Reducing Deforestation and Enhancing Forest Conservation Through International Trade Policy

March 24, 2021

Moderator:
• Nathalie Bernasconi-Osterwalder, Executive Director, IISD Europe, and Senior Director, Economic Law and Policy, IISD

Speakers:
• Verina Ingram, Assistant Professor, Forest and Nature Conservation Policy Group, and Senior Researcher, Wageningen Economic Research
• Mary Kinyua, Board Chair, Fairtrade Africa, and Director of Administration and Human Resources, Oserian Development Ltd.
• Cristina Larrea, Lead, Sustainability Standards, IISD
• Soledad Leal Campos, Lead, Sustainable Trade, IISD
• Joanna Nowakowska, Deputy Director of Technology and Information Unit, FSC International
• Charlotte Sieber-Gasser, Senior Researcher and Lecturer, University of Lucerne
• Vivek Voora, Sustainability Standards Advisor, IISD
Introductory remarks

The value of forests

• Forests are essential to our lives:
  • Clean **oxygen**
  • Safe **water** supply
  • Soil heath and fertility for growing our **food**
• Forests are critical for climate mitigation
  • They store 2.6 billion tonnes of carbon annually = \( \frac{1}{3} \) of CO2 released from burning fossil fuels
• Forests are home to **80%** of terrestrial **biodiversity**
• Livelihoods of **1.6 billion people** depend on forests
  • Wood, pulp and paper, energy and food sectors

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Through International Trade Policy  |  March 24, 2021

- While net loss of forest area has decreased in total across almost all world regions:
  - From **7.8 million hectares** p/y in the 1990s, to **4.7 million hectares** p/y during 2010–2020

- Deforestation rates in **Africa** and **South-America** are still very high with limited share of regenerated forest through planting new trees (<4%).
- In **Asia**, that percent is higher, with approximately 20% of regenerated forests achieved through planting, though deforestation rates are still very high.

Drivers of deforestation in Africa, Asia and South-America

- Commercial agriculture and subsistence farming are the main drivers of deforestation in Africa, Asia, and South-America.
  - **Cattle, soybean and oil palm** plantations are responsible for 40 percent of tropical deforestation
  - Subsistence farming accounts for 33% of total deforestation
  - **Cocoa** is also a main driver of deforestation in Cote D'Ivoire, Ghana, and Ecuador
  - **Timber** logging is also a main driver of forest degradation and deforestation (~380,000 hectares of tropical forest deforested annually)

The need for visibility from plantation to plate (end-to-end visibility)

Value chain actors, end-consumers, and policy makers are increasingly willing to know about the production practices of goods that we consume and their impacts on forests.
Measures used in international trade practices to reduce deforestation and conserve forests

- **Private-led**
  - Voluntary Sustainability Standards (VSSs) (i.e. Rainforest Alliance, FSC, RSPO, Organic)
  - Sustainable Reporting Frameworks (i.e. Global Reporting Initiative, Carbon Disclosure Project, SDGs)
  - Technology-traceability systems (i.e. remote sensing, Global Information Systems)
  - Commitments (i.e. Soy Moratorium-Brazil)

- **Public-led**
  - Regulations in producing countries (i.e. 2009 Brazilian Federal Prosecutors’ Terms of Adjustment of Conduct - cattle)
  - Regulations in consuming countries (i.e. European timber regulation requires legality verification for imported timber)
  - Multi-lateral instruments (i.e. Guidelines of the Sustainable Management of Natural Tropical Forests; Montreal Process-Santiago Declaration - temperate and boreal forests)

- **Private and Public Partnerships**
  - The Cerrado Manifiesto (soybean - Brazil)
  - Cocoa and Forests Initiative (cocoa - West Africa)

Integration/reference of VSSs in International Trade Agreements

- Inclusion of VSSs as hortatory, encouraging members to leverage them for reducing deforestation and conserving forests rather than conditional or mandatory measures.
- Reference of VSSs in due diligence systems for verifying timber legality
- Definition of tariff preferences for products compliant to a selection of VSSs.
Webinar outline

• **Part I:** Voluntary Sustainability Standards (VSSs): An overview of their characteristics, effectiveness, and scalability for reducing deforestation and enhancing forest conservation

• **Part II:** Existing and novel approaches included in international trade agreements to reduce deforestation and conserve forests

• **Part III:** Potential synergies between measures embedded in international trade agreements and VSSs
VSSs: An overview of their characteristics, effectiveness, and scalability for reducing deforestation and enhancing forest conservation

Vivek Voora, Sustainability Standards Advisor, IIID

Presentation outline:

1. VSS design: Production criteria coverage & traceability systems
2. VSS implementation: Support provided
3. VSS enforcement: Assurance systems

Voluntary Sustainability Standards (VSS) are standards developed at the local, national, or international level by organizations from the public and private sectors on environmental and social improvements. Private VSS are developed by businesses or not-for-profit NGOs.

Source: https://redshoescoaching.com/looking-under-the-hood/
Commodity sectors & deforestation

**Timber** – Invariably leads to deforestation impacts which can be minimized via selective logging and reforestation.

**Cocoa** – Grown on small trees mostly in family farms (90% < 2 to 5 ha). Potential to be grown in agroforestry systems.

**Palm Oil** – Grown on oil palm trees mostly in plantations (40% smallholder production). Potential agroforestry crop.

**Soy** – Grown mostly in open fields. Expansion requires land clearing which result in deforestation.

Source: https://readcacao.com/blog/what-is-cacao-agroforestry/
## Environmental protection

Alignment between environmentally friendly practices and required (check marks) or absent (hyphen) production criteria of VSS in cocoa, palm oil, soy and timber.

RA=Rainforest Alliance, RSPO=Roundtable for Sustainable Palm Oil, ISCC=International Sustainability & Carbon Certification, RTRS=Roundtable for Responsible Soy, FSC=Forest Stewardship Council (FSC) and PEFC=Programme for Endorsement of Forest Certification.

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## VSS design

### Deforestation prevention & reforestation

Alignment between deforestation prevention and reforestation practices and required (√), recommended (o) or absent (-) production criteria of VSS in cocoa, palm oil, soy and timber.

RA=Rainforest Alliance, RSPO=Roundtable for Sustainable Palm Oil, ISCC=International Sustainability & Carbon Certification, RTRS=Roundtable for Responsible Soy, FSC=Forest Stewardship Council (FSC) and PEFC=Programme for Endorsement of Forest Certification.

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### Deforestation prevention & reforestation

- **Ban on converting areas with high biodiversity, conservation value, or carbon stock (Cut-off date)**
  - ✓ (2005)
  - ✓ (2005)
  - ✓ (2008)
  - ✓ (2008)
  - ✓ (2008)
  - ✓ (National Std.)
  - ✓ (National Std.)

- **Restoring Natural Areas**
  - o
  - o
  - ✓
  - ✓
  - ✓
  - ✓
  - ✓
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- **Reforestation**
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  - -
  - ✓
  - ✓
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  - -
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VSS design
High Conservation Value Areas and High Carbon Stock Areas

Box 1: The Six High Conservation Values

1. **HCV 1. Species diversity**
   Concentrations of biologically diverse endemic species, and rare, threatened or endangered species that are significant at global, regional or national levels.

2. **HCV 2. Landscape-level ecosystems and mosaics**
   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.

3. **HCV 3. Ecosystems and habitats**
   Rare, threatened, or endangered ecosystems, habitats or refuges.

4. **HCV 4. Ecosystem services**
   Basic ecosystem services in critical situations, including protection of water catchments and control of erosion or water-table rise and subsidization.

5. **HCV 5. Community needs**
   Sites and resources fundamental for satisfying the basic necessities of local communities or indigenous peoples (e.g., livelihoods, health, nutrition, water, etc.), identified through engagement with these communities or indigenous peoples.

6. **HCV 6. Cultural values**
   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.

VSS implementation

Standard setting bodies support

- **Establishing a common understanding** – Living income, Landscape Approach, High Conservation Value Areas.
- **Tailor-made standards** – Farm size, continuous improvement, Trees Outside of Forests.
- **Capacity building** – Training and extension services are provided for adopting new production practices.
- **Funding sources** – The RSPO Smallholder Support Fund
- **Access to markets** – Corporate sector sustainable sourcing commitments, Fairtrade guaranteed minimum prices.
- **Community development projects** – Fairtrade premium committees for producer and community projects.

Source: https://www.rainforest-alliance.org/approach
VSS Implementation

Supply Chain Traceability Approaches

- **Identity preserved**: VSS-compliant products from a specific origin are kept separate so they can be traced back to their source.
- **Segregated**: Products from different sources compliant with a VSS can be aggregated but must be separated from non-compliant products during the whole supply chain to ensure that end products have 100% VSS-compliant material.
- **Mass Balance**: VSS-compliant and conventional products are mixed but as they move through the supply chain an exact account is kept about the volume ratios. The amount of VSS-compliant product equals the amount of VSS-compliant product sold to consumers.
- **Area Mass Balance**: Similar to Mass Balance but for a defined geographical region (yet to be fully developed and applied but could be interesting for addressing deforestation).
- **Book and Claim**: Products are mixed and traded as non sustainable. Sustainability certificates or credits are bought by consumers so they can make sustainability claims based on the amount of certificates issued and traded.

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VSS enforcement

Assurance systems conformity assessment procedures and frequency

- VSS assurance systems provide a level of certainty that products comply with a production standard.
- Auditing approaches and frequencies can make a big difference in providing product assurance:
  - **Certification**: Independent certification body confirms producer’s performance against a set of criteria by issuing a certificate.
  - **Verification**: Check to see if producer has systems for monitoring systems and controlling their sustainability performance.
  - **Self-Reporting**: The producer assesses and reports their own performance against a set of criteria.

Takeaways

1. Different commodities offer varying opportunities for preventing deforestation and reforestation.
2. VSS are not created equal – Differences in design (production criteria, traceability systems), implementation, and enforcement (assurance system) with implications on preventing deforestation.
3. Addressing sustainability issues such as deforestation requires multi-pronged approaches.

Sources:
- www.iisd.org/ssi/
Innovation to advance effectiveness

FSC International, IISD webinar, 24 March 2021
Dr Joanna Nowakowska
FSC GIS Portal

Selected requirements pre-assessed before going to the field

Top-class data sources used

Near real time change detection

Reputable technology partner involved

Changing the way we see and think about forest
What are the effects of FSC-certification?
A compilation of selected results from independent scientific studies about the outcomes of FSC-certification across the world’s forests.

Novel and existing approaches included in trade agreements to reduce/eliminate deforestation and conserve forests

Soledad Leal Campos, Lead, Sustainable Trade, IISD

Presentation objectives

- To place this discussion in the broader context of the policy choices made by parties to a trade agreement to address environmental objectives.

- To look at the range of specific provisions related to forest conservation contained in trade agreements, with some examples of their implementation.

- To address new approaches to the inclusion of sustainability provisions related to forest conservation in trade agreements, as well as some policy considerations around those initiatives.
Environment-related provisions in trade agreements

The broader context

- Forest conservation-related provisions are part of a broader set of policy options
- Such options have ranged from the inclusion of broad preambular language on environment (or no reference at all), to the recent inclusion of a provision for preferential tariff treatment for a product and its derivatives, contingent upon compliance with private sustainability standards linked to forest conservation.
- Other approaches include:
  - Commitments to comply with domestic environmental laws, regulations, and standards
  - Relationship to multilateral environmental agreements (MEAs)
  - Environmental cooperation
  - Environment-related exceptions
  - Other environmental commitments
  - Consultation, conciliation and dispute settlement

- In terms of enforceability, approaches include binding and non-binding commitments
Environment-related provisions in trade agreements

The TREND and Environment database (Laval/DIE 2018) identifies nearly 300 different types of environmental provisions in 730 trade agreements. It includes provisions on “Specific environmental issues” (water, wetlands, fisheries, climate change, biodiversity, forest).

It classifies environment-related forest provisions in three main sub-categories:

- **Conservation** of forests (49 FTAs)
- **Sustainable trade** in forestry products (23 FTAs)
- **Combating illegal exploitation** of forests (23 FTAs)
Forest-related provisions in trade agreements

Two main perspectives

- Substantive law ("design")
  - (A) Declarative clauses
  - (B) Cooperation provisions
  - (C) "Specific" commitments

- Enforcement
  - (A) ‘Minimalist’ approach
  - (B) ‘Soft’ quasi-judicial dispute settlement
  - (C) ‘Hard’ quasi-judicial dispute settlement
Forest-related provisions in trade agreements

Substantive law ("design")

- A) Declarative clauses
  - Reference to exceptions (GATT Article XX and GATS Article XIV)
  - Reference to the environment or to sustainable development
    - (CAFTA-DR, EFTA-Serbia, EFTA-Albania; China-Pakistan, Australia-New-Zealand-ASEAN).
- B) Cooperation provisions
  - Identify “forest management” as a priority area for a work program
    - (FTAs by LATAM Countries, Canada-Colombia, Chile-Malaysia)
  - Cooperation on “forestry matters and environmental protection”, including execution of relevant national projects and jointly developing new technologies and conducting studies on the sustainable use and processing of timber
    - (China-Peru)
Forest-related provisions in trade agreements

Substantive law ("design")

- C) “Specific” commitments
  - Agreements concluded by the EU include:
    - Encouraging trade in forest products from sustainably managed forests and harvested in accordance with the law of the country of harvest (CETA and MERCOSUR)
    - Development of systems and mechanisms for verification of the legal origin of timber products (Colombia, Peru and Ecuador)
    - Certification schemes for sustainably harvested forest products (Central America)
  - Agreements concluded by EFTA also include the development and use of certification schemes for forest products from sustainably managed forests (EFTA-Ecuador; EFTA Indonesia)
  - The US-Peru TPA includes an annex on forest sector governance in Peru, with a focus on timber products
  - USMCA includes forest conservation provisions
Forest-related provisions in trade agreements

Enforcement

• A) “Minimalist” approach
  • Consultations between the parties (negotiation model)
  • Exclusion of DSM for environmental matters/ SD chapter
    • (Canada- Peru; Korea-Turkey)
• B) ‘Soft’ quasi-judicial dispute settlement
  • Consultations
  • Adjudication by an expert panel
  • Implementation (parties discuss appropriate measures taking into account the panel’s report)
    • (EU-Singapore, EU-Viet Nam-European, EU- MERCOSUR)
• (C) ‘Hard’ quasi-judicial dispute settlement
  • Recourse to the DSM, including the right to adopt trade sanctions in the event of non-compliance
    • (US-Korea FTA, US-Peru; US-Panama; US Colombia)
Forest-related provisions in trade agreements

New approaches to the inclusion of sustainability provisions related to forest conservation in trade agreements

- EFTA-Indonesia CEPA, Chapter 8 (8.10 on “Sustainable Management of the Vegetable Oils Sector and Associated Trade)” grants preferential treatment to products which meet sustainability requirements
  - «Stearin (1511.9018)»
  - «Palm oil (other tariff lines in chapter 1511)»
  - «Palm kernel oil (1513.21 / 1513.29)»
- CEPA makes a regulatory distinction between conventional and sustainable production
- In Switzerland, to benefit from preferential tariff treatment, importers of Indonesian palm oil and palm oil derivatives must prove compliance with one of the following voluntary sustainability standards:
  - RSPO-certification (international sustainability standard established by the “Roundtable on Sustainable Palm Oil”)
  - International Sustainability and Carbon Certification (ISCC Plus)
  - Palm Oil Innovation Group (POIG)
Forest-related provisions in trade agreements

Some policy questions and considerations around CEPA Art. 8.10 and the broader issue of the use of private sustainability standards in trade agreements

- CEPA
  - Does the approach contained in Art. 8.10 have the potential to create an incentive to move from conventional to sustainable production and to expand to other products/commodities?
  - What are the challenges arising from its dependance on private sustainability standards and on private certification processes?
- Use of private sustainability standards in trade agreements as a condition for (preferential) market access
  - How would mutual recognition work, eventually?
  - How to tackle the extraterritoriality of PPMs measures and consistency with the WTO?
  - What other policy decisions are required to support sustainability objectives?
  - What is the role of cooperation and technical assistance?
Thank you!

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