

REPORT

ZERO DEFORESTATION VALUE CHAINS AND FOOD SYSTEMS WEBINAR

22.3.2022

Facilitator: Tiina Huvio, a program director for Food and Forest Development Finland FFD

Presenters

- Dr. Markku Kanninen, Emeritus Professor, University of Helsinki
- Maija Kaukonen, Forest and Development Officer, WWF

Panel:

- Anne Arvola, Senior Development Impact Advisor, Finnfund
- Elizabeth Nsimadala, President of Eastern Africa Farmers Federation (EAFF)
- Lea Rankinen, Director of Sustainability & Public Affairs, Paulig
- Julia Wakeling, Head of Impact and ESG, SilverStreet Capital

Participants: 71

Introduction

This zoom webinar was jointly organized by the Finnish Agri-Agency for Food and Forest Development (FFD) and Finnish Development NGO's (FINGO), and it is part of a series of webinars that aims to assess how to achieve systematic changes in agriculture, natural resource management, and climate change. The report is divided into four sections. The first section outlines the opening remarks by Tiina Huvio, Programme Director at FFD. The second section summarizes the main points of the opening presentations. This is followed by a summary of the panel discussion, and the fourth section concludes with closing remark by Juha Ruippo, Chairman of Fingo's Food Security Group.

I. Opening remark by Tiina Huvio, Programme Director, FFD

Deforestation and loss of biodiversity, which are tightly linked, are a great concern for all of us. Approximately 2.4 billion people use wood and charcoal for their daily domestic needs and approximately 1.5 billion people depend on small-scale farming and forestry. Therefore, we should be concerned not only about climate change, but also about the people living in and from land use activities. The Intergovernmental Panel on Climate Change's (IPCC) latest report published at the end of February 2022 underlines that we must address inequalities if we want to deal with climate change and deforestation. The webinar reflects how these different objectives can be achieved. We reflect on how actors, including both smallholders and companies will deal with the regulation that the EU wants to put in place to reduce deforestation caused by the value chains of the six commodities: beef, soybeans, palm oil, timber, coffee and cocoa.

II. Summary of the main point of the presentations

2.1 Zero Deforestation Value Chains and Food Systems Role of EU consumption

Emeritus professor Markku Kanninen from University of Helsinki was the first speaker at the webinar. Kanninen presented the three main issues that we need to consider when dealing with deforestation. Firstly, the IPCC 2019 report showed that one third of all greenhouse emissions come from food production and 60% of those emissions come from animal-based food production. Since the 1990's, emissions from agriculture have increased around the world, whereas emissions related to land use including deforestation have increased at a much slower rate. On the other hand, emissions from industry and transport have been declining in many countries due to carbon trading and other mitigation measures. Therefore, land use and food production sectors are becoming emission hotspots in the future.

Secondly, land degradation is affecting about 40% of the global land area and is impacting already 3 billion people. Approximately 1 billion (1 000 million) hectares of land use changes are currently occurring according to the IPCC 2018 report. The recommendation is to decrease this to 400 million hectares by 2050 if we want to reach the 1.5-degree target. Kanninen gave an example regarding Brazil and how it was able to reduce deforestation in the Amazon by 70% despite increasing beef and soy production at the same time. Brazil was able to disconnect agriculture production (soy and beef) from land use change and deforestation, which means increasing the productivity per unit area. In addition, the introduction of a value chain certifications for soy producers lead to more sustainable land use practices.

Thirdly, International commodities' value chains and global markets influence the CO₂ balance between countries and regions. Products with high CO₂ emissions are made in one part of the world and consumed in other parts of the world. For example, in developed countries, the consumption-based emissions are larger than production-based emissions because production is often outsourced to developing countries; this can be considered a transfer or leakage of emissions from consumer to producer countries.

As an example, of the global emissions (2.6 Gt CO₂ yr⁻¹) related to deforestation, 21% come from cattle ranching in Brazil and 10% from oilseed production in Indonesia; of these emissions, exports account for between 15-20% of emissions in Brazil and between 40-45% in Indonesia. On the other hand, a report by the EU shows that about 10% of tropical deforestation (about 190,000 hectares per year) is related to EU's consumption. This means that emissions related to EU's consumption through deforestation are about 100 million CO₂ eq. tons per year, which is equivalent to two times the total emissions of Finland. Consequently, the EU in 2019 launched five priority actions to tackle the issue of deforestation and promote free supply chains:

- Aiming for a free deforestation chain as part of the EU development cooperation.
- Strengthening international cooperation to stop deforestation.
- Redirecting financing toward more sustainable land use practices.
- Supporting research and innovation.
- Working with partnering countries, governments, private sector, civil society, to act against deforestation in those countries.

2.2 Impacts of EU and Finnish consumption on tropical deforestation.

The webinar's second speaker was Maija Kaukonen, Forest and Development Officer at WWF. According to Kaukonen, deforestation is growing rapidly in Latin America, Central Africa, West Africa, East Africa, Southeast Asia, and Australia. The drivers of deforestation on a global scale include cattle farming, palm oil production and soy production. The extensive use of firewood and charcoal production also affect deforestation in many African countries.

Agricultural production is estimated to have caused 5 million hectares of tropical deforestation annually between 2005 and 2017. According to the WWF EU Policy Office report 2021, EU's imports are estimated to have caused 3.5 million hectares of tropical deforestation during the same period placing EU as the second largest contributor to tropical deforestation after China. More than 80% of tropical deforestation in 2005-2017 was caused by the production of soy, palm oil, beef, wood products, cocoa, and coffee.

Commodity production is not only driving deforestation in tropical forests, but also in other forested landscapes. For example, in Brazil, Argentina, Paraguay, and Uruguay, biodiversity, forested grasslands and wetlands are now suffering due to beef and soy production, linked to EU consumption. Thus, the EU laws and regulations should also include deforestation in other forested landscapes such as the Cerrado and the Pantanal in South America.

Commitments of the private sector to reduce deforestation were analysed in the WWF and BCG's report in 2021. The analysis – including more than 1200 companies associated with high-risk deforestation commodities- found that about half of them had commitments, and out of those, only 46% reported any kind of progress. Therefore, companies' commitments to reducing deforestation seem to have a low impact on controlling deforestation. Less than 10 % of financial institutions have a deforestation free commitment. Urgent action is needed to stop negative financial incentives.

III. Summary of the Panel Discussion

3.1 Panel discussion

Anne Arvola is from the Finnish Development Financing Institute – Finnfund- which finances companies operating in developing countries with a special focus on Africa. Their clients are involved in land use activities and in whole agriculture and forestry value chains.

Elizabeth Nsimadala is a smallholder farmer and the president of the Eastern Africa Farmers Federation (EAFF), which is a regional umbrella for national labour farmers' organizations in Eastern African countries. It has a representation of over 20 million smallholder farmers. Those farmers are involved in crops, livestock, fisheries, and forestry value chains.

Lea Rankinen is the Director of Sustainability and Public Affairs at Paulig Oy, which is an old family-owned value driven company that has existed for 145 years. Paulig is a food and beverage company with an extensive global value chain operating with 600 different suppliers and 1000 different raw materials from 100 countries related to coffee, soy, palm oil and fibre-based packaging material.

Julia Wakeling is the Head of Impact and ESG at Silver Street Capital, which is an impact investor in the African agricultural space. This company manages two funds investing in African agriculture and in businesses primarily to improve value chains. The company focuses on improving smallholder farmers' productivity by providing improved seeds, providing training in best farming practices, and providing markets for high value rotation crops. The company aims at increasing productivity in farming lands and believes that raising yields is the most effective way to reduce deforestation.

3.2 Questions & Answer

What are the key challenges of reducing deforestation?

Arvola believes that for financial institutions it's a matter of reach. Financial institutions cannot reach all stakeholders in value chains and find it especially challenging to reach smallholders. Companies could provide extension services for smallholders as a carrot, but the impact remains limited. Another challenge is transparency when measuring impact, reporting what has been done and understanding what smallholders have achieved. It's also a matter of financial feasibility for the smallholders as they are more likely to do something if it makes economic sense. Another challenge is smallholders' capacity to deal with change (e.g., competitors, changing rules, and different operating environments). It is important to demonstrate different methods of working to smallholders so that they can see why a certain method is better than another. Thus, systematic changes are needed and an enabling environment for smallholders to thrive.

What are the key challenges, for example, for your constituency for not adopting a forest favourable production system?

Nsimadala indicated that by organizing farmers into small groups such as farmers' associations and cooperatives, a greater impact can be achieved. However, there are also some farmers associations and cooperatives, that experience challenges due to institutional capacity and resource constraints. If producer organizations had enough resources, they could raise awareness regarding deforestation among smallholders and implement initiatives against deforestation. Usually there is no incentive to refrain from deforestation and the alternative energy sources to replace firewood are usually very expensive. Income of smallholders needs to be diversified to non-wood products such as fruits, nuts, and berries to reduce deforestation.

What are the key challenges that you are facing to encourage your suppliers to tackle deforestation?

For Rankinen, one of the key elements is to recognize the key raw materials and ensure good traceability to the country of origin. Paulig has worked on traceability of their coffee for many years and currently they can trace their coffee to the farmer group level. Another key area is industrial collaboration to drive change and increase farmers' capacity. Verification and certification systems are also important, but the challenge is that different raw materials have different criteria and timelines. In the future, we will need dynamic models to harmonize criteria, expectations in due diligence processes. Another challenge lies with a large amount of country data, which can be used for risk assessments, but more accurate and updated data is needed. In the future more accurate and up to date data is needed to identify the risk level.

As mentioned in the earlier presentation, EU consumption is driving 10 % of the global deforestation. One of the challenges is the dynamics of global versus local demand. If companies are engaged in importing products, there will be questions regarding deforestation and local impact. Are local policies and actions compatible with EU's policies? If local policies are not good, they might not provide the incentives to produce changes at farm level

What are the challenges and future steps for deforestation? Are governments starting to create an environment where the government advisory services and subsidies are going in the same direction in terms of reducing deforestation?

Wakeling confirmed that at her organization they use multiple avenues for verification and data collection. Silver Street Capital conducts farmer surveys on their own or via third party. They use online data as well as ground data. Because they do not gather enough data from a significant number of farmers to be able to give broad statements, they use academic research to verify the results. In the future, they might use satellite images and artificial intelligence to see where there are land use changes. Julia believes that companies need to drive the change themselves rather than rely on the government driving the change.

How do you see the governments in eastern Africa being able to support these kinds of activities?

Nsimadala thinks that governments have set initiatives to reduce the use of charcoal and thus reduce deforestation, but implementation of policies has been lacking. Another problem is lack of awareness of the implication and impacts of deforestation. All actors (farmers, forest keepers, leaders, policy makers) need to come together and work towards the same goal. Each participant's role and implementation tasks should be defined. The overall process should be participatory and involve all actors. Governments should involve all actors when forming policies. Awareness creation needs to be increased regarding innovations, such as the use of the volcanic rocks as a form of energy. These rocks, for example, have been a hindrance to the agriculture sector, especially in Uganda, but recently the rocks have been used for cooking with solar technology.

How to raise producers' awareness around deforestation and related policies? Is this implemented in Africa? Is there enough awareness among farmers or is there still need to do something more?

Nsimadala said that much is already being done towards afforestation and other initiatives, but it is not enough. There is a need for more awareness creation to get more actors on board. Everyone suffers from climate change so reducing deforestation doesn't need to be only a producer level initiative. With a more holistic view, everyone needs to understand that they are responsible for deforestation.

There is a need for a reporting mechanism. For example, if deforestation is prohibited by the government but it is still happening in a rural community, then there should be a reporting mechanism through which the information can be sent to decision makers so that perpetrators are held accountable. Some individuals in the government have been involved in deforestation but due to their high status, they are "untouchable".

How could these individuals be held accountable? Policies regarding deforestation are available but they are not effective.

What are the advantages and challenges regarding the new EU proposal regarding zero deforestation value chain regulations?

Arvola indicated that the benefit of the common regulatory frame is that now deforestation becomes everybody's responsibility. We have seen that the voluntary certification schemes are not enough and that the market has not considered the issues thoroughly.

The challenge is then, to what extent do consumers accept the price increase that is quite inevitable. There are costs associated with product traceability especially at extensive value chains.

Another challenge to be tackled is the different markets and awareness in different countries. How will deforestation leakages be prevented elsewhere? It remains to be seen how the EU will support local governments in transforming the system.

What are the benefits and pitfalls of the new regulatory framework proposed? Is it going to the right direction? And what are the challenges?

For Rankinen, the main challenge is the very specific and high-level expectation for traceability to the plot of land where the crops come from. A strong platform needs to be in place and strong technological support to handle the large amount of data and definition on who is responsible for the data.

When asked about certification schemes, Wakeling mentioned that one of the limitations of the GlobalG.A.P. certification (a certification system for horticultural production following good agricultural practices) is the lack of broad thinking to link society and ecosystems. For example, in GlobalG.A.P. the water used for the irrigation of crops is tested, however, the water flowing out of the property is not tested. Gaps exist in all certifications and thus we need to take a broader view on these aspects.

Wakeling also mentioned that the EU should define what is meant by a forest because it can be defined in a different way in different countries and areas. The EU regulation is focusing on controlling the deforestation, but they need to consider that not all forests are equal. Thus, the regulation should be inclusive by comprising of biodiversity and indigenous ecosystems. For example, in Africa there are a lot of open ecosystems, such as savannas and grasslands and in South America the Cerrado.

The costs of adhering to any regulations can be exclusionary for smallholders, who cannot afford the expenses or might not be able to follow the processes. Thus, there is a need for a technical assistance and NGOs to support smallholders to adhere to regulations. But here as well we can encounter a pitfall of potential corruption in the certification process that also needs to be overseen.

Recommendations towards decision makers at the EU level

- Keep it simple, but remember that deforestation is a multi-level issue where smallholders and sustainable farming need to be taken into consideration
- Farmers in the South who will be affected should be given an opportunity to discuss the proposal and critique it. The regulation needs to address the root causes of deforestation such as poverty, poor standards of landscape management, and governance.
- Re-think how a just and fair transition could take place in the developing world in terms of production of energy, creation of jobs, and understanding that the growing population requires land.
- Traceability of raw materials is very important; however, the smallholder farmers' higher expenses due to the new regulations need to be considered, otherwise, they will be excluded from the system.

- The EU needs to ensure a fair price for smallholders for their crops and smallholders should be properly compensated for the impact that climate policies from the EU have on their livelihoods.
- Technical assistance and NGOs' support are needed to enable smallholder farmers to adjust to the changes and adhere to the standards, this includes providing access to training and technology to increase smallholder farmers' productivity.
- EU needs to ensure alignment with the EU level sustainable corporate governance due diligence so that there won't be double layers on the two regulations.

IV. Closing remark by Juha Ruippo. Chairman of Fingo's Food Security Group

Juha Ruippo highlighted the following aspects in his concluding remarks:

- Finland is now increasing funding for climate purposes.
- The global market, the situation in Russia and Ukraine, will have a huge impact on the deforestation process, because now the commodity flows will change.
- There is a willingness for a legal framework to tackle many issues related to Zero Deforestation Value Chains and Food Systems.
- The concept of a forest is not simple and includes biodiversity, nature, and other aspects. As Julia pointed out, sustainability is interlinked with three dimensions of social, ecological, and economical points of view.
- An important issue to raise is what is the willingness and ability of consumers to pay for the true cost of food. Traceability is needed to build trust between food producers and consumers.