Food and Agriculture Organization of the United Nations

Potential implications for the forest industry of corporate zero-deforestation commitments

Discussion paper prepared for the 58th Session of the FAO Advisory Committee on Sustainable Forest-based Industries

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Food and Agriculture Organization of the United Nations
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Acronyms and abbreviations

ACSFI	Advisory Committee on Sustainable Forest-based Industries
CoC	chain of custody
CSR	corporate social responsibility
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FLEGT	Forest Law Enforcement, Governance and Trade
FPIC	Free, prior and informed consent
FSC	Forest Stewardship Council
HCV	high conservation value
NGO	non-governmental organization
PEFC	Programme for the Endorsement of Forest Certification Schemes
TFT	Tropical Forest Trust
UNCED	United Nations Conference on Environment and Development
USD	United States Dollars
VLC	verification of legal compliance
WWF	World Wide Fund for Nature

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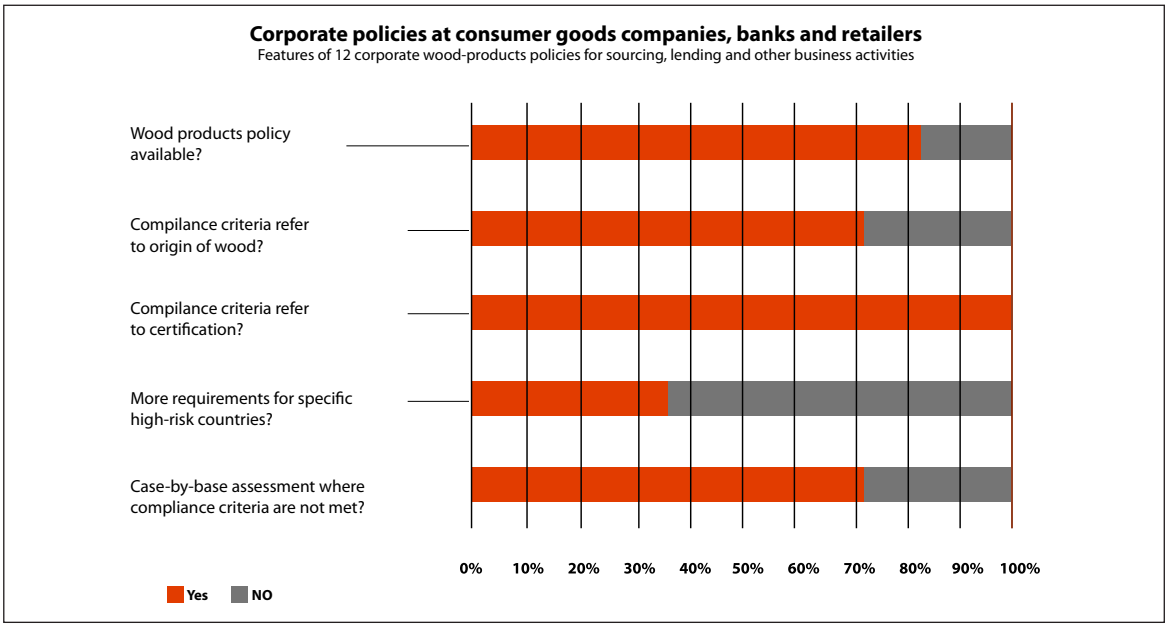
Executive summary

An increasing number of private companies are voluntarily committing to eliminate deforestation from their supply chains. Such zero-deforestation commitments have reached an impressive scale, demonstrated by the number of widely visible initiatives including the New York Declaration on Forests as well as the activities of the Consumer Goods Forum and the Banking and Environment Initiative. Vigorous campaigning by non-governmental organizations (NGOs) has chiefly targeted firms with consumer exposure that are active in the supply chains of the main forest-risk commodities: palm oil, soya and beef, as well as timber, pulp and paper. These firms have often assumed corporate zero-deforestation commitments as part of their corporate social responsibility (CSR) policies. The zero-deforestation concept that has attracted most momentum is 'zero-net deforestation', where new forests can compensate for converted forests. These zero-deforestation commitments by consumer goods companies, retailers and banks are relevant to the forest industry, across the entire value chain.

Although firms in the forest industry rarely have zero-deforestation commitments themselves, their business partners' corporate policies are a key concern for them. Because of this, it is important to understand the implications of corporate zero-deforestation commitments at consumer goods companies, retailers and banks, for the forest industry. The commitments are implemented through corporate wood products policies for sourcing, lending and other business activities. The policies rely on the use of certification, because companies with commitments do not usually control forest management. The forest value chains for which environmental campaigns and corporate zero-deforestation commitments have developed most momentum, are related to packaging materials and the use of fibres.



Source: Authors' data collection from the analysis of corporate policies at consumer goods companies and banks (Annex 1).

This paper explores the implications of corporate zero-deforestation commitments for the forest industry. Guidance from two industry organizations, and ten prominent zero-deforestation commitments with related corporate policies, were examined in detail.

The analysis of corporate policies for zero-net deforestation commitments delivers a range of insights into common requirements of relevance for the forest industry. Almost all firms reviewed (83 percent) had specific guidelines for wood products and only one firm did not have applicable guidelines covering wood products. In applicable guidelines, the origin of wood is a key criterion for corporate risk management (73 percent). Many corporate policies require information on country of harvest and species, and compliance with national legislation to complete deforestation risk assessment. All the corporate policies assessed make reference to certification (100 percent), Forest Stewardship Council (FSC) certification (100 percent), and almost all (91 percent) also reference Programme for the Endorsement of Forest Certification (PEFC) certification. Most corporate policies (64 percent) do not distinguish between certification of forest management, recycled materials and controlled wood. A failure to comply with basic due diligence requirements, for instance with regard to origin and certification, will usually trigger a more involved case-by-case assessment. As well as considering production circumstances, the corporate policies also check more generally for indications of reputational risk in proposed deals.

The corporate wood products policies of customers and financiers already demand that the forest industry adapt to their requirements. Going forward, further adaptation to shifting requirements may be necessary as momentum around corporate zero-deforestation commitments continues to grow. In this context, several potential sources of risk to the forest industry come to mind: that it may be targeted by NGO activism, it may lose customers because of shifting demand and suppliers if these can no longer meet requirements, and that it may have to comply with increasingly onerous documentation requirements. Conversely, for some parts of the forest industry, the zero-deforestation movement may translate into a comparative advantage where firms comply with the common requirements in corporate policies for sourcing, lending and other business activities.

The paper concludes with the following recommendations to the forest industry:

- The forest industry should closely monitor their business partners' stance on environmental policies, as well as the activities of the NGOs in the sector.
- Potential changes in the environmental requirements of customers and financiers should be factored into the risk-management strategies of forest companies.
- The forest industry should proactively engage with consumer goods companies, retailers and banks, as well as NGOs, to contribute specific knowledge and viewpoints on the forest sector to the discussion around zero deforestation.
- In engaging more fully with stakeholders around zero deforestation, the forest industry may wish to take a strong view regarding the importance of environmental concerns in forest value chains.

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Introduction

Since 2015, the Advisory Committee on Sustainable Forest-based Industries (ACSFI) and FAO have worked together to understand the momentum around zero deforestation and its implications for the forest industry.

During the ACSFI 57th Session in July 2016, a paper was presented on this topic entitled "Zero deforestation initiatives and their impacts on commodity supply chains." During the ensuing discussion it was generally agreed that "one of the biggest challenges is the multitude of existing terms and concepts which have different implications for zero-deforestation commitments. The most commonly used concept seems to be 'zero-net deforestation', however, even this concept lacks clarity. The key issue is (a) to define acceptable deforestation and (b) who should define it."

During the follow-up of the 57th Session, ACSFI asked FAO "to conduct a more in-depth analysis of the zero-net deforestation concept including its implications for the forest industry". Further discussion on the work to be undertaken took place at the 58th preparatory session in Rome, January 2017.

This paper summarizes work undertaken to address the ACSFI recommendations through a review of corporate zero-deforestation commitments by consumer goods companies, retailers and banks and their relevant corporate policies for sourcing, lending and other business activities. Risks and potential benefits to the forest industry from zero-deforestation commitments by its customers and financiers are analysed and some recommendations towards the forest industry are formulated.

The paper starts out with background information on the zero-deforestation movement that was developed in earlier work between ACSFI and FAO.

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Background information on the zero-deforestation movement

An increasing number of private companies are making voluntary commitments to eliminate deforestation from their supply chains. Companies have long been working to integrate supply chains, not only with a view to improve procurement efficiency but also to enhance environmental and social impacts; for instance through responsible sourcing and green supply chains (Gerrits, 2012).

Zero-deforestation pledges have reached an impressive scale (Neeff and Linhares-Juvenal, 2017b). The New York Declaration on Forests from 2014 was endorsed by 36 national governments, 53 companies and 54 civil society organizations. Many of the same companies are also part of the Consumer Goods Forum that represents 400 companies across 70 countries, employing nearly 10 million people, with combined sales of more than USD 3 trillion. The Consumer Goods Forum's Tropical Forest Alliance 2020 includes many of the same companies, as well as governments and NGOs. The Soft Commodities Compact by the Banking and Environment Initiative, the World Wide Fund for Nature (WWF) and the Consumer Goods Forum accounts for approximately 50 percent of global trade finance.

Companies act in order to reduce their business risk (Neeff and Linhares-Juvenal, 2017a). Fierce campaigning by NGOs has created reputational risks from being associated with deforestation (Bregman *et al.*, 2015; CDP, 2014a, 2014b, 2015). Moreover, there are regulatory risks in working with land use because the policy environment is prone to interference from governments (Bregman *et al.*, 2015; CDP, 2014a, 2015; TFD, 2014). In addition, using natural resources sustainably may also reduce operational risks of eventually depleting the production base (Bregman *et al.*, 2015; CDP, 2014a, 2015; Meijer, 2014).

It is usually large consumer goods companies, retailers and banks that assume zero-deforestation commitments, but these affect traders, processors and producers upstream across the supply chain (Forest Trends, 2015). Most of the burden for complying with pledges is foisted onto producers (TFD, 2014). In a few cases, however, zero-deforestation pledges have also been assumed by processors or producers (IPOP, 2014; National Wildlife Federation, 2015). Many companies are, in fact, vertically integrated and cover several supply chain segments, and some of these have also assumed zero-deforestation pledges (TFA 2020, 2013).

'Zero-net deforestation' means allowing no change to the total forest area, with new forests compensating for converted forests (Linhares-Juvenal and Neeff, 2017). The WWF, the Banking and Environment Initiative, and the Consumer Goods Forum all use this definition of zero deforestation

(BEI, 2015). Global benchmark data on forest trends are mostly based on FAO Global Forest Resource Assessment which uses net forest-area change as a key variable (FAO, 2012). Using this definition, forest loss can be offset by forest restoration (WWF, 2008). However, what is meant by 'forest' needs to be carefully specified before the full implications of this concept of zero deforestation can be understood. The problem remains of what kinds of new forest are good enough to compensate for lost forest area and what can, therefore, be considered 'acceptable deforestation.' For example, plantations replacing natural forests may or may not be acceptable because they are less biodiverse or store less carbon. Also, deforestation that occurred a long time ago may or may not count. These finer points are important for introducing clarity into corporate activities aiming to be deforestation-free.

Companies' zero-deforestation targets largely apply to specific commodities within their supply chains. The WWF's original proposal for zero-net deforestation did not refer to specific supply chains (WWF, 2015). Through the Consumer Goods Forum, companies have aligned themselves with the WWF but it is of note that their pledges work within supply chains on a different scale to the aims of the WWF (CGF, 2010, 2013). The Brazilian Cattle Agreement, the Brazilian Soy Moratorium, and the Indonesia Palm Oil Pledge stand out because broad participation in these schemes almost equates to full coverage of these sectors (Meijer, 2014). Mostly, however, companies choose to tackle individual forest-risk commodities within their own supply chains (Bregman *et al.*, 2015; Lawson, 2014).

Rather than aiming at eliminating deforestation altogether, most zero-deforestation pledges include a certain degree of acceptable deforestation (Taylor, 2015; TFD, 2014). This means that clear criteria are needed for determining what kinds of vegetation companies can convert while still upholding their zero-deforestation claim. Typically a reference time frame and the legal status, structure, conservation value and origin of the vegetation are used as criteria. These and other technical issues have a bearing on what zero deforestation means.

Palm oil has been the main focus of zero-deforestation initiatives. NGOs have focused their campaigning on palm oil as a forest-risk commodity, as have several high profile corporate zero-deforestation pledges (CLUA, 2014). Other forest risk commodities that are common targets of NGO zero-deforestation campaigns include soya and beef as well as timber, pulp and paper.

A significant portion of the global market for timber, pulp and paper is shielded from deforestation risk. Most of the timber, pulp and paper used in Europe and North America come from low-risk jurisdictions in developed countries (Rautner, Leggett and Davis, 2013). Furthermore, imports from developing countries to North America and Europe are highly regulated under the European Union (EU) Timber Regulation and the US Lacey Act (EC, 2010; USDA, 2008).

Some zero-deforestation campaigns against well-known consumer brands, and related corporate action have focused on tropical pulp and paper, notably in Indonesia (Greenpeace,

2011, 2012a, 2012b; RAN, 2014; WWF, 2012). Pulp and paper are used for packaging and are, therefore, found throughout the supply chains of consumer goods companies with strong brand names, making these companies an easy target for environmental campaigning.

Environmental campaigning has also targeted timber from irresponsible logging (Global Witness, 2015; Greenpeace, 2003, 2015, 2017; WWF, 2005), and has developed a slightly different dynamic. Action targeting timber has been less focused on consumer goods companies than that targeting pulp and paper because timber is not as pervasive throughout their global supply chains. Instead of targeting specific logging companies that are not usually global brands, campaigns against irresponsible logging have instead implicated the countries or regions where the timber originates. Arguably, supply-chain based campaigning is hampered because timber markets are more fragmented than those of other forest risk commodities (Rautner, Leggett and Davis, 2013). Since concerns over irresponsible logging have been less directly linked to the zero-deforestation commitments of consumer goods companies, retailers and banks they are not the focus of this report.

Earlier work between FAO and ACSFI analysing the zero-deforestation movement to gauge its impacts on the forest industry (Neeff and Linhares-Juvenal, 2017a) led to the following conclusions, *inter alia*, that are a point of departure for the analysis in this paper:

- The zero-deforestation concept that has attracted most momentum is 'zero-net deforestation', where new forests can compensate for converted forests.
- Zero-deforestation commitments by consumer goods companies, retailers and banks are relevant for the forest industry, across its entire value chain.
- Although firms in the forest industry rarely have zero-deforestation commitments themselves, their business partners' corporate policies are a key concern for them.
- Because of this, it is important to understand the implications for the forest industry of the corporate zero-deforestation commitments of consumer goods companies, retailers and banks.
- The commitments are implemented through corporate wood-products policies for sourcing, lending and other business activities. These largely rely on the use of certification because companies taking on commitments do not usually control forest management.
- The forest value chains for which environmental campaigns and corporate zero-deforestation commitments have developed most momentum are related to packaging materials and the use of fibres.

Taking the background information on the zero-deforestation movement in this section as a point of departure, the following paper analyses the implications of zero-net deforestation commitments for the forest industry. But before turning to the zero-deforestation commitments themselves, how firms put their CSR commitments into practice needs to be better understood.

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How firms put into practice their zero-deforestation commitments using corporate policies

How firms put into practice their CSR commitments, including those for zero deforestation, has implications for the forest industry and needs to be assessed. A systematic review needs to consider the available zero-deforestation commitments, the principles and guidance that these are embedded in, and the applicable corporate policies for sourcing, lending and other business activities (Figure 1). The ways commitments are put into practice through corporate policies for sourcing and lending are pivotal in determining their implications for the forest industry.

Figure 1: Levels of corporate zero-net deforestation commitments assessed

There is large diversity among firms' zero-deforestation (and other CSR) commitments, which reflects the diversity of firms and their supply chains. Some have direct control over forest production, others purchase from companies that have direct control, and others are still further downstream in the supply chain. The wood products in question may be fibres, packaging materials, cellulose fibres, sawnwood, processed wood products, or fuelwood. Companies may source wood products for manufacturing their own products, or for packaging material, or they may be retailers or provide financial services to companies involved in production and processing. Companies have varying degrees of consumer exposure and, therefore, more- or less-well developed CSR policies.

Zero-deforestation commitments are fully integrated into firms' CSR policies. Commitments to use natural resources sustainably often pre-date any specific 'zero-deforestation' commitments (e.g. the HSBC policy for Forest Land and Forest Products dates from 2004). By the same token, Zero-deforestation commitments do not usually imply specific sourcing or lending policies, but are one among many CSR commitments that firms with sophisticated supply chains and consumer exposure aim to achieve.

CSR commitments can reflect a broad range of issues relevant to more responsible procurement of wood and paper-based products (Box 1) such as concerns over sourcing and legality as well as environmental and social impacts. Companies usually merge zero-deforestation commitments with such broader CSR commitments.

Box 1: Ten key issues related to sustainable procurement of wood and paper-based products (WBCSD and WRI, 2011).

Sourcing and legality aspects

- Origin: Where do the products come from?
- Information accuracy: Is information about the products credible?
- Legality: Have the products been legally produced?

Environmental aspects

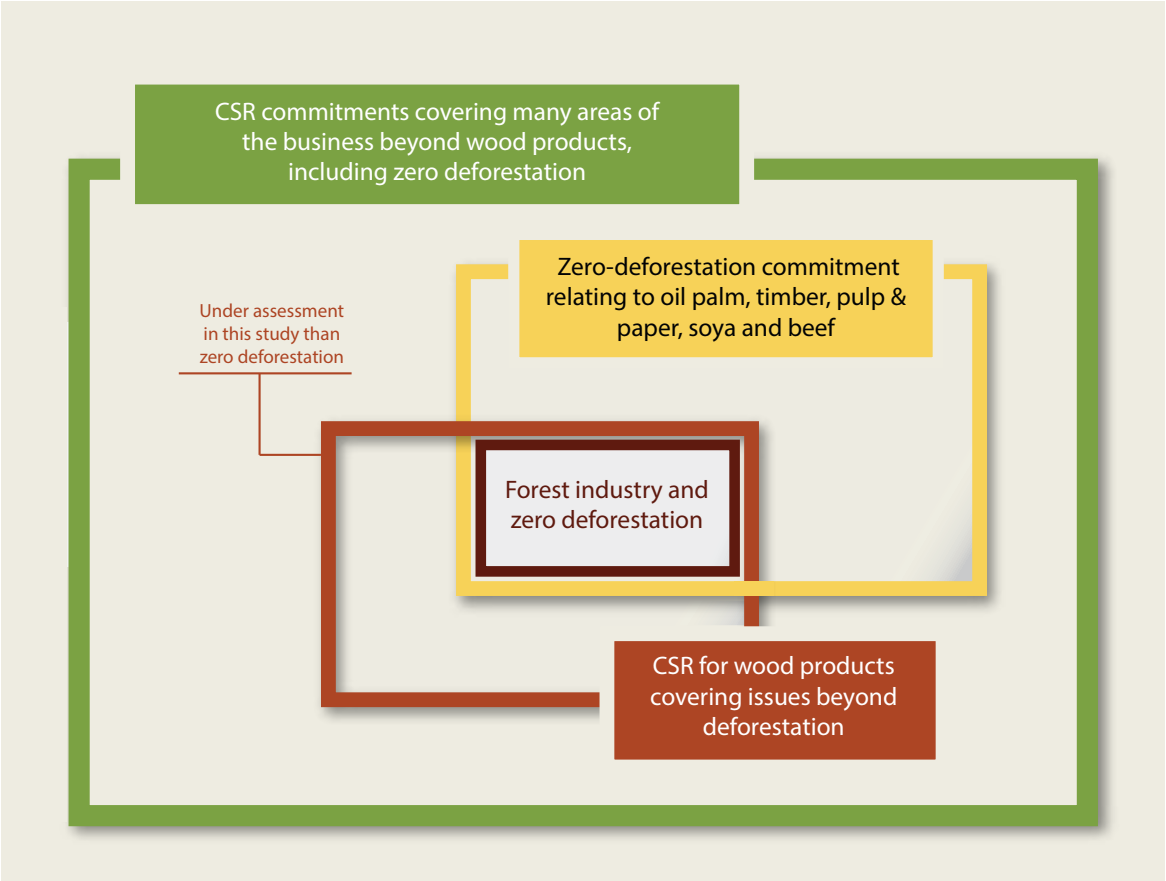
- Sustainability: Have forests been sustainably managed?
- Special places: Have special places, including sensitive ecosystems, been protected?
- Climate change: Have climate issues been addressed?
- Environmental Protection: have appropriate environmental controls been applied?
- Recycled fibre: Has recycled fibre been used appropriately?
- Other resources: Have other resources been used appropriately?

Social aspects

- Local communities and indigenous peoples: Have the needs of local communities or indigenous peoples been addressed?

The impacts of zero-deforestation commitments on the forest industry depend on how CSR policies for wood products, that usually cover issues beyond deforestation, intersect with zero-deforestation commitments, that usually cover several forest risk commodities (Figure 2). This study takes CSR policies for wood products as its reference – although these policies apply to a broader range of issues than just zero deforestation.

Figure 2: The focus of this study (impacts of zero-deforestation commitments on the forest industry) at the intersection of CSR policies for wood products (that usually cover issues beyond deforestation) and zero-deforestation commitments (that usually cover several forest risk commodities).



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Analysis of the corporate policies of consumer goods companies and banks relevant to zero-net deforestation commitments

A set of 12 prominent zero-deforestation commitments and related corporate policies were examined in detail (Annex 1). These included: relevant zero-deforestation guidance from two industry organizations (the Consumer Goods Forum and the Banking and Environment Initiative), as well as the policies of a range of consumer goods firms, retailers and banks. The firms were chosen based on the Global Canopy Programme's comprehensive zero-deforestation review, The Forests 500 (GCP, 2015). In 2016, all firms that had more than USD 20 billion total revenue rated five star, all financial institutions rated five star, and selected retailers rated four star (Table 1).

Table 1: Overview of organizations with zero-net deforestation commitments that were assessed.

Firm or organization	Type of organization	Rating in The Forest 500	Estimated revenue 2016 (billion USD)*
Nestlé	Consumer Goods Company	Five star	90.1
Marks & Spencer	Consumer Goods Company	Five star	12.9
Unilever	Consumer Goods Company	Five star	52.7
Danone	Consumer Goods Company	Five star	22.4
Procter & Gamble	Consumer Goods Company	Five star	65.3
Tesco	Retailer	Four star	54.4
Carrefour	Retailer	Four star	103.3
Deutsche Bank	Bank	Five star	33.5
BNP Paribas	Bank	Five star	43.4
HSBC	Bank	Five star	48.0
Consumer Goods Forum	Industry association	Not applicable	Not applicable
Banking and Environment Initiative	Industry association	Not applicable	Not applicable

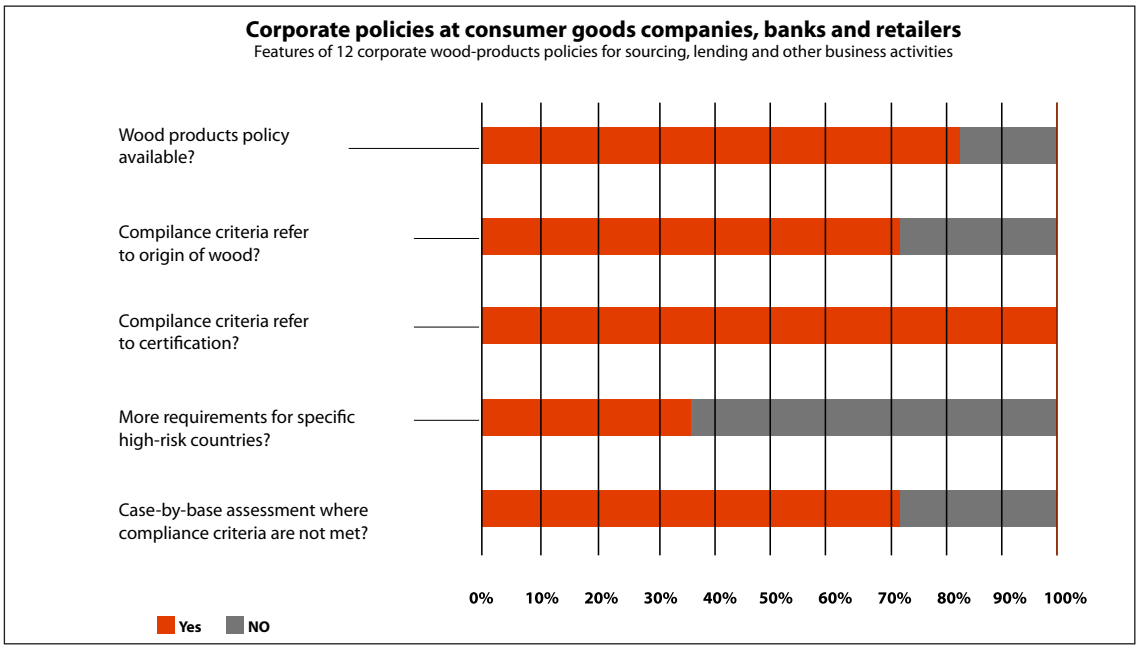
* Revenue values are approximate and are based on a web search in 2017.

This assessment of corporate zero-deforestation commitments focuses on how they apply to pulp, fibre, paper and packaging materials. How these commitments apply to sawnwood, fabrics for clothing, furniture, office and stationary material, and fuelwood were not considered.

In consequence, the results do not represent the average conditions of wood products markets, but a small sample of larger companies with greater consumer exposure that have arguably more developed CSR programmes than smaller companies with less consumer exposure. Focusing on firms with more developed CSR programmes gives a good qualitative indication of their potential impact on the forest industry. A better understanding of their effects on the forest industry will require further work such as examining how the forest industry measures up against the corporate policies designed to put into practice zero-net deforestation commitments.

Most of the firms reviewed have operational policies that turn their commitments and aspirational principles into actionable guidance. These policies cover sourcing or lending activities or product retailing, depending on the kind of business involved. The policies make reference to verifiable criteria such as the product's origin and the presence of certification (Figure 3).

Figure 3: Features of corporate wood-products policies assessed



Source : Authors' data collection from the analysis of corporate policies at consumer goods companies and banks (Annex 1)

Almost all firms reviewed (83 percent) had guidelines specific to wood products, and only one firm did not have any guidelines that could be applicable to wood products (Figure 3). The presence of bespoke guidelines in these firms suggests that activities in the forest sector are perceived as presenting a significant CSR risk. Some firms, particularly the banks, go so far as to establish lists of sectors that are considered high risk. These lists routinely class the forest sector as high risk, together with sectors such as defence, nuclear energy and mining (Annex 3). Such high-risk sectors require particularly high levels of due diligence before firms can engage with them.

The origin of wood is a key criterion for corporate risk management (73 percent) (Figure 3). This factor can be used as a basis for risk ratings, and about one in three firms assessed have lists of high-risk countries. Some firms classify only a few countries as high risk, but others consider long lists of countries as high risk (Annex 2). Mostly, the assessed corporate strategies do not explain how elevated risk ratings were determined or how often they would be reassessed in light of changing circumstances.

Many corporate policies require information on the country of harvest, species and compliance with national legislation for a deforestation risk assessment to be made. These are mandatory under EU Timber Regulation where operators need to assess the risk of illegal timber in supply chains (Annex 4). For firms operating in the EU, such requirements in CSR policies are not additional to regulatory requirements.

All the corporate policies assessed refer to certification (100 percent) (Figure 3). Certification under the most common standards is a key criterion in due diligence for lending or sourcing. There is universal reference to FSC certification (100 percent) and almost all corporate policies (91 percent) also reference the PEFC certification. Other standards are also referred to. Most corporate policies (64 percent) do not distinguish between certification for forest management, for recycled materials or for controlled wood, although these are different and have different relevance to deforestation (Annex 5). Many corporate policies seem to accept any third-party standard with a degree of credibility as an important source for due diligence processes.

Most basic due diligence requirements, such as origin and certification, usually triggers a more detailed case-by-case assessment. The corporate policies assessed do not usually rule out deals with forest companies from high-risk regions or without desired certification standards. Rather, many policies (73 percent) describe more complex due diligence processes that involve collecting more detailed information on the business in question, often using external experts to provide the confidence that is needed for further engagement.

As well as production circumstances, the corporate policies also check proposed deals more generally for signs of reputational risk. Some corporate sourcing policies even make explicit reference to specific companies that should be avoided.[1] But many corporate policies go beyond assessing information provided by the forest company itself and require assessment of potential image risk.

This analysis of those corporate policies of consumer goods companies and banks that are relevant for zero-net deforestation commitments provides a range of insights into the common requirements of relevance for the forest industry. Next, the risks and, potentially, benefits that could arise from those requirements will be considered.

[1] For example, Marks & Spencer excludes deals with Asia Pulp & Paper (APP) and Asia Pacific Resources International (APRIL)

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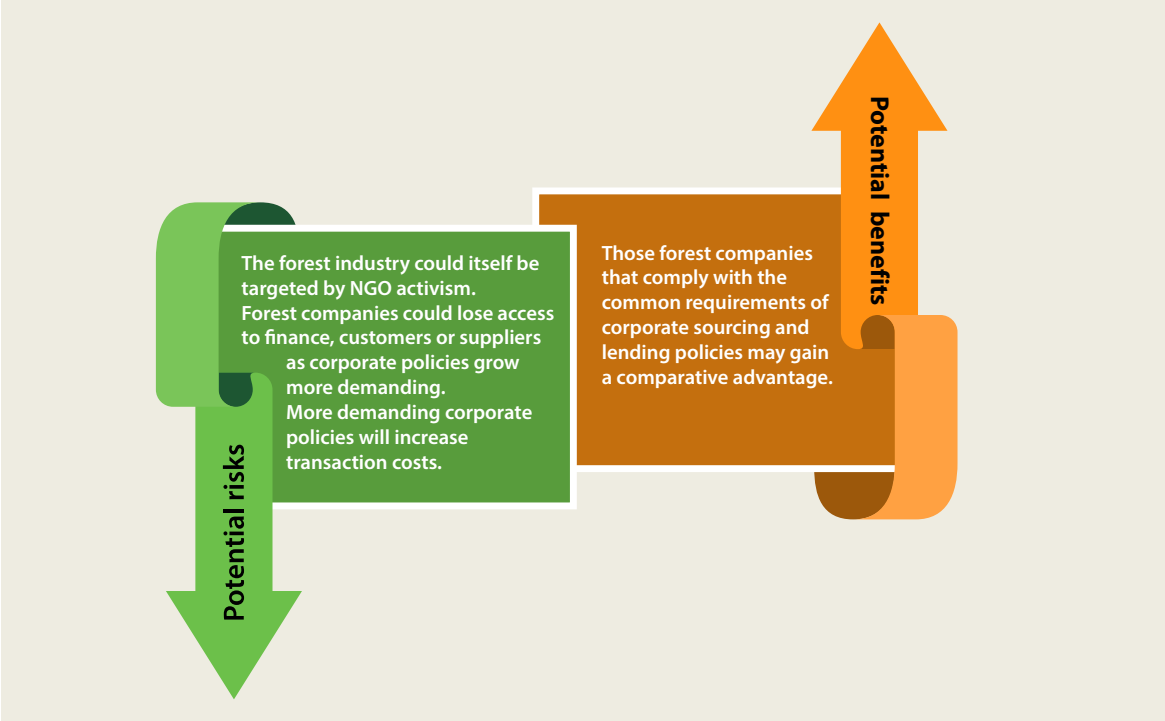
Risks and benefits to the forest industry from corporate zero-net deforestation commitments

The corporate wood products policies of customers and financiers have already placed a demand on the forest industry to adapt to requirements. Going forward, further adaptation to shifting requirements may be necessary as momentum around corporate zero-deforestation commitments continues to build. In this context, several potential sources of risk for the forest industry become apparent. It may be itself targeted by NGO activism, lose customers because of shifting demand patters, lose suppliers if these can no longer meet requirements, and be obliged to comply with increasingly onerous documentation requirements. Conversely, for some parts of the forestry industry, the zero-deforestation movement may translate into a comparative advantage where firms comply with the common requirements of corporate policies for sourcing, lending and other business activities (Figure 4).

Figure 4: Potential risks and benefits to the forest industry from corporate zero-net deforestation commitments



The forest industry could itself be targeted by NGO activism. So far, NGO activism has focused on companies with larger consumer exposure because this is where most traction could be obtained. But activists (e.g. Greenpeace, 2011) have already started targeting some large forest companies, and could step up such action against the forest industry itself.

Regardless of the factual basis of such negative publicity, it could be a major liability for any forest company in their deals with customers and financiers. The analysis in this paper shows that consumer goods companies and banks need to address any negative publicity around a forest company they are looking to do business with, as part of their own due diligence, to exclude reputational risks. For this reason, any activist claim of irresponsible business practices needs to be taken extremely seriously.

Forest companies could lose customers, suppliers and access to finance as corporate policies grow more demanding. This is the most obvious risk to the forest industry. Consumer goods companies and banks have a clear interest in designing corporate policies for sourcing and lending that their business partners can comply with (Neeff and Linhares-Juvenal, 2017a). But nonetheless, the analysis in this paper shows quite clearly that pressure is building up through the supply chain for forest companies to improve their business in line with the corporate policies of their customers and financiers. It is also directly observable that some companies are losing access to markets, which is often portrayed as the success of the zero-deforestation movement (Box 2).

Beyond restricting access to finance, customers and suppliers, more demanding corporate policies will increase transaction costs. Difficulties in meeting customers' and financiers' corporate policies for sourcing and lending may translate into an increasingly burdensome due diligence process, rather than complete loss of access.

Box 2: Do the sourcing policies have teeth? Case of a major bank, HSBC (HSBC, undated)

"Compliance with our policies

The new policies included deadlines for our customers to meet by the end of 2014. We have since gathered data on the implementation of these policies: the figures below are not audited, and are the result of a detailed manual reporting exercise at the 2014 year end. We are in the process of implementing an IT solution to make management information more readily available in the future.

Impact of policies at 31 December 2014

We had 913 customers in the forestry sector, the highest concentrations of which were in Canada, the UK and France. We estimated that our customers were responsible for 50 million hectares of certified forest, approximately the size of Spain, and 3,100 certified operations – about 10 per cent of the global certified forestry market.

However, 60 customers were unable or unwilling to meet our policy requirements and we have ended or are in the process of ending those relationships, as soon as contractual obligations allow."

Some value chain segments may be particularly exposed to the above set of risks from zero-net deforestation initiatives, and the corporate policies designed to put them into practice. These include companies working without chain of custody (CoC) and/or forest management certification, those sourcing raw material from partners that do not currently hold forest certification, firms supplying forest products to companies that are potential targets for NGOs because of high consumer exposure and/or large market share, and those producing in, or

working with producers from, developing countries with high deforestation rates or a weak forest governance environment, especially those included in the lists of high-risk countries.

Collecting information on the forest industry's position in the supply chains along the lines of these criteria will improve our understanding of how the shifting zero-deforestation requirements of customers and financiers affect the forest industry. This paper aims to contribute to that understanding.

Despite this emphasis on risks, the fact that firms in certain value chain segments are coming under pressure implies that other firms have a comparative advantage because of their compliance with the most common requirements of corporate policies. For the forest industry from developing countries, the need to comply with zero-deforestation commitments may constitute an additional barrier to international markets, in particular those in Europe or North America. The analysis in this paper shows how some of the requirements made by corporate sourcing and lending strategies are aligned with existing regulatory requirements. The incumbent companies in these European and North American markets may, therefore, enjoy a comparative advantage over international companies.

At this stage, it is only possible to have a preliminary discussion of the impacts of corporate zero-net deforestation commitments on the forest industry. It is important to remember that the results presented in this brief paper are based on a handful of major consumer goods companies and banks, and do not adequately represent the global market for wood products. Since the examined companies are large and may account for a significant portion of markets, the results in this paper may, however, represent trends. Based on these, the next section proposes recommendations to the forest industry.

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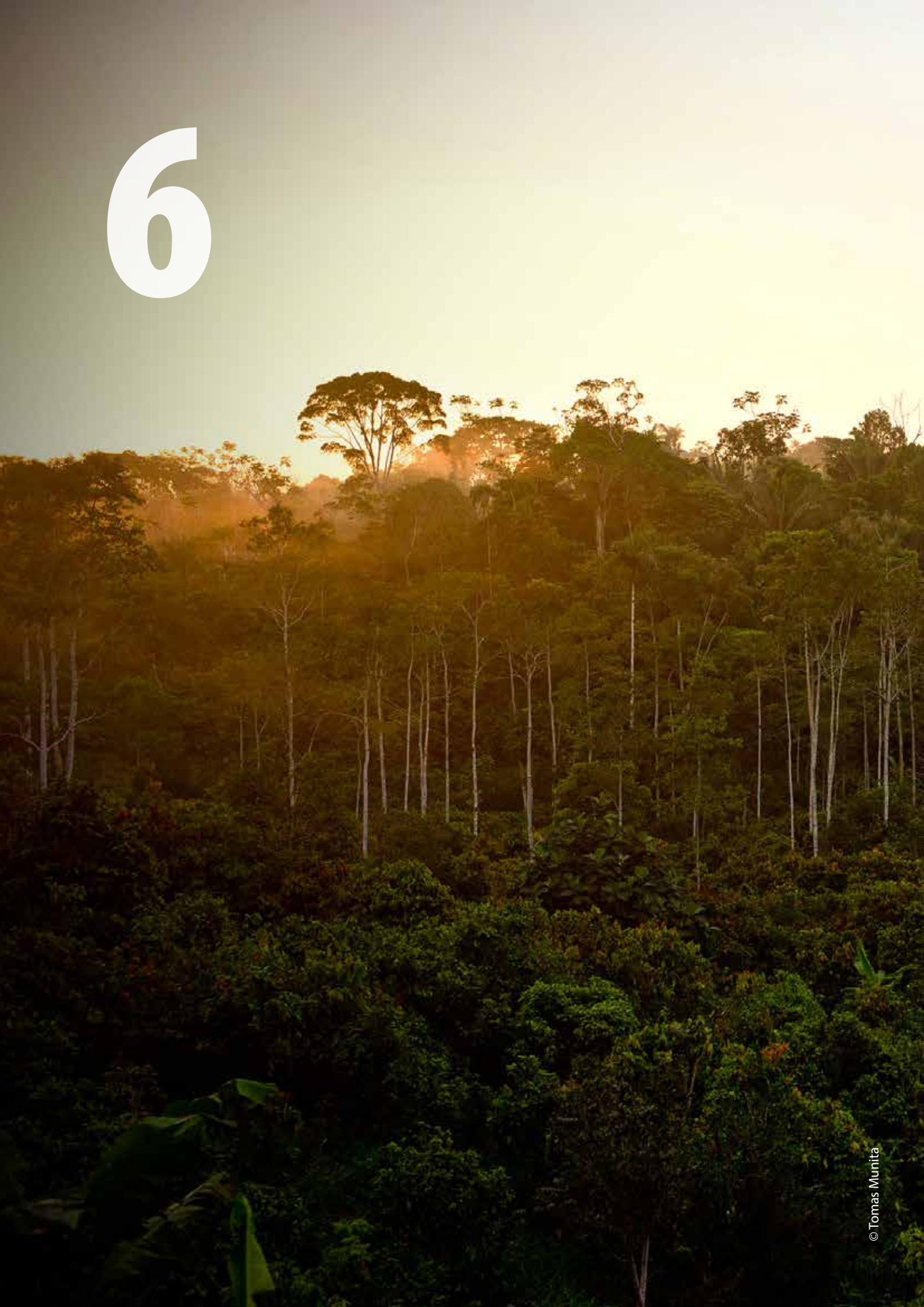

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Recommendations to the forest industry

The forest industry should closely monitor their business partners' stance on environmental policies, as well as the activities of NGOs in the sector. First, forest companies should pay close attention to the environmental requirements of customers and financiers that already have, or may be about to assume, zero-deforestation commitments. Second, it will be useful for them to understand the environmental performance of their suppliers. Third, forest companies should monitor the activities of NGOs in the sector to understand general trends, and be prepared to react in case environmental requirements shift.

The risk of changes in the environmental requirements of customers and financiers should factor into forest companies' risk management strategies. Preventing negative impacts from re-orienting demand patterns is difficult because of the range of issues related to forest production that are covered in corporate sourcing and lending policies. The key to managing risks from the shifting demand patterns created by zero-deforestation requirements will be preventing difficulties before they occur. This means that forest companies should stay ahead of their customers' requirements in terms of available certification and documentation. More detailed strategies should also be drawn up to manage risks from the environmental requirements of the forest industry's business partners.

The forest industry should proactively engage with consumer goods companies, retailers and banks as well as NGOs to ensure its specific knowledge and viewpoints are included in the discussion around zero deforestation. The following examples illustrate how a forest-sector perspective could contribute to a more robust and better grounded zero-deforestation movement with a lower risk of environmental backlash, and a better chance of long-term success.

- Zero deforestation is usually one among many CSR commitments that firms with sophisticated supply chains and consumer exposure take on. It is not always obvious which parts of corporate policies for sourcing, lending and other business activities are designed specifically to implement zero-deforestation commitments, and would not otherwise be included.
- Many corporate sourcing and lending policies treat wood certified-for-forest-management and controlled wood as the same, although certification requirements for each are different. This difference could undermine some of the messaging of the zero-deforestation movement.
- This analysis found universal reference to FSC/PEFC certification in corporate policies for sourcing, lending and other business activities, although only a fraction of global forest area is certified. This calls into question the feasibility of achieving zero deforestation at a scale beyond individual supply chains.

- Corporate sourcing and lending policies include barriers to business with forest companies from high-risk countries although, from a developmental perspective, this is arguably where investment need is greatest. This highlights how NGO campaigning can create perverse incentives.

In engaging more fully with the stakeholders around zero-deforestation, the forest industry may wish to take a strong view regarding the importance of environmental concerns in forest value chains. The environmental impacts of forest management and the forest-based industry were already receiving considerable attention long before the concept of zero deforestation emerged. For decades, developments in forest management have focused on making progress towards sustainable forest management, which was included in the United Nations Conference on Environment and Development (UNCED) Forest Principles 35 years ago (UNCED 1992). The FSC was established in 1993, and forest-management certification schemes are relatively mature, compared to the certification schemes established by the Roundtable on Responsible Soy, and the Roundtable on Sustainable Palm Oil 10 to 20 years later. With such a long history of attention to forest management issues from policy makers and NGOs, environmental concerns and sustainable management practices are now mainstream in large parts of the forest industry. Given this reality, to group the forest sector together with sectors perceived as presenting high environmental and reputational risk, such as the defence and mining industries, jars with the self-perception of large parts of the forest industry.

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Annex 1: Examples of zero net deforestation commitments and the corporate policies of relevance

Firm (or other organization)	Concept	Principles (for timber, pulp and paper)	Compliance requirements in corporate policies	Corporate policies considered
Consumer Goods Forum	Zero-net deforestation (endorsing WWF's concept)	▪ Legality ▪ Low risk of controversial sources contributing to deforestation ▪ Contribute to sustainable forest management	▪ For all virgin fibre, risk assessment on controversial sources (illegally harvested, violating rights, from forests with particular environmental/ ecosystem/cultural value, with endangered species, from areas converted after 2010) ▪ For high-risk countries use legality certification [e.g.verification of legal compliance (VLC), forest law enforcement, governance and trade) FLEGT) Also require FSC controlled wood, PEFC CoC, or other independent verification of low risk of controversial sources	▪ Deforestation Resolution ▪ Deforestation Resolution
Banking and Environment Initiative	Soft Commodities Compact	▪ Finance the transformation of commodity supply chains ▪ Raise banking standards to ensure compliance with CGF's zero net deforestation concept	▪ For banking customers with significant production or processing of timber at high risk of tropical deforestation, require FSC/PEFC certification	▪ The 'Soft Commodities' Compact ▪ The 'Soft Commodities' Compact: Technical Guidance
Nestlé	No deforestation and responsible forest stewardship	▪ No deforestation or loss of High Conservation Value (HCV) ▪ Respect laws and international norms ▪ Create shared value for society and local communities ▪ Legal harvest and trade	▪ FSC certification ▪ Alternatively, recognized company to assess: no forest conversion, HCV, known and legal source, paper scorecard (amended WWF scorecard), working practices, Free, Prior and Informed Consent (FPIC),conflict wood, water in plantations, smallholders and communities	▪ Commitment on Deforestation and Forest Stewardship ▪ Responsible Sourcing Guidelines – specific requirements for paper & board ▪ Not considered: Responsible Sourcing Guidelines – general requirements

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Firm (or other organization)	Concept	Principles (for timber, pulp and paper)	Compliance requirements in corporate policies	Corporate policies considered
Marks & Spencer	Remove commodity-driven deforestation from supply chains, source raw materials from most sustainable sources	▪ Wood is legally harvested ▪ Forests with HCV areas are protected ▪ Traditional and civil rights are protected ▪ Plantations converted from natural woodland are avoided	▪ Country of harvest and species information ▪ FSC forest management / FSC controlled wood / PEFC from countries with an FSC controlled wood risk assessment ▪ Alternatively, other forestry schemes (PEFC from other countries, Verification of Legal Compliance (VLC), Forest Law Enforcement, Governance and Trade (FLEGT), Tropical Forest Trust (TFT), etc.) next to named forest and/or paper mill with management information ▪ Alternatively for non-certified sources, full information on supply chain for risk assessment ▪ Exclude high-risk companies	▪ Wood Sourcing Policy ▪ Not considered: Commitment on Protecting Forests through Fabric Choices ▪ Not considered: Global Sourcing Principles
Unilever	Zero-net deforestation, ensuring that the net quantity, quality and carbon density of forests is maintained	▪ Halt deforestation: Protect HCV, high carbon stock and tropical peat forests, no illegally harvested wood, no sourcing of wood fibres from controversial sources ▪ Promote best practices in sustainable forest and pulp plantation management: traceability of the fibre value chain, growth in forest certified materials, use of sustainable virgin and recycled fibres in packaging ▪ Drive positive economic and social impact on people and communities: respect the rights of all workers, land tenure rights, support the role of small-scale family forestry	▪ Country of harvest ▪ FSC/PEFC CoC certified ▪ Additional risk assessment required for sourcing from high-risk countries regarding available certifications, timber species, supply chain structure, meeting requirements of EU Timber Regulation and US Lacey Act	▪ Position on Eliminating Deforestation ▪ Sustainable Wood Fibre-Based Material Policy ▪ Not considered: Responsible Sourcing Policy ▪ Not considered: Sustainable Agriculture Code

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Firm (or other organization)	Concept	Principles (for timber, pulp and paper)	Compliance requirements in corporate policies	Corporate policies considered
Danone	Eliminate deforestation impacts from supply chain by 2020 and Pro-actively contribute to programs preventing deforestation or pro- moting reforestation	▪ Reduce: actively reduce paper-based packaging weight byproduct ▪ Recycled: develop the use of recycled fibres for packaging as a priority ▪ Certified sources: when it is not possible to use recycled fibres, ensure virgin fibre legal origin and chain-of-custody traceability ▪ Forest is 'responsibly managed' when harvesting is environmentally, socially and environmentally appropriate, beneficial and viable, and excludes: illegal wood harvesting, violation of traditional and civil rights, threat to high conservation values, and conversion of natural forests.	▪ Country of harvest information ▪ For virgin fibre, require FSC/PEFC or national certification schemes ▪ Additionally, third-party audits when sourcing from high deforestation risk areas	▪ Forest Footprint Policy ▪ Position "Forest" for Paper & Board Packaging ▪ Packaging Policy ▪ Group Charter for the Environment ▪ Not considered: Climate Policy ▪ Not considered: wood for energy production
Procter & Gamble	Ensure sustainability of the world's forest resources through procurement practices	▪ Committed to understanding the sources of pulp fibre ▪ Transparency in sourcing ▪ Ensuring that sustainable forest management practices are used ▪ Avoiding unwanted sources of wood ▪ Working with stakeholders on stepwise increases in preferred certification schemes	▪ For direct suppliers of wood products, FSC Controlled Wood or other forest management certification schemes satisfying minimum criteria ▪ Alternatively for wood from sources not directly owned and managed by suppliers, auditable assurance of legal sourcing and sustainable harvesting	▪ Wood Pulp Procurement Policy ▪ Not considered: Citizenship Reports
Tesco	Help achieve zero net deforestation by 2020, starting with four global deforestation drivers: palm oil, cattle products, soy and timber.	▪ Ensure that the timber used in products is from both legal and sustainable sources ▪ Ensure that paper and pulp used in packaging and in office and store supplies are legal and sustainable	▪ Due diligence with assessment of legality and sustainability risk using a Forest Risk Tool, considering for example tree species and country of harvest ▪ Wood-fibre materials recycled or FSC/ PEFC certified ▪ Alternatively, independently certified to comply with the Tesco Wood and Wood Products Sourcing Policy	▪ Statement on Forest Commodities: Timber ▪ Not considered: cellulosic fibres ▪ Not considered: furniture
Carrefour	Protecting natural resources and biodiver- sity – more responsible sourcing – reach zero-deforestation by 2020	▪ Support the Consumer Goods Forum target of moving towards zero deforestation by 2020	▪ [no relevant operational guidance found for packaging materials and use of fibres in products]	▪ Webpage ▪ Not considered: furniture ▪ Not considered: stationary materials ▪ Not considered: fabrics

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Firm (or other organization)	Concept	Principles (for timber, pulp and paper)	Compliance requirements in corporate policies	Corporate policies considered
Deutsche Bank	Committed to help achieve zero net deforestation	▪ Act as a responsible partner to all stakeholders ▪ Formal commitments such as the Soft Commodities Compact of the Banking and EInvironment Initiative	▪ Only regular environmental and social review for deals in EU and USA ▪ Otherwise, enhanced due diligence will check for FSC/PEFC certification ▪ Or, alternatively, other certification or relevant public commitments ▪ Exclude deals with evidence on clearing of primary tropical moist forests, illegal logging or uncontrolled or illegal burning	▪ Environmental and Social Policy Framework
BNP Paribas	Working with CGF companies to help achieve net zero deforestation in their supply chains	Contribute to a more sustainable pulp industry with respect to five main issues, three of which are relevant regarding plantations and their CoC: ▪ Environmental and biodiversity issues linked to the deforestation and the industrial wood plantations ▪ Social issues (respect of local people rights, involvement of local communities, job development, etc.) ▪ Health and safety management	▪ As part of due diligence, collect information on ten mandatory environmental, social and health and safety issues ▪ Encourage the use of FSC/PEFC including CoC (which addresses the ten mandatory issues)	▪ Sector Policy – Wood Pulp ▪ Not considered: pulp production process other than CoC requirements
HSBC	Does not wish to finance unacceptable impacts in forestry – ensure that customers operate in accordance with good international practice	HSBC will not knowingly provide financial services to customers involved directly, or indirectly via the supply chain, in: ▪ illegal logging ▪ wood logged in violation of traditional and civil rights ▪ wood logged in forests where high conservation values are threatened by industry or ▪ forests being converted to plantation or to non-forest use (deforestation)	▪ For 39 high-risk countries FSC/PEFC certification ▪ In other countries, in case of a track record of credible allegations of unacceptable impacts, FSC/PEFC certification ▪ Alternatively, case-by-case evaluation for compliance with the spirit of the forest policy	▪ Introduction to Sustainability Risk Policies ▪ Forest Policy ▪ Not considered: World Heritage Sites and Ramsar Wetlands Policy

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Annex 2: Examples of high-risk regions identified in corporate policies

Consumer Goods Forum and Banking and Environment Initiative	Countries where verification of low risk from controversial sources is required: China (fibre source and trader), Colombia (fibre source), Indonesia (fibre source), Malaysia (wood chips source), Thailand (fibre source). Countries where practices should be monitored: Cambodia, Cameroon, Democratic Republic of Congo, Ghana, Myanmar, Papua New Guinea, Viet Nam
Danone	Australia; Bolivia (Plurinational State of); Brazil; Democratic Republic of the Congo; Indonesia; Malaysia; Russian Federation; Thailand; Venezuela (Bolivarian Republic of)
HSBC	Bolivia (Plurinational State of); Brazil; Cambodia; Cameroon; Central African Republic; China; Colombia; Cote d'Ivoire; Democratic Republic of the Congo; Ecuador; Equatorial Guinea; Estonia; Gabon; Ghana; Guatemala; Guyana; Honduras; India; Indonesia; Lao People's Democratic Republic; Latvia; Liberia; Lithuania; Madagascar; Malaysia; Mexico; Mozambique; Myanmar; Nicaragua; Panama; Papua New Guinea; Peru; Congo; Russian Federation; Solomon Islands; Thailand; Uganda; Viet Nam.

Annex 3: Examples of high-risk sectors identified in corporate policies

BNP Paribas	Defence, Palm Oil, Wood Pulp, Nuclear Energy, Coal-fired Power Generation, Agriculture, Mining Indus- try, Tobacco Industry
HSBC	Agricultural Commodities, Chemicals Industry, Energy, Forestry, Freshwater Infrastructure, Mining and Metals
Deutsche Bank	Energy, Mining, Agriculture and Forestry, Hydraulic Fracturing, Fisheries

Annex 4: Background information on the EU Timber Regulation

EU regulation No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market – also known as the (Illegal) Timber Regulation – counters the trade in illegally harvested timber and timber products through three key obligations (EC, 2010):

- It prohibits placing illegally harvested timber and products derived from such timber on the market of the EU for the first time.
- It requires traders putting timber products on the market of the EU for the first time to exercise due diligence.
- It requires timber traders within the EU to keep records of their suppliers and customers.

The core of the due diligence notion is that operators undertake a risk-management exercise so as to minimize the risk of placing illegally harvested timber, or timber products containing illegally harvested timber, on the EU market.

The three key elements of the due diligence system are:

- Information: The operator must have access to information describing the timber and timber products, country of harvest, species, quantity, details of the supplier and information on compliance with national legislation.
- Risk assessment: The operator should assess the risk of illegal timber in his supply chain, based on the information identified above and taking into account criteria set out in the regulation.
- Risk mitigation: When the assessment shows that there is a risk of illegal timber in the supply chain, that risk can be mitigated by requiring additional information and verification from the supplier.

Annex 5: Background information on certification of forest management and of controlled wood

According to the FSC webpage (FSC, undated), FSC-controlled wood is material from acceptable sources that can be mixed with fully FSC-certified material in products that carry the FSC Mix label. Material with the FSC Mix label can include, at most, 30 percent controlled wood and at least 70 percent fully FSC-certified wood or wood from recycled sources.

FSC controlled wood is defined by the relevant FSC standard (FSC, 2006). There are five categories of unacceptable material that cannot be mixed with FSC certified materials: illegally harvested wood; wood harvested in violation of traditional and civil rights; wood harvested in forests in which high conservation values (HCVs) are threatened by management activities (HCVs are areas particularly worthy of protection); wood harvested in forests being converted to plantations or non-forest use; wood from forests in which genetically modified trees are planted.

Fully FSC certified material, in turn, is defined by the FSC's principles and criteria for forest stewardship (FSC, 2015). The eleven principles are: compliance with laws, workers' rights and employment conditions, indigenous peoples' rights, community relations, benefits from the forest, environmental values and impacts, management planning, monitoring and assessment, high conservation values, and implementation of management activities.

Criteria 6.9 and 6.10 clarify that conversion of natural forests is not usually permitted. Especially, plantations usually do not qualify for certification that were established on areas converted from natural forest after November 1994.

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