Demand-side tools for addressing conversion timber in the Mekong

Expert Workshop on Illegal Forest Conversion in the Mekong

22 July 2014
Outline

1. Intro: Linking forest conversion to global demand
2. Demand-side drivers and consumption of agro-commodities
3. Demand-side policy and market approaches: how have they accounted for conversion timber?
4. Recommendations
Linking Forest Conversion to Demand

- ~70% tropical deforestation for large-scale, commercial agriculture
- ~20-40% exported
- Strong evidence of illegalities
- Parallel consumer country efforts: forest protection, illegal logging, human rights

“Embodied Deforestation:” Deforestation embodied as an externality in produced, traded, or consumed product or associated with a particular good or service (requiring conversion of forest lands.)
**EU Forest Footprint Study (2013): Overall findings**

**European Union identified as largest single driver of deforestation worldwide, 1990-2008**

- Expanded production of forest-risk commodities (forest conversion for crops, livestock, timber) = 53% global deforestation, or 127 Mha
- Major industrialized countries responsible for one third global deforestation.
  - 36% EU
  - East Asia: ½ the population, 2x embodied deforestation
- 80% forest conversion \(\rightarrow\) regional consumption

*Source: Cuypers et al 2013. The impact of EU consumption on deforestation. Brussels: European Commission*
EU Forest Footprint Study: Contribution of specific crops, by region

### Market share of Chinese agro-commodity imports from Mekong (2012)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Total imports</th>
<th>Mekong imports</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rubber</td>
<td>$6,999,129,706.26</td>
<td>$4,511,330,369.16</td>
<td>64.46%</td>
</tr>
<tr>
<td>Palm oil</td>
<td>$5,702,286,457.38</td>
<td>$22,925,216.68</td>
<td>0.40%</td>
</tr>
<tr>
<td>Raw sugar</td>
<td>$2,093,188,433.11</td>
<td>$519,377,538.64</td>
<td>24.81%</td>
</tr>
<tr>
<td>Cassava</td>
<td>$1,645,354,709.10</td>
<td>$1,635,827,918.19</td>
<td>99.42%</td>
</tr>
<tr>
<td>Maize</td>
<td>$1,421,088,213.33</td>
<td>$22,459,184.78</td>
<td>1.58%</td>
</tr>
<tr>
<td>Rice</td>
<td>$1,189,753,555.83</td>
<td>$924,117,046.26</td>
<td>77.67%</td>
</tr>
</tbody>
</table>

Source: UN Comtrade data via Observatory of Economic Complexity (atlas.media.mit.edu), compiled by Forest Trends
Consumption and Demand of Agro-Commodities: Sugar

Source: UN Comtrade data, compiled by James Hewitt for Forest trends
Public Procurement Policies (PPP)

- Require legal (sustainable) products for government purchasing
  - Goods/services purchased by public authorities
  - 13 consumer countries with PPPs aimed at timber sourcing: either with self-defined criteria, or using existing certification schemes (FSC)
- Broad impacts on consumer markets
- Other agro-commodities? UK Statement on Sustainable Palm Oil
- Future considerations:
  - Food products
  - Social factors: land rights, benefit-sharing
Trade liberalization policies

• Tariffs:
  – Low on raw products (i.e. palm oil). Preferential access to products from developing countries (WTO rules, Everything but Arms)
  – Lower import/export tariffs for sustainable/legal agriculture products?

• Subsidies:
  – Tax breaks to companies investing in land and forests (infrastructure projects, marketing)
  – Biofuels (EU: jatropha, sugar)

• Free Trade Agreements:
  – Aim to reduce barriers to trade, have not historically promoted legal or sustainable commodity production/addressed social and environmental impacts
  – US-Peru, EU-Korea, EU-Central America
Policy and Market Approaches (3):

**Legality initiatives**

- **EU FLEGT Action Plan (2003):**
  - EU Timber Regulation (March 2013): Set of procedures for timber & products to be legally traded in EU, requires operators to minimize risk of placing illegal products on market through due diligence
  - VPAs: Bilateral trade agreements; potential for improved governance and multi-stakeholder participation as well as opening up of EU trade

- **US Lacey Act (amended 2008):**
  - Prohibits import, export, transport, sale of illegally sourced wood products, defined according to host country laws. Punishable as felony or misdemeanor.

- **Australia Illegal Logging Prohibition Act (2012):**
  - Prohibits import of timber/timber products and processing of Australian raw logs that have been illegally logged. Includes due diligence requirement on importers/processors
Policy and Market Options: Can FLEGT, US Lacey, and ILPA address conversion timber?

**EUTR, Lacey, ILPA:**
- Depends on how easily illegalities are identified
- May act as deterrent, particularly after high-profile cases (US: Gibson, Lumber Liquidators)
- Risk of implementation/enforcement focusing solely on selective logging

**VPAs:**
- Could be important tool, with more potential through strong stakeholder negotiation process
- Conversion identified as key issue in VPA countries, but none monitor requirements for allocating forest conversion
- Illegal conversion wood in FLEGT licensed supply chains will undermine credibility of VPAs

*Urgent efforts needed to improve national legal frameworks to ensure demand-side measures capture conversion effectively.*
New Policy and Market Options

- **EUTR-type regulations for agro-commodities**
  - “Blue Skies” discussions on FLEGT/VPA model
- **FAO Zero Illegal Deforestation Commitment**
- **China’s investment policies and guidelines**
  - Financial incentives: access to loans, aid, subsidies for compliant enterprises (Green Credit Guidelines 2012)
  - Parallel guidelines on overseas investments in extractives, rubber
  - Initial discussions on timber legality verification, better CITES requirements
Multi-stakeholder initiatives:

- Commodity roundtables
  - RSPO: certifications for sustainable palm oil =16% production, but no rigorous legality assessments
  - 1,600+ companies signed on (but not all agreed to use guidelines)

- Wide standards/certification at scale:
  - Consumer Goods Forum, TFA 2020
  - Dutch Task Force on Sustainable Soy and Palm Oil

Company-specific commitments:

- E.g. Nestle, Unilever: no deforestation, exploitation, HCV/HCS pledges
- March 2014 “tipping point” for palm oil
- Limitations – voluntary, no standard definitions, legality often ignored, 3rd party supplier challenges
These commitments are strongest when companies and 3rd party suppliers are required to:

- Comply with national laws/regulations and actively fight corruption
- Commit to respect/protect rights (“no exploitation”)  
  - Human rights (local communities, Indigenous Peoples)  
  - Free, Prior and Informed Consent (FPIC)  
  - Worker’s rights and smallholders’ labor standards (including children and human trafficking)
- Include complaint/conflict resolution mechanisms that are open, transparent, consultative
- Include strong environmental standards
- Leave a legacy of improved governance
Some considerations

- Varying trade levels between Mekong/EU – what options for non-EU export markets?
- “Leakage” and creation of “dual markets”
  - Exports to countries without policies in place
  - Intra-regional trade and secondary processing (e.g. Cambodia → Vietnam/China → EU) require more diligence
- Impacts of legality initiatives on smallholders and communities
- Producer country leadership needed to ensure strong legal frameworks and good governance, including secure land and resource tenure

Is there political will to move towards responsible and sensitive markets?
1. Inform and influence other consumer countries to improve legal frameworks. Legality works when laws are fair, coordinated, and implementable.

2. Public bodies in consumer countries should cease purchase of agro-commodities sourced on illegally converted land.

3. VPAs should:
   • Identify and monitor permit/logging requirements for conversion timber, deny FLEGT license where infractions occur
   • Incorporate provisions for social and environmental concerns in national legality definitions, through stakeholder process
Recommendations (2)

4. Develop EUTR-type legislation to address agro-commodities
   – Liability and consequences for importing/trading agro-commodities grown on illegally converted lands
   – Focus on legality, but also land rights, land use, spatial planning

5. Increase the role of financial institutions to exercise due diligence in investment/lending

6. Apply financial incentives to promote trade in legal agricultural commodities (lower tariffs, FTAs, subsidies)

7. Continued market pressure for follow-through on company commitments
Thank you

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