
- Paying organisations such as TFT or Proforest to help develop company policies and map and verify supply chains.
- Sourcing certified products; one company mentioned a premium of up to 20 per cent for certified palm oil. Price premiums could not generally be recouped from customers, though it was mentioned that ISCC-certified palm oil did command a premium.

One retail company estimated costs of £250,000 a year for meeting their commitments for palm oil; while manageable, this level of expenditure could not be sustained for all ingredients. The company felt that tracking compliance with labour standards was particularly expensive.

Not surprisingly, producers have incurred the highest costs, as they need to make investments on the ground and do not have the opportunity simply to drop suppliers. APP has invested

upwards of US\$200 million over three years, another company US\$20 million – US\$30 million a year and employment of 300 extra staff, and another about five per cent of total profits. Similar expenditures have been undertaken by trading and processing companies investing directly in improving suppliers' capacity and behaviour; Mondelez's Cocoa Life programme, for example, has a commitment of US\$400 million over ten years.

Costs such as these are probably beyond the capacity of many smaller companies. One company observed that the dramatic falls in the price of palm oil since the market peak of 2011–12 had made these kind of activities more difficult, as sustainability and research investments tended to be more prone to cutting than other inputs such as fertiliser – though since 2015 prices had risen and were expected to rise further. However, finance is also sometimes available for investments



Transporting bunches of oil palm fruits, Singapore.

Photo: Icaro Cooke Vieira/CIFOR/Flickr.com/CC

Oil palm fruits, Indonesia.

Photo: Center For International Forestry Research/Tim Cronin/Flickr.com/CC

such as these from external sources such as the World Bank or aid agencies, and some companies mentioned that they had benefited from this.

In general, costs were seen as significant but not excessive, for large companies. Costs also tended to fall over time as data and business systems were gradually improved. Self-evidently, all of the companies we interviewed saw these costs as justified – they were necessary to achieve their deforestation commitments and protect their brand and their claims. They were generally seen as investments as much as costs; possible exceptions, where the value of the activity was questioned, were buying GreenPalm certificates for palm oil (all the companies sourcing palm oil were moving away from this), establishing traceability of palm oil back to the millions of smallholders producing the fruit, and paying for segregated supplies of palm oil.

Although smallholders were seen by several of our interviewees as part of the problem, as noted above it was clear that companies also felt that there was significant potential to improve their productivity through external investment. One company was trying to deliver investment to smallholders through local banks, and finding itself having to educate Indonesian banks in forest issues.



5 Monitoring, auditing and reporting

This section covers questions related to the monitoring of the companies' commitments and targets: who monitors them internally and externally and how are they reported?

Summary

- Companies possess similar structures for internal monitoring of the implementation of their commitments, using their sustainability and internal audit teams to receive and review reports from procurement and product teams. Certified products sourced or produced by the companies are also subject to the certification schemes' audit systems.
- Specialist organisations such as TFT, Proforest and Rainforest Alliance are often used to map and verify their supply chains. NGOs often have a role in reporting suppliers' transgressions.
- External reporting on progress against commitments and targets is generally included in annual sustainability reports, or sustainability sections of company reports, but some companies issue commodity-specific updates and some now list their suppliers in detail.
- Systematic external monitoring of overall company commitments and progress towards them is not common, though there are some examples, and some companies are working on developing systems. External monitoring of labour standards appears to be more common and may provide a model that plans to monitor deforestation-related commitments could build on.
- A number of studies and websites track and compare corporate commitments, but to date there have been very few analyses of the progress companies have made towards them (Climate Focus and the NYDF Assessment Coalition published an assessment in November 2016).

All our interviewees' companies tended to have similar systems for the internal monitoring of the actions taken to fulfil their commitments. The central sustainability team was responsible for monitoring overall progress by the procurement or product teams, which reported back to them on a regular basis. As noted in Section 4.1, developing appropriate data systems to capture and report the necessary data has often proved to be difficult and expensive.

Most of the companies possessed internal audit teams to verify the internal reports being made against the criteria; this was particularly important for producer companies owning, for example, palm oil plantations. The certified products which almost all the companies source or produce will also have their supply chains audited under the systems of the certification schemes: RSPO, FSC, UTZ, and so on. For companies supplying biofuels, such as Neste, auditing against the EU's sustainability criteria is mandatory.

In addition, almost all the companies used specialist organisations to map and verify their supply chains against the criteria they set. TFT was the most commonly used (see Table 2.1), but Proforest and Rainforest Alliance were also often employed. Other companies mentioned included Daemeter, Efeca, EcoVadis and Strategic Environmental Consulting.

Several companies mentioned the importance of maintaining dialogue with NGOs, and some appreciated NGOs' role in pointing out failures in the companies' supply chains, such as suppliers' transgressions. Several maintained regular consultations with NGOs, mainly the larger international organisations, but sometimes local ones too.

Internal reports on progress were made to the company's board of directors, often to a specific sub-committee, executive committee or advisory board covering sustainability or corporate responsibility issues, and/or a particular Board member with the lead responsibility. In many case reports were also made to the company's chief executive. As mentioned above, in the companies we interviewed, the chief executive had often been the driving force behind the adoption of the commitments.

External reporting on progress against company commitments and targets varied between companies. This information was generally included in annual sustainability reports, or sustainability sections of company reports, but some companies issued commodity-specific updates. In a significant development for transparency and traceability, some, including Cargill, Neste and Sime Darby, also now list their suppliers in detail. As can be seen from the sources listed in Annex 2, information about commitments, criteria and progress against targets can be spread over many documents and webpages.

Systematic external monitoring of company commitments and progress towards them is not common. While companies' annual reports are always audited for accuracy, this is generally limited to financial information and risks, and in any case detailed information on environmental targets may not appear in them. Sustainability reports, or reports on progress in specific commodities, may not be audited at all, or may be audited to a lower level. For example, while the annual reports from Kingfisher (on sustainability), Marks & Spencer (Plan A), Nestlé (corporate responsibility), and Unilever (Sustainable Living Plan) are accompanied by independent statements of assurance (for the latest reports, from KPMG, DNV GL, Bureau Veritas, and PwC, respectively), in each case these were conducted to a 'limited' or 'moderate' rather than a 'high' level of assurance. This covers whether the report had been properly collated from the information reported at an operational level, together with some document reviews, data sampling and interrogation of supporting databases and reporting systems – but not a systematic verification of all the original data itself.¹⁷

Companies that are members of CDP report information on the exposure of their supply chains to deforestation-related risks; the results are reported publicly in aggregate (more detailed information is available for a fee), but CDP does not itself verify the data submitted.

In some cases external frameworks do exist. For example, in 2015 Mondelez announced that

¹⁷ See Kingfisher, *Sustainability Report 2015/16: Delivering our strategy towards Net Positive*, p. 74; M&S *Plan A 2016*, p. 38; Nestlé *in society – Creating Shared Value and meeting our commitments 2015*, pp. 295–96; Unilever 'Independent assurance' webpage at <https://www.unilever.com/sustainable-living/the-sustainable-living-plan/our-approach-to-reporting/independent-assurance/>. The note in the Nestlé report specifically states that it excludes assurance of data on RPSO-certified palm oil.

FLOCERT (which provides Fairtrade certification and verification services for social, trade and environmental standards) would provide third-party verification of its Cocoa Life programme for the quantity of sustainably grown and traded cocoa, the premium payments made to farmer organisations and other aims.¹⁸

Monitoring of company commitments on labour standards appears to be more rigorous and could perhaps provide the basis for monitoring of broader deforestation-related commitments. For example, Nestlé's CARE programme of compliance with human rights and labour standards is externally audited (by SGS, Bureau Veritas and Intertek), and its commitments on child labour and other labour standards in cocoa (and other commodity) production is monitored by the Fair Labor Association.¹⁹

Several of the companies we interviewed are making efforts to develop external monitoring systems. This includes Nestlé, which is working with TFT to develop a local community-based monitoring and verification system, and Cargill and Olam, which are both working with the World Resources Institute (WRI) and their Global Forest Watch monitoring system to establish risk mapping for deforestation-related risks in their supply chains, initially focusing on palm oil from Indonesia using the PALM (Prioritising Areas, Landscapes and Mills) risk tool.²⁰

As noted in Section 1, a number of studies and websites track and compare corporate commitments, but to date there have been very few analyses of the progress companies have made towards them. In November 2016 Climate Focus and the NYDF Assessment Coalition published an assessment of progress towards the New York Declaration's goal of eliminating deforestation from the production of agricultural commodities by 2020.²¹ This was restricted not just to the adoption of targets, but covered implementation too. Results were aggregated and individual companies were not generally identified.

18 See press release, 'Mondelēz International's Cocoa Life partners with FLOCERT to verify supply chain', 20 April 2015, at <http://www.flocert.net/press-release/mondelez-internationals-cocoa-life-partners-flocert-verify-supply-chain/>

19 See *Nestlé in society – Creating Shared Value and meeting our commitments 2015*, p. 104.

20 'Companies Can Now Spot Deforestation in their Palm Oil Supply Chains Before it Happens', 8 June 2016; <http://www.wri.org/blog/2016/06/companies-can-now-spot-deforestation-their-palm-oil-supply-chains-it-happens>

21 Charlotte Streck, Franziska Haupt, and Stephanie Roe, *Progress on the New York Declaration on Forests: Eliminating Deforestation from the Production of Agricultural Commodities – Goal 2 Assessment Report* (Climate Focus, 2016).

6 Challenges and barriers

This section includes the responses to one of the key questions we asked all our interviewees: what they regarded as their main challenges and barriers.

Summary

- **Social issues, including disputes over land tenure and ownership, were viewed by many companies as crucial problems, and in general far more difficult to resolve than environmental issues. The lack of clarity over legal concession and plantation boundaries and protected areas – including local communities encroaching on concessions in the absence of clear legal rights – was seen as a particular problem.**
- **Labour issues, including the treatment of bonded or migrant workers and child labour, were also seen as problematic.**
- **Several companies perceived improving standards (including achieving certification) amongst smallholders and local companies as a significant challenge.**
- **Almost all of the demand for certified or deforestation-free products has so far emanated from Western Europe and North America, yet China and India are more important markets for most agricultural commodities. Some developing countries are increasingly likely to view sustainability standards as a neo-colonialist imposition by Western governments and NGOs. Consumers and some NGOs are sometimes perceived as lacking a full understanding of the complexities of supply chains and the difficulty in sourcing acceptable products.**
- **The absence of global agreement on definitions and standards was seen as a problem; virtually every company we interviewed possesses slightly different standards and criteria. Failures of government regulation and enforcement were also identified as problems.**

6.1 Land and labour and community issues are difficult to address

Social issues over land and labour were viewed by many companies as now occupying a much higher profile than in the past, when attention tended to focus on conservation and biodiversity. Social issues were also seen, however, as in general far more difficult to resolve than environmental issues. Disputes over land tenure and ownership were seen as a particular problem in Indonesia. One company pointed to the need to resolve historic injustices and conflicts before real progress could be made, as evidenced by the 5,000 or so land disputes currently going through the Indonesian courts.

One major problem mentioned by several companies was the lack of legal clarity over concession or plantation boundaries and protected areas; this is a particular problem in Indonesia, though

it also occurs in other countries. Sometimes companies had found it necessary to invest in developing maps themselves and others had provided support to Indonesia's One Map initiative, an attempt to develop a single, all-encompassing map of Indonesia containing all relevant information linked to forest licensing and land-use claims, resolving the multiple conflicting land-use maps which characterise many countries in South-east Asia.

The primary producer companies we interviewed felt that they often faced a similar problem with respect to land tenure, with local communities perceived to be encroaching on their concessions; it was difficult for the companies to stop this in the absence of clear tenure rights. Similar problems were perceived with local communities starting fires or draining peatlands to clear the forest; as one company observed, they could encourage local communities to follow best



Indonesia. Photo: Rainforest Action Network flickr.com/CC

practice, but they could not force them to, and their attempts to improve their own standards were sometimes unpopular with the communities.

Some Asian producer companies reported problems in finding capable and suitably trained people to carry out the complex and culturally sensitive procedures involved in ensuring the free, prior and informed consent (FPIC) of communities to new projects. They saw no easy solution, as the role requires a rare combination of talents, including cultural sensitivity, credibility with communities, specialist technical skills and willingness to spend time in remote places.

Labour rights were also important. These included the treatment of bonded or migrant workers

Social issues, including disputes over land tenure and ownership, were viewed by many companies as crucial problems, and in general far more difficult to resolve than environmental issues.



Timber logging storage area, Congo.

Photo: jbdodane/Flickr.com/CC

(particularly in Malaysia), workers on plantations and child labour (particularly in the cocoa supply chain).

6.2 Problems with improving standards

The difficulty of improving standards (and achieving certification) amongst smallholders was cited by several companies. It was felt that most smallholder farms were likely to be too small to generate an adequate surplus or to be able to access capital and finance at reasonable cost. Without external support, and/or the consolidation of farms, investment in improving productivity (thereby reducing pressure on the forest) would be difficult. This is probably more true for cocoa than for palm oil, where returns on investment are larger.

Local companies were also sometimes seen as a problem, often failing to appreciate what the larger companies were requesting of them in terms of standards and information, and often lacking the capacity to provide it anyway.

Falling prices for agricultural commodities in recent years were believed to have slowed progress, reducing the capital available for investment in research and sustainability systems – though at the same time this was also reducing the incentive to deforest.

6.3 Demand and awareness are lacking

As noted above, almost all of the demand for certified, or deforestation-free products, has so far come from Western Europe, and to a lesser extent North America, yet China and India are more important markets for most agricultural commodities (cocoa is one of the few exceptions, where Europe is still the world's largest importer). The lack of demand from these countries was mentioned as a problem by some companies, though China was seen as having at least the potential for progress.

Similarly, consumers and suppliers in Eastern Europe were far less likely to be familiar with or interested in these issues than their counterparts in the West, which resulted in a general lack of availability of certified products in that region. The shortage of certified products was mentioned as a general problem by some companies.

Some companies expressed concern at the corresponding problem of the increasing tendency of developing country governments, particularly Indonesia and Malaysia, to view the spread of sustainability standards as a neo-colonialist imposition by Western governments and NGOs. One company felt that those companies which had signed the Indonesia Palm Oil Pledge (IPOP) were now seen as possessing a pro-Western anti-smallholder agenda (IPOP, a partnership of palm oil companies to promote the production of sustainable palm oil, was dissolved in July 2016). It was also noted that Brazil had not signed the New York Declaration on Forests.

The difficulty of communicating with consumers, who generally did not understand the complexities of supply chains and the difficulty in sourcing acceptable products, or who only cared about some issues and not others, was regarded as a problem by some companies. One observed that the 'globalisation of ethics' needed to be part of the solution.

Some companies felt that the lack of understanding extended to some NGOs, which failed to appreciate the complexity of supply chains, tended to criticise any company operating in a

particular sector (like palm oil) indiscriminately, without recognising the real efforts that many companies had made to improve their performance, and campaigned for unrealistically high standards. One company felt that NGOs effectively determined international sustainability standards, but without any engagement with producer-country governments, who accordingly felt no ownership of the standards. Another felt that NGOs tended to be fixated on legislation, and failed to appreciate that there were other opportunities for progress, and also that they focused on legality at the expense of sustainability and equity. Many companies also recognised, however, that many NGOs worked well together with companies on the ground.

6.4 Definitions and laws may be inadequate

As noted above, the lack of agreement over the definition of HCS was viewed by several companies as a serious problem (although this seems likely to be resolved during 2017 – see Box 3.3, page 18) along with the sheer difficulty of identifying HCS areas, which required considerable investment of time and personnel. More broadly, the lack of agreement on global standards to be aimed at for particular commodities was seen as a challenge; as noted, virtually every company we interviewed possesses slightly different standards and criteria.

For one of the companies dealing in timber, failures of the EU Timber Regulation were a problem – it was seen as too complex, requiring information that was sometimes impossible to obtain (e.g. the timber species contained in composite materials such as MDF (medium density fibreboard) and poorly enforced.

Dealing with the Indonesian government in general was mentioned as a problem by some companies; specific problems included disagreement and poor communication between different agencies and different levels of government, together with frequently changing but poorly designed and poorly enforced regulations. The fact that the government required concessions to be developed meant that there was always a danger of land set aside for HCV or HCS value to be taken away and given to another company; one company observed that companies sometimes simply kept quiet about their set-aside areas to avoid this. Subsequent indications from the Ministry of Agriculture that companies would be permitted to set aside some HCV areas were, accordingly, seen as encouraging.

7 Ways forward

Alongside the challenges included in Section 6, many of our interviewees identified opportunities for progress. This section summarises them.

Summary

- **Potential actions by companies included greater investment in smallholder production; building genuine partnerships with local communities; more participatory planning, identifying conservation areas together with local communities; making greater use of satellite data; and accessing new sources of financing, such as REDD+ finance.**
- **Potential actions by producer-country governments included the adoption of clear and consistent policies regarding land tenure, landscape-level land use planning and concession allocation; better protection of HCV and HCS areas; mandatory registration of farmers; regular dialogue with the companies; and more, and more effective, law enforcement.**
- **Potential actions by consumer-country governments included the provision of financial and technical support to producer countries; the application of FLEGT-style VPAs to agricultural commodities; the development of common standards and reporting frameworks for sustainability; the use of public procurement policies to grow the market for sustainable products; and support for the development of an EU action plan on deforestation. Several companies expressed scepticism about trade interventions, however.**
- **Potential actions by NGOs included helping to draw up common definitions of terms such as ‘zero deforestation’, exposing irresponsible claims by other companies and engaging more with the investment community.**

7.1 Actions by companies

Although smallholders were seen by several of our interviewees as part of the problem, as noted above it was clear that companies also felt that there was significant potential to improve their productivity through external investment. One company was trying to deliver investment to smallholders through local banks, and finding itself having to educate Indonesian banks in forest issues.

Several companies identified progress in building genuine partnerships with local communities as key. The spread of commitments on FPIC was helping with this, though it was not always easy to determine what was and what was not a real local community; some companies mentioned fake ‘communities’ which were in reality fronts for criminal gangs or foreign investors. One company’s first step in any new investment was to survey local communities to gauge their level of acceptance; if they opposed the project, it would be dropped. The company also surveyed local

NGOs, and regarded it as a mistake to start the process with the central government without also speaking to other stakeholders.

Similarly, another company was experimenting with systems of participatory conservation planning, identifying and protecting conservation areas together with local communities rather than simply imposing them. It was felt that reaching agreement on HCS forest in this way, however, was proving much more difficult than on HCV areas, which tended to be more visible and easier to identify. The provision of education and appropriate incentives was also bearing fruit.

Two companies identified the greater availability of satellite data as making initiatives such as Indonesia's One Map more likely to succeed. Maps such as these were viewed by several companies as an essential step in helping to identify areas, such as HCV or HCS forests which should be set aside and protected by law, though maps by themselves could not fully identify such areas, and agreement with the local communities would still be needed. Satellite data was also seen to be useful in establishing traceability beyond palm oil mills; as noted in Section 5, a number of companies are working with WRI on satellite-based mapping for deforestation-related risks in their palm oil supply chains. Satellite imaging, together with the use of drones and mobile apps, could also make spotting and controlling problems like forest fires faster and easier.

New forms of financing were becoming available to assist with the costs of investment in sustainability, including REDD+ projects, which some companies saw as a major opportunity. Another company suggested that green corporate bonds could be used to raise finance, while donor programmes from countries such as the UK or Norway were seen as offering real opportunities.

Improvements in technology – for example in tyre manufacturing or in developing second- or third-generation biofuels – also offered means of reducing pressure on forests.

7.2 Actions by producer-country governments

We asked our interviewees specifically whether they could identify actions by governments, such as new regulation or legislation, which could help them achieve their objectives.

There was widespread agreement that there were many actions that producer-country governments could take. These included:

- The adoption of clear and consistent government policies regarding land tenure, landscape-level land use planning and concession allocation; it was expected that this would involve the withdrawal of some concessions, which would probably be politically difficult.
- Reform or clarification of specific rules seen as hindering implementation of commitments – for example, in Indonesia, the possibility that undeveloped areas of concessions must be handed back to the government, which makes it more difficult to set aside land for conservation.
- The creation of effective maps – as in Indonesia's One Map initiative.
- Regulation to protect HCV and HCS areas; as one company observed, this would make their efforts to agree protection policies with local communities easier to implement.

- Mandatory registration of farmers, making it easier for companies to avoid sourcing from potentially illegal sources – as in Brazil.
- Regular dialogue with the companies implementing commitments (some companies praised governments for doing this already).
- More and more effective law enforcement, particularly of land rights – as one interviewee observed, no farmer would invest in better systems in their farm if they lacked clear tenure rights.

Some companies identified the positive progress being made with governments at sub-national level, which were sometimes perceived to be more progressive than central government. And although several companies identified the Indonesian government as a particular obstacle, it was also noted that the recent forest fires in Indonesia had helped to trigger a change in attitude; and the government's commitment on climate change at the Paris conference in December 2015 was also praised. One company, however, felt that whatever they did, governments would be too slow; effective short-term action would only be taken by companies.

A general point to note is that many companies believed that producer country governments have an important part to play in creating an enabling framework of rules, regulations and effective administration without which private sector commitments to tackle deforestation can only have limited impact. It was also clear that many companies thought governments were often failing in this role, although there was recognition that some governments perform better than others. One company, for example, believed that forest protection laws were better specified and implemented in Brazil than in Indonesia, which was at least a decade behind. This company, like some others, thought that private-sector efforts to tackle deforestation would fail without producer country governments taking an active role; only governments could implement systemic change at the landscape level.

7.3 Actions by consumer-country governments

There was less agreement on the potential role of consumer-country governments, though several suggestions were made. The most frequently cited role was in providing financial and technical support to producer countries in implementing the suggestions listed above, promoting policy reform and helping to develop alternative livelihoods for farmers who would otherwise deforest. The role of REDD+ in helping to deliver finance for standing forests rather than as an extractive resource was also mentioned.

Several companies expressed scepticism about the role of interventions in trade policy, particularly if applied by the EU, given its diminishing importance as an import destination; also, there was concern that this could be perceived to be – or actually be – protectionist. The French proposal to impose a tax on palm oil (eventually dropped in June 2016) was viewed as unhelpful by all who commented on it.

This scepticism about trade policy was not, however, universal. One company felt that the EU FLEGT approach of VPAs, including independent monitoring, and the EU Timber Regulation, had been helpful and could be applied more widely; others suggested the adoption of similar approaches by countries currently lacking them, including China and Japan, while others saw some kind of action by China and India as essential. Another company expressed support for

lower taxes or import tariffs on products that meet sustainability criteria.

Other suggestions included:

- Development of a common system for companies to report against their deforestation commitments.
- Development of clear standards and common targets for sustainability.
- The delivery of price premiums for certified products.
- The use of public procurement policies to grow the market for sustainable products, particularly in China.
- Global pricing policies, particularly for carbon.
- Requirements on companies to report the carbon impacts of their activities.
- Setting appropriate product and labelling standards, though a voluntary approach was preferred for labelling, at least to start with.
- Extension and better enforcement of the EU Timber Regulation.
- The application of mandatory sustainability criteria to all end uses of palm oil (not just to palm oil used for biofuels), and, ideally, to all consumer countries.

There was also some support for the development of an EU action plan on deforestation, including the feeling that the discussions round the design of such a plan would in themselves be helpful. However, the danger of over-regulation was also mentioned, for example in pushing consumers away entirely from products such as wood.

7.4 Actions by other stakeholders

Finally, we asked our interviewees whether they could identify actions by other stakeholders that could also help them achieve their objectives.

Several companies identified possible roles for NGOs, for example in helping to draw up common definitions of terms such as ‘zero deforestation’, exposing irresponsible claims by other companies or engaging more with the investment community, whose members were seen as laggards. In general companies were keen for NGOs to engage in more dialogue with them.

Organisations assisting companies in meeting their commitments, such as TFT or Rainforest Alliance, were often mentioned with approval, but this was a two-way street; one company, for example, felt that its decision to partner with TFT had opened doors for it in the palm oil industry.

Other companies in the supply chain were also mentioned by some of our interviewees as needing to play a more active role.

Annex 1: Interview questions

1. Commitments

- a. Any questions arising from published commitments
- b. If your commitment is expressed as a zero-deforestation target, how do you expect to measure the difference in levels of deforestation?
- c. If your commitment is not expressed as a zero-deforestation target, why not?
- d. Do you think the target of eliminating deforestation from the production of agricultural commodities by 2020 can be met?

2. Meeting the commitments

- a. To what extent do you engage directly with producers?
- b. To what extent do you rely on third-party systems such as certification? Have you identified any problems with these?
- c. To what extent do you work with facilitating organisations such as TFT or ProForest?
- d. Do you place any requirements on the operations of your suppliers apart from the products they supply directly to you?

3. Challenges

- a. What barriers are you coming up against in meeting your commitments?
- b. Can you identify actions by other stakeholders (e.g. governments, other companies, NGOs) that would make it easier for you to meet your commitments?
- c. In particular, would additional government regulation in producer and/or consumer countries help?

4. Setting and implementing targets

- a. Who decides the commitments?
- b. Who implements them?
- c. Have you encountered any resistance within the company to meeting these commitments? How do you try to overcome it?

5. Monitoring, verification and transparency

- a. Who monitors progress in meeting the commitments?
- b. What systems do you use to collect information on progress? How is the information verified?
- c. Do you collect information from local stakeholders in the areas of production (communities, NGOs, etc.)?
- d. What systems do you have in place to investigate any lack of progress and take remedial action?
- e. To what extent do you make your commitments, progress against them and systems for implementing and monitoring them transparent?

6. Costs and impacts

- a. What are the rough costs of meeting your commitments and monitoring progress?
- b. Do you also monitor any side-effects of the commitments – e.g. possible exclusion of

smallholders from supply chains?

- c. Do you think there is a danger of developing segregated markets? – i.e. some markets supplied by companies which try to meet commitments on deforestation, and other markets where companies don't?

Annex 2: Corporate commitments

Almost all the companies we interviewed have developed detailed criteria to specify what they mean by their commitments on deforestation, and how they intend to implement them. A full summary of each company's criteria would occupy many pages; for reasons of space the table below summarises only a few of the key criteria, and only covers the four commodities we consider in this report. Most notably, we do not include company criteria on the resolution of conflicts or on labour rights, though it should be recognised that many of our interviewees' commitments on labour rights meet high standards and should be applauded. (All information taken from companies' own publications and websites: full list of sources provided at end of table.)

Company (commodity)	Company criteria on:				Applies to	Transparency	Additional comments
	Deforestation	Respect for rights	Certification	Traceability			
<i>Primary producers</i>							
APP (Timber, fibre for paper)	No deforestation of HCV or HCS areas. Policy adopted in February 2013. Original forest policy is supplemented by a responsible fibre procurement and processing policy that commits company to purchase only legal and environmentally sound pulp. Requires verification of legal origin and chain of custody.	Requires FPIC of indigenous peoples and local communities. Recognition of customary tenure rights.	Compliance with internationally accepted certification principles and criteria.	Nothing specific on traceability. Responsible fibre policy requires APP to maintain systems to ensure wood from illegal sources does not enter mills, with verification by independent third-party auditors.	APP and all its suppliers in Indonesia and all future expansion. Also covers Indonesian fibre used by APP mills elsewhere, including China. Measures to ensure responsible global sourcing of fibre from third-party suppliers outside Indonesia under development.	No public external verification system other than certification system reports. Independent evaluation of implementation of forest conservation policy by Rainforest Alliance in 2014 reported 'moderate progress'; steps taken in response to findings outlined in APP's FCP progress update (February 2016). In principle, welcomes independent, third-party observers to verify implementation.	No new development on peatland. Some information on implementation of no-deforestation policies is set out online in the TFT Transparency Hub.
Golden Agri-Resources (Palm oil; trader and processor as well as producer)	No deforestation of HCV or HCS areas. Policy adopted in November 2011.	Requires FPIC of indigenous peoples and local communities (additionally recognises local communities' 'need for food security in new developments'.) Recognition of customary tenure rights.	Compliance with all relevant international certifications' principles and criteria.	100% traceability to mills, including third-party suppliers' mills, achieved by end 2015. Commitment to traceability to plantation by 2017 for own mills, 2020 for third-party suppliers.	All palm oil operations and across entire supply chain – i.e. company and its suppliers.	No public external verification system other than certification system reports. Quarterly update reports to RSPO published on website.	No new development on peatland. No burning.

Company (commodity)	Company criteria on:				Applies to	Transparency	Additional comments
	Deforestation	Respect for rights	Certification	Traceability			
<i>Primary producers</i>							
Michelin (Rubber)	Where possible, purchase natural rubber only from plantations which respect zero-deforestation principle. Current policy applies from 2015.	Ensure FPIC of local communities or populations likely to be affected by company's activities.	N/A	Nothing yet in place, but traceability tools under development.	Natural rubber purchasing operations.	External third-party verification (EcoVadis) for 80 per cent of supply.	Forest and rights policies less well developed in the rubber sector.
Musim Mas (Palm oil; trader and processor as well as producer)	No deforestation of HCV or HCS areas. Policy adopted in 2014. Signatory of Sustainable Palm Oil Manifesto. ^a	Requires FPIC of indigenous and local communities. 'No exploitation policy'. Recognition of customary tenure rights.	RSPO, Indonesian Sustainable Palm Oil (ISPO), ISCC. 2012: 100% RSPO for all plantations in Indonesia; certification for newly acquired plantations under way.	100% traceability to mills, including third-party suppliers' mills, achieved by end 2015. Target of 100% traceability to plantation by end 2016 (November 2016: achieved 48% of supply base to plantations with associated mills).	All operations worldwide and all suppliers' operations.	No public external verification system other than certification system reports. Company publishes detailed, easy-to-access information on progress in achieving targets on website. Company committed to appointing independent third-party verifier to assess compliance by the company and third-party suppliers.	No new development on peatland. No burning.
Sime Darby (Palm oil: processor and trader as well as producer)	No deforestation of HCV or HCS areas. Policy adopted in 2014. Signatory of Sustainable Palm Oil Manifesto. ^a	Requires FPIC of indigenous and local communities. Recognition of customary tenure rights.	ISCC. RSPO principles and criteria, enhanced with traceable and transparent supply chains; HCS and protection of peat areas; increase focus on driving beneficial economic change and ensuring positive social impact.	Commitment to build traceable and transparent supply chains.	Own operations; aiming to (RSPO) certify all smallholder suppliers.	No public external verification system other than certification system reports.	No new development of peatland. No burning. Focus on inclusion of smallholders, out-growers and small suppliers into the supply chain. World's largest producer of RSPO-certified palm oil.
<i>Processors, manufacturers, traders</i>							
Cargill (Palm oil, cocoa)	NY Declaration goal: eliminate deforestation across agricultural supply chain by half by 2020 and completely by 2030. No deforestation of HCV or HCS areas. Palm oil policy adopted 2014, Cocoa Promise 2012. Signatory of Sustainable Palm Oil Manifesto. ^a	Respect rights of indigenous and local communities to give or withhold FPIC to utilisation of lands to which they hold legal, communal or customary rights.	Palm oil: RSPO. Cocoa: support for certification; no specific target approximately 30% certified by 2015 (no exact figure given) (80% UTZ, 8% Rainforest Alliance, 7% Fairtrade, 5% others)	Palm oil: 91% traceability to mill, 35% to plantation, achieved by November 2016. Target of 100% traceability to plantation by 2020. Website has information on performance in achieving traceability to mill and to plantation displayed by region. Cocoa: general support for traceability.	Only supplies RSPO-certified palm oil from own plantations. Encourages third-party suppliers to become RSPO members and only supply RSPO-certified palm oil.	No public external verification system other than certification system reports. Commitment to report annually on implementation of policy and actions taken to mitigate risks associated with deforestation in supply chains. Palm oil: committed to publishing time-bound implementation plans annually, semi-annual progress reports and filing communication of progress reports with the RSPO annually.	Palm oil: No new development of peatland. No burning. Support for UN Food and Agriculture Organization (FAO) Voluntary Guidelines on the Responsible Governance on Tenure (VGGT) and Committee on World Food Security Principles for Responsible Investment in Agriculture and Food Systems. Support inclusion of smallholders in palm oil supply chains.

a The Sustainable Palm Oil Manifesto was agreed in 2014; its signatories affirm their commitments to no deforestation, creating traceable and transparent supply chains, and protecting peat areas, while ensuring economic and social benefits for the local people and communities where oil palm is grown (see <http://www.simedarbyplantation.com/sustainability/practices-key-initiatives/sustainable-palm-oil-manifesto>). The Manifesto calls for enhancements to the RSPO principles and criteria with three specific objectives: (a) to build traceable and transparent supply chains; (b) to accelerate the journey to no deforestation through the conservation of High Carbon Stock (HCS) forests and the protection of peat areas regardless of depth; and (c) to increase the focus on driving beneficial economic change and to ensure a positive social impact on people and communities. It has been signed by five major palm oil planting companies and a number of trading companies.

Company (commodity)	Company criteria on:				Applies to	Transparency	Additional comments
	Deforestation	Respect for rights	Certification	Traceability			
<i>Processors, manufacturers, traders</i>							
Mondelez (Palm oil, cocoa)	<p>Zero net deforestation from key supply chains (palm oil, soya, beef and paper) by 2020.</p> <p>No palm oil development in primary forest, HCV or HCS forests.</p> <p>All cocoa ultimately to be sustainably sourced. Main initiative is Cocoa Life: creating empowered farmers in thriving communities across supply chain: US\$400m investment 2012–22.</p> <p>Policy adopted 2010, updated 2015.</p>	<p>Respect for the principle of FPIC.</p> <p>Respect for land tenure rights of indigenous and local communities.</p>	<p>Palm oil: target 100% RSPO-certified (including GreenPalm).</p> <p>Cocoa: 21% sustainably sourced (Cocoa Life or certified) (2015).</p>	<p>Target suppliers to achieve 100% traceability to mill, and publish sustainable sourcing policies.</p> <p>End 2015: 90% traceable to mill; 91% from suppliers with published policies.</p>	<p>Palm oil suppliers to adopt forest protection and sustainability policies for their entire supply base.</p>	<p>Cocoa Life programme verified by FLOCERT.</p>	<p>No burning.</p>
Neste (Palm oil)	<p>No deforestation of any forest (including HCV and HCS areas), no use of peatlands or wetlands.</p> <p>Biofuels and bio-liquids not to be made from raw material from land that was primary forest or other wooded or protected area in or after 2008.</p> <p>Policy adopted in 2007, revised April 2013.</p>	<p>Requires FPIC of indigenous and local communities.</p> <p>Recognition of customary tenure rights.</p>	<p>Crude palm oil 100% certified (achieved 2013).</p>	<p>Fully traceable to point of origin (plantation or production site within an EU-certified mass balance or segregated system): achieved 2007.</p>	<p>Company and all its suppliers (full certification) (achieved end 2013).</p>	<p>No public external verification system other than certification system reports.</p> <p>Lists all crude palm oil suppliers on website.</p>	<p>No burning.</p> <p>Similar rules for material sourced from wetlands and grasslands.</p>
Nestlé (Palm oil, cocoa)	<p>By 2020 all Nestlé products (including suppliers' products) do not lead to deforestation – defined as no forest conversion after November 2005 (palm oil) / November 2013 (others).</p> <p>Maintain or enhance HCV in surrounding landscape; protect HCS areas.</p> <p>Increase share of cocoa meeting UTZ code of conduct or equivalent or more demanding standards.</p> <p>Main initiative is Nestlé Cocoa Plan, aiming to improve farmers' profitability, secure long-term supply, address gender inequality and child labour. Quantitative plans for cocoa sourcing.</p> <p>No-deforestation commitment adopted in 2010.</p>	<p>Requires FPIC of indigenous and local communities.</p> <p>Recognition of customary tenure rights.</p> <p>Land tenure identified as a priority area in Nestlé's Rural Development Framework – part of a 'comprehensive approach to tackling land grabbing, focusing on high risk countries and commodities'.</p>	<p>Palm oil: comply with RSPO principles and criteria (verifies 'responsibly sourced'); HCS and peat commitments must be independently verified.</p> <p>No GreenPalm from January 2015.</p> <p>Cocoa: UTZ or equivalent.</p>	<p>Aiming for full traceability across supply chains – but recognises significant gaps in information on palm oil.</p> <p>Palm oil suppliers required to report quarterly by completing Traceability Declaration Document.</p> <p>90% palm oil traceability to mill achieved 2015 (target 95%) and 47% fully 'responsibly sourced' (target 70%).</p> <p>Cocoa: traceable back to plantation. End 2015: 30% sourced through Nestlé Cocoa Plan (traceable and responsibly sourced); 'high proportion' UTZ and Fairtrade certified.</p>	<p>Company and all its suppliers.</p> <p>Suppliers expected to show substantial progress towards compliance with responsible sourcing guidelines after three years, full compliance after five years.</p>	<p>No public external verification system other than certification system reports.</p>	<p>No new development of peatland.</p> <p>General principle for small-scale producers (e.g. smallholders) not to be disadvantaged through the application of supplier guidelines.</p>

Company (commodity)	Company criteria on:				Applies to	Transparency	Additional comments
	Deforestation	Respect for rights	Certification	Traceability			
<i>Processors, manufacturers, traders</i>							
Olam International (Timber, palm oil, cocoa, rubber)	<p>Timber: Sustainable Forest Management practices and certification.</p> <p>Timber, palm oil: no deforestation of critical habitat (including HCV) or HCS areas (by 2015 for timber).</p> <p>Cocoa: main initiative is Olam Livelihood Charter investment; aims include reducing environmental impact, achieving traceability.</p> <p>Rubber: no specific commitment.</p> <p>Palm oil policy introduced 2011, updated 2013 and 2016.</p>	<p>Palm oil: FPIC for local communities and 'stakeholders'.</p> <p>Also FPIC for new projects in all commodity areas .</p>	<p>Timber: operations in Congo 90% FSC.</p> <p>Palm oil: RSPO; various interim targets.</p> <p>Cocoa: 2015 achieved 92% certified (UTZ, Fairtrade, Rainforest Alliance, organic and client certifications)</p>	<p>Palm oil: full traceability to mill of crude palm oil by end 2018 (2016 – 30%; 2017 – 50%); of derivative products by end 2020 (2017 – 30%; 2018 – 50%).</p> <p>Cocoa: 2015 achieved 99% traceable to village or farmer group</p>	<p>Specific forests policy for own operations and suppliers.</p> <p>For suppliers, Supplier Code for social responsibility and environmental sustainability (or, for palm oil, RSPO).</p>	<p>No public external verification system other than certification system reports.</p> <p>Committed to 'transparent reporting' on palm oil sustainability goals.</p>	<p>Palm oil: No use of fire. No peatland development.</p> <p>Contribution to community development, healthcare and education programmes.</p>
Unilever (Timber and paper, palm oil, cocoa)	<p>Paper and board, palm oil: zero net deforestation by 2020.</p> <p>No deforestation of HCV or HCS areas or tropical forests on peat soils.</p> <p>Cocoa: no specific commitment, but responsible sourcing guidelines apply to all commodities.</p> <p>Eliminating deforestation across entire supply chains adopted as one of three priorities for transformational change in 2014 under a refresh of policies in place since 2009.</p> <p>Signatory of Sustainable Palm Oil Manifesto.a</p>	<p>FPIC for indigenous peoples and vulnerable communities;</p> <p>'Established rights to land' respected, protection of customary rights not specifically mentioned</p> <p>Mandatory obligations on suppliers under responsible sourcing policy include periodic training in FPIC procedures for relevant staff and implementation of a zero land grabbing policy.</p>	<p>Timber: FSC or PEFC with full chain of custody. Target of 100% wood fibre-based materials by 2020, interim targets (achieved 98% by end 2015).</p> <p>Palm oil: RSPO plus HCV, HCS, FPIC; 2015 100% certified (achieved 2012); 2019: 100% mass balance or segregated (end 2015: 19%).</p> <p>Cocoa: 100% sustainable (Rainforest Alliance) by 2020; 100% in Magnum ice cream (biggest cocoa use) by 2015. (Achieved by end 2015: 60% sustainable; Magnum: 98%.)</p>	<p>Timber, palm oil: additional verification required for high-risk sources.</p> <p>Palm oil: ultimately traceable to known origins that are compliant with policy. 2015: 73% traceability and visibility of greater than 1,000 mills.</p>	<p>Company and all suppliers.</p>	<p>No public external verification system other than certification system reports.</p>	<p>Timber: support small-scale family forestry.</p> <p>Palm oil: no burning. Policy supports inclusion of smallholders into supply chains and interventions to increase smallholders' yields and incomes.</p>
<i>Retailers</i>							
Delhaize^b (Timber, palm oil, cocoa)	<p>Timber, palm oil: remove commodity-driven deforestation from all own-brand supply chains by 2020.</p> <p>Protect HCS forests and HCV areas, including wildlife habitats.</p> <p>Cocoa: nothing specific.</p> <p>Policy adopted 2014.</p>	<p>Requires FPIC of indigenous and local communities in the development of new plantations.</p>	<p>Timber: 100% sustainable wood fibre by 2020 (recycled, FSC or low-risk (TFT-assessed)).</p> <p>Palm oil: RSPO plus full traceability (any RSPO until end 2015; after 2015, only mass balance or segregated for key products (if available)) – 80% 2018, 100% 2020. (August 2015: 87% from certified, segregated sources.)</p>	<p>Palm oil: fully traceable to responsibly managed plantations, which do not contribute to deforestation, meet RSPO principles and criteria.</p> <p>Europe and America: suppliers must provide traceability to first importer (encourage traceability to mills at minimum to plantations eventually).</p> <p>Indonesia: suppliers provide traceability to mill.</p>	<p>Applies to own-brand products.</p>	<p>No public external verification system other than certification system reports.</p>	

^b In July 2016 Delhaize merged with Ahold. and now operates as Ahold Delhaize; the information here relates to Delhaize policies pre-merger.

Company (commodity)	Company criteria on:				Applies to	Transparency	Additional comments
	Deforestation	Respect for rights	Certification	Traceability			
<i>Retailers</i>							
IKEA (Timber and packaging, small amounts of palm oil, cocoa)	<p>'Forest positive' before August 2020: 'promoting sustainable forestry and land use beyond our needs that integrate forest protection and restoration – contribute to ending deforestation by promoting the adoption of sustainable forestry methods across the whole industry'.</p> <p>Timber: no illegally harvested timber, no timber from intact natural forests or other HCV forests (unless certified under IKEA-approved scheme). No timber from plantations on land converted from natural forest in tropical and sub-tropical regions.</p> <p>Palm oil: no deforestation.</p> <p>Policy adopted 2014.</p>	<p>Timber: FSC standards cover FPIC and respect for customary rights; minimum requirements also include no wood from operations engaged in social conflicts.</p> <p>Palm oil: FPIC for indigenous peoples.</p>	<p>Timber: targets for 'more sustainable' (FSC or recycled): August 2017: 50% wood, 100% wood from priority areas; August 2020: 100% wood.</p> <p>Contribute to FSC certification of 15 million ha in priority areas (more than double total needed to supply IKEA), in addition to 30 million ha already added through earlier projects.</p> <p>Palm oil: RPSO cited as example. 100% certified, segregated supply by December 2015 or replaced by more sustainable materials.</p> <p>Cocoa in IKEA chocolate bars has come from 'more sustainable' sources – e.g. UTZ – since August 2015.</p>	<p>Timber: suppliers must use approved species where the origin is known.</p> <p>New suppliers additionally have option of providing a wood procurement plan detailing place of origin.</p> <p>High value tropical species generally not used, need special approval, and must be covered by FSC forest management and chain of custody certificates.</p>	<p>Applies to own operations and supplier.</p> <p>Supplier Code of Conduct (IWAY) (covers preferred, minimum, small volumes, boards from acknowledged sources).</p> <p>Palm oil: December 2017: palm oil used in home furnishing products and globally sourced food from sources verified as meeting additional requirements, or be replaced by more sustainable raw materials.</p>	<p>No public external verification system other than certification system reports.</p>	<p>From 2014, IKEA catalogue printed with 100% FSC certified paper, the world's biggest certified print run, 211 million copies in 2015.</p>
Kingfisher (holding company for home improvement brands including B&Q, Castorama, Bricot Dépôt and Screwfix) (Timber, small amounts of palm oil)	<p>By 2050, creates more forest than uses (part of Net Positive strategy).</p> <p>Target of 100% responsibly sourced (reused, recycled, certified) timber and paper by 2020.</p> <p>Responsible sourcing policy in place for 20 years; forests target 2012; latest revision August 2016.</p>	<p>FSC standards cover FPIC and respect for customary rights.</p>	<p>Non-tropical: FSC or PEFC with full chain of custody, or Memorandum of Understanding (MOU) with recognised partner (e.g. TFT, Rainforest Alliance) demonstrating progress towards FSC.</p> <p>Tropical or vulnerable: FSC with full chain of custody, or MOU demonstrating progress towards FSC.</p> <p>Endangered: only FSC with full chain of custody.</p> <p>2015: achieved overall 96% responsibly sourced timber; 100% in B&Q; 100% FSC for tropical hardwood in European stores.</p>	<p>No additional traceability requirements.</p>	<p>Applies to all operations (including goods for resale and own use), including suppliers.</p>	<p>No public external verification system other than certification system reports.</p>	<p>Policy focuses on building long-term relationships with trustworthy suppliers.</p> <p>Working with RSPB and BirdLife to reforest a 10,000 ha area in Sumatra.</p> <p>By 2020 all companies in group to have at least one substantial forest or woodland enhancement initiative.</p>

Company (commodity)	Company criteria on:				Applies to	Transparency	Additional comments
	Deforestation	Respect for rights	Certification	Traceability			
<i>Retailers</i>							
Marks & Spencer (Timber and paper, palm oil, cocoa)	Remove commodity-driven deforestation from supply chains for palm oil, soy, cattle products, timber and wood products by 2020. Timber – 2020: 95% timber, paper, pulp, packaging in products and own operations to be responsibly sourced (FSC, recycled or otherwise assessed as protecting forests and communities). Palm oil: 2015 – 100% RSPO; 2020 – deforestation removed from supply chain. Cocoa: March 2017 – 100% certified (UTZ, Fairtrade or third-party verified Horizons Cocoa). Policy adopted 2007 (with release of Plan A). Supplier guidelines updated 2016.	Suppliers required to apply FPIC. Customary rights not specifically mentioned but suppliers obliged to conform to local, national and international standards of land tenure. May be required to show due diligence within communities to establish where established rights to land and property lie.	Timber: achieved 2015/16: 99% FSC, recycled, or 'sources that protect forests and communities' (84% FSC.) Palm oil: achieved 2015/16: 100% RSPO (92% mass balance or segregated, 8% GreenPalm). Cocoa: achieved 2015/16: about 80%.	No additional traceability requirements.	Applies to own-brand products.	No public external verification system other than certification system reports.	

Sources:

APP: *APP's Forest Conservation Policy* (February 2013); *APP Sustainability Report 2014*; *APP Forest Conservation Policy Progress Update* (February 2016)

Cargill: *Cargill Policy on Sustainable Palm Oil* (July 2014); *Cargill Policy on Forests* (September 2015); *Cargill Policy on Forests and Forest Protection Action Plans: Frequently Asked Questions* (September 2015); *The 2015 Cargill Cocoa Promise global report: Improving livelihoods for cocoa farmers and their communities*; *Cargill's Sustainable Palm Oil 2015 Progress Update and 2016 Action Plan* (February 2016); *Cargill's Palm Oil Progress Update November 2016*; Operating responsible supply chains pages online

Delhaize: *Delhaize Group Responsible Palm Oil Sourcing Policy* (February 2014); *Sustainability Progress Report 2015*. (Note the Wood Fibre Sourcing Policy is not publicly available; Delhaize recognises this is inconsistent, and may change policy after the planned merger with Ahold.)

Golden Agri-Resources (GAR): *GAR Sustainability Report 2013* (July 2014); *GAR Social and Environmental Policy* (October 2015)

IKEA: *IWAY Standard, Forestry Specific Section* (v. 6, September 2012); *IWAY Standard* (v. 5.1, December 2012); *People & Planet Positive: IKEA Group Sustainability Strategy for 2020* (October 2012, updated June 2014); *IKEA Position on Palm Oil* (2014); *IKEA Group FY15 Sustainability Report*

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Musim Mas: *Musim Mas Sustainability Progress Reports* (December 2014 – March 2015, April – June 2015, July 2015 – June 2016, January 2016 – November 2016); Musim Mas Sustainability Policy and Commitments online

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Nestlé: *Nestlé Commitment on Deforestation and Forest Stewardship* (February 2013); *Nestlé Responsible Sourcing Guidelines* (September 2013); *Nestlé in society: Creating Shared Value and meeting our commitments 2015*

Olam: *Olam Livelihood Charter* (2014); *Corporate Responsibility and Sustainability Report 2015*; *Olam Supplier Code* (October 2013); *Olam Sustainable Palm Oil Policy* (October 2016); *Olam Plantations, Concessions and Farms Code: Summary* (July 2015); Olam Sustainability Standard (online); Olam Industrial Raw Materials and Sustainability pages online

Sime Darby: *Sustainable Palm Oil Manifesto* (September 2014); *Sime Darby Plantation Sustainability Report 2014*; Sustainability pages online

Unilever: *Unilever's Position on Eliminating Deforestation* (not dated); *Unilever Sustainable Living Plan Summary of Progress 2015*; *Unilever Responsible Sourcing Policy* (2014); *Unilever Sustainable Wood Fibre-Based Material Policy* (December 2014); *Unilever Sustainable Palm Oil Sourcing Policy 2016*; Sustainable sourcing pages online

Annex 3: Terms of reference

Aim: This research aims to look at a range of the key company zero-deforestation commitments and analyse how these companies implement, or plan to implement, these commitments and monitor their progress; assess whether legislation in producer or consumer countries is hindering their ability to meet their commitments and assess the position of these companies towards changing legislation in producer or consumer countries to help them implement their commitments.

To keep the work manageable we focus on a few product groups and a limited number of leading companies operating in or with supply chains linking to the EU.

Tasks:

1. Clarify and determine product groups and companies to be investigated based on a simple methodology.
2. A desk-based mapping exercise identifying the detailed commitments made by these companies to reduce deforestation and strengthening rights and map out these commitments and investigate them to find out (a) how 'zero' deforestation is defined; whether the no- deforestation commitment is net or gross and if net, segregated, mass balance, percentage in / percentage out or book and claim; (b) whether the commitments to respect rights include respect for customary tenure rights and if so how these are defined; (c) what the timeline of the commitments is; (d) what the monitoring system is the company has developed. Document these commitments in an easily readable format in a report.
3. An interview with companies detailing the monitoring systems these companies have / have not in place to track down the implementation of these commitments.
4. An interview to assess company's willingness to engage with NGOs (and governments) to request legislative action towards levelling the playing field through regulation or policies at producer and consumer country level and the company's assessment of whether legality, sustainability or no-deforestation would be the most appropriate way forward and if so why. Document the findings. Specific question is to ask them what legal problems they have ran into, or which (national, international or statutory) laws are blocking the effective implementation of their commitments at producer and consumer country level.



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