



PROGRESS ON THE NEW YORK DECLARATION ON FORESTS

Goal 2 assessment

Eliminating deforestation from agricultural commodities

November 2020

The New York Declaration on Forests (NYDF) is a voluntary and non-binding international declaration aimed at halting global deforestation by 2030 with more than 200 endorsers: national and sub-national governments, multi-national companies, groups representing Indigenous and local communities, and non-governmental organizations. Published annually, the NYDF Progress Assessment evaluates the global status of forests as well as overall efforts made toward achieving the NYDF goals.

This update presents progress as of 2020 toward achieving Goal 2:

Goal 2

Support and help meet the private-sector goal of eliminating deforestation from the production of agricultural commodities such as palm oil, soy, paper, and beef products by no later than 2020, recognizing that many companies have even more ambitious targets.

Key messages

- Supply chain efforts have not been successful in eliminating deforestation from the production of agricultural commodities by 2020. Although the rate of tree cover loss due to commercial agriculture has been declining in recent years, levels in 2018 remain similar to the decade preceding the NYDF. While there is some evidence that company initiatives can contribute to a reduction in some geographies (e.g. in the palm oil, and pulp and paper sectors in Indonesia¹), we are still largely unable to link these efforts to global impacts on forests.
- More than half of the companies exposed to forest risk and assessed by Supply-Change.Org and Forest 500 made a public commitment to address deforestation (55 percent and 60 percent, respectively). Assessing the quality and implementation of these commitments,

companies in the palm oil, and pulp and paper sectors in Southeast Asia are consistently more advanced than their counterparts in cattle and soy supply chains in Latin America.

- A large number of companies based in Europe and North America announced commitments and some set requirements for their upstream suppliers to address forest risks. There is a risk, however, that produce linked to deforestation is absorbed by increasing demand in other markets, domestic and international, that give less priority to forest protection.
- Forest monitoring and supply chain traceability technologies are evolving at a rapid pace and allow for improved risk assessment, supply chain management and engagement with producers. However, tracking and engagement is often limited to immediate suppliers (e.g. processors and refiners) and fails to reach producers, in particular the millions of smallholders (e.g. in the palm oil supply chain).
- A large number of companies still fail to report on progress to address deforestation in their supply chains. In 2019, around one third of the 350 most influential companies in forest-risk commodity supply chains did not disclose this information.
- Jurisdictional and landscape interventions are still considered an effective way to address deforestation along with other environmental, social, and economic issues. These interventions are gaining traction, yet progress is difficult to systematically assess.
- Over the last year, European countries adopted promising policies around the due diligence of forest risk commodities. These have not yet been translated into concrete interventions.

Overview of goal and indicators

Commercial agriculture as a driver of deforestation

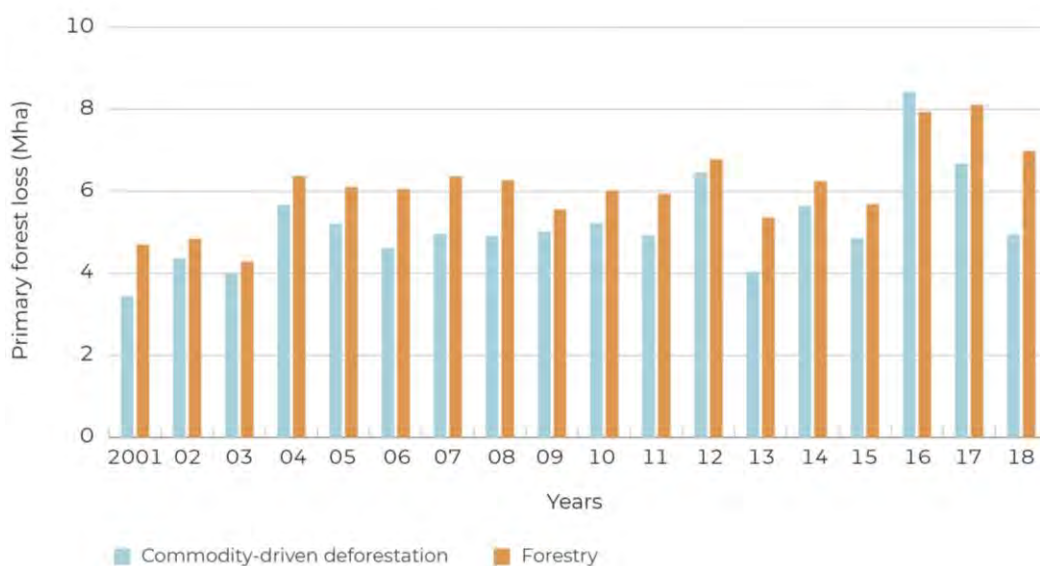
Since the turn of the century, commercial agriculture has caused the destruction of more than 5 million hectares of forests – almost the size of Croatia – every year (Figure 1). Most of this loss has occurred in Southeast Asia and Latin America. In Southeast Asia, the primary driver of deforestation has been palm oil, which accounted for about 23 percent of loss between 2001-16 in Indonesia. In Latin America, cattle and soybean have caused most of the deforestation, cattle accounting for about 80 percent of loss in the Brazilian Amazon alone.^{2,3} Although the rate of deforestation from commercial agriculture has been declining since 2016, recent numbers are similar to the deforestation rates during the decade preceding the NYDF.

Efforts to address deforestation in agricultural supply chains

Over the past ten years, a growing number of companies, governments, and civil society organizations have accelerated efforts to mitigate impacts of commodity production on forests. These measures have taken the form of regulatory policies, voluntary corporate commitments, and public-private partnerships.

Corporate commitments can drive change in supply chains when implemented through concrete measures, and when they are supported by public-sector action such as strengthening land use governance and law enforcement. Many governments in producer countries are taking steps to improve forest governance and increase transparency, usually driven by consumer awareness and requirements such as import regulations in consumer countries (see also Goal 10 update). These efforts have the potential to make significant long-term contributions to curbing deforestation, but they need to be strengthened and scaled.

Figure 1. Drivers of tree cover loss, in million hectares



Source: Global Forest Watch, Commodity-driven deforestation: Large-scale deforestation linked primarily to commercial agricultural expansion but also includes mining. Forestry: Temporary loss from plantation and natural forest harvesting, with some deforestation of primary forests.

Assessing progress

Even though the issue of agricultural commodity-driven deforestation is central to dialogues around tropical deforestation, and despite many efforts by civil society to monitor the issue, assessing progress remains a challenge. Particularly, there is limited reported information on the risk exposure and impacts of companies.

For the 2016 NYDF Progress Assessment, we developed an assessment framework to measure progress toward Goal 2 based on four criteria. Since the 2019 NYDF Goal 2 assessment update, we have revised this framework based on metrics under a common methodology that was developed by several tracking initiatives in alignment with the Accountability Framework initiative (Afi) (see section on Data Development).

Table 1. Criteria and indicators to track progress toward Goal 2

Criteria	Indicators
1. Forest-related commitments	1.1. Companies with a commitment 1.2. Content of commitment
2. Implementation of commitments	2.1. Adoption of standards and tools 2.2. Landscape and sectoral collaboration 2.3. Monitoring and verification of compliance 2.4. Engaging suppliers
3. Commitment outcomes: Demonstration of progress toward commitments	3.1. Reporting and transparency 3.2. Compliance with commitment 3.3. Traceability 3.4. Certification
4. Enabling environment	4.1. Support by financial institutions 4.2. Support by the public sector 4.3. Support by the civil society
5. Commitment impact	5.1. Reduction of deforestation associated with agricultural commodities

Findings

Criterion 1: Forest-related commitments

Forest-related commitments can play a significant role in reducing commodity-driven deforestation. Commitments generally involve a pledge to reduce or eliminate deforestation associated with the production, trading, or purchasing of commodities within a company's supply chain. In addition to positively impacting forests, these commitments can also help reduce company reputational risk, secure long-term commodity supplies, and demonstrate corporate responsibility.

Indicator 1.1: Companies with a commitment

Commitments are lagging across all commodities and geographies, with Latin America's beef and soy sectors most in need of intervention

Since 2016, very few companies have adopted new policies and commitments to eliminate deforestation from their supply chains. While there was a lot of collective ambition driving the adoption of 2020 commitments, many companies have realized in the last few years how difficult it is to meet those. Some have doubled down, while others are re-evaluating what they can achieve and are revising their commitments accordingly.

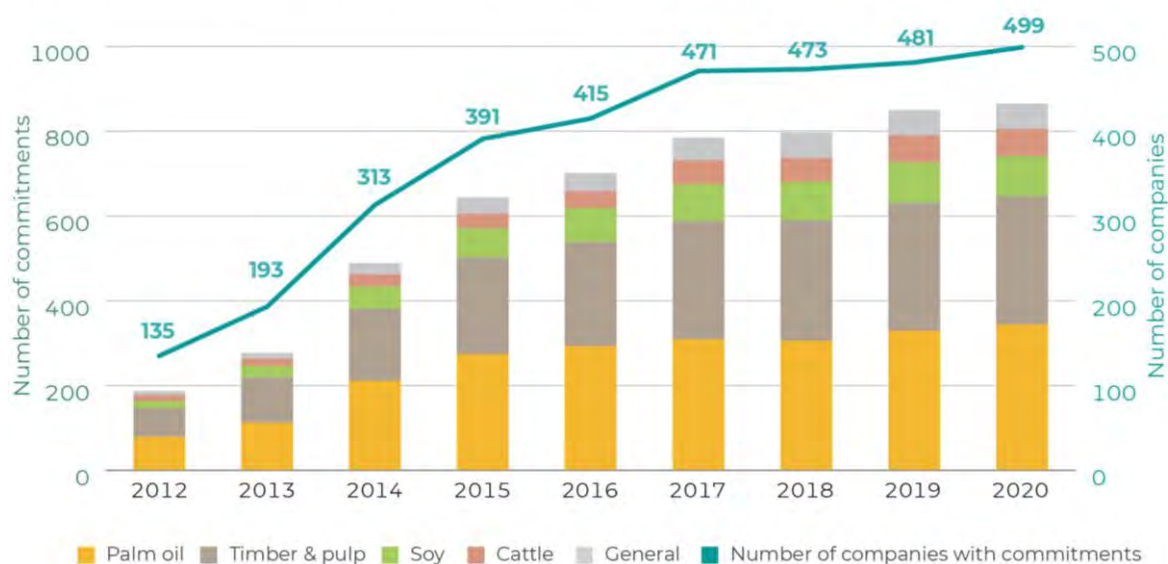
Based on data from Forest Trends' Supply Change Initiative, as of May 2020, 499 companies out of 895 assessed have made 865 commitments to address deforestation in their supply chains (Figure 2). Almost 400 companies exposed to deforestation risks have not made a commitment. Companies in palm oil, and timber and pulp sectors continue to have the highest share of commitments. Only a small share of commitments was made by soy or cattle companies. Similarly, data from Global Canopy's Forest 500 project, which assesses the 350 most influential companies on their forest-related policy and action, shows that 60 percent of companies had forest-related commitments in 2019. This number was even lower in the beef and soy sectors, with 20 percent and 27 percent of companies, respectively. This indicates that company action is lagging behind in Latin America, which has seen a surge in deforestation from these two commodities.

Forest 500 data also indicate that some companies have made changes to their commitments or abandoned them. Since 2018, of the 157 companies with commitments to remove deforestation by 2020 or earlier, 4 removed their commitment completely, and 18 companies removed the deadline from their commitments.⁴

The analysis also revealed that companies that are headquartered in North America and Europe are more likely to have such commitments and policies. Despite the fact that China is one of the largest importers of forest-risk commodities like palm oil, soy, and beef, only 20 percent of the most influential companies based in China had a forest-related commitment in 2019.⁵ Chinese companies could have important leverage over their counterparts in Latin America to demand deforestation-free soy and beef. The country imports more than 80 percent of soybean and 50 percent^a of beef exports from Brazil, and 76 and 70 percent beef exports from Argentina and Uruguay, respectively.^{6,7,8}

^a 50 percent of Brazilian beef exports go to mainland China and Hong Kong and 32 percent if we exclude Hong Kong.

Figure 2. Deforestation-related commitments in commodity supply chains



Source: Compiled by Climate Focus based on data provided by Forest Trends' Supply Change Initiative.

In terms of their coverage of globally traded commodities, recent data published in the Yearbook of the Trase platform shows that commitments reach the largest market share in the palm oil sector. In 2018, 81 percent of palm oil exports from Indonesia were coming from a handful of companies that had adopted commitments aiming for “No Deforestation, No Peat and No Exploitation” (NDPE). Despite their commitments, these companies are exposed to significant deforestation risks through their subsidiaries and suppliers.

Compared to palm oil, only 32 percent of Brazil's beef exports in 2017 were covered by a commitment. This is mainly because of the narrow focus of company commitments which focus on the Amazon region. Similarly, for soy, while 89 percent of exports from the Amazon were covered by the voluntary Amazon Soy Moratorium, about 61 percent of soy from Cerrado were covered by a zero-deforestation commitment. Overall, 59 percent of total exports from Brazil in 2018 were covered by a relevant commitment.

Indicator 1.2: Content of commitments

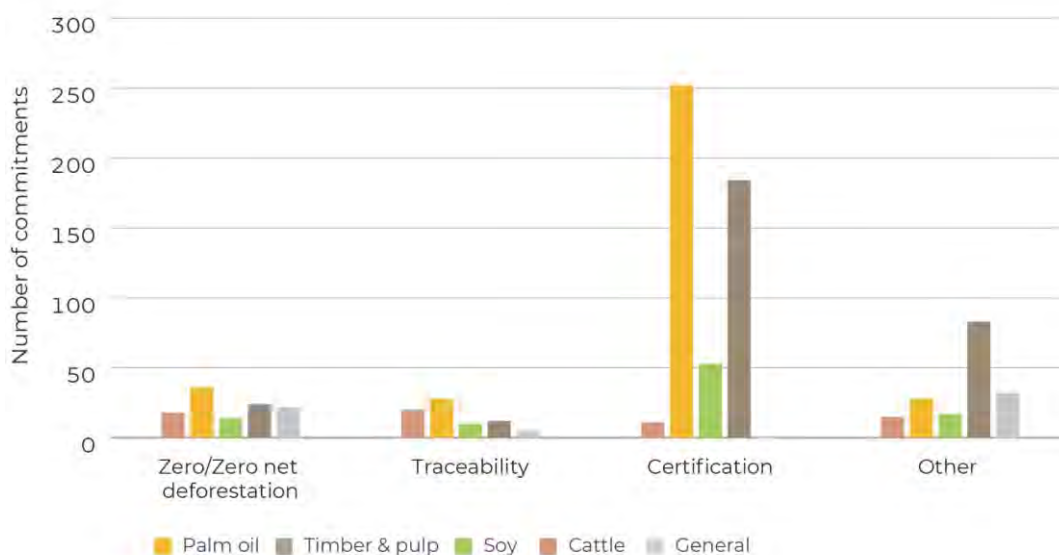
The scope and strength of company commitments falls far short of what is needed

Across supply chains, companies have adopted a variety of public commitments and policies. Among 865 commitments published by companies assessed by Forest Trend's Supply Change Initiative, more than half (57 percent) refer to certification, while only a small share set ambitious goals for zero or zero-net deforestation, refer to traceability or other objectives (Figure 3). The rigor of company commitments varies, likely reflecting the availability of standards or policies, and the varied motivations companies have for setting commitments – from internalizing operational risk, to meeting stakeholder demand. Commitments also vary in scale, from being company-wide to covering only a specific commodity, business, or supply chain.

Only a small share of commitments were found to be comprehensive in their scope. Among the Forest 500 companies (see above), only 15 percent made a commitment aligned with the principles defined by the Accountability Framework initiative (AFi), covering all supply

chains and sourcing regions of the company. This is essential for companies to avoid spillovers of deforestation risks between supply chains of different commodities and between various producing regions.

Figure 3. Content of company commitments



Source: Compiled by Climate Focus based on data provided by Forest Trends' Supply Change Initiative

Note: "Other" category includes commitments that aim for "sustainable" production or sourcing, aim to reduce or eliminate the use of the commodity, or another forest-related goal that is not captured by the other categories

Criterion 2: Implementation of commitments

Implementation through effective supply chain management is a prerequisite for companies to ensure their operations comply with their sustainability and zero-deforestation policies. Management practices include practical, ground-level tracing and monitoring, as well as sectoral collaborations which drive higher-level governance changes.

Indicator 2.1: Adoption of standards and tools

Uptake of supply chain management tools is accelerating, but strategies are limited in reach

Supply chain management tools such as standards for production and procurement of raw materials, mechanisms for deforestation risk assessment, traceability systems, and engaging with suppliers are essential for companies to decouple their supply chains from deforestation and ensure continuous compliance (Box 1). Data show that the palm oil sector is the most advanced in using these tools and standards, closely followed by the timber sector, which partly reflects the availability of standards and tools but also a higher level of ambition in these sectors.

Box 1. Examples of supply chain management tools

Deforestation risk assessments are tools that allow companies to identify and manage risks and opportunities linked to commodity supply chains that are associated with deforestation. Understanding their dependency and impacts on forests, and the risks they are exposed to because of deforestation, can inform companies' strategies and interventions to achieve their sustainability goals and address reputational risks in their operations. Such risk assessments include a system to monitor and report deforestation in company supply chains and areas of sourcing.

Traceability systems are tools that allow companies to track a product from its origin to consumption and can help to monitor deforestation risks and compliance with company policies and standards by linking suppliers to a specific place. Mapping of suppliers can generate information like the locations of their farms and operations, their policies and strategies, and their certification status and progress. And by tracing their products, companies can link them to specific suppliers to know who among their suppliers is associated with deforestation and how much of the commodity they source is compliant with their own policies.

Certification schemes are tools that apply harmonized rules and requirements that help to increase transparency around production methods and standardize produce quality. They aim to provide a benefit to individual producers for reducing deforestation and better environmental and social practices (e.g. price premium, enhanced market access). The leading certification schemes in the palm oil, soy, and timber and pulp & paper are the Roundtable on Sustainable Palm Oil (RSPO), Round Table on Responsible Soybeans (RTRS), Forest Stewardship Council (FSC), and Programme for the Endorsement of Forest Certification (PEFC).

Among 411 companies that disclosed commodity-related information on their management of deforestation to CDP in 2019, 65 percent have procedures in place to identify and assess forest-related risks in their operations. Advancements in the use of satellite data and Geographical Information Systems have allowed companies to conduct such risk assessments. For example, several palm oil companies use Global Forest Watch (GFW) Pro to conduct risk assessments at mill level. GFW Pro provides geospatial analysis enabling monitoring of areas prone to deforestation and identifies mills and other processing facilities located in these areas. These tools, combined with the ability to trace commodities in their supply chains, can support companies in their engagement with smallholders; for example, in choosing the areas for engagement but also in monitoring compliance.

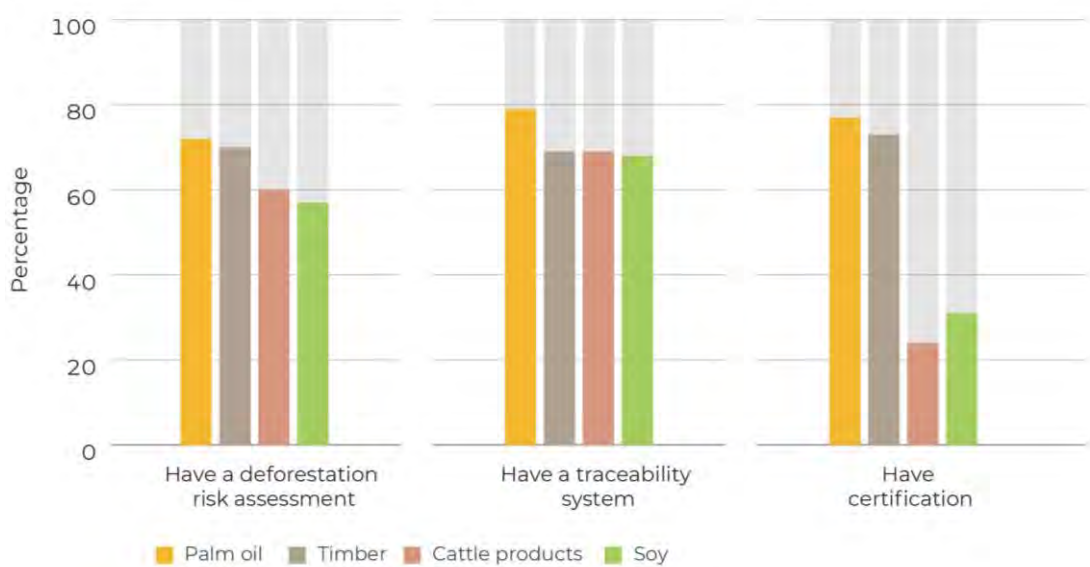
According to CDP data, more than two-thirds of companies have adopted traceability systems (76 percent) for at least one of the commodities (Figure 4). In most cases, however, these systems do not extend back to production (e.g. palm oil smallholders) or indirect suppliers (e.g. cattle breeders). Among the 350 most influential companies in the food and forestry sectors assessed by Forest 500, only 21 percent (71 companies) have a system to trace their products back to point of production for at least one commodity. And only 5 percent (19 companies) of all assessed companies have such traceability and compliance checks for all their commodities.

Seventy-one percent of companies with a commitment reporting to CDP use certification for at least one of the commodities in their supply chains. Such schemes provide harmonized rules and requirements that help to increase transparency around comparable production methods and standardized produce quality in line with environmental and social standards. The use of certification is significantly higher in palm oil, timber, and paper supply chains than soy and cattle (see Figure 4). The difference likely reflects the availability and

uptake of certification schemes such as the RSPO for palm oil and FSC, and PEFC for timber, and pulp and paper, while similar schemes for other commodities failed to gain traction. Similarly, among the 350 most influential companies assessed by Forest 500, 57 percent have some type of certification, and 43 percent mention using this certification to monitor their progress against their forest-related policies. They are most likely to have certification for palm oil (61 percent) or timber (58 percent).

Despite the clear benefits of certification schemes for structuring and guiding the implementation of commitments, their overall impact on forests remains unclear.⁹ In the palm oil sector, for example, RSPO have seen some success in providing socio-economic benefits to local communities in some villages and reducing deforestation but only in the certified plantations which risks spillover of deforestation to uncertified areas.^{10,11,12}

Figure 4. Percentage of companies that have traceability systems, forest-risk assessments, and certification



Source: Compiled by Climate Focus based on 2019 data provided by CDP.

Note: Total companies reported: Palm oil (146), Timber (291), Cattle products (93) and Soy (106)

Indicator 2.2: Landscape and sectoral collaboration

While there is still a way to go, sectoral initiatives are paving the way for improved standards in palm oil, soy, cattle, and timber production

Companies and other stakeholders see collaboration at jurisdictional and landscape level as a way forward to address the systemic challenges that drive deforestation. In the palm oil sector, for example, half of the 99 producers, processors and traders assessed by ZSL SPOTT, report implementing a landscape or jurisdictional approach to biodiversity conservation. Such collaboration aims to consolidate various efforts to comprehensively improve the whole system including governance, supply chains, and communities.¹³ In supply chains where smallholder producers control part of the production, companies can collaborate with communities of smallholders and local governments to improve yields and prevent deforestation within a set geographical area, while assuring a sustainable source of raw materials (see Box 1 for an example).¹⁴ Some companies also see these programs as a potential approach to reduce some of the supply chain complexities, improve traceability, and ensure sustainable supply base.¹⁵

Box 2. The Siak and Pelalawan Landscape Program^{16,17}

A multi-stakeholder landscape-level intervention, the Program was established in 2018 to address environmental, land, and labor issues in the Siak and Pelalawan districts in Riau province in Indonesia. Seven companies built a coalition with two civil society organizations to develop and implement an intervention to protect and enhance forests and natural ecosystems including peatlands; empower smallholders and local communities in support of improved livelihoods; respect labor and human rights; and develop a multi-stakeholder platform to enable collaboration and support district implementation of sustainable development goals. The initiative builds on existing efforts to advance a shared vision of sustainable, inclusive production, as well as promoting collaboration with the government-led Siak Green District initiative and other development partners such as LTKL and the Tropical Forest Alliance.

Under a five-year plan which began in January 2020, the coalition is focused on making progress in eight priority areas:

- **Conservation:** Conservation and/or restoration of 5,000 hectares of high environmental value area(s).
- **Village-level engagement:** Advance at least five priority villages toward sustainable models of production through smallholder support and capacity building.
- **Districtwide traceability:** Develop and implement districtwide traceability-to-plantation strategy, including a risk-calibrated approach as relevant.
- **Lowland forest biodiversity:** Support and strengthen existing protection and rehabilitation efforts in Tesso Nilo National Park, including removal of illegal oil palm plantations that occupy 75 percent of the park.
- **Mill-level engagement:** Build capacity and defining incentives to ensure NDPE compliance among all the mills in the landscape.
- **Social risks:** Pilot implementation of the Ulula worker voice system in two mills and three plantations to identify critical social risks related to palm oil production and

Other sectoral initiatives for zero-deforestation supply chains include the Amazon Soy Moratorium and the Zero Deforestation Cattle Agreements in Brazil. In place for almost 12 years, these initiatives have provided robust monitoring and verification to implement company commitments, but their impact on deforestation has been limited.

The Soy Moratorium that effectively banned the sourcing of soy from deforested areas remains one of the most successful strategies to curb deforestation from soy in the Amazon. However, soy has continued to replace old pastures while pastures have expanded into native vegetation in the Amazon and Cerrado, which underlines the indirect role of soy in driving deforestation in the region. Between 2008-19, soy has replaced 23 percent of the pasture in Cerrado and 22 percent in the Amazon, and in both biomes for every hectare of soy expansion into pasture there is at least one hectare of pasture expansion into forest and native vegetation.¹⁸

There have been attempts to create similar initiatives to protect the Cerrado biome that has been largely converted for soy and is at significant risk of further destruction, but progress has been slow and the initiatives have not yielded any concrete results. For example, in 2017, the Cerrado Manifesto was launched and signed by 62 companies that called for action to halt deforestation and native vegetation loss in Cerrado. While the number of signatories has grown to over 140 companies, there is little information on the actions taken to achieve the goals of the manifesto and a delay in implementation may have exacerbated loss of vegetation in this landscape.¹⁹

Brazil's Cattle Agreement has been criticized for failing to effectively reduce deforestation from cattle ranching in the region.²⁰ This is, in part, due to a complex cattle supply chain that hinders efforts at law enforcement, inspections, and, especially, tracing cattle over their lifetimes. This, in turn, allows cattle that came from areas illegally deforested in the Amazon to enter the supply chains, including the signatory companies of the Cattle Agreements. Therefore, for the Agreements to achieve zero-deforestation goals, it is necessary to expand them to cover more slaughterhouses and for slaughterhouses to monitor all landholdings of their direct suppliers and include indirect suppliers in their monitoring efforts.²¹

Similarly, in February 2019, the Soft Commodities Forum of the World Business Council for Sustainable Development was founded by major soy companies to advance collective action around common sustainability challenges in the soy sector. The Forum members are six major global soy traders who have agreed on a common framework for transparent and traceable soy supply chains in the Cerrado biome. The Forum members reported that in 2019, more than 90 percent of the soy they sourced from the 25 priority municipalities in the region came directly from farmers, although specific farms could not be identified, as farmers may cultivate more than one farm.²² Hence, farm-level traceability is yet to be achieved. In addition, the Forum members aim to engage producers, assess their current practices, and develop approaches to ensure profitable soy production that is compatible with environmental conservation. These are planned activities and no progress has yet been reported.

In December 2019, four large food companies launched another initiative "The Funding for Soy Farmers in the Cerrado Initiative." It is aimed at protecting the remaining forest and other native vegetation above and beyond the percentage that already must be legally conserved on private lands under Brazil's Forest Code. The initiative aims to provide soy producers in the Cerrado with financial incentives to ensure that, in future, soy is cultivated only on existing agricultural lands.²³ However, an implementation mechanism for the fund is yet to be designed.²⁴

Similarly, 17 members of Consumer Goods Forum recently launched the Forest Positive Coalition of Action. Building on the lessons learned from their 2010 commitments of zero-net deforestation, the Coalition aims to focus on systemic change through a new theory of change built on two pillars – supply chain management and integrated land use approach. The Coalition plans to focus on making progress through specific commitments, actions, and KPIs laid out in commodity-specific roadmaps for palm oil, soy and pulp, paper and packaging.

Indicator 2.3: Monitoring and verification of compliance

Less than a quarter of companies sourcing the highest forest-risk commodities have monitoring and verification systems in place

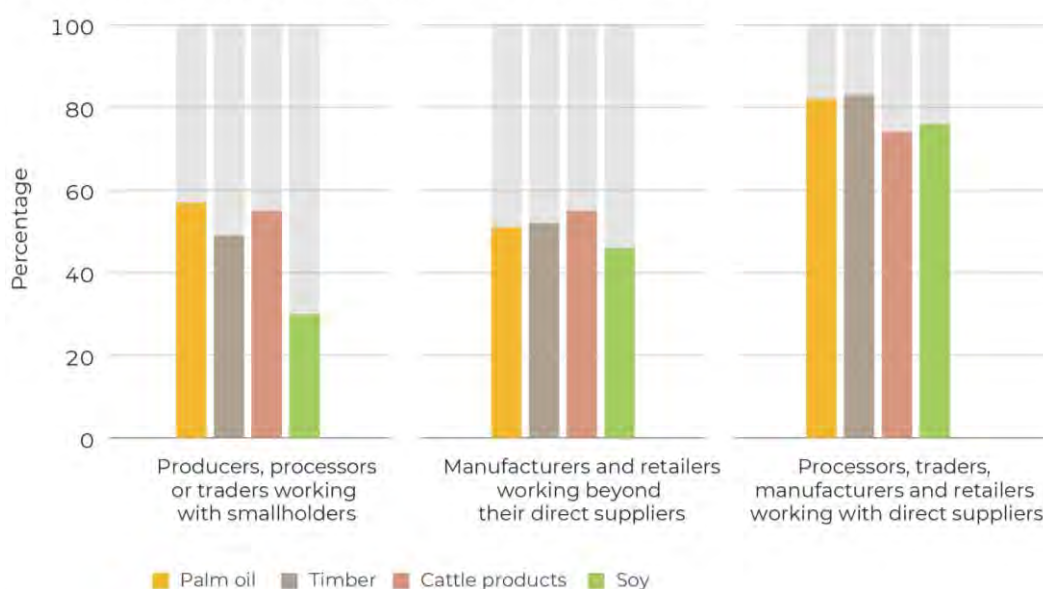
Companies employ a variety of tools to check the compliance of their suppliers. Examples include surveying suppliers, satellite monitoring systems, remote sensing, information collected in central databases, internal audits, contractual review, signed assurances of supplier compliance, mapping of conservation areas close supplier locations, and company or third-party mapping of supplier farms. The uptake of these tools is, however, low. Among companies assessed by Forest Trends' Supply Change Initiative, only 29 companies from 132 assessed have a monitoring and verification system for palm oil, 24 out of 101 companies have such systems for timber and pulp, while only 6 out of 24 companies and 9 out of 39 companies have it for cattle and soy, respectively.

Indicator 2.4: Engaging suppliers

Company downstream engagement shows progress, but more action is needed upstream

Among downstream companies that reported to CDP, more than 75 percent support their direct suppliers to implement necessary measures to ensure they comply with company policies (Figure 5). Based on data from ZSL SPOTT, 32 out of 98 companies report a clear process to prioritize, assess and/or engage suppliers on compliance with company policy or legal requirements. But supply chain engagement beyond direct suppliers remains limited as companies continue to struggle in working with their indirect suppliers, especially with smallholders who need company support to comply with zero-deforestation supply chain goals and standards.

Figure 5. Percentage of companies engaging with suppliers to manage forest-related risks and to increase compliance with sustainable sourcing policies



Source: Compiled by Climate Focus based on 2019 data provided by CDP.

Note: Total number of producers, processors or traders: Palm oil (30), Timber (69), Cattle products (22) and Soy (20). Total number of manufacturers or retailers: Palm oil (98), Timber (177), Cattle products (56) and Soy (56). Total number of processors, traders, manufacturers and retailers: Palm oil (114), Timber (206), Cattle products (65) and Soy (71).

Among palm oil producers, processors, and traders assessed by ZSL SPOTT, 47 percent (44/94) of them commit to support their smallholders and only 26 percent (21/80) of them have a program to support high risk mills to become compliant with company sourcing policies. Supporting smallholder farmers involves providing training, technological resources, and financial support to adopt best agricultural practices and to participate in certification schemes.

However, this support is not always extended to independent smallholders because of their lack of documentation, land title, and organization since legal proof of land ownership is a requirement to get financial and technical support.^{25,26} Company support is limited mostly to company scheme smallholders who have a contractual relationship with them, whereas independent smallholders without such contracts are largely unsupported and continue to lack needed resources to implement sustainable land use practices.

Some companies have begun to work with NGOs and the government under multi-stakeholder programs to support these producers to enhance their productivity, sustainable

cultivation practices, and livelihoods.²⁷ But these programs cover only a small number of independent smallholders.²⁸

Criterion 3: Commitment outcomes and demonstration of progress toward commitments

This criterion assesses the level of transparency and disclosure by companies on their activities to work toward zero-deforestation supply chains. It also assesses the outcomes of company actions that they report in achieving their deforestation-related commitments and sustainability goals and how companies are actually performing against their own commitments.

Indicator 3.1: Reporting and transparency

Most companies still fail to disclose information on their progress in addressing deforestation in their supply chains

Out of 1,820 companies that CDP invited to report on their forest-related policies in 2019, 70 percent failed to report critical information. Disclosure of information is more advanced in palm oil and timber than cattle and soy. This may be due to increased public awareness around environmental impact of these commodities, which puts pressure on companies to act. Similarly, Forest 500 reports that around a third of the 350 most influential companies did not report on their progress in addressing deforestation in their supply chains.

Indicator 3.2: Compliance with commitment

Reporting among companies on the proportion of their commodity volumes that is compliant with their forest-related commitments remains low. As assessed below, those that report compliant volumes report traceable volumes and volumes compliant with their certification standards rather than their other forest-related commitments such as zero-deforestation.

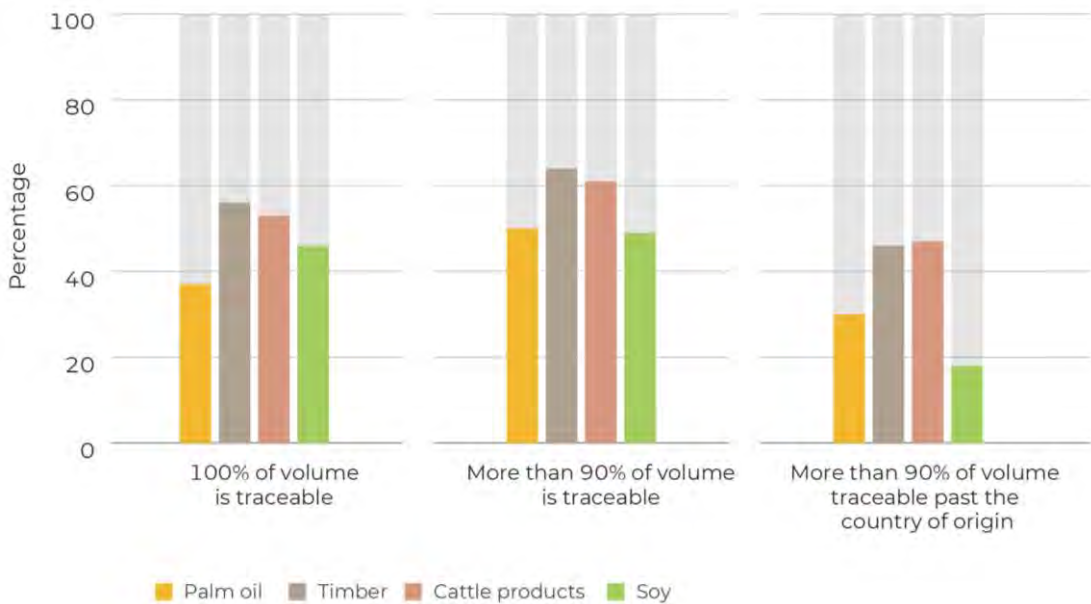
Indicator 3.3: Traceability

Full traceability remains difficult for companies across all commodities

Several companies report achieving 100 percent traceability but this is mostly to the country level (Figure 6). Traceability past the country of origin is limited. Achieving full traceability back to the farm continues to be difficult for most companies across their supply chains, especially for products sourced from third-party suppliers like smallholders and third-party mills.

Among palm oil companies assessed by ZSL SPOTT, about 24 percent (17/71) of them can trace 100 percent of their raw materials to the mill of origin and 22 percent (18/83) can trace 100 percent of their raw materials from their own mills to the plantation of origin. However, traceability is more difficult when sourcing from indirect suppliers. Full traceability for all palm oil products requires tracing back to plantation-level. It is relatively easy to trace palm oil products from own mills to own plantations and to the plantations of company scheme smallholders. However, tracing back through third party suppliers, including middlemen who, in turn, usually buy from independent smallholders, becomes difficult.²⁹

Figure 6. Percentage of volumes of commodity traceable to some point in company supply chain



Source: Compiled by Climate Focus based on 2019 data provided by CDP.

Note: Total companies with a traceability system: Palm oil (115), Timber (201), Cattle products (64) and Soy (72).

Indicator 3.4: Certification

Reliable certification remains scarce across the supply chains except for timber

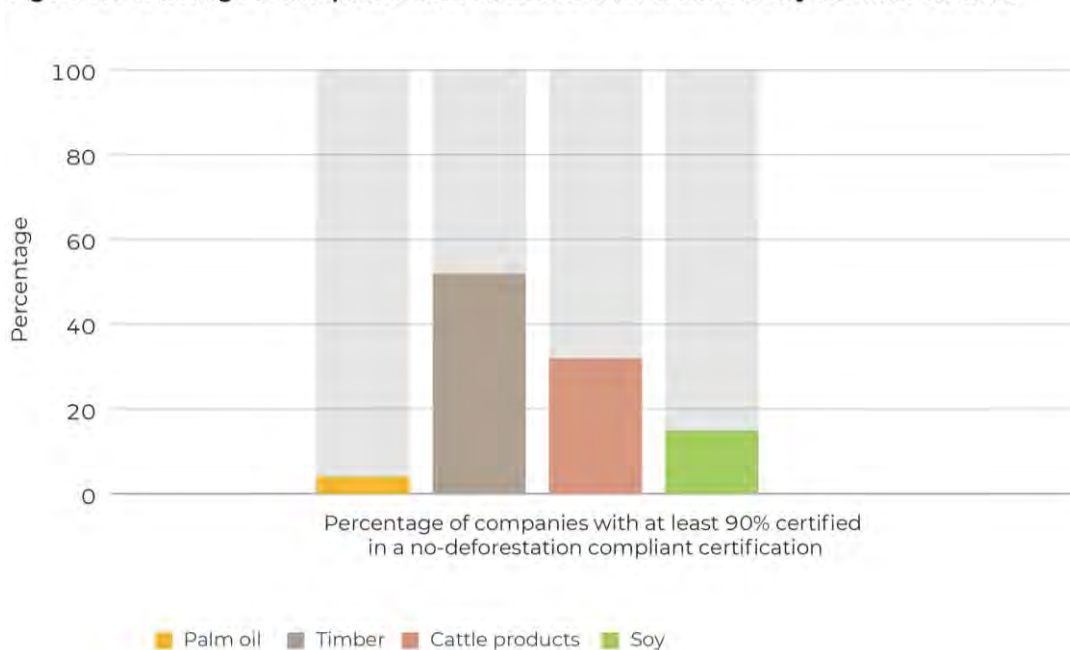
From 290 companies that reported to CDP on their use of certification, about 42 percent report to have at least 90 percent of their commodity volumes certified in a zero-deforestation compliant certification. The share varies strongly by commodity and is highest for the timber sector (Figure 7).

This is because while many companies especially in the palm oil sector source certified raw materials, very few of them source volumes that are compliant with zero-deforestation standards. In palm oil, Roundtable on Sustainable Palm Oil (RSPO) is the most widely used scheme, but many companies using RSPO rely on RSPO Book and Claim, or RSPO Mass Balance systems. However, according to the Accountability Framework, such chain-of-custody models cannot be considered zero-deforestation unless extra due diligence is used to confirm that commodities are not contributing to deforestation. This is because these systems do not guarantee separation of sustainable and unsustainable palm oil in the supply chain.

For palm oil, data from ZSL SPOTT show that only about 4 percent (3/83) of companies have 100 percent of their plantations and estates RSPO certified, while a larger share (42 percent) have certified only some of their plantations.

Furthermore, certification under RSPO remains limited among smallholders and especially independent smallholders who remain largely outside such programs. Globally, more than 356,000 hectares of scheme smallholder plantations are RSPO-certified, compared to only about 28,000 hectares of independent smallholder plantations.³⁰ Most independent smallholders have little knowledge of good agricultural practices and lower productivity compared to scheme smallholders and large plantations, and tend to expand their plantations through conversion of peatland and forests.³¹

Figure 7. Percentage of companies with more than 90% of commodity volumes certified



Source: Compiled by Climate Focus based on 2019 data provided by CDP.

Note: Total companies with certification: Palm oil (112), Timber (211), Cattle product (22) and Soy (33).

RSPO has made efforts to scale certification among independent smallholders, without meaningful impact so far. RSPO adopted certification guidelines and requirements specific to smallholders,³² and established the Smallholders Support Fund to fund the costs of smallholder certification projects.³³ Despite this, most independent smallholders continue to find it difficult to achieve certification and the number of certified smallholders remain limited, with fewer than 3,400 independent smallholders in Indonesia and Malaysia certified so far.³⁴

Similarly, only a very small portion of global soybean production is certified under RTRS. In 2019, just above 4 million tons and about 1.2 million hectares of soybean were certified under this scheme.³⁵ To put this in perspective, in 2018/19, global soybean production was 360 million tons, with Brazil alone producing 119 million tons.³⁶

Criterion 4: Enabling environment

Effective enabling environments create conditions favorable for the implementation of private sector interventions, while offering the means to address underlying causes of deforestation and contributing to the sustainability of sectoral activities.

Indicator 4.1: Support by financial institutions

Financial institutions which channel the greatest volume of finance to the sector must step up their commitments

Financial institutions such as banks are exposed to deforestation risks through their investment and financing of companies that source deforestation-risk agricultural commodities. According to a Forest 500 assessment of the 150 largest financial institutions that finance the 350 largest companies in palm oil, soy, cattle, paper, and timber supply chains through bonds, loans, or shareholdings, only 14 percent had a commitment for all

forest-risk commodities that they financed in 2019.³⁷ Financial institutions need to set clear commitments and financing policies to remove deforestation from their investments and engage with the companies they finance to ensure compliance with these investment policies (see Goal 8 update for a detailed assessment).

Indicator 4.2: Support by the public sector

Public sector efforts are accelerating, but still have a long way to go

SUPPLY-SIDE MEASURES

Several producer countries have improved their forest governance by reforming relevant laws and regulations, enhancing law enforcement, and building government capacity to monitor deforestation. All these are necessary enabling conditions to allow private sector actors to work with government and other stakeholders to protect the forests and build zero-deforestation and sustainable supply chains. However, gains made in forest governance in some countries, like Brazil, over the past two decades, are at risk due to corruption and shifting political priorities. Further effort on the supply side is needed to strengthen, revise, or complement initiatives already underway.

DEMAND-SIDE MEASURES

Governments of major forest-risk commodity consumer countries are adopting policies and developing strategies to eliminate imported deforestation from these commodity supply chains. To reduce and eliminate deforestation driven by agriculture requires policies that address deforestation risk commodities as well as policies on sustainable food consumption, diets, food waste, and public and private finance. See the NYDF Goal 10 update for a closer look at the global laws and policies that govern the management and protection of forests.

Regulations by consumer countries like the EU Timber Regulation and the US Lacey Act that put the onus on importers to prove the legality of the timber entering the US and the EU are good examples of legal interventions. In addition, there is new legislation requiring due diligence for companies to avoid environmental damage in their supply chains in France,³⁸ and in the UK, the government is currently consulting on the implementation of a new law which would require large businesses to prove that forest-risk commodities they source have been produced legally.³⁹ Similarly, in the US, California passed a Deforestation-Free Procurement Act, which requires all companies contracting with the state government in the provision of tropical deforestation-risk commodities like cattle, palm oil, soy, paper/pulp, rubber, and timber to demonstrate deforestation-free supply chains.⁴⁰ This law, however, is not yet passed by the State Senate and hence not enforceable.

In January 2020, China made significant changes to its Nation Forest Law to ban the buying, processing, and transporting of illegally sourced timber. As the world's largest importer of legal and illegal timber, if this change is enforced it will help to fight the illegal logging trade. The changes to the Forest Law will be effective from the July 1, 2020 and also include commitments of the government to develop stable and healthy forestry ecology systems, promotion of afforestation, and the protection of forest reserves.⁴¹

In 2019, the EU adopted a new framework of actions to minimize the impact of European consumption on the world's forests. This includes pathways to accelerate international cooperation of stakeholders and EU member states, promotion of sustainable finance, and supply chain management. The goals are to protect and improve the state of existing forests and to increase biodiverse forest cover worldwide. As a step to implement this, a Multi-Stakeholder Platform was formed which will undertake the promotion of consumption of

products from zero-deforestation supply chains. In addition, an EU Observatory on Deforestation and Forest Degradation will monitor and analyze forest cover worldwide and deforestation drivers. And incentives for sustainable forest management will be targeted through repurposing of public and private finance.⁴²

Similarly, the signatories of the Amsterdam Declaration, a non-legally binding commitment signed by major European countries in 2015, support the implementation of private-sector commitments under the NYDF Goal 2. Several governments in the EU have adopted national policies to address deforestation associated with the import of food and agricultural products (Table 2).

In a recent move, member countries of the Amsterdam Declaration sent an open letter to Brazilian Vice-President Mourão in light of growing deforestation in the Brazilian Amazon. The letter claims to reflect the increasing concerns of European consumers, businesses, investors, and civil society, and asks for “a renewed and firm political commitment from the Brazilian government to reduce deforestation being reflected in current and real action.” The members commit to supporting dialogue across agricultural commodity supply chains, from producers, traders and importers, to policy makers, indigenous peoples and scientists, to achieve sustainable agricultural commodity supply chains.⁴³

Table 2. Policy developments in consumer countries in the EU

Country	Recent developments
France	In 2018, France passed a due diligence law for French companies that requires them to establish, publish, and implement actions to identify risk and prevent violations against human rights, health and freedom, as well as environmental degradation. However, compliance with this law has not been entirely successful; reports show that leading French soy buying firms have failed to monitor their supply chains. ⁴⁴ Following the due diligence law, France released a “National Strategy against Imported Deforestation” in November 2018 to end imported deforestation by 2030. The strategy aims at changing the practices of every supply chain actor, including producers, businesses, investors, and consumers.
United Kingdom	In 2018, a Sustainable Soy Working Group was formally launched. Despite this, the UK’s overseas land footprint due to commodity demand is on the rise – between 2016 and 2018, they had an annual land footprint average of 21.3 million hectares, a 15 percent increase compared to the 2011-15 period. This demand accounts for 28 million tons of imported CO2 emissions for cocoa, palm oil, rubber, and soy alone. ⁴⁵ Almost all palm oil (89 percent), as well as 65 percent of soy, largely used as animal feed, and 63 percent of cocoa imported to the UK, comes from countries with high rates of deforestation. ⁴⁶ The government is now considering a new regulation that would make it illegal for larger companies to use forest-risk commodities that have not been produced in accordance with relevant local laws and they would need to undertake due diligence to show they have taken action to ensure compliance. ⁴⁷ The proposed law is published for public consultation.
Netherlands	The Dutch government does not have a coherent national strategy on deforestation-risk commodities. The IDH Sustainable Trade Initiative, supported by the Dutch Ministry of Foreign Affairs, aims to secure sustainable palm oil production in Indonesia and Malaysia. The Dutch Task Force for Sustainable Palm Oil (DASPO) provides a platform to support businesses in sustainable supply chains.

Germany	There have been developments around due diligence. For example, the draft law on mandatory human rights due diligence for German companies and their supply chains, drafted in February 2019 by the German Federal Ministry for Economic Cooperation and Development (BMZ), mentions specific sectors including agriculture, energy, mining, textile, leather, and electronics. Germany made a step in this direction by passing guidelines on the 8th of April 2020, in line with the EU framework from 2019, to achieve sustainable forest management worldwide and to restore degraded forests by supporting the zero deforestation initiatives of the private sector, civil society, and NGOs; providing support to countries that produce forest products to work towards zero deforestation; increasing cooperation; supporting sustainability in EU trade policies; and broadening the basis for knowledge-based decisions. Germany also plans to increase consumers' awareness about the environmental consequences when buying agricultural products, mainly by promoting the use of certification systems which could also increase transparency. ⁴⁸
Denmark	The Retail Initiative to Further Sustainably Produced Palm Oil supports companies in defining and achieving individual targets in 100 percent sustainable palm oil. The Danish Agriculture and Food Council has developed six procurement criteria for soy, two of which are related to eliminating illegal deforestation. However, it accepts legal deforestation with little consideration for the level of sustainability.
Norway	In 2018, Norway's Parliament passed laws banning the import of "non-sustainable" palm oil for feedstock and biofuels by 2020, with the aim of pushing Malaysia to establish sustainable production strategies. Norwegian Initiative for Sustainable Palm Oil (NISPO), a private sector platform of food and feed organizations, have already reached their 2018 target to use 100 percent certified palm oil, and is on the way to ensure that all palm oil used is also segregated and traceable, or identity preserved. The government is assessing the legal scope for implementing a parliamentary proposal to rule out palm oil-based biofuel from public procurement.
Italy	Italy is yet to develop any coordinated government initiatives to support sustainable sourcing of palm oil, soy, and cocoa. The Italian Ministry of Environment, Land and Sea (IMELS) has signed an agreement with UNDP to work together in areas of climate change, REDD+ and forest-related sectors such as agriculture and energy, with the goal of enhancing and accelerating sustainable management of forests.

Indicator 4.3: Support by civil society

Civil society initiatives are expanding in nature and in number

Civil society organizations continue to support companies in setting and implementing zero-deforestation supply chain commitments, and in monitoring and reporting progress on these commitments. Examples include:

The Accountability Framework: The Accountability Framework, launched in June 2019, provides a common set of norms and guidelines for companies and others working to address deforestation, ecosystem conversion, and human rights violations. The Framework clarifies good practice for setting, implementing, monitoring, verifying, and reporting on supply chain commitments and their achievement; fills critical gaps for topics on which clear guidance is currently lacking; and helps improve the level of coherence and alignment among different implementation standards, tools, and systems. Use of this guidance should contribute to more coherent corporate progress reporting and better comparability among commitments and actions taken toward implementation.

CDP: Through its work on supply chains, CDP works with big purchasing members to request their suppliers to disclose to the world's largest environmental reporting platform and provide details about relevant impacts related to climate change, deforestation, and water. CDP supply chain disclosure has continuously grown its impact over the past decade. Starting with 14 members, it now has expanded to bring together over 150 major purchasing organizations around the world, collectively representing more than USD 4 trillion in procurement spend. In 2020, CDP supply chain members have requested more than

15,000 suppliers to identify and manage [climate change](#), [deforestation](#) and [water-related risks](#).

ZSL SPOTT: SPOTT has expanded to assess and engage more timber and pulp companies, especially producers operating in [FLEGT](#) partner countries at various stages of Voluntary Partnership Agreement (VPA) development – specifically Indonesia, Cameroon, Republic of Congo, and Gabon – and traders in China that source timber from Africa. In February and March 2020, SPOTT held two multi-stakeholder workshops in Douala, Cameroon and Jakarta, Indonesia. The workshops brought together over 60 forestry and agribusiness participants, including representatives from more than 20 SPOTT-assessed companies alongside private-sector associations and civil society organizations. In conjunction with the workshops – which enabled participants to increase their understanding of SPOTT’s approach, and the steps they can take to increase transparency in tropical forestry and agricultural supply chains – SPOTT staff also held one-on-one meetings with several companies to discuss their assessments in detail and provide bespoke guidance on how to improve their reporting.

Proforest Soy Toolkit: The Toolkit is developed to provide a guide for companies and decision makers to a wide range of existing and emerging solutions available at each of the key stages of the soy supply chain for decoupling soy production and trading from deforestation. It includes local tools relevant to their soy sourcing regions or supply chain. The Toolkit provides information on available solutions and support companies to build their capacity to implement their deforestation-related commitments using these solutions.

Supply Chain Solutions Center (SCSC): SCSC facilitated by the Environmental Defense Fund, is a digital hub for sustainability resources and best practices around sustainable supply chain management that aims to support and improve the development of companies’ sustainability plans as well as implementation of their sustainability criteria within their supply chains. The “Thriving Forests” pillar aims to compile relevant resources to assist companies in setting and exceeding ambitious deforestation goals. Companies can access the pool of resources and filter them according to their individual needs to develop, implement, and monitor their sustainability criteria.

Criterion 5: Commitment impact

Overall, deforestation from commercial agriculture has not slowed down since the NYDF was announced in 2014. As companies do not report on the impact of their actions on deforestation in their supply chains, it is hard to link any corporate efforts to changes in deforestation rates driven by commercial agriculture. However, scientists have used satellite data and global commodity production and trade data to estimate the changes in rates of deforestation associated with commercial agriculture.

Recent data indicate that global deforestation associated with commercial agriculture has remained high, despite a small decline in 2015. Since 2001, 27% of all tree cover loss has been driven by permanent land use change for commercial agriculture including for the production of palm oil, soy, beef, timber and pulp. It considerably declined in 2018 (4.95 million hectares) since a peak in 2016 when commercial agriculture resulted in almost 8.5 million hectares of forest loss.

Current and emerging deforestation frontiers

Recent trends in commodity production bring both good and bad news for tropical forests. In Indonesia, the last expanse of rainforest in Papua has been under threat from palm oil

expansion. However, in the past three years, deforestation from palm oil has reduced on the Island. This reduction coincides with public commitments to no deforestation, peatland and exploitation (NDPE), announced by some palm oil companies sourcing from this island. Similarly, the local government in Papua has put a moratorium on new concession licenses for palm oil plantations, but critics are skeptical about its enforcement.⁴⁹

In Argentina, the Chaco has been the main frontier of commodity-driven deforestation in recent years. Between 2010 and 2018 the Argentinian part of the Chaco lost more than 1 million hectares of native vegetation, largely due to the expansion of cattle pasture and soy.⁵⁰ However, deforestation has declined by 78 percent since 2013 when it had peaked to 211,836 hectares. Similarly, in Paraguay, part of the Chaco deforestation has declined by 86 percent since 2010 when it had reached 400,000 hectares.⁵¹

Meanwhile, in Colombia, pasture expansion is driving deforestation in the northwestern Amazon, namely the convergence zone between Tinigua, La Macarena, and Chiribiquete national parks; the western sector of the Chiribiquete park expansion zone; and the northwestern segment of Nukak National Natural Reserve.⁵² And in Thailand, cultivation of cash crops, like corn for livestock feed, is driving loss of forests.⁵³ While it is not clear whether these increased deforestation risks are linked to any specific companies or market, the risk is real and action is needed.

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