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# Transatlantic Dialogue on Reducing Deforestation in Supply Chains of Agricultural Commodities: Policy Options for the United States and the European Union

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### Overview

In October 2014 Chatham House and the World Resources Institute (WRI) co-hosted a meeting to discuss policy options for addressing the world's largest driver of deforestation: the production of agricultural commodities. Over two days, more than 60 participants from private, public and non-profit entities assessed and proposed potential policy solutions for curbing commodity-driven deforestation.

This is a summary of those discussions. The first section provides background on the shifting dynamics of the drivers of deforestation and on how efforts to halt forest degradation and deforestation are changing accordingly. The second section broadly describes the various avenues of action that the US and EU governments can take, while the third section addresses the complexities of global commodity production and trade as well as the conditions necessary for enabling change. The fourth section identifies four opportunities for policy action that emerged from the discussions: 1) the regulation of trade and products; 2) regulating the companies themselves; 3) inter-governmental trade agreements; and 4) aid and diplomacy. The final section of the summary lays out recommendations for prioritized action.

Since the meeting was conducted under the Chatham House Rule,<sup>1</sup> the summary does not attribute comments made during discussion to individuals. However, it does attribute statements made by those who gave presentations. While the authors of the summary have organized this document into a coherent account of the proceedings, they have sought to preserve the main sense of the dialogue that took place during the meeting. Therefore, the opinions and policy positions expressed below do not necessarily reflect the views of the summary's authors or the meeting's host institutions. The presentations given at the meeting are available via the Illegal Logging Portal.<sup>2</sup>

### Background

In the past, deforestation was blamed most commonly on encroachment by small-scale farmers, major infrastructure such as roads, mines and dams and poor management of logging concessions within areas set aside as 'permanent forest estate'. However, over the past decade, the international dialogue on the forest industry has shifted focus as well as having adopted a higher profile. Growing appreciation of the role of deforestation in climate change is a major reason for that development. In addition, improved abilities to monitor deforestation rates and understand the impact of commodity production on forests have led to the role of industrial agriculture as the primary driver of deforestation being highlighted. Citizens and advocacy groups have called major consumer-facing multinational companies, in particular, to account: the latter are under pressure to obtain wood, pulp for paper, palm oil, soybeans, beef and other commodities from legal sources – that is, sources that do not cause further loss of natural forests, particularly in the tropics.

A decade or so ago, sustained exposure by non-profit organizations and the press of pervasive and often well-organized illegal logging in many countries catalysed political attention; and at the 2005 G8 Summit, member states agreed to tackle the global trade in illegal timber. Several countries, mainly those belonging to the EU, used their public procurement policies to source legal and sustainable timber and wood products. In 2008 the US amended the Lacey Act (an old anti-wildlife trafficking law) to prohibit the import of illegally harvested wood and wood products. An analogous measure went into force in the EU in 2013 (the EU Timber Regulation – EUTR) and in Australia in 2014 (the Illegal Logging Prohibition Act). Analyses conducted over the past few years indicate that, combined with public awareness campaigns, private-sector initiatives and actions by authorities in some producer countries, these measures have been moderately successful in suppressing illegal logging, although progress varies from country to country.<sup>3</sup>

Recent research has revealed a more complex picture of what drives (and what does not drive) deforestation; and the results of that research will help policy-makers better target interventions aimed at reducing tropical deforestation. A recent study by the Center for Global Development (CGD), for example, revealed that greater poverty is correlated with less deforestation, while higher incomes in rural areas are linked to more deforestation. This finding casts doubt on the oft-invoked view that poverty drives deforestation and that spurring rural development will help safeguard forest areas. In fact, the study showed that, in general, high timber prices and increased logging activity have no statistically significant link to deforestation.<sup>4</sup>

At the same time, the CGD study pointed to agriculture as one of the most consistent drivers of deforestation.<sup>5</sup> That finding is supported by other studies. A 2013 report for the European Commission concluded that between 1990 and 2008 just over half of global deforestation was due to agricultural expansion. It also highlighted the important role of international trade in driving deforestation: one-third of the deforestation embodied in crop production is traded internationally.<sup>6</sup> Another study by the CGD found that in 2009 four commodities in eight countries were alone responsible for one-third of emissions from deforestation and one-third of those were embodied in products consumed in countries other than where they had been produced.<sup>7</sup> More recently, Forest Trends reported that 24 per cent of the world's total tropical deforestation during the period 2000–12 was due to illegal land conversion for commercial agricultural products grown for export markets.<sup>8</sup>

Demand for commodities is rising around the globe, particularly in the rapidly growing economies of larger middle-income countries. Often the most attractive option for meeting this demand is the expansion of production onto forest lands. As a result, the extent to which various commodities and regions are contributing to the problem of deforestation has changed quite rapidly. A decade ago, the expansion of beef and soy production into the Brazilian Amazon was at the heart of the tropical deforestation crisis.<sup>9</sup> Since then, Brazil has decreased the rate of deforestation in the Amazon by more than 75 per cent.<sup>10</sup> At the same time, the conversion of forests for industrial plantations is increasingly driving deforestation in Southeast Asia and, to a lesser extent, in West and Central Africa as well as in South American countries such as Peru. The production of palm oil, in particular, is rapidly growing in Guatemala, Thailand, Honduras and Brazil, although Indonesia and Malaysia remain by far the dominant producers.<sup>11</sup>

The main hubs for trade in these commodities are shifting, too. Since 2005 China alone has accounted for 90 per cent of the growth in global soybean imports. China imports soybeans largely as animal feed for the country's meat industry;<sup>12</sup> together with biofuel support policies in the EU, US, Brazil and Argentina, this will continue to increase demand for soybeans.<sup>13</sup> Indeed, Brazil's exports of soybeans are nearly equal to those of the US;<sup>14</sup> by 2020 combined Argentine and Brazilian soybean exports to China will outpace those from the US.<sup>15</sup> A quarter of the world's total meat consumption now takes place in China; and further increases are expected, particularly as regards beef.<sup>16</sup>

Just as consumer countries responded to illegal logging activities by implementing policies designed to end the import of illegally harvested wood products, consumer economies now need to respond to the growing market for deforestation-embodied agricultural products. But owing to increasing south–south trade in these goods, import restrictions in the northern consumer countries cannot fully address this issue. To identify the most appropriate pathways for reducing agriculture-driven deforestation, a number of workshops have been convened to discuss the potential for US and EU policies to address commodity-driven deforestation. In September 2013 Chatham House and the Meridian Institute co-hosted a discussion titled 'US and EU Policy Options for Trade in Agricultural Commodities: Building on the Expertise of the Forest Sector' to investigate the various avenues for changing behaviour and reducing

deforestation in the agricultural commodities sector.<sup>17</sup> Just over a year later, Chatham House and WRI convened the workshop ‘Transatlantic Dialogue: Reducing Deforestation in Supply Chains of Agricultural Commodities, Identifying Policy Options for the US and EU’. Aiming to build on the conclusions of the previous year’s event, the Transatlantic Dialogue addressed many of the same themes but focused on specific steps that the governments of the EU member states and the US could take to address deforestation-embodied agricultural production.

Moreover, the Transatlantic Dialogue sought to build on the momentum created by the UN Climate Summit of September 2014. At the summit, more than 100 signatories to the New York Declaration on Forests –including many EU member states as well as the US – agreed to support efforts to halve natural forest loss by 2020 and to end it altogether by 2030. Besides non-profit organizations, other signatories to the declaration included more than 50 companies – not least major players in agricultural production and sourcing, such as Asia Pulp and Paper, Cargill, Nestlé and Unilever.<sup>18</sup>

The Transatlantic Dialogue featured presentations and discussions focusing on the extent and nature of deforestation embodied in commodity supply chains as well as possible solutions to this problem. Particular emphasis was put on identifying options for government policy, legislative and regulatory action in the US and the EU. The main points made during the presentations and discussions are summarized below.

### Understanding the parameters of government action

As a point of departure for the discussions, WRI outlined a framework for understanding the various government actions that can be employed to reduce commodity-driven deforestation within the US and EU contexts. According to that framework, state action can take place within four broad categories:

- **Regulation** of commodity imports, establishment of government procurement policies and corporate transparency and reporting requirements (e.g. for health and safety, legality, sustainability or transparency objectives);
- **Foreign assistance** through both multilateral and bilateral channels and including both funding and the establishment of policy norms and safeguard policies;
- **Trade policy**, including through provisions in multilateral and bilateral formal agreements, environmental side-agreements to such trade deals and bilateral MoUs; and
- **Political and diplomatic relations**, including raising the issue of commodity-driven deforestation in bilateral discussions, multilateral agreements and policy forums, as well as through ongoing diplomatic dialogues and cooperation.

While the specifics of how these categories of state action can be applied vary from commodity to commodity and from country to country – and while processes and politics in the US differ from those in Europe – there was broad agreement that it is not easy to get governments to change policies and take action. However, participants in the Transatlantic Dialogue were also broadly agreed that when there is a clear target, a good understanding of the nature of policy tools and processes and a sufficiently broad coalition of concerned stakeholders to help drive progress, the desired result can be achieved.

### Shifting dynamics and enabling conditions for action

Much of the initial discussion focused on the complexity of global commodity production and the need to identify and put in place enabling policy conditions and economic incentives for behaviour change. Important points highlighted by participants included the following:

- **Be clear on why it is necessary to reduce deforestation:** The objective of reducing deforestation should be kept in mind and revisited – in particular, whether it should be limited to reducing emissions or extend to conserving biodiversity and preserving natural habitat. This distinction is important as regards target ecosystems (such as high biodiversity and high-carbon-stock tropical forests, compared with high biodiversity and lower-carbon stock landscapes, including the Cerrado in Brazil).
- **Clarify and periodically revisit the theory of change:** The four types of approach discussed above offer different levers for change, but each approach can produce results only in a specific context. The prerequisites for deciding on a course of action include a thorough understanding of how commodity growers and traders make investment decisions, and predicted trends for growing consumer markets such as China, India and Brazil.
- **Commodity markets affect one another differently and cannot be viewed in isolation:** The market and investment forces driving production of many agricultural commodities are interlinked. For example, most soybean imports to China and Europe are used not for human consumption but for cattle feed.<sup>19</sup> Similarly, the expansion dynamics of cattle ranching and soybean production in Brazil are closely interlinked.<sup>20</sup> Thus the various agricultural commodities cannot be viewed in isolation.
- **The cost of policy incoherence is high:** While providing financial incentives for commodities driving tropical deforestation, such as soybeans and palm oil, governments are also pursuing policies ostensibly targeted at reducing forest clearance. The harmonization of trade policies, support for extractive industries such as mining and forestry, and foreign aid and environmental policies is important going forward. A case in point is the EU Biofuels Directive, which was singled out by participants in the Transatlantic Dialogue as counterproductive.
- **There are important differences between the US and the EU:** These include trends in demand and market share as well as position in the supply chain: the US is one of the world's main soybean and beef producers, whereas Europe is primarily an importer. US-based producers compete with South American and other producers for market share in emerging economies such as China, Russia and the Middle East countries, and seek a level playing field *vis-à-vis* any requirements for complying with environmental legislation.<sup>21</sup> The EU is a major importer of commodities such as palm oil, soybeans and cocoa; thus it has a potential role to play in setting standards for imported commodities.
- **The emerging economies are becoming huge commodity consumers:** While until now the US and the EU have dominated the global market for commodities, they are quickly being overtaken by emerging economies – above all, China but also India, Brazil and Indonesia – owing to growing middle-class demand in those countries.<sup>22</sup> This leads to a number of conclusions:
  - The effectiveness of US and EU policies needs to be considered from the perspective of catalysing and supporting producer country action, as this is where the key changes need to take place.
  - In this context, a priority for US and EU policy should be promoting action within other consumer markets, as well as adopting policies that target their own domestic markets.<sup>23</sup> It was pointed out that the EU and the US should see themselves as a testing ground for solutions that could be more broadly applied, rather than assuming that their actions could, in themselves, alter the dynamics of commodity-driven deforestation.<sup>24</sup>
  - Seeking dialogue and engagement with policy-makers, companies and civil society in emerging consumer markets is very important, as was repeatedly pointed out. The governments of some of these countries are already working on policies to reduce the social and environmental impact of growing consumption. For example, the Chinese government is

developing voluntary guidelines for Chinese companies operating or investing abroad. These guidelines provide a point of departure for diplomatic engagement with China.<sup>25</sup>

- **Focus on commodity producers (growers) is fundamental:** While it is strategically easier to influence major consumer goods companies and the larger commodity traders that supply them, there is a clear need to better understand and focus on producers in tropical forest countries, including the key incentives that influence their decisions related to land use. In Indonesia, for example, a significant proportion of palm oil producers are small-scale farmers,<sup>26</sup> while in other countries many commodities are produced by larger entities. Because the producer context varies from country to country, rather different approaches are needed to reduce pressure on forests.
- **State policies in producer countries are fundamental too:** Positive and negative incentives generated by the international community play an important role – but only if they are supported by government policies that set the parameters for investments and actions by producers. Discussions highlighted some of the key enabling policy conditions needed in producer countries:
  - Clear rights of land and resource ownership, access and control (‘tenure’) are required for corporations to make long-term investments that depend on such rights being in place. Existing community land rights need to be recognized and mapped in order to avoid overlapping land claims and consequent conflicts.
  - Land-use planning guidelines need to be coherent and equitable, while zoning based on land-use planning needs to be effectively implemented for both agricultural and forest areas. Meanwhile, decisions on awarding concessions must respect the boundaries of existing protected areas and other reserves.
  - Clear and coherent legal frameworks, together with effective administration of the law, are essential for any sort of responsible investment but are particularly important for long-term investments in perennial crops or forestry.

### Potential areas for action by the EU and the US

This section summarizes discussions about the opportunities for action in the four broad policy areas identified above (see Understanding the parameters of government action, above).

#### I. Regulations on trade/products

**A regulation or law prohibiting the import of commodities produced on illegally deforested land**, based on the Lacey Act or the EUTR, has been discussed as an option both for the US and the EU.<sup>27</sup> Theoretically, timber or wood fibre generated from the illegal clearance of forests or grown on land that previously had been cleared illegally could fall under the Lacey Act or the EUTR. Proving the link between illegal land clearing and subsequent production of plantation timber, however, would be very difficult. An alternative approach would be to introduce a law that directly penalizes trade in commodities produced on land that can be proved to have been cleared illegally; such punishment is beyond the scope of the Lacey Act or the EUTR.<sup>28</sup>

At the same time, tracking volumes of commodities like palm oil or soybeans from the point of production to import seems even more difficult than tracking timber. In addition, owing to the power of the agricultural lobbies in the US and the EU, such legislation could be seen as controversial if US and EU products were negatively affected. However, pursuing the potential for an import restriction on commodities from illegally cleared land based on the Lacey Act, the EUTR or on Voluntary Partnership Agreements (VPAs) was discussed repeatedly during the Transatlantic Dialogue and merits further

investigation. In particular, there was interest in analysing to what extent domestic industry competing with commodity imports might be interested in supporting such regulation.

Participants in the dialogue pointed out that while a significant proportion of commodity-driven deforestation appears to be illegal,<sup>29</sup> legal conversion of forests to agricultural land has precisely the same negative environmental impacts as illegal conversion. Thus, while efforts to restrict illegal conversion of forests to agriculture are necessary, they are insufficient to address the challenge of securing sustainable landscapes encompassing stable or expanding forest cover and productive agriculture. Moreover, the goal of ensuring that conversion is legal would probably gain more political traction and be more achievable, at least in the shorter term.

Even legislation or regulatory measures focused solely on commodities grown on illegally converted land would be difficult to establish. The scope of what constitutes legal versus illegal conversion of forest to agricultural production is often unclear, particularly in decentralized states in which the respective powers of central and sub-national government agencies are frequently shifting and contested. There needs to be a strong economic case to create a coalition supporting legislation focusing on illegal conversion (such as existed when businesses and environmental groups came together in a coalition to amend the Lacey Act in 2008). In addition, any measures taken by the US or the EU would need to be implemented in close collaboration with producer countries, since it is the government and law-enforcement institutions of the latter that are responsible for establishing, implementing and interpreting land-use and forest-conversion laws and regulations.

A slightly different approach would be to introduce legislation prohibiting commodities that had been produced on recently cleared land. Indeed, there may be an opportunity to introduce such language in the next US Farm Bill.<sup>30</sup> However, there is as yet no consensus among stakeholders on what constitutes ‘recently cleared’<sup>31</sup> or what the minimum area required for this provision to apply should be. The idea follows an experiment that took place in Brazil’s Pará state, where the state government has partnered with supermarket chains. The supermarkets committed not to source beef from land deforested after October 2009, and the government has monitored and successfully enforced that provision.<sup>32</sup> Based on the experience of Pará state, the Federal Public Prosecutor’s Office signed an agreement with the Brazilian Supermarket Association in 2013 committing to reject meat sourced from undocumented origins.<sup>33</sup>

Another priority action identified by participants in the Transatlantic Dialogue was establishing to what extent existing consumer-country legality standards – i.e. the Lacey Act, the EUTR and the legality assurance systems being developed in VPA countries – apply to conversion timber.

**Public procurement policies** can certainly play a role in raising legality standards for products, as has been seen in the case of timber in the European market. Some EU countries require third-party certification for all public purchases of timber, while others have developed national-level procurement standards that aim even higher, putting pressure on certification bodies to follow suit. Many local and regional authorities already have procurement policies for food, in particular organic, healthy and locally sourced products; and it should be possible to extend these policy frameworks to include sustainable commodities. Indeed, the UK is already doing so to include palm oil.

In the US, however, there seems to be very limited scope for implementing procurement standards for specific products. The only alternative would be to introduce more stringent requirements for providers, and even this may be a difficult change to make. For this reason, participants recommended that the US engage more with company reporting requirements and transparency mandates.

Another issue raised in relation to procurement was the heavy reliance on third-party certification, which can be an expensive approach to market differentiation. There was concern that long-term reliance on product certification may not be a cost-effective solution for the private sector, and that, in any case, it does not necessarily lead to broader transformations in the market.

Although the issue of biofuels was not discussed in detail, **US and EU support policies for biofuels** were considered an important priority for policy reform. Such policies provide market incentives for deforestation due to conversion for biofuel production.

### II. Regulations on companies

With regard to regulations on **company reporting** and information management, the policy landscape in the US is quite different from that in the EU. For this reason, any attempt at increasing reporting requirements needs to take into account the respective existing government regulations, political culture and political feasibility.

Doubts were raised about the efficacy of corporate transparency in ensuring deforestation-free commodities, in part because of the challenges of providing reporting that is sufficiently detailed to be meaningful and improve transparency standards. Furthermore, reporting requirements generally apply to the company as a whole, and not to specific supply chains. However, in the context of corporate financial reporting, the theory of change is based on the influence of such reporting on investors, which, in turn, can have a significant impact on corporate decision-making.

In addition, the increasing amount of south–south trade could limit the reach of corporate-reporting requirements enacted in the US and the EU. None the less, participants from Brazil and China highlighted the important role of US- and EU-based multinational companies in the global commodity trade, and argued that this would allow transparency mandates to apply more broadly than simply to the domestic market.<sup>34</sup>

A model for corporate transparency requirements is available in the US Dodd-Frank conflict minerals resolution,<sup>35</sup> which requires companies to report whether their products contain certain minerals sourced from various African countries deemed at risk of having been mined in conflict zones. The Dodd-Frank Act obliges companies to report on the steps taken to avoid purchasing conflict minerals from those countries. Similar regulations could require companies to disclose whether agricultural commodities could have come from recently deforested areas. However, information-sharing requirements tend to discourage sourcing from long and complex supply chains, such as those involving smallholders, owing to the increased cost involved in gathering and verifying sourcing information. This is especially true in sectors in which there is very little information available about product origin, as in the case of the palm oil industry, for example.

There are several current opportunities of interest related to corporate reporting requirements, including the ongoing review by the **US Securities and Exchange Commission (SEC) on the effectiveness of corporate disclosures**. At present, corporate climate risk reporting is rare, despite requirements and guidance by the SEC; and there is little room for forcing companies to comply with the guidelines. The review process may allow for the coercive tools at the disposal of the SEC to be expanded, and provides an opportunity for fine-tuning and adding to the information defined as climate risk-related.

Similarly, the **EU Accounting Directives<sup>36</sup> now include reporting requirements on environmental matters, including land use change**, which will come into force in 2017. These



directives have yet to be transposed by the member states, which means there is an opportunity to contribute to their effective implementation through the development of guidance and information on best practice. The EU will review progress in 2018 and will consider expanding the number of companies to which the requirement applies from around 6,000 to 20,000.

Another opportunity is offered by the increasing use of the **eXtensible Business Reporting Language (XBRL)**, a computer language that allows for creating data tags on non-financial information and could be used to report on deforestation risk. The EU Transparency Act requires that companies adopt this language for reporting; meaning that qualitative and quantitative information on commodity impacts on forest cover could be collected. Since the tags have not yet been fully defined in the EU, there may be room still to contribute to this process. Moreover, there are signs that the UK will implement XBRL for non-financial information: for example, climate change tags have already been defined by the Financial Reporting Council for use on a voluntary basis.

Overall, participants believed that the best opportunities were offered by the SEC disclosure review in the US and through developing strong and feasible guidelines for the EU land-use change reporting requirements. Potential allies in these processes go beyond traditional forest and climate sector actors to include groups such as the Committee of European Securities Regulators (CESR), the European Securities and Markets Authority (ESMA), Ceres, the SEC, the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB), the World Economic Forum, the World Business Council for Sustainable Development (WBCSD), the Sustainable Stock Exchanges Initiative, the UN Conference on Trade and Development (UNCTAD) and the World Federation of Exchanges.

### III. Trade agreements

Another pathway for reducing deforestation in the supply chains of agricultural commodities is through international agreements, including bilateral or multilateral trade agreements, more robust programmes modelled on the EU's VPAs with producer countries, and less formal agreements such as MoUs.

In **bilateral or multilateral free trade agreements**, reducing deforestation through the trade of agricultural commodities could lead to increased attention being paid to environmental concerns – for example through the elaboration of safeguards or through establishing a framework for cooperation, including in law enforcement.

Trade programmes that aim to develop and improve governance and regulatory infrastructure, such as the EU VPAs, could serve to bring together governments, the private sector and civil society to develop programmes that address the concerns of these stakeholders. Thus a 'coalition of the willing' would support change in priority regions or countries.

Such agreement could **focus on a particular landscape or region**. In this way, the supply source would extend beyond an individual farm or mill shed to encompass an entire region. Engaging at this level would reduce the burden for individual smallholders of proving compliance, expedite companies' identification of legal, compliant supply sources and provide opportunities for large-scale private-sector financing. Moreover, this approach would promote more than commodity certification: it would bring good governance down to the farm level. While the need for land registration would mean addressing issues of tenure security, there would be increased incentives for producers to register their land, since this would be a requirement for entering their products into the supply chain.

To push forward with this approach, it may be preferable to pursue **sub-national agreements** rather than engaging countries at the national level, since such accords may be easier to expedite and more feasible to implement. In that same vein, building on existing institutions and initiatives would be more desirable than creating new structures. Forums such as the Tropical Forest Alliance 2020<sup>37</sup> or the Governors' Climate and Forests Task Force<sup>38</sup> could show the way or at least serve as launch pads for these jurisdictional activities. Aid, donor funding and diplomacy, however, would all continue as high priorities.

In addition, participants pointed to **bilateral investment treaties** as offering an opportunity to address environmental concerns, including illegal deforestation for producing export-oriented commodities. While adapting existing treaties may be difficult, this point should be considered in treaties currently under negotiation and going forward.

Another key opportunity in Europe would be an **EU action plan on deforestation**. This could provide scope for a strategic programme of support and engagement with priority regions, along the lines of the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan.

#### **IV. Foreign aid and diplomacy**

An important catalyst for generating high-level attention to illegal deforestation for agricultural commodities would be a **compelling economic analysis of the opportunity cost** of illegality to both producer and consumer countries. This type of analysis was an important tool in building the alliance of the private sector and NGOs that led to the amendment of the Lacey Act in 2008. Indeed, it could help cement the case for international diplomatic action to combat agricultural commodity-driven illegal deforestation.

While the volume of private foreign investment significantly exceeds that of government aid, **foreign assistance** plays an important role in incentivizing political dialogue and supporting the enabling policy conditions and capacities that governments must put in place in order to attract foreign investment. It is only governments that can clarify land tenure, issue orders on tackling corruption and enforcing the rule of law and create binding economic incentives for more sustainable private-sector behaviour. However, in many cases they need financial and technical assistance from the international community to help carry out those tasks.

For many tropical countries, the fate of forests is closely tied to development policies and investment; and it is the latter that tends to be prioritized by both politicians and people. Finding ways to increase commodity production as part of economic development, while directing that production away from forest clearance is at the heart of the issue. For this reason, foreign aid may be needed to pilot alternative development options.

Moreover, foreign aid is an important guarantor of trust and cooperation for the implementation of commitments like those made in the New York Declaration at the 2014 UN Climate Summit. **Multilateral financing mechanisms** like the Global Environment Facility (GEF) or the emerging Green Climate Fund can play an important role, too, in accelerating efforts to reduce deforestation in commodity supply chains – if key shareholders like the US and countries of the EU prioritize that goal in their work programmes.

**Diplomatic relations** used to focus mainly on political and military matters and, more recently, economic issues. Over the past few decades, however, a broader set of issues has emerged, including environmental challenges such as deforestation. Diplomacy is by its very nature both slow and

incremental: generally, diplomats follow, rather than lead, on global environmental issues. But when change comes through diplomatic channels, it can be very powerful – regardless of whether through UN conferences and treaties or via bilateral summits and negotiations. Indeed, government-to-government cooperation has scored various successes: witness the collaboration between the US and Brazilian prosecutors’ offices in exchanging information and building capacity for enforcement of the Lacey Act, which could serve as a model for other bilateral relationships.

At the same time, the importance of diplomatic pressure on Brazil to enforce the Forest Code regulations was highlighted at the Transatlantic Dialogue. It was suggested that the EU require that all Brazilian commodity imports into the EU be in compliance with the Forest Code.

Multilateral agencies – such as the World Bank, regional development banks and the GEF – have an important role to play in both financing efforts to reduce deforestation in commodity chains and putting in place **environmental norms and safeguards**. For example, the Performance Standards of the International Finance Corporation (the private-sector arm of the World Bank Group)<sup>39</sup> officially apply only to the operations of that institution, but have in fact been widely adopted by the private sector – for example, the environmental impact assessment and the biodiversity and ecosystem safeguards. Similarly, the UN Food and Agriculture Organization (FAO) has developed voluntary principles on land tenure and responsible agricultural investment that have been adopted by many other entities, despite their ‘voluntary’ nature.

The US and the EU member states could make much more effective use of these multilateral entities if they took a more coherent approach to policy as members of the agencies’ governing bodies. For example, it helps very little if the GEF increases support for eliminating deforestation from commodity supply chains (as it is doing) while GEF-implementing agencies (such as the World Bank) are financing projects that increase commodity pressure on forests. All too often, governments sitting on the GEF Council are also members of, say, the World Bank Board and in the latter capacity approve projects that work directly against the objectives of the GEF.

Finally, there was some discussion at the Transatlantic Dialogue about the opportunity to raise the issue of commodities grown on recently cleared land in the **WTO environmental commission** and to work with other countries to increase the pressure for an appropriate response.

## Conclusions and summary of recommendations

In the concluding plenary session, participants identified the following priorities for action:

1. Discuss the political feasibility of, and potential measures towards, establishing regulations or laws prohibiting the import of commodities produced on illegally deforested land, based on the model of the US Lacey Act or the EUTR;
2. Examine the scope for using public procurement policy for sustainable commodities, particularly in the EU;
3. Improve the internal consistency and coherence of US and EU policy positions by identifying and reforming trade, import, procurement and other policies that create incentives prejudicial to efforts to remove tropical deforestation from commodity supply chains (the EU Biofuels Directive, according to a number of participants, is a high priority in the EU in this context);
4. Strengthen non-financial reporting requirements for deforestation risk: this can be achieved in the US through feeding into the review process being implemented by the SEC and in the EU through helping to elaborate guidance for implementation of the UK Accounting Directives;

5. Analyse the status of deforestation-related tag definition for XBRL and determine opportunities for concrete action; and
6. Investigate the potential for pursuing sub-national agreements for ‘deforestation-free jurisdictions’ and determine potential pilot jurisdictions through the Tropical Forest Alliance 2020 and other multi- and bilateral processes.

<sup>1</sup> See <http://www.chathamhouse.org/about/chatham-house-rule>.

<sup>2</sup> See <http://www.illegal-logging.info/content/transatlantic-dialogue-reducing-deforestation-supply-chains-agricultural-commodities>.

<sup>3</sup> The Chatham House ‘Indicators of Illegal Logging’ project reviews progress across 19 countries. The reports can be found at <http://www.illegal-logging.info/content/illegal-logging-and-related-trade-indicators-global-response>.

<sup>4</sup> Busch, Jonah (2014), ‘What Drives Deforestation and What Stops It?’, Presentation at the ‘Transatlantic Dialogue: Reducing Deforestation in Supply Chains of Agricultural Commodities, Identifying Policy Options for the US and EU’, Washington, D.C., 23–24 October.

<sup>5</sup> Ferretti-Gallon, Kalifi and Jonah Busch (2014), ‘What Drives Deforestation and What Stops It? A Meta-Analysis of Spatially Explicit Econometric Studies’, *CGD Working Paper*, No. 361, 17 April. (See <http://www.cgdev.org/publication/what-drives-deforestation-and-what-stops-it-meta-analysis-spatially-explicit-econometric>).

<sup>6</sup> Cuypers, Dieter et al. (2013), ‘The Impact of EU Consumption on Deforestation: Comprehensive Analysis of the Impact of EU Consumption on Deforestation’, *European Commission Technical Report – 2013- 063*.

<sup>7</sup> Persson, Martin, Henders, Sabine, Kastner, Thomas (2014), ‘Trading Forests: Quantifying the Contribution of Global Commodity Markets to Emissions from Tropical Deforestation’, *CGD Working Paper*, No. 384, 22 October. (See <http://www.cgdev.org/publication/trading-forests-quantifying-contribution-global-commodity-markets-emissions-tropical>).

<sup>8</sup> Lawson, Sam et al. (2014), ‘Consumer Goods and Deforestation: An Analysis of the Extent and Nature of Illegality in Forest Conversion for Agriculture and Timber Plantations’, *Forest Trends Report Series: Forest Trade and Finance*, 11 September. (See [http://www.forest-trends.org/documents/files/doc\\_4718.pdf](http://www.forest-trends.org/documents/files/doc_4718.pdf)).

<sup>9</sup> Lawson et al. (2014).

<sup>10</sup> World Resources Institute (2014), ‘The Governance of Forests Initiative: Brazil’ (See <http://www.wri.org/our-work/project/governance-forests-initiative/brazil>).

<sup>11</sup> Brack, Duncan and Laura Wellesley (2014), ‘Reducing Deforestation in Supply Chains of Agricultural Commodities: Trade, Consumption, and Deforestation’, presented at the ‘Transatlantic Dialogue: Reducing Deforestation in Supply Chains of Agricultural Commodities, Identifying Policy Options for the US and EU’, Washington, D.C., 23 –24 October.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Niu, Rose and Tao Hu (2014), ‘China’s Role in Global Markets for Soy, Palm Oil, Pulp and Paper, Beef and Natural Rubber’, presented at the ‘Transatlantic Dialogue: Reducing Deforestation in Supply Chains of Agricultural Commodities, Identifying Policy Options for the US and EU’, Washington, D.C., 23 –24 October.

<sup>17</sup> Chatham House and Meridian Institute (2013), ‘US and EU Policy Options for Trade in Agricultural Commodities: Building on the Expertise of the Forest Sector’, Energy, Environment and Resources Meeting Summary, 24–25 September.

<sup>18</sup> For the text of the declaration, see <http://www.un.org/climatechange/summit/wp-content/uploads/sites/2/2014/09/FORESTS-New-York-Declaration-on-Forests.pdf>.

<sup>19</sup> Niu and Hu (2014).

<sup>20</sup> Nepstad, Daniel (2014) et al., ‘Slowing Amazon deforestation through public policy and interventions in beef and soy supply chains’, *Science*, Vol. 344, No. 6188, pp. 1118 –23.

<sup>21</sup> Wolosin, Michael and Glenn Hurowitz (2014), ‘Strategic Assessment: Setting the Stage to Eliminate Illegal Commodities’, presented at the ‘Transatlantic Dialogue: Reducing Deforestation in Supply Chains of Agricultural Commodities, Identifying Policy Options for the US and EU’, Washington, D.C., 23–24 October.

<sup>22</sup> Niu and Hu (2014); and Brack and Wellesley (2014).

<sup>23</sup> See, for example, Niu and Hu (2014); and Vitali, Isabella Freire (2014). ‘Promoting Policy Action on Commodities in Brazil’, presented at the ‘Transatlantic Dialogue: Reducing Deforestation in Supply Chains of Agricultural Commodities, Identifying Policy Options for the US and EU’, Washington, D.C., 23 –24 October.

<sup>24</sup> Vitali (2014).

<sup>25</sup> Niu and Hu (2014).

<sup>26</sup> See <http://www.thejakartapost.com/news/2014/10/04/palm-oil-certification-gets-int-l-support.html>.

<sup>27</sup> Forest Trends (2014), ‘Meeting Summary: Illegal Forest Conversion in the Mekong: Policy Implications for Land Investments, Climate, and Forest Legality Initiatives’, Washington, D.C., 21 –23 July.

<sup>28</sup> The 2008 amendments to the Lacey Act explicitly exclude food crops and common cultivars from the scope of the law, while the EUTR applies to timber only (as its name implies).

<sup>29</sup> Lawson et al. (2014).

<sup>30</sup> The US passes omnibus ‘farm bills’ – which regulate numerous aspects of domestic agriculture, including issues related to international trade – roughly every five years. The most recent such bill was passed in 2014. The Lacey Act amendments took the form of a provision in the 2008 farm bill.

<sup>31</sup> However, a scoping dialogue hosted by The Forests Dialogue in October 2014 attempted to advance discussions on defining ‘zero deforestation’, ‘deforestation-free’ and similar such terms (see <http://theforestdialogue.org/initiative/understanding-deforestation-free>).

<sup>32</sup> Mongabay (2009), 'Brazilian beef giants agree to moratorium on Amazon deforestation', 7 October (See [http://news.mongabay.com/2009/1007-greenpeace\\_cattle.html](http://news.mongabay.com/2009/1007-greenpeace_cattle.html)).

<sup>33</sup> Mongabay (2013), 'Brazilian supermarkets ban beef linked to Amazon deforestation', 27 March (See <http://news.mongabay.com/2013/0327-brazil-supermarkets-beef.html>).

<sup>34</sup> Niu and Hu (2014); and Vitali (2014).

<sup>35</sup> See Section 1504 of the 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111–203, H.R. 4173) (See <http://www.sec.gov/spotlight/dodd-frank/speccorpdisclosure.shtml>).

<sup>36</sup> See the Fourth and Seventh Accounting Directives on Annual and Consolidated Accounts – 78/660/EEC and 83/349/EEC, respectively.

<sup>37</sup> See [www.tfa2020.com](http://www.tfa2020.com).

<sup>38</sup> See [www.gcftaskforce.org](http://www.gcftaskforce.org).

<sup>39</sup> See

[http://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards).