

# Working with the private sector on REDD+

## 1 Introduction

A key feature of implementing the EU FLEGT Action Plan has been the engagement of the private sector in addressing the production of and trade in illegal timber.



Photo: Agus Andrianto, CIFOR

In the early days of the Action Plan, the private sector was often seen only as part of the problem, responsible for illegal logging, forest clearance and trade in illegally harvested timber and forest products. However, it soon became clear that, although this was true in some cases, many companies were keen to find solutions and some had even started to make changes. Engaging the private sector in REDD+ will also be essential if it is to succeed.

### 1.1 What is 'the private sector' with respect to forests?

A wide range of companies undertake activities that can lead to forest degradation and loss. At the production end of the supply chain are forestry companies that harvest timber, agricultural companies clearing forest for palm oil, soy, rubber, coffee, cocoa, sugarcane, cattle ranching or other products, and mining companies clearing forests as part of their extraction activities. Further along the supply chain are the traders, processors, manufacturers and retailers that buy the products and the investors that provide the finance to keep the companies operating. At every stage, these actors can range from huge multinational organisations to small local companies, sole traders or individual farmers.



Photo: Neil Palmer, CIAT

## 1.2 Experiences from FLEGT

### Addressing production

The main mechanism used by FLEGT to address illegality in production is the negotiation of bilateral trade agreements called Voluntary Partnership Agreements (VPAs) between the EU and timber-exporting countries. In order to implement these agreements, producer country governments need to verify the legality of timber production through a timber legality assurance system (TLAS) (see *Introduction to FLEGT*). The private sector has played an important role in the development of VPAs and legality assurance systems. For example, they have helped define the scope of relevant laws, worked with government to develop practical solutions for verification and supply chain control, and identified and communicated unresolved issues. The private sector has also functioned as a service provider to government in developing the technical solutions needed to put a legality assurance system in practice.

### Influencing consumption

Experience from the FLEGT process in Europe, and from similar processes in other parts of the world, shows that while companies did not actively support illegal production, few had ever sought information on the legality of the timber that they used. Rather, buying decisions were made based on availability, quality and price – and illegal timber is generally cheaper. As awareness of the issue of illegal logging increased companies began to see the need to act responsibly and exclude illegal timber from their supply chains. However, they were hampered by two key problems:

- They faced competition from companies that did not try to exclude illegal timber and so could potentially supply cheaper products.
- They had insufficient understanding, experience, practical tools or support they needed to exclude illegal timber from their supply chains.

Therefore, a critical early step in FLEGT was to develop the market for legal timber. This was done at first by encouraging the voluntary adoption of public and private sector procurement policies and later by making legal requirements, with the EU Timber Regulation. Another important step was to support the private sector in developing the knowledge, policies and tools needed to comply.

## 1.3 The private sector and REDD+

The experiences from FLEGT provide useful lessons for those working to reduce forest degradation and loss. The private sector can support their efforts in several ways:

- Reducing the negative impacts of production: Companies involved in production (forestry, agriculture, mining, etc.) can build forest protection into their routine activities either through voluntary commitments or in response to legislation, external policies or incentives. See Section 2.1.
- Influencing consumption: As with the trade in illegal timber, companies sourcing or investing in commodities whose production may involve forest degradation and loss can work to exclude deforestation from their supply chain. See Section 2.2.
- Developing REDD+ projects: The main purpose of REDD+ is to reduce carbon emissions from forests (see *Introduction to REDD+*). A specific way in which the private sector can be involved in REDD+ is as project developers with the aim of creating carbon credits which contribute to emission reductions. See Section 2.3.

# 2 Mechanisms for reducing deforestation

In many countries, reducing or halting deforestation and forest degradation resulting from private sector activities is a major hurdle for REDD+.

There are different ways in which this can be addressed including company-led initiatives, national or international legislative or policy-based approaches or the introduction of incentives to encourage change.

The most effective approach depends on the local situation. It is necessary to understand the local context because the private sector's contribution to forest loss, and hence to potential solutions, varies considerably from one situation to another.

- Forest conversion and degradation may be the result of illegal or poorly controlled activities by companies, often associated with poor governance. In such cases, companies can significantly reduce forest loss by improving their practices, particularly if the government also strengthens governance and law enforcement.
- Forest loss may be the result of national policies that support agricultural expansion combined with poor land-use planning that fails to take into consideration the carbon density and biodiversity value of land allocated to agriculture. In countries where high historical rates of forest loss have led to large areas of degraded land, but forested areas continue to be cleared for agriculture, the private sector can play a role in moving expansion activities to previously cleared areas, but needs support from government in improving the policy and legal context.
- Forest loss may result from legal forest conversion conducted as part of a country's national development strategy. Countries or provinces with very low historical levels of forest loss may have little alternative to clearing forests if they wish to expand agriculture. In such cases, policy change or incentives will be needed to minimise forest loss and ensure that the most valuable forest areas are conserved.
- Forest loss may be driven by smallholders expanding into new areas so they can supply companies with raw materials. Many national governments emphasise the development of smallholder production in the agriculture sector and often require large companies to support smallholder development programmes. However, land may be allocated with little or no understanding of forest conservation or incentives to encourage forest conservation. Companies can play a significant role in improving the planning process and promoting responsible land use that minimises the pressure on forests.

In all cases, it is necessary to see the private sector as part of the solution rather than as part of the problem.

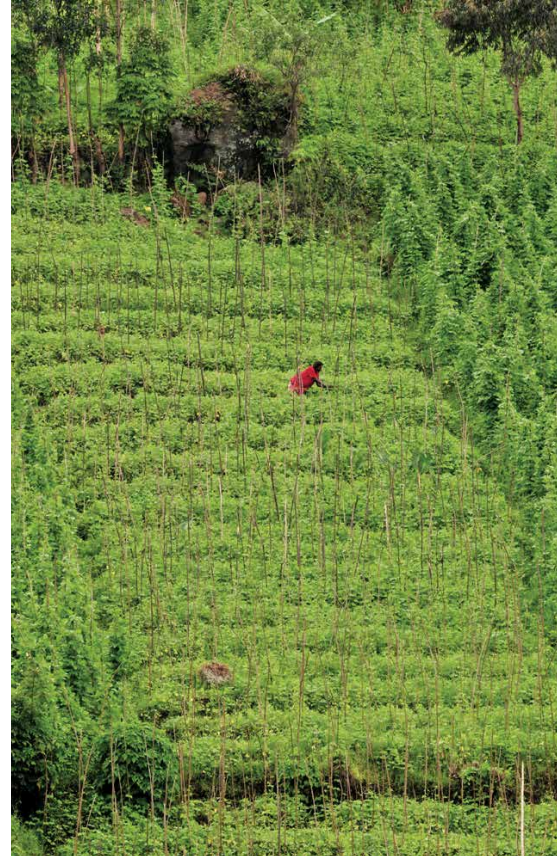


Photo: Neil Palmer, CIAT



## 2.1 Reducing the negative impacts of production

**Example 1:** Golden Agri Resources (GAR) is one of the largest palm oil producers in the world. Following pressure from business customers, GAR committed to not converting high-carbon land (defined as land with more than 35 t/ha of carbon) in its Indonesian concessions to new plantations. GAR is now working to implement this commitment in practice.



Photo: Golden Agri Resources

### Company policies on responsible agricultural expansion

Many agricultural companies are beginning to develop and apply responsible expansion policies, which include commitments to minimise deforestation. (See Box 1 for some reasons for this shift in policy). Where large-scale agricultural expansion is the main pressure on forests, such changes to company policies can have a major impact, especially in a context of weak governance or poor spatial planning.

**Example 2:** The Roundtable on Sustainable Palm Oil (RSPO) standard includes a New Plantings Procedure, which is mandatory for all producer company members. This procedure prohibits the conversion of primary forest, peat lands and high conservation value areas (HCVAs). Olam International committed to complying with the RSPO New Plantings Procedure in its new plantations in Gabon and has already avoided converting large areas of forest in its concessions.



Photo: CIFOR

### Certification and roundtables

The introduction of voluntary certification and roundtables in many sectors has brought stakeholders together to discuss responsible agricultural production. Managing land-use change and minimising deforestation have become important requirements of many of the standards making these initiatives important in helping to encourage change.

**Example 3:** Brazilian soy producers worked with environmental and social NGOs and supply chain actors to agree on a zero forest clearance policy for the Amazon biome in Brazil. This policy is known as the Brazil 'soy moratorium'. The moratorium has been extended several times, most recently until the end of 2013. It has been extremely successful in stopping both legal and illegal clearance of forest for cultivating soybean in this biome.



Photo: Neil Palmer, CIAT

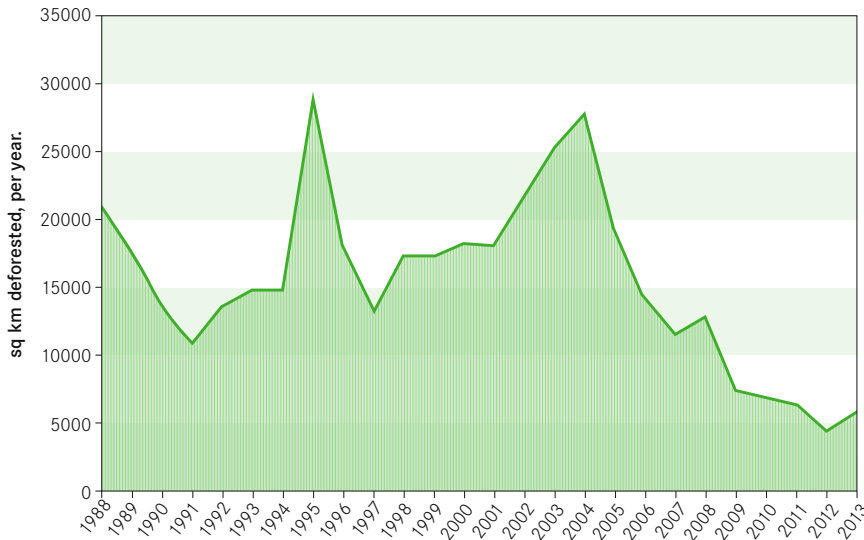
### Sector initiatives

Several agricultural sectors have introduced initiatives to reduce their impacts on forests. Such initiatives often serve to create a critical mass that then encourages the whole sector to act. They also provide the sector with a forum for interacting with government.

### Improved governance and enforcement

In some countries, the laws provide reasonable protection for forests but those laws are poorly enforced. Therefore, strengthening governance and law enforcement can contribute to the reduction of forest degradation and loss. Addressing governance and law enforcement is a central component of FLEGT.

#### Deforestation in the Brazilian Amazon, 1988–2013



Source: Mongabay.com

**Example 4:** During the 1980s and 1990s, Brazil had one of the highest rates of deforestation of any tropical country. However, during the past few years, its deforestation rate has decreased considerably, largely because the Brazilian government has strengthened its enforcement of the legislation regulating forest clearance. For example, the government provided real-time information to the public on deforestation from satellite images. The government also encouraged greater transparency in providing information on the response to illegal clearance by relevant authorities.

### Improving the policy and regulatory framework

Policy and regulatory frameworks in some countries hinder efforts to better protect the forests. Poor legislation, unclear tenure and resource rights, and inadequate land-use planning are often the biggest issues. Companies that try to overcome such barriers in isolation often find it difficult to make any progress. Experience with FLEGT has shown that a multi-stakeholder process that engages the private sector along with government, civil society and communities can help resolve these issues very effectively. Conversely, if companies are excluded from the process, they may not support it and may even undermine the outcomes.

**Example 5:** In Indonesia, many palm oil companies have very large concessions ('land banks') which they have not yet used; these often contain large areas of tropical forest and peatland. A lot of work has been done to find ways for these companies to carry out 'land swaps', where they give up their forested concessions in return for new concessions in 'degraded' areas. However, many factors have hampered these efforts, including complex legal frameworks, decentralised decision-making, presence of vested interests and lack of strong political will from government. Nevertheless, some companies have publicly expressed a desire to change, putting pressure on governments to act.



Website highlighting Golden Agri Resources public request to government to facilitate land swaps



### Providing incentives

Where deforestation is legal and profitable, those engaged in clearing the forest need incentives to conserve it instead. This is the idea behind REDD+ as a global mechanism, but it is also possible to create incentives locally. Examples of local-level incentives include access to low-interest finance from government or banks and preferential contracts with buyers. In some cases, governments and the private sector have worked together to develop innovative incentives.

**Example 6:** In Brazil, private landowners are legally required to maintain natural vegetation on a proportion of their land: 20–80% depending on the region. Many landowners have cleared their entire holding but now, with stronger law enforcement, they are being required to comply. One way to comply is simply to replant the required area with natural vegetation. Alternatively, the government allows landowners to offset their shortfall by buying ‘forest credits’ from a holding that has more than the proportion legally required. This provides an incentive to landowners whose land is still forested to forego their legal right to clear part of it. To facilitate this, BVRio (Bolsa Verde do Rio de Janeiro) – an environmental exchange established in Brazil in 2012 – provides a platform where landowners with excess forest can register and sell their ‘forest credits’.

Photo: Kate Evans, CIFOR



## 2.2 Influencing consumption

Early discussions on REDD+, like early discussions on illegal logging, tended to focus on the direct drivers of forest degradation and loss, particularly the expansion of agricultural commodity production. This trend persists in Europe, with a lot of attention given to the expansion of large-scale palm oil and soy production and cattle ranching. However, consumption patterns are equally relevant.

If consumers are interested only in quality, price and delivery dates and pay no attention to deforestation or degradation involved in creation of a product, then producers will have no incentive to stop destroying forests. The main buyers of commodities whose production entails forest loss, whether as traders, processors, manufacturers or retailers, are European and North American companies.

A central lesson from FLEGT is that one of the most effective ways of influencing what happens during production is for buyers to send a strong and consistent message that illegal timber is unacceptable. This creates a strong market for legal products. The same concept applies with REDD+. With growing awareness of the role of consumption in deforestation (see Box 1), several initiatives that seek to build support for reducing forest loss are in development.

### Responsible sourcing policies

Many companies have developed responsible sourcing policies in which they commit to minimum standards for sourcing of raw materials. Such policies often began by dealing with issues such as child labour, but some companies have expanded them to environmental issues such as deforestation. In implementing their policies, these companies put pressure on and create incentives for producers to change their practices.

### Sector initiatives

Sector initiatives also serve to influence buyers as well as producers. They tend to be particularly effective where there is a need to build a critical mass to create a market or influence policy.

### Legislation

The EU Timber Regulation provides a legal basis for preventing illegally harvested timber from entering the EU (see briefing *Introduction to FLEGT* for further information). In response, countries that export timber to the EU are making major changes to their timber supply chains. The EU has no equivalent legislation that targets commodities whose production entails deforestation or forest degradation in general. Indeed, any attempt to do so would probably be challenged under World Trade Organization rules because deforestation is legal in many countries. For biofuels, however, the EU Renewable Energy Directive states that feedstocks such as palm oil, soy and sugarcane) cannot be grown on recently deforested areas; this legislation is permissible under World Trade Organization rules because it applies only to biofuels imported to meet EU biofuel targets and hence that are eligible for certain subsidies. Although only a small proportion of most crops is used for biofuel production (for example, only about 10–12% of all palm oil produced), the legislation has had some impact in locations where biofuel feedstocks are grown.

**Example 7:** The four biggest global traders of agricultural commodities are ADM, Bunge, Cargill and Louis Dreyfus. The three biggest food manufacturers are Nestlé, Unilever and Mondelez. These companies, which together have sales of more than USD 400 billion a year, are all owned and headquartered in the United States or Europe.

**Example 8:** Nestlé's Responsible Sourcing Guidelines include a commitment to strive for a deforestation-free supply base. The company is working towards fulfilling this commitment when sourcing commodities whose production has often entailed deforestation, such as palm oil, sugar and soy.

**Example 9:** The Consumer Goods Forum brings together 400 consumer goods companies from 70 countries with combined annual sales of EUR 2.5 trillion. In 2010, the Forum developed a deforestation policy, with a commitment to help achieve zero net deforestation by 2020.



## Box 1 How companies became aware of the need to address deforestation

Deforestation appeared on the corporate agenda for various reasons, many of which parallel those which raised the profile of illegal logging a decade ago.

### Government procurement policy

A major driver of change in many countries, and part of the EU FLEGT Action Plan in Europe, was the introduction of government policies on buying legally and sustainably harvested timber. As government procurement accounts for up to 20% of all direct purchases and government standards often have a large indirect impact, this policy shift created a market for companies that could meet the new government requirements and a risk for those that could not. Similar policies for deforestation are now beginning to emerge, as seen in the Netherlands and the United Kingdom.



Protest against deforestation in Nestlé's supply chain

Photo: Greenpeace

### Brand management

Large companies protect their brands because maintaining a strong and respected brand is a key to success. Environmental advocacy groups such as Greenpeace therefore attack brands as a way to force companies to consider issues such

as deforestation. Ten years ago, campaigns tended to focus on forest products, but the focus has since shifted to the production of the agricultural commodities driving deforestation.

### Customer requirements

Many large companies do not have well-known brands because they are intermediaries that trade and process materials. However, if their main customers are consumer-facing companies with highly visible brands, they must change their practices to meet their customers' requirements. Therefore, private sector purchasing policies are a key component in driving change and form another pillar of the EU FLEGT Action Plan.

### Corporate social responsibility

Most large companies have corporate social responsibility programmes and participate in international initiatives concerning key social and environmental issues. Examples are the UN Global Compact and the World Business Council for Sustainable Development. Growing awareness of the link between deforestation and climate change has pushed forest loss, particularly related to agriculture, onto their agendas. Linked to corporate social responsibility are public reporting and transparency initiatives that encourage companies to report publicly on their impact on forests; examples of these are the Forest Footprint Disclosure Project and WWF Scorecards.

### Investors

The EU FLEGT Action Plan recognises that investors can influence the production of and trade in illegal timber as well as the rate of deforestation more generally. Some multilateral and private sector investors are developing investment criteria that include a commitment to avoiding deforestation. Examples include the International Finance Corporation and HSBC.

## 2.3 Developing REDD+ projects

The private sector is involved in many projects set up with the explicit purpose of reducing carbon emissions through better forest protection and management. Their aim is generally to create carbon credits, which can then be sold to finance the project.

The Clean Development Mechanism (CDM), is the carbon offset market under the current global climate agreement. The CDM only recognises planting of new forests: reforestation or afforestation. This means that all credits related to forestry under the CDM are based on reforestation or afforestation. The private sector has led the development of CDM projects, but no forest projects are underway because of the complexity of the CDM bureaucracy and methodologies.

However, in the voluntary carbon market, where credits are sold outside of the compliance regime of the UN Framework Convention on Climate Change, a wide range of projects that aim to reduce emissions from forests have been established. Examples include conservation programmes that completely protect forest areas and projects that provide households with more efficient cooking stoves to reduce the use of wood and charcoal fuel. These can be very useful at a local level, but the scale is too small to transform sectors.

In both the CDM and the voluntary market, most projects were developed by companies for commercial reasons.



# 3 Engaging effectively with the private sector

International initiatives to reduce forest degradation and loss, such as FLEGT and REDD+, are more likely to succeed if they engage the private sector as full partners with government and other stakeholders in both developing and implementing solutions.

There are a variety of ways in which this can be encouraged, several of which are discussed here. When considering any of these, it is important to remember that there are also risks associated with the private sector which must be managed. These are discussed in Box 2.

## Partnerships between government and the private sector

Many tropical forest countries must revise their policy and legal frameworks, strengthen law enforcement and improve land-use planning if they are to make progress with REDD+ or low carbon development. The government must lead these initiatives, but failure to involve the private sector creates a high risk that individual companies or a whole sector will lobby against any changes that seek to curb their freedom to deforest. The multi-stakeholder approach used in the development of legality assurance systems in VPAs is a good example of how the private sector can be constructively involved.

## International support for change

A lesson from FLEGT is the importance of having private sector support in the international debate. Governments are heavily influenced by the position of large companies, particularly companies that are already major employers or that the government hopes will invest in their country. Therefore, international initiatives such as FLEGT and REDD+ are more likely to gain and maintain political attention and support if major multinational companies support their goals. In practice, large companies are often reluctant to support specific initiatives, so the focus should be on the goals, such as ending the production of and trade in illegally harvested timber or eliminating deforestation from agricultural supply chains.

## Developing and using tools and systems

A major challenge for both FLEGT and REDD+ is carrying out activities such as planning, enforcement, monitoring and development in remote forest areas in countries with very poor infrastructure and limited capacity among government staff. Private companies are often much more effective than government in these situations. For example, they often provide clinics, schools, roads and community support systems in areas where they run plantations, farms and mills and where government services are absent. Companies could support governments by developing and deploying effective tools and systems, whether for tracing timber, enforcing legislation or protecting forests.

## Supporting small-scale producers

A pressing issue in achieving low-deforestation agricultural production is ensuring that small-scale producers are meaningfully included. This is a daunting task given that there are millions of small-scale producers around the world with little or no access to information or incentives to conserve forest. Companies have unique access to these small-scale producers where they buy their products or provide finance or technical assistance. They may be able to leverage this influence to raise awareness and provide incentives.

**Example 10:** The Tropical Forest Alliance 2020 is a public-private partnership that was founded by the US government and the Consumer Goods Forum with the goal of reducing the tropical deforestation associated with key global commodities. The Alliance is open to new members, including producer and consumer countries, private sector companies and civil society organisations that agree to undertake specific actions to address commodity-driven tropical deforestation.

**Example 11:** The SHARP Initiative, is a partnership of companies, NGOs, governments and other stakeholders that supports smallholder development by working with the private sector. SHARP harnesses company experience and resources and their existing relationships with smallholders as buyers, financiers or providers of technical support to identify and resolve key issues, including how to reduce deforestation in smallholder production.

**Example 12:** When the UK government said it would ‘reduce environmental legislation to improve the environment for the private sector’, the 10,000+ UK companies whose business was based on supporting the implementation of good environmental practices lobbied against this reduction in standards. This strongly influenced subsequent government action.



Photo: Aidenvironment

### **Creating economic buy-in**

Even if a large number of individuals and organisations strongly support the protection of forests, experience shows that achieving and maintaining low rates of forest loss in the long term will be very difficult unless there is an economic as well as an ethical imperative to do so. The private sector can help create this economic imperative. For example, if a company wins a major contract partly because it guarantees deforestation-free products, it is likely to work hard to ensure that no further forest loss is incurred. Similarly, if a government employs many people in law enforcement, they are likely to oppose any suggestion that enforcement is unnecessary.



Photo: Neil Palmer, CIAT

### **Service providers**

The private sector can provide many of the services needed to reduce deforestation, including monitoring, enforcement, training and systems development and deployment.



## Box 2 Limitations and risks of working with the private sector

There are many advantages to working with the private sector, but there are also limitations and risks to consider when planning any collaboration.

### **Companies drive forest loss**

Although a growing number of companies are committed to minimising their forest footprint, many others remain unconcerned about their direct or indirect contribution to forest degradation and loss. Such companies have no interest in working with governments or anyone else to make changes. Therefore, while it is often possible to work in partnership with companies, it is also important to have adequate control mechanisms in place to deal with companies that are not committed to good practice.

### **Company policy versus practice**

There is sometimes a disconnect between the policies of companies at the headquarters level and the reality of the activities carried out on the ground. For example, in sites where agricultural companies are expanding their operations, field personnel may be selected for their agronomic expertise or their ability to function in difficult remote areas, rather than for their awareness of environmental issues; supply chain companies may recruit traders for their ability to negotiate deals rather than for their familiarity with the impacts of purchasing on forests or people. Furthermore, targets and reward systems are often based on delivery of results, such as hectares planted or profits made on trades; employees may not be rewarded for minimising environmental impacts. Consequently, unless the company provides adequate training, support and oversight and sets appropriate key performance indicators (KPIs) and individual targets, personnel are unlikely to focus on complying with policies such as avoiding deforestation. Therefore, when engaging with the private sector, it is important to examine how their policies are being applied in practice.

### **Scope**

Government must lead in many aspects such as legislation reform, land-use planning, allocation of tenure and use rights and law enforcement. Placing too much emphasis on private sector-led approaches or leaving the private sector to improve their practices in the absence of government support can undermine progress. Therefore, it is important to consider carefully the scope of private sector activities.

### **Exclusion of SMEs**

Shifting to sustainable practices is challenging for small and medium enterprises, such as smallholder farmers, traders, manufacturers and suppliers along the supply chain. Economies of scale make it possible for large companies to make changes, while smaller players may be left behind. Programmes should therefore include adequate support and training for small and medium enterprises, and large companies should find ways to help smaller suppliers rather than exclude them.

### **Corruption**

In some cases, the private sector may help provide greater transparency, but in others, it can be a source of corrupt practices. In some countries, companies have been routinely paying officials for many years and constitute a major barrier to better governance and greater transparency. In such situations, it may be necessary to concentrate on improving corporate governance and transparency, rather than seeking to engage companies as partners.

# 4 Further information on examples

## **Golden Agri Resources high-carbon land commitment**

<http://news.mongabay.com/2012/0605-gar-high-carbon-stock-report.html>

## **The Roundtable on Sustainable Palm Oil New Planting Procedure and Olam**

[www.rspo.org/en/new\\_planting\\_procedure](http://www.rspo.org/en/new_planting_procedure)

[www.rspo.org/en/member/754](http://www.rspo.org/en/member/754)

## **Brazil soy moratorium**

[www.abiove.org.br/site/index.php?page=soy-moratorium&area=MTEtMy0x](http://www.abiove.org.br/site/index.php?page=soy-moratorium&area=MTEtMy0x)

## **Brazil Amazon deforestation rates**

[www.mongabay.com/brazil.html](http://www.mongabay.com/brazil.html)

## **Nestlé Responsible Sourcing Guidelines**

[www.nestle.com/csv/responsible-sourcing/managing-responsible-sourcing](http://www.nestle.com/csv/responsible-sourcing/managing-responsible-sourcing)

## **Consumer Goods Forum**

<http://sustainability.mycgforum.com/deforestation.html>

## **SHARP Partnership**

[www.sharp-partnership.org](http://www.sharp-partnership.org)

## **Monthly information on deforestation in the Amazon**

[www.imazon.org.br/mapas](http://www.imazon.org.br/mapas)

## **BVRio (Bolsa Verde do Rio de Janeiro)**

[www.bvrio.org/site](http://www.bvrio.org/site)



Funded by the European Union and the Governments of France, Germany, Ireland, Spain and the United Kingdom



Proforest developed four briefings that introduce REDD+ and explain the links between FLEGT and REDD+ and with other forest initiatives.

- *Introduction to FLEGT*
- *Linking FLEGT and REDD+*
- *Introduction to REDD+*
- *Working with the private sector on REDD+*

This is the fourth of the four briefings, *Working with the private sector on REDD+*. REDD+ stands for reducing emissions from deforestation and forest degradation plus conserving forests, sustainably managing forests and enhancing forest carbon stocks. REDD+ is a proposed international mechanism to provide incentives for developing countries to protect and restore their forest carbon stocks. FLEGT stands for forest law enforcement, governance and trade. The FLEGT Action Plan is a European Union initiative to address the problem of illegal logging and related trade.

This briefing was developed by Proforest, with input from EFI and officials of the European Union and EU member states, and produced with the assistance of the European Union. The contents are the sole responsibility of the authors and can in no way be taken to represent the views of the European Union.