



# Deforestation-free commitments

The challenge of implementation – An application to Indonesia

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# Executive summary

Global economic integration and deregulation has had the effect of diminishing state control. This, in part, has stimulated many civil society groups' efforts to push for alternative "self" and "multi-stakeholder" regulatory approaches to managing corporate conduct in order to support sustainable production goals. As branding, reputation, financing and alliances have become increasingly tied to corporate values, nongovernmental organizations (NGOs) and advocacy groups have begun to use consumer awareness campaigns and activism to tackle environmental and human rights issues. They are pushing companies to acknowledge their responsibility for not only economic impact, but also social and environmental aspects associated with business performance.

This trend has manifested most recently in concerns around deforestation. As production of agricultural commodities is a large driver of global deforestation, some consumer goods companies have decided to take action with commitments toward "deforestation-free" or "zero-deforestation" policies. These increasingly involve producers, traders, processors and financiers in key commodity sectors. Over the past couple of years and especially since the New York Declaration of September 2014, this movement has developed rapidly. It is now considered by many to be one of the most promising approaches to the challenge of reducing and halting deforestation worldwide. These private sector commitments also involve governments since they will require the necessary supporting regulatory environment to succeed. Indonesia plays a central role in the unfolding deforestation-free process, as it is the site of multiple commitments in the oil palm and pulp and paper sectors. It provides early lessons for effective implementation of deforestation-free supply chains, bearing in mind the differences across countries.

Available evidence so far suggests that real opportunities exist for changing business and social practices that can contribute to reducing forest conversion associated with the Indonesian oil palm and pulp and paper sectors. In this direction, a number of companies have indeed invested resources in substantial revisions of their business models and investment approaches to this aim. Interesting developments are at play with the application and progressive refinement of High Carbon Stocks (HCS) and High Conservation Value Forest (HCVF)

assessments as key determinants of effective impacts; consultations with rural communities; and the acknowledgment that peatland management requires specific measures. In addition, a number of processes have been launched in order to have multi-stakeholder discussions about implementation, which would involve public bodies, among other advantages.

A number of issues need to be clarified for the future of the movement and to ensure its effectiveness, such as the scope and design of the commitments, the definitions and related assessments used to make management decisions, and the challenge of implementation, including monitoring and reporting:

1. In terms of scope, the deforestation-free (or zero-deforestation) terminology does not tell the whole story as the **scope of these commitments usually goes beyond conservation** and covers social issues and peatland management. The commitments tend to adopt a general agreement to deal with zero gross rather than zero net deforestation, which means that natural forest conversion cannot be offset by afforestation or reforestation elsewhere. A question that needs to be resolved is whether gross and net commitments are best suited as commitments by different types of stakeholders, especially companies versus governments.
2. In terms of definitions and related assessments, the **definition of a "forest"**, and hence the identification of deforestation, is obviously an important issue to assess the potential of commitments. Basically, two methodologies are used by companies to identify no-go areas, namely HCVF and HCS. They deal respectively with multiple values associated with forests, and their carbon stocks as a proxy for their condition. These two methods are viewed as complementary, the idea being that both should be used in tandem to determine which forest areas should be preserved. But fundamentally, companies will have to be transparent about their assessments (and later on about their achievements) and disseminate them for review. A critical question is how the application of these methodologies will be audited to assure



customers of compliance (e.g. the HCV Resource Network certifies assessors).

3. In terms of implementation, an important observation is that the **scale matters**. So far, most pledges are associated with companies and their supply base, implying that commodity supply areas are deforestation-free. But this approach, which is supply-chain-oriented, might fall short of expectations because leakage might take place with other non-committing companies engaging in deforestation in other areas. A solution to this problem may lie with a jurisdictional approach where areas defined by administrative boundaries (e.g. district or province) would follow a deforestation-free policy. This would imply tighter collaborations between private and public sector, and other civil society actors, and would help mitigate the risk of leakage if implemented at scale. It can be said to be more ambitious if commitments are set at national or regional levels, let alone worldwide. Deforestation-free commitments in supply chains could be seen as one way to support these wider targets. Yet one has to be careful about the associated risk of a dilution of responsibilities if targets are so broad that no particular actor could be held responsible for not delivering.
4. The **role of government** is a cross-cutting issue, be it in the form of specific policies, general legal framework or level of law enforcement. We need to emphasize that such a private sector-led movement will have to engage governments. This is not just a requirement for large-scale and sustainable impacts, but also to ensure its feasibility in the first place. Indeed, in Indonesia it appears that the legal framework is not fully supportive (optimistic view) or unsuitable and contradictory to some extent (pessimistic view). The case of oil palm plantations established on public land and based on a concession regime is telling, as virtuous companies that set aside HCS or HCVF areas according to their commitments were not protected by regulations. These set-aside areas could be reallocated to other companies for development, hence subsequently converted. In addition, companies could have their temporary permit withdrawn when these assessments were not finalized soon enough for the plantation to be established within the legal timeframe. This pleads for a greater involvement of the Indonesian government with an adaptation of the legal framework in order to enable zero-

deforestation commitments to realize their full potential in the country.

Interestingly, the case of the pulp and paper sector is different in this regard. The two main groups involved – Asia Pulp & Paper (APP) and Asia Pacific Resources International Holdings Ltd (APRIL) – have been able to set aside areas within their concessions with little interference from public authorities so far. This is due to the fact that their concessions are subject to forestry laws (contrary to oil palm plantations) that seem to provide more flexibility in terms of development and conservation. The regulation imposes at least 10% of conservation areas and a maximum of 70% of industrial timber plantation within the concession (the rest is subject to livelihood plantations, native species plantations and infrastructures). In practice, however, some of these concessions may not exceed 50% of industrial plantation development.

5. **Weak public governance** in some countries is a matter of concern, and it also represents a critical hurdle to the previously mentioned jurisdictional approach. A major obstacle to effective implementation lies with the recurrent uncertainties with land tenure and the rise of conversion by smallholders in and around oil palm and pulpwood plantations. There is a variety of situations and we need to distinguish the case of smallholders supplying companies that have adopted commitments – in which case the challenge is to trace their compliance – from the case of conversion within the boundaries of the concessions be it by legitimate communities with incomplete recognition of their rights or by migrants or actors with speculative interests on the land. Most committing companies have traditionally been involved in forest conversion and in a lack of recognition of the rights of communities. But it is fair to recognize that the situation is not that simple now, with large implications for deforestation-free commitments. In a context of weak law enforcement on the ground, and the clear position of the Indonesian government in favor of the provision of rights to people within the forest estate, companies are sometimes in a complicated situation; they may have little capacity to enforce the boundaries of their concessions and meet their commitments simultaneously. Here again, the involvement of the public authorities is required to clarify the situation; otherwise, forest conversion to smallholder agriculture might continue apace

and deforestation-free commitments will be little more than promises on paper.

6. The issue of **legacy** is critical and has probably been underestimated so far. The main groups committing to deforestation-free, whatever their efforts and achievements, have been involved in huge deforestation in the past, including conversion of primary forests in Sumatra and Kalimantan. This must be part of the debate and addressed in their commitments and actions. A balance needs to be struck between rewarding historic deforesters for successfully implementing deforestation-free policies and holding them accountable for their past actions. One option – but we believe that there are others and this should be an important topic for discussion with companies – is to encourage investment in restoration. This is all the more desirable now that the government has created the system of Ecosystem Restoration Concessions that allows companies to manage degraded areas in order to restore their productivity and a number of ecosystem services (the two main pulp and paper groups APP and APRIL have already invested in such concessions). The case of the 1 million-hectare forest conservation program by APP can also be mentioned. It is at the design stage and aims at involving stakeholders in a number of landscapes around their concessions in order to achieve the conservation objectives at a landscape level and beyond the areas controlled by the group. The prospects of such initiatives would deserve an assessment and discussion to understand their relevance for inclusion in formal deforestation-free commitments.
7. The **impacts that commitments may have on smallholders** are still insufficiently understood but might prove to be substantial, either directly or indirectly. Indeed, deforestation-free commitments are much more suitable to large companies that have the capacities, and can rely on economies of scale, to go through the process. But the risk exists that they marginalize smallholders' production because of market fragmentation with premium markets inaccessible to smallholders. Another risk is that they freeze large areas of set-asides that will not be available for production by individuals, while at the same time taking over degraded lands and in turn putting pressure on smallholder occupied

lands. These various risks usually relate to land tenure and the uncertainties surrounding rights over land in rural Indonesia and especially on the forest estate.

A possible way forward, beside the much needed clarifications of who has rights over what, could be to provide some level of flexibility in order to mitigate these potential negative side effects. A stricter standard is not automatically better, and one might consider the possibility of allowing limited yet clearly defined forest clearing in certain circumstances in order to accommodate community rights. In addition, incentive schemes could be designed in order to promote the inclusion of smallholders into the supply chains of committing companies, along with improved benefit-sharing schemes. While the oil palm sector already enjoys regulations that promote collaboration between companies and individual planters with the Nucleus Estate and Smallholder scheme, the pulp and paper sector lags behind despite some government attempts to establish millions of hectares of smallholder timber plantations through the Hutan Tanaman Rakyat (HTR) program. The latter provides a conducive framework for higher sustainability and social inclusion as it delivers use rights to individuals to establish timber plantations on degraded lands within the forest estate.

We have studied the evolution of definitions and standards, the problems associated with the implementation of the commitments on the ground, the potentially major obstacles related to weak governance, insecure land tenure and an insufficiently supportive legal framework. The assessment of positive and negative direct and indirect effects is still to be made as they can only be approached at this stage. There is potential for conservation gains, but the more general implications for the various actors along the supply chains with the distribution of costs (including who will eventually be charged for traceability and opportunity costs) and associated social risks, and for the welfare of rural populations engaging in smallholder agricultural and timber production, will have to be understood very early in the process. This is in order to overcome barriers to implementation, solve trade-offs and maximize gains, which will definitely contribute to ensuring the credibility, support and sustainability of the movement.

# 1 A rapidly emerging movement with a strong corporate governance flavor

Global economic integration and deregulation have diminished state control or containment of corporations. This has contributed to the push by many civil society groups for alternative “self” and “multi-stakeholder” regulatory approaches to managing corporate conduct. As branding, reputation, financing and alliances have become increasingly tied to corporate values, nongovernmental organizations (NGOs) and advocacy groups have begun to use consumer awareness campaigns and activism to tackle environmental and human rights issues. These strategies are meant to push companies to acknowledge their responsibility for social and environmental impacts, and not only economic performance. While this movement started in developed countries, similar initiatives are appearing in other key emerging countries. It is supported by the rise of new technologies that help produce information (e.g. cheap satellite imagery) and transmit it rapidly or even instantly (e.g. social media).

Even as deforestation has remained high on the agenda as a major environmental problem, the many attempts so far (e.g. in relation to climate change) to address the issue have had disappointing impacts on the ground. The loss of forest cover is mainly caused by the production of agricultural commodities, produced either by corporations or smallholders. Developing and emerging countries are a matter of concern because they often exhibit high rates of deforestation, and because tropical ecosystems are of critical importance in terms of climate change mitigation, erosion of biodiversity and provision of ecosystem services.

In this context of limited action on deforestation and increased consumer (and in turn corporate) awareness, along with perceptions of weak public governance, the private sector has become an important actor for action and change. In particular, over the past couple of years, the “deforestation-free movement” has developed rapidly. Many now consider the movement to be one of the most promising and important approaches to the challenge

of reducing and halting deforestation worldwide. While led by the private sector, it also involves governments both in terms of commitments and support for the regulatory environment.

In 2010, Nestlé became the first company to make a deforestation-free pledge. It has been followed by over 50 other commercial giants, including Asia Pulp & Paper (APP), L’Oréal, McDonalds, Proctor & Gamble and Walmart (Beckham et al. 2014) as well as companies comprising 96% of the global trade in palm oil.<sup>1</sup> Companies that have announced commitments to date include those that produce agricultural commodities such as palm oil, beef and forest products; commodity processors and traders; food companies; consumer goods manufacturers; retailers and financiers.<sup>2</sup>

This paper presents the concept of deforestation-free commitments (also commonly referred to as “zero-deforestation”) and its associated issues (including technical ones) to assess its true potential. This movement has been preceded by many other initiatives aimed at maintaining forest cover, with Reducing Emissions from Deforestation and forest Degradation (and enhancing carbon stocks) (REDD+) as a prominent example. Moreover, governments have been involved in the design of appropriate policies in this field, as well as in commitments similar to the deforestation-free movement. Yet in this paper we focus on deforestation-free as a specific group of initiatives following a similar principle, namely applying private governance at scale to produce public goods instead of relying on public governance. Again, this movement is likely to make a lot of space for public action for a number of reasons that we will discuss, so the role of governments will largely be addressed in this paper. In addition, we will discuss whether its focus on corporations is sufficient to achieve zero-deforestation as an ultimate goal,

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1 <http://news.mongabay.com/2015/0203-ioi-group-palm-oil.html>.

2 <http://supply-change.org/>.

e.g. the implications for other key players such as smallholders that might suffer from deforestation-free initiatives, but also affect its outcomes.

Indonesia is a major country of application for the deforestation-free movement: it hosts some of the largest natural (tropical) forests in the world. Given that Brazil initiated a large and effective set of policies to reduce its own deforestation rate a decade

ago, Indonesia has recently been acknowledged as the country with the highest rate of deforestation. This report focuses on Indonesia to look at pledges in greater detail, taking into full consideration the background, realities on the ground and the political economy. It addresses the commitments and actions taking place in the two main industrial sectors responsible for forest loss in the country (current or in the past): oil palm and pulp and paper.

## 2 Overview of trends for progressive corporate governance applied to deforestation issues

### 2.1 The evolving nature of corporate initiatives and their limits

In both the oil palm and pulp and paper sectors, NGOs, corporations and international development agencies have committed time and resources to develop mechanisms such as market-based certification standards for “good” social and environmental practices. Over the past decade, these private and multi-stakeholder voluntary standards have multiplied. The first standard to address the environmental externalities of oil palm agriculture was the Roundtable on Sustainable Palm Oil (RSPO), established in 2003. This multi-stakeholder body is seen as a “business to business” approach to address the environmental and social impacts of oil palm, informed by inputs from civil society and public interest groups. Today, the RSPO has more than 1631 members worldwide and covered 18% of global production in 2014, expanding far more rapidly than other commodity-based standards.<sup>3</sup> However, the RSPO still receives criticism for weak compliance among some of its members, as well as insufficient enforcement.

While it has been slow to gain traction among a broad range of Indonesian growers, RSPO’s membership continues to grow, in particular with downstream stakeholders such as retailers and manufacturers. However, some question whether this success is simply because the standard places limited financial demands on consumer goods manufacturers (CGMs) and retailers.

Other certification standards have also emerged for palm oil. These include the International Sustainability and Carbon Certification (ISCC) standard, a certification system used to demonstrate compliance with the European Renewable Energy Directive, and the Sustainable Agriculture Network (SAN), an NGO-led standard that has tackled oil palm in the last three years. The Palm Oil Innovation

Group (POIG), which also emerged, seeks to go above and beyond the RSPO by setting ambitious standards that break the link between palm oil and negative environmental and social impacts.

Certification in the forestry sector developed in the 1990s after timber began to be widely seen as a commodity whose production contributes to degradation (through wood extraction from natural forests) and to a lesser extent to deforestation (through the establishment of timber plantations on previously forested areas). The prominent Forest Stewardship Council (FSC), which focused initially on avoided natural forest degradation before addressing avoided deforestation, also set new standards and largely accepted rules with the ban on post-1994 forest conversion for newly established plantations. Another example is stakeholder consultancy and transparency on the processes and their outputs, which is a field where deforestation-free commitments lag behind and will need improvement.

While this post-1994 forest conversion rule is currently being discussed and more flexibility might be allowed in the future, it has already had an impact. For example, it has set one common year for all situations, rather than leaving actors to decide on their starting dates for deforestation-free commitments. This is of great interest, especially from a legacy point of view. Indeed, the main players in Indonesia have been responsible for very large-scale deforestation in the past; this issue should not be neglected since it has implications, for instance, in terms of restoration.

These various non-state, market-based standards for tropical commodities do not remain unchallenged, especially at the national level. On the one hand, Indonesia developed and launched the Forest Law and Governance Voluntary Partnership Agreements (FLEGT VPAs) for Indonesian timber legality verification (SVLK). On the other, it created the Indonesia Sustainable Palm Oil (ISPO) standard. This self-proclaimed national oil palm sustainability standard is based on existing Indonesian legislation, but is third-party audited, and was mandatory for all oil palm companies by the end of 2014.

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<sup>3</sup> Roundtable on sustainable palm oil impact report 2014, Malaysia, <http://www.rspo.org/consumers/debate/blog/rspo-impact-report-2014>

However, NGOs and consumers worldwide continue to press for more rapid changes in the production of palm oil. This has recently driven many major certified palm oil (CPO) buyers (such as Nestlé, Mars, Unilever and Krispy Kreme) and major oil palm growers (such as Wilmar, GAR and Cargill) to commit to “No Deforestation, No Peat, No Exploitation” policies. They use the High Carbon Stock (HCS) approach pioneered by The Forest Trust, GAR and Greenpeace discussed in section 3 below.

In mid-September 2014, a separate group of major palm oil producers known as the Manifesto group – Sime Darby, Asian Agri, IOI Corporation, Kuala Lumpur Kepong (KLK) and Musim Mas – announced a voluntary moratorium on clearance of HCS areas. It is awaiting empirically valid thresholds for emissions reductions from different socioeconomic scenarios. The RSPO has also progressed with work on HCS via its Emissions Reduction Working Group. As such, work on defining HCS has been taken up by different groupings with different approaches: the RSPO, the private sector-led Manifesto group and the multi-stakeholder HCS approach steering group.<sup>4</sup> There is now evidence of efforts to drive convergence between these approaches by the Indonesian Chamber of Commerce (KADIN) and the government, as well as commitments by the various players to collaborate.

To a degree, all these standards compete for legitimacy in the market place. They distinguish themselves based on their origins (market, legality, civil society, multi-stakeholder), details of how they address key issues such as deforestation and peatland development, and how they implement and monitor commitments. Zero deforestation pledges suffer from definitional issues similar to the certification standards that preceded them, but on a multi-commodity scale. These issues relate in particular to their definition of forest, or go and no-go areas, which can vary considerably based on forest type, existing regulation and cultural understandings. Their lack of definition also creates a large amount of uncertainty regarding their potential economic and social impact, which is likely to become a main concern for government, and hence for their support that remains all but guaranteed. Indeed, many national governments are looking to adopt “green growth” and sustainable landscape management

strategies. This is particularly true in agricultural sectors that have both significant environmental impacts and contributions to rural development. This, in turn, means they may want to keep a firm grip on land-use decisions to deal with the related trade-offs.

The multiple standards emerging for each commodity, the variety of terms used to communicate commitments and their inability to integrate with each other, as well as with national regulation, generates confusion and limits uptake among supply chain stakeholders. Engagement in capacity building varies between companies, commodities, and importantly, across supply chains. Achieving sector-wide change will certainly require a consolidation of standards that feature an agreed set of key performance indicators that would account for both environmental and social aspects. It will also require a united government, industry and civil society front beyond ongoing collaborations for specific standards, as well as a more inclusive mechanism to ensure more growers can participate. Currently, none of these conditions are met.<sup>5</sup>

Yet we need to reflect a diversity of views in this important debate for the effectiveness, but also efficiency, of the deforestation-free movement. The one-standard option is also challenged for the sake of flexibility and for the need to accommodate contrasting situations both on the ground and from the perspective of a legal framework/level of enforcement. There is a trade-off between having one common standard with universally agreed rules and relatively low costs of design and monitoring, and having a portfolio of options with increased relevance for each situation. Another issue under discussion with respect to the scope of commitments is the role of communities. This role is not straightforward: on the one hand, when marginalized in the process, communities are potential victims of pledges; on the other, they also drive deforestation. A pro-community approach would at least need to be balanced by a set of safeguards.

Other critical issues that will be touched upon throughout the report include accountability, transparency and legacy. Expectations should probably be kept low for the time being. Such a recent movement might qualify as “work in progress”

<sup>4</sup> See [www.highcarbonstock.org](http://www.highcarbonstock.org).

<sup>5</sup> We should note the exception of IDH (The Sustainable Trade Initiative) program that includes the participation of smallholders.

as opposed to long-established certification standards with a lot of experience. However, stakeholders should definitely be paying a lot of attention to the quality of reporting and to the consequences of not meeting targets. This is a main area of improvement in this new field, which so far lacks transparency.

Besides, and Indonesia unfortunately stands out as a perfect example, stakeholders should be attentive to past practices by companies engaging in deforestation-free supply chains. There is no clear answer to this issue. Too many demands will push key actors away from these commitments, while too much accommodation and lack of accountability for past practices might affect credibility of the movement and encourage more damage before companies decide to step in.

## 2.2 ZND, ZGD... where is the trend and why it matters

Terminology issues are recurrent in this field, which is partly explained by a wave of commitments that is relatively new and widespread. Companies may also keep a certain degree of ambiguity and vagueness to enjoy flexibility and to adapt commitments to their own interests and area of implementation. Therefore, we notice that existing (and competing?) terms to define the commitment and the approach differ, especially from the perspective of gross versus net deforestation. This is very much in line with other vivid debates related to the evolution of the (mostly tropical) deforestation phenomenon, and the development of timber plantations or forest regeneration as substitutes to the loss of natural forests. For the record, the difference can be huge. The Food and Agriculture Organization (FAO) estimates annual net deforestation at 7 million ha and annual gross deforestation at 13 million ha.

Concretely, this translates into four main terms. “Zero deforestation”, which is also known as “deforestation-free” or “no-deforestation”, is the broadest, most neutral and most widely used term. In Indonesia, it seems that commitments using this terminology imply that natural forests of ecological importance are not converted into other land uses. But it does not say much about other aspects of their implementation.

The term “zero gross deforestation” is more straightforward and honest (as many would argue). The term implies that forest areas (whether to include

planted forests is yet another issue) are not clear-cut to establish the supply base of the industry. In other words, it does not consider either afforestation or reforestation activity elsewhere, or assisted or natural forest regeneration.

The third term “zero net deforestation”<sup>6</sup> is more complex and controversial. It deals with activities potentially undertaken outside of the area of supply for the industry. This means that conversion of a natural forest somewhere can be offset by an extension of the forest cover elsewhere, which poses a number of problems. For instance, is this extended forest cover additional, i.e. can it be attributed to the efforts of the supplier that is responsible for forest conversion in the first place (or the supplied industry), or is this newly forested area comparable to the converted one in terms of ecosystem services (and hence also from a socioeconomic perspective beyond ecological attributes)? NGOs have traditionally opposed such an approach. Indeed, it is the least ambitious and constraining, and connects to controversies around the role and impacts of timber plantations in the tropics. At the same time, “zero net deforestation” might also include protective plantations or even restored areas with natural or semi-natural forests.

A fourth term, “zero illegal deforestation”, is certainly the weakest of all possible commitments. This is actually more inspired by other initiatives that relate to law enforcement along supply chains, with FLEGT in Europe as the main example. It does not go beyond what should clearly be done without further commitment, namely meeting legal requirements for the establishment of the supply base. Yet its realization might be a challenge in countries such as Indonesia with many laws and regulations that sometimes conflict. In the end, it is difficult to prove the absolute legality of a given forestry or agricultural operation at scale.

The “zero gross deforestation” approach seems to apply in most cases, and in Indonesia especially, even if “zero-deforestation” or “deforestation-free” might be prevalent in discourses and public statements. This is certainly a good thing and should probably be encouraged in the future. Indeed, accounting for net changes in forest cover would not only be controversial, it would also considerably

<sup>6</sup> An existing variant of this is “Net positive” by Kingfisher, which combines zero gross with offsets and eventually aims at restoring forests in addition to not converting natural forest.

complicate the implementation and verification of the commitments: it would imply that tools are designed to identify extended forest cover; to ensure these are only attributable to those making pledges; and to avoid double counting. In a context where afforestation is generally deemed much less important than natural forest conservation from an ecological perspective, it would also probably mean that tools are available and used to inform on the nature and various contributions (ecosystem services evaluations) of the newly forested areas. This would inevitably entail high transaction costs to be credible.

Regarding terms and scope of application, deforestation-free supply chains are concerned primarily with the loss of forest cover, and therefore are not supposed (based on their branding and “sales

pitch”) to deal with agricultural commodities or timber plantations on non-forested areas, e.g. grasslands, Cerrado or Miombo biomes, which can also matter from a conservation perspective. Another even more sensitive case is the inclusion of peatlands. Indeed, these can be without forest cover, yet subject to huge greenhouse gas emissions and other environmental impacts when drained and cultivated or covered by timber plantations. Therefore, they are relevant to consider especially in a country like Indonesia where they are widespread. While the letter of the movement refers to “deforestation-free”, the content of the pledges commonly refers to peatland management as well, as illustrated by its inclusion in conservation and sustainability policies by the main actors of the pulp and paper and oil palm industries.



# 3 Most important issues that will determine outcomes

This section lists and analyzes a large set of issues that we consider critical for a promising implementation of zero-deforestation pledges.

## 3.1 Used definition of “forest”: More than a detail?

If one applies the principle that the devil is in the details to deforestation-free commitments, it is certainly to the issue of forest definition that it suits best. We have already touched upon the various terms addressing gross, net or even legal conceptions of the pledges, and found out some crucial differences. This is probably even more important in the case of the operational definition a forest, as it determines what qualifies as “deforestation”.

Debates over the definition of a forest have been going on for a very long time, and these pledges are just the very last of a series of fields of application. Forests can be viewed as groupings of trees, as property, as landscape features, as valuable economic resources, as locations of cultural importance, and as many other things depending on the perspective. Definitions can hardly reflect such a wide range of views, and in our case must be operational, namely subject to objective measurements. The FAO, for statistical purposes, long ago proposed its own definitions, even extending to the categories of planted forests, semi-natural forests and plantations. But the FAO definition of a forest with tree crown cover of more than 10% over more than half a hectare, and trees higher than 5 meters, is just one among more than 100 definitions globally. And it is not used in the context of deforestation-free commitments.

On the contrary, we observe a convergence of views and practices among those making pledges and other stakeholders to build commitments on the notion of HCV and/or HCS concepts and measurement tools.<sup>7</sup> Both differ in many ways, serve different purposes and have their own pros and cons that need to be well

identified to understand the trade-offs we face. Yet they may converge on one important shortcoming, which is their limited ability to encompass peatlands, especially in non-forested areas. Having said that, the case of Indonesia shows that deforestation-free commitments can also include a component on peat when necessary, with its own rules of identification and application. As an example, the main pulp and paper groups have a stand-alone component in their policies, e.g. how to design Integrated Sustainable Forest Management Plans across the plantation concessions, to deal with peatland management.

HCV has a longer history, as it was adopted by the FSC in 1999 for use in forest management certification to identify forest areas that have particular values and require stronger protection. There is an “HCV resource network” that brings stakeholders together and promotes the concept worldwide by providing technical support and guidance on implementation across all sectors. It also recently introduced an assessor licensing scheme as quality control. Six main “values” are under consideration: concentration of biodiversity; interactions with and contributions to landscapes or larger ecosystems, habitat or refuges; basic ecosystem services; vital resources for local populations; and cultural or historical significance. As such, it is praised for its ability to encompass a broad range of values that might satisfy a variety of stakeholders with specific conceptions of forests, and hence specific concerns associated with deforestation processes. However, it was not designed to be a tool to operate in a forest conversion setting and to be able to inform land-use planning on areas appropriate for conversion. It is also only operationalized through equally complex methodologies that can cover all values, with consequences in terms of time and money. Otherwise, it opens the door to contest, as observed with the pulp and paper group Asia Pacific Resources International Holdings Ltd (APRIL) operating in Indonesia, which is criticized by its Stakeholder Advisory Committee for not conducting transparent

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<sup>7</sup> A good example is by L’Oréal: “As part of its “zero deforestation” commitment by 2020, the Group plans to take this commitment further by closely involving its suppliers in this objective. [...] L’Oréal commits to ultimately work with suppliers whose responsible practices can guarantee [...] the conservation and restoration of High Conservation Value and High Carbon stocks Areas when expanding palm plantations” (CDP 2014).

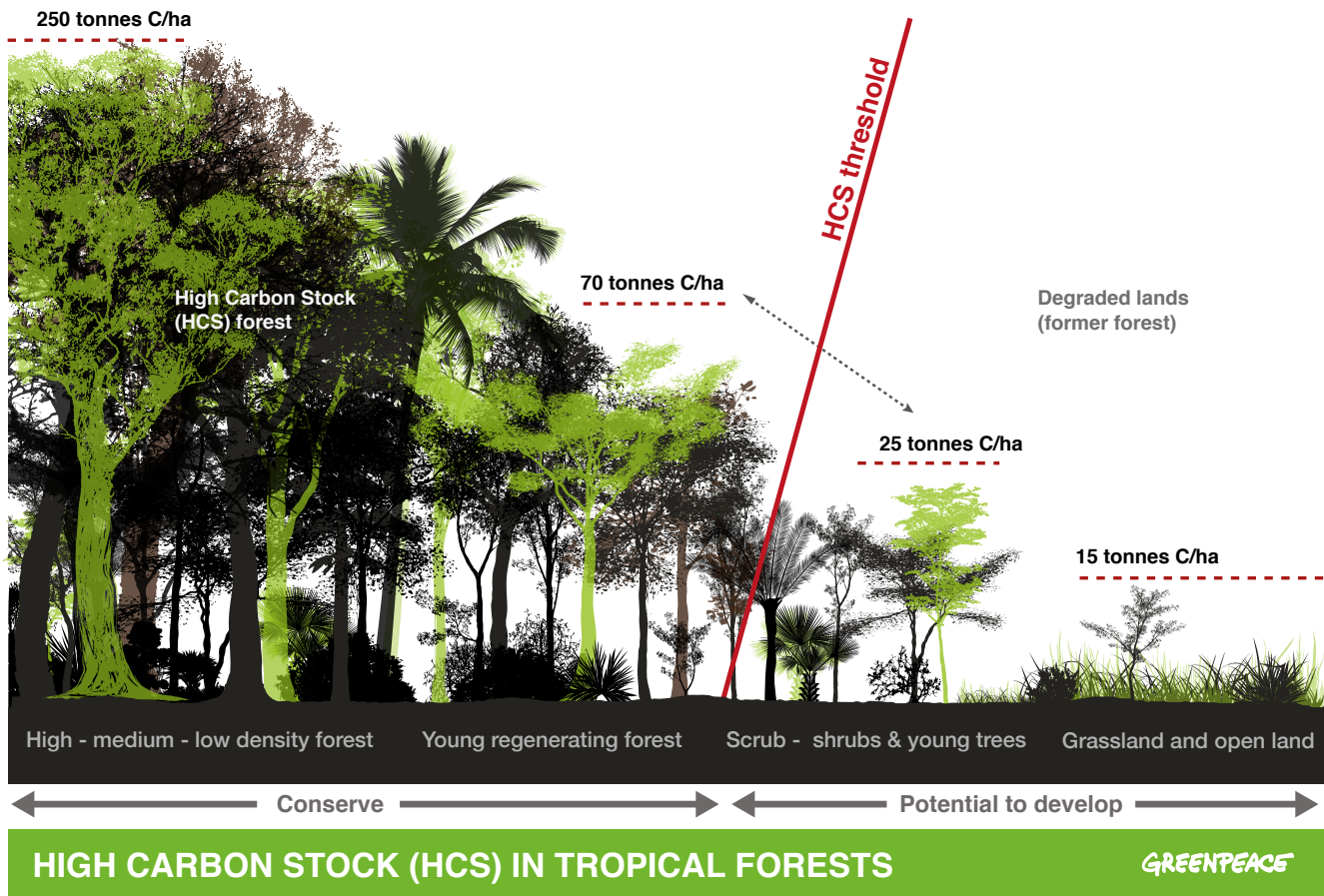


Figure 1. HCS vegetation classifications

Source: Greenpeace

assessments through the HCV resource network.<sup>8</sup> We understand that HCV assessments, in general, can be somewhat subjective and subject to interpretation and mistakes. Admittedly, this holds true for many other certification tools as well, but is all the more critical for commitments dealing with what sounds like a straightforward issue to the main audience, i.e. consumers, whereas sustainable forest management is by principle a more shaky concept with quite unavoidable debates on standards and measurement.

On the other hand, and largely as a result of HCV and other assessment tools not addressing deforestation, HCS approaches appear simpler (at first sight) with a focus on carbon. Obviously tainted by climate change influence as it accounts for carbon, the most widely adopted HCS approach was originally developed by Golden Agri Resources (GAR), Greenpeace and The Forest Trust (TFT) for the very purpose of Nestlé and GAR's zero-deforestation commitments in Indonesia back in

2011. It is somewhat misnamed as HCS, as it uses a combined approach of carbon and biodiversity conservation along with social considerations. However, to some degree, carbon plays the role of a proxy for the condition, density and structure of the vegetation as it is supposed to be relatively easy and cheap to apply (in relative terms, and this still lacks empirical evidence). Indeed, it is assumed that vegetation classes representing various densities, composition, structure and conditions of a given forest ecosystem are correlated to estimates of carbon stocks of trees above 5 cm in diameter at breast height per hectare (this is obviously questionable all the more when ecosystem services are considered, including social values). These classes range from high-density forests to scrubs and cleared-open land on the other end of the spectrum, as represented in Figure 1. It is currently explicitly designed to work in the humid tropics on mineral soils. Obviously, HCS application must be – and is, in fact, being – adapted to the context with specific thresholds: for instance, if tropical dry or peatland forests were to be assessed, then different thresholds would be required, as well as a different decision tree for assessing the

<sup>8</sup> APRIL contends that it uses assessors registered by the network.

prioritization and importance of forest patches (see HCS Approach methodology).<sup>9</sup>

### 3.2 Definitions, scope and legal frameworks as potential barriers

One may wonder how these various operational definitions of forests and the associated measurement tools interact with legal frameworks and requirements. As an example, in Indonesian timber plantations, concessionaires are supposed to set aside about 10% of the area for conservation purposes (such as riparian forests) and another 20% for other purposes (such as plantations with native species and infrastructures). This means that about 70% of the total area is allocated to the industrial plantation, potentially slightly less, but still around this figure. Furthermore, previous regulations forbid plantation concessions being allocated on land with productive forests (translated into more than 20 cubic meters of commercial wood per hectare), which could incidentally be used as an indicator (yet rather lax) for “deforestation”. In addition, the two-year moratorium that was put in place in the country in 2011 (and renewed so far) postponed the issuance of new licenses on “primary natural forest” (and peatland). This is yet another concept applied to conservation purposes, in this case for the sake of reduced emissions of carbon. The point is that these various regulations use their own definitions and result in various outcomes in terms of “deforestation”. They might provide some legal support for conservation, but also often limit conservation levels for the sake of economic development and public revenues.

So two questions arise: are deforestation-free commitments additional in this context; and can they be applied legally in Indonesia?

The first question reminds us of the necessity to make sure that those making pledges do not only conform to legal requirements but go beyond; otherwise, they should not be praised for what would actually qualify as “zero illegal deforestation”. The spirit of this movement is indeed to have voluntary commitments by the private sector in order to exhibit virtuous behaviors and be ahead of legal requirements and possibly to set higher standards in the future.

The second question is not obvious because, in the case of concessions on public land, the companies

must pay taxes based on either production or area. In the former case, the government has little interest in having companies establishing fewer plantations than expected according to the legal framework because the taxes to be paid will be reduced. For that reason, it usually has regulations that impose a certain level of establishment (for plantations) or production (for wood extraction). This is one reason why Conservation International pushed a few years ago for the concept of “Conservation Concessions” whereby NGOs would acquire concessions rights and pay to the government the foregone revenues when conservation takes place instead of production. What we observe in Indonesia, with early efforts by pulp and paper groups to set aside larger areas of conservation than legally required, is that the laws and regulations seem to offer some flexibility. Yet the maximum percentage of a given concession that the government would allow companies to not develop is unclear. This point is clearly something that should be discussed openly and could be an avenue for the active participation of governments to the movement.

The oil palm sector is in a slightly different situation in Indonesia. These plantations are mostly developed in areas within the state forest that do not have to abide by the same forestry laws: they are either “Conversion Production Forests” allocated for agriculture, “Areas for other uses” or “Non-forestry cultivation areas”. This leads to a number of adverse outcomes from a deforestation-free perspective as was illustrated in recent years with the experience of a number of RSPO companies (Colchester et al. 2009, 2011):

- Some of these companies have conducted HCVF assessments and subsequently released the HCVF areas from their concession permits, presumably to pay fewer taxes and face lower costs. The problem is, these lands were then reallocated by the government to other non-RSPO companies that did not commit to conservation.
- Other RSPO companies played by the rules and planned on setting aside their HCVF areas, yet the government is reported to have released these lands from their concessions to be further allocated to non-RSPO companies.
- Due to the lengthy process of conducting these assessments, some companies had their licenses withdrawn because they could not comply with the law by completing the whole process in three years.

Overall, an important message is that companies cannot by themselves meet their commitments (especially, but not only, on public land) as public

<sup>9</sup> <http://highcarbonstock.org/the-hcs-approach-toolkit/>

regulations more often than not seek development goals that restrict set-asides. Furthermore, regulations might lead to a better recognition of customary and peoples' rights. They will, however, have to find ways to accompany this massive change (especially in Indonesia) in order to avoid adverse environmental impacts with forest conversion to agriculture by smallholders. In the end, there is a strong case for the participation of governments in deforestation-free pledges, as largely discussed later in this report.

### 3.3 Verification and monitoring

The verification and monitoring challenges facing the “deforestation-free” movement are acknowledged. All standards require clear, measurable targets that can be monitored and verified, so that firms know what they are committing to, stakeholders further along the supply chain (such as investors and retailers) can make informed, and sound decisions about what they are buying into and consumers are reassured. Standards such as the RSPO have developed a complete set of indicators for each of their principles and criteria to help practitioners meet their commitments; the Palm Oil Innovation Group (POIG) has developed indicators for the verification of the implementation of the HCS Approach third party verification; and the FSC has had indicators to verify no forest conversion for 20 years, just to provide a few examples. On the contrary, deforestation-free commitments lack a consensus on what the indicators will be, and the fact that it is not (yet?) a centralized movement might not help.

This issue was discussed at the previous The Forests Dialogue event in New Haven and interesting insights were provided (Beckham et al. 2014). Two reasons were stated for the use of clear key performance indicators (KPIs): companies need clear targets to increase their confidence and facilitate implementation; and investors are more demanding in terms of information and transparency to fill the gaps left by certification in a context where there are increased perceived risks associated with the origin of the commodities. They also require a higher level of standardization in order to make cross-company and cross-sectoral comparisons. On the other hand, shortcomings were also identified with uniform metrics, particularly the fact that it makes it more difficult to address variations in terms of drivers of deforestation, actors involved in forest conversion, underlying tenure dynamics and, even more importantly, different (and sometimes dramatically

so) ecosystems. In addition, many commitments go beyond deforestation, “outlining strong social safeguards that may not factor into KPIs that try to create lowest common denominators of corporate practice” (Beckham et al. 2014).

Another critical issue relates to the trade-off between simple, low-cost, but rough verification, and more sophisticated and comprehensive tools that come at a high cost. In other words, the system can be designed in such a way that every unit of a given commodity is scrutinized, which provides a high level of certainty that the supply chain is deforestation-free. An alternative approach would be to focus on areas deemed risky in terms of deforestation, where verification would be strict. This approach would probably be more feasible at scale as it would significantly reduce compliance costs for areas of low risk, but apply rigorous standards for areas where the problems remain.

In Indonesia, the HCS Approach Steering Group has developed a toolkit<sup>10</sup> that provides greater methodological clarity. It has yet to detail, however, either the quality assurance or monitoring and reporting requirements. Furthermore, this addresses only one aspect of the commitments, and might be challenged as others develop their own methods. Disclosure is also currently voluntary, despite huge steps forward by firms such as Wilmar that produce quarterly updates on commitments.<sup>11</sup> Recently, the firm said it would give outsiders, from customers to environmentalists, access to online maps showing the 800 mills in Indonesia and Malaysia where it sources its palm oil. Pulp and paper groups also engage in increased transparency efforts with stakeholder forums, newsletters and websites. The most advanced tool is the dashboard accessible to the public where updated information about APP's operations are disclosed.<sup>12</sup>

Currently, verification and monitoring for oil palm are carried out by consultancy groups such as TFT and other auditing firms; voluntarily by NGOs such as Forest Peoples Programme and Greenpeace, among others; or as required by the POIG. In fact, Greenpeace helped develop the monitoring strategy for GAR's forest conservation policy, and

10 <http://highcarbonstock.org/the-hcs-approach-toolkit/>

11 <http://www.wilmar-international.com/sustainability/information-resources/>

12 <http://www.fcpmonitoring.com>

has already published progress reports that stress the shortcomings in both Indonesia and Liberia in the social realm.<sup>13</sup> Generally speaking, we found few reports criticizing the application of HCS or HCV methodologies and observers quite systematically point out social issues. But these are not specific to deforestation-free commitments and are similarly documented for RSPO companies. For instance, the Forest Peoples Programme has released a number of assessment reports, all available on its website (<http://www.forestpeoples.org/>), that describe the multiple problems associated with insufficient efforts to reach out and consult communities. Interestingly, these reports also demonstrate the conflicts between environmental and social assessments and considerations in given locations (Colchester et al. 2014). Hence, they demonstrate unavoidable gaps between commitments and realizations on at least one component, be it social or environmental (except if HCV and HCS prioritize social aspects in the assessment variables). They also reflect the lack of compatibility between conservation and social development/recognition of rights in many cases. One possible way forward to reconcile these various objectives is illustrated by the pulp and paper sector as discussed below.

This may provide some assurance for larger firms, but is limited in terms of its long-term sustainability and feasibility for monitoring the whole supply base. Vertical traceability and transparency along the supply chain have been advocated as key tools for supporting monitoring and verification. This places responsibility on the private sector, and is one way of channeling profits from the industry into improved environmental and social performance, as well as monitoring and reporting. However, the ability of supply chain stakeholders to carry out these activities will vary greatly with economies of scale. In particular, smaller third-party suppliers may struggle to meet the demands for compliance and verification, both financially and also in terms of training and human resources.

In the case of pulp and paper, the industry is vertically integrated in Indonesia with the main groups owning plantation companies as subsidiaries (or alternatively having long-term supply partners) and processing the wood into pulp and paper products. These are usually processed into consumer

goods ready for sale as opposed to palm oil that is subsequently used as a component in a myriad of retail products, from food to cosmetics. The issue of monitoring, therefore, seems to be easier with a much shorter supply chain and a limited number of actors. In practice, verification and monitoring have been done so far either by auditors (KPMG) or NGOs (Rainforest Alliance), with the involvement of consultancy groups (TFT, Ekologika) to help in implementation.

Common to any sector of implementation of the commitments, and as observed in Indonesia with oil palm, and pulp and paper, verification and monitoring activities can be the responsibility of either first or third parties. In the first category, the companies themselves take care of these activities, with the lowest degree of credibility and transparency. Third-party verification is the best approach and actually the only one that should be considered for deforestation-free commitments, as it relies on strictly independent assessments.

Emerging technologies do have the potential to support these commitments. Online tools such as Global Forest Watch ([www.globalforestwatch.org](http://www.globalforestwatch.org/)), Supply Change (Peters-Stanley et al. 2015) and Forest 500 under the Global Canopy Programme (<http://www.globalcanopy.org/forest500>) will monitor and report on the actions of companies that have, and have not yet, made commitments in their supply chains. But again, these tend to operate at an international scale and play a limited role at the sub-national level. A strong and well-supported monitoring system will be essential when scaling up these commitments. This will be a challenge given the potential scope of these commitments across regions and commodity supply chains. In this case, stakeholders may wish to address key areas of risk first.

### **3.4 The first governance challenge: Private-public coordination**

The movement started under the pressure of consumers and NGOs with private companies committing to clean their supply chains. As with other initiatives related to sustainable forest management such as certification, the rationale is to secure one's reputation, gain market share and, if possible, (but it rarely is) get premium prices. In other words, the logic is to act individually in order to prevail over business competitors. It is,

<sup>13</sup> See for instance <http://www.greenpeace.org/international/en/publications/Campaign-reports/Forests-Reports/GAR-Progress-Report/>

therefore, not surprising that pledges were made separately in the first place, with companies aiming at distinguishing themselves in the eyes of consumers and other stakeholders.

Yet more recently a shift seems to have occurred with more collective initiatives, and the New York Forest Declaration in 2014 is one good example. A number of companies, governments, NGOs and other organizations have co-signed the call. While this is usually interpreted as good news because it involves more actors, covers more supply chains and has greater visibility, there is also a risk that commitments get weaker in the process. Being collectively engaged can also mean a dilution of responsibilities and an unclear distribution of roles. This was observed in similar arenas such as global biodiversity targets within the Convention for Biological Diversity (similar reasoning can be applied to Millennium Development Goals), where *“governance is less of a collective action issue and more of a strategic, conflict-prone policy area, which may mean that global, consensual goals are less suited”* (Billé et al. 2010).

In order to determine which model would be the most effective for preserving forests, it is necessary to consider the following aspects: degree of heterogeneity among pledges; willingness of companies to agree to the same standards and rules; capacity to deal with different commodities and supply chains within one single system; probability that consensual targets are based on the weakest pledges; and the willingness and capacity of governments to coalesce in order to tackle the issue together and in a concrete manner, just to name a few. These questions will have to be answered if different models are to be compared, and if the desirability and feasibility of a centralized governance of pledges are to be promoted.

Although the movement takes its roots in private governance, the implication of public goods and the large scale of the challenge call for an active role to be played by governments, if not other stakeholders as well. Weak governance in many countries that are crucially important for deforestation is double-edged: on the one hand, it calls for action by the private sector to fill the gap and deliver on the ground, but on the other hand, it pleads for an improvement of the conditions for public oversight and management of land uses.

Concrete examples can be provided to illustrate the challenges ahead in Indonesia. Overlaps between concessions issued by various levels of government

are a reality in Indonesia. There are also recurrent conflicts between companies and local populations because of uncertainties regarding property rights; illegal encroachments by migrants are also increasing in intensity and are so far poorly addressed by authorities. There is reason for hope, though. The One Map initiative, for example, was associated with requirements to implement REDD+ and aims at harmonizing mapping at all levels of the administration in order to solve once and for all the overlaps between permits issued by different bodies. Other promising moves relate to attempts to clarify the rights of local populations, or to take action at district or provincial levels (see sub-section 3.5).

Besides, laws and regulations do not necessarily favor conservation, particularly in concessions on state forest land (see sub-section 3.2). Thus, radical changes in the legal framework are absolutely necessary for deforestation-free to materialize in the future. Indeed, we assume, for instance, that the temporary Indonesian moratorium on the issuance of licenses is not going to be extended to all forests (beyond primary forests and peatland areas). Nor will it be indefinitely renewed (it goes for two years and the second period ends in May 2015). This implies that the solution in the longer term resides in the development of degraded areas instead and above all. This is apparently the reason why Brazil did not sign the NY Forest Declaration, as it was deemed contradictory to the legal framework; other signatory countries face similar problems, including Indonesia.

In terms of private-public coordination, a necessary field of application relates to enforcement in areas set-aside for conservation within concessions and at the initiative of the companies; this is different from having an enabling legal framework to allow companies not to develop these areas in the first place (see sub-section 3.2). Indeed, pressure by local populations including migrants is increasing in nearly all forest areas in Indonesia, and conservation areas within concessions are under threat. Companies are in a delicate situation. On the one hand, they have to meet their deforestation-free commitments. On the other, they might be criticized for their lack of consideration of social pressure on land when preventing people from converting patches of forest. In this context, the involvement of public authorities would help if only for setting limits, providing guidance and legitimating action by companies.

### 3.5 The second governance challenge: Thinking beyond supply chains, thinking landscape

In relation to the previous point, and keeping in mind that several scenarios are possible in terms of more or fewer stakeholders involved and more or less coordinated efforts to reach the objectives, we point to the potential negative consequences of a shift toward private governance with deforestation-free supply chain commitments by private companies. These consequences relate to the capacity to do land-use planning at national or sub-national scales, as well as to promote landscape approaches. A focus on supply chains, by definition, narrows the scope to all actors along the chain and, spatially-speaking, to the one site where the wood or agricultural commodity is produced.

However, such a narrow approach does not address the broader picture from a spatial (landscape), political (economic development and law enforcement) or regulatory (contradiction with the legal framework) point of view. It is thus intrinsically limited and subject to failure as long as the tropical deforestation challenge is considered globally. Yet these private companies have taken the lead for action because of slow changes in public policies and low levels of ambition as demonstrated by the pace of implementation of the high-profile REDD+ mechanism. All of this means that we are now experiencing a situation where tangible results can be expected with the private sector getting things done in response to pressure by society. But these results are doomed to be limited relative to the challenge. In other words, because experience in the past has shown that ambitious objectives were poorly attained, the new approach is to achieve more, but on a lower scale.

We argue that this represents a great opportunity to build on concrete tools and steps in order to reach better outcomes at a larger scale. There is momentum with continued pressure by a variety of stakeholders, and buy-in by governments at least on paper and in statements. These new foundations could lead governments to adapt their policies in order to create an enabling and conducive environment for deforestation-free supply chains to be applied over a majority of forests, if not all of them, within the next decade. For land-use planning, this means that licenses are issued on degraded ecosystems only, that companies have latitude to go beyond minimum environmental requirements, that land tenure is clarified and formalized, and that laws are enforced.

Companies are aware of these issues and have started to call for public governance to be up to the challenge, for at least one reason: they know that without better public governance they are likely to fail and to face the consequences of not meeting their commitments. Besides, some of them might not want to bear the costs of virtue in a competitive (globalized) environment; others might be tempted to insist on their differentiation strategy in order to enjoy the benefits by themselves. It remains unclear at this stage which strategy – differentiation or collective action – is prevalent within the private sector. Yet whether the private sector leans in one or the other direction will be important, if not determinant.

There are reasons for hope, though, as a couple of big players have been calling publicly for the Indonesian government to regulate. Their efforts resemble the “California effect” whereby progressive companies lobby their government to require other companies to meet the same standards in order to spread out costs across the industry. These oil palm companies are indeed expecting others to face the same costs; yet for retailers, and to a lesser extent consumer goods manufacturers, the incentives to do so might be much lower.

The sub-national level might be a good place as well to take (public) action. Yet another approach would be to act at the jurisdictional level. The rationale of “jurisdictional deforestation-free” is to cover entire jurisdictions – e.g. districts or provinces – in a given country for action and commitment regarding deforestation-free supply chains, as opposed to concessions or pieces of private land (or even landscapes as illustrated by APP’s example below) where commodities are produced before entering the supply chain. In other words, the geographical scale is administrative and not related to a permit or company in particular, e.g. a district in the Riau province versus one concession. This approach was advocated by the Environmental Defense Fund<sup>14</sup>, for example, and will probably gain traction for it has advantages: (i) it takes some of the burden off companies to audit their supply chains if they source from “covered” jurisdictions; (ii) it might increase the credibility of the commitments as it is very likely to involve local governments in the design of policies and regulations; (iii) and it goes beyond limited and somewhat arbitrary boundaries (at least perceived as such) of company concessions. Yet it also has a

14 Hutson, Andrew (10 October 2014), “Deforestation in Brazilian Amazon could decrease with ‘jurisdictional’ approach: report,” <http://blogs.edf.org/climatetalks/category/deforestation/>.

number of downsides, and Indonesia provides a good illustration, including the necessity to reach a sufficient level of government capacity in order to adequately monitor entire jurisdictions or to enforce penalties for impermissible deforestation.

Yet another approach lies with large companies setting their own conservation agenda, but involving other stakeholders and acknowledging the importance of adopting a landscape approach; in this way, they do not necessarily follow jurisdictions as in the approach described above. This is illustrated by the 1 million ha forest conservation program by APP in Indonesia (see sub-section 4.2), which is still in its infancy and mainly on paper, but whose principles go in the right direction. This initiative – which complements APP’s Forest Conservation Policy (its deforestation-free commitment) – does not resort to collective action with other big players of the sector. Instead, it intends to attract the interest of other concessionaires in a number of conservation landscapes in order to participate in the implementation of the plan. It does not explicitly target public policies either, but might end up influencing land-use planning and regulations in the future if the first steps appear conclusive and get supported by civil society.

### 3.6 What implications for local populations?

The deforestation-free framework presents at least two social challenges: how to proceed in the face of unclear property rights, and how to address negative impacts on local populations.

Unclear property rights and associated conflicts between local populations and companies operating with government-issued licenses are widespread in countries where deforestation-free commitments are to be implemented. In Indonesia, a 2013 Supreme Court ruling marked a step toward clarifying these rights regarding large areas of forestland. It mandated that the state transfer these lands to the control of indigenous communities.

However, until boundaries are defined and rights are administratively transferred, tenure insecurity remains problematic. This creates several potential challenges. First, communities may be unwilling to set aside land in order to meet deforestation-free objectives if they cannot be certain the land will not be granted to other actors via concession. Second, deforestation-free commitments may enhance the

legitimacy of private companies, as well as their power to exert control over the land, to the detriment of local communities.

At the same time, implementing these commitments may be enormously challenging given the difficulty of enforcing concession boundaries and continuing economic activities on the part of local people; this will be viewed by different actors either as pursuit of livelihood activities or as encroachment. What the conservation effect will be is uncertain: much as when a new protected area is designated, exclusion of people could either protect the resource or stimulate encroachment that degrades it. A multi-stakeholder approach will be needed that includes local populations and the local government to ensure that areas left forested by one actor are not converted by another.

Companies with deforestation-free pledges appreciate that their policies bear implications for local communities, and have employed one of two methods for protecting their rights. Some exempt smallholders from restrictions on forest conversion. For instance, the Palm Oil Innovation Group permits its members to source palm oil from areas that have been deforested due to “small-scale low intensity subsistence conversion by indigenous peoples and forest-dependent traditional communities.”<sup>15</sup> Yet this does not apply to areas with HCS forest. Other companies, including Indonesian agribusinesses, extend forest clearance restrictions to smallholder suppliers, but incorporate free, prior and informed consent (FPIC) guarantees, conflict resolution mechanisms and other assurances that local rights will be protected. Regarding the pulp and paper sector in Indonesia, the main groups have made commitments that also include social aspects in terms of FPIC consultations for newly developed areas and conflict resolution mechanisms. The Integrated Sustainable Forest Management Plans by APP include public consultations to make decisions when various assessments have contradicting recommendations, e.g. in areas with HCS forests and legitimate social claims.

15 “Palm Oil Innovations Group Charter,” Nov. 13, 2013. V1.0, <http://www.greenpeace.org/international/Global/international/photos/forests/2013/Indonesia%20Forests/POIG%20Charter%202013%20November%202013.pdf>; “Palm Oil Innovations Group Charter Pilot Indicators,” Apr., 2014, <http://www.greenpeace.org/international/Global/international/photos/forests/2013/Indonesia%20Forests/POIG%20indicators%20April%202014.pdf>, at fn. 3.



Despite these protections, deforestation-free commitments may have negative indirect effects on local communities. First, commitments are made without consulting affected communities so they have no voice in their design (yet pragmatists may argue that having systematic consultations for designing the pledges is not feasible). Second, commitments are made by companies with high levels of production, significant market share and relatively strong capacity to undertake changes in their supply chains. Meanwhile, smallholder producers and small and medium enterprises that process commodities often have limited ability to modify their practices or impose traceability mechanisms, and may consequently be excluded from lucrative markets. As an illustration, tremendous growth in the small-scale palm oil sector has meant that as many as 4 million producers, each tending farms between 1-100 ha, are now growing palm oil, according to some estimates.<sup>16</sup> One possible scenario going forward is that green and brown supply chains will segregate, with the small-scale sector being unable to supply deforestation-free markets; instead, they will have to sell to less discriminating downstream actors that will likely offer lower prices. In the event of a sudden drop in demand, as in cases of economic crises, they might be severely affected.

It is also possible that deforestation-free pledges could produce local benefits. Indonesia's pulp and paper sector is highly concentrated with two firms – APP and APRIL – dominating. Together with a ban on the export of unprocessed wood, this oligopoly has dramatically constrained the development of smallholder pulpwood plantations. The national program for smallholder plantation forestry on state forest land (Hutan Tanaman Rakyat, HTR) initiated in 2007 is a telling example: no more than a few thousand hectares of plantations have been developed despite an official target of 5.4 million ha by 2016. In this context, deforestation-free pledges may present an opportunity to increase the involvement of smallholder plantations for at least two reasons: less concession land will be available for plantation development, and requirements and procedures to engage with local populations may facilitate partnerships and outgrower schemes. In addition, companies with deforestation-free policies that are looking to increase supply to their mills, whether it be wood fiber or palm fruit, will be unable to expand their plantations via deforestation. Instead, they may

need to work with smallholders to boost productivity on their land.

Involving smallholders might prove difficult because of the huge number and areas involved (about 2 million households, more than 4 million ha of smallholders' plantations and more than 100,000 small and medium enterprises, excluding outgrowers). Still, President Joko Widodo hinted at this approach in declaring that Indonesia could become food- and energy-independent by 2020.<sup>17</sup> Whether deforestation-free pledges benefit or harm local communities may depend on the sector and on location. To promote positive impacts, NGO activity and/or government policies are needed that encourage local partnership and to hold companies accountable to their social promises.

As far as Indonesia is concerned, we need to emphasize the strong pro-community stance of the government that was reinforced with the election of the new president, Mr. Joko Widodo in 2014. We already mentioned the Supreme Court Ruling in 2013 to provide rights to communities on state forest land. More recently, a controversial regulation involving several ministries was passed (a legacy of the previous Susilo Bambang Yudhono administration) and called a “time bomb” by the main national newspaper.<sup>18</sup> It basically says that any state forest land that has been controlled and exploited by people for more than 20 years will be released to the benefit of the same. While this regulation sounds like fair compensation to those who were previously deprived of rights over the land, its implications might be huge and potentially adverse to forest conservation as millions of people might see their claim over forested areas legally recognized and enforced with agriculture development a priority. In addition, the new president has made a promise to redistribute 9 million ha of land to farmers; the details of the plan are yet to be announced.<sup>19</sup> These various policies will substantially impact deforestation-free objectives in ways not yet fully understood, but that stress the necessity to include smallholders in the plans in order to deliver.

17 Lumanauw, Novy & Edi Hardum, “Jokowi: Indonesia Can Attain Food Self-Sufficiency in Next Four Years,” 28 Mar. 2015 <<http://thejakartaglobe.beritasatu.com/news/jokowi-indonesia-can-attain-food-self-sufficiency-next-four-years/>>

18 <http://sains.kompas.com/read/2015/02/24/21223481/Bom.Waktu.Perusakan.Hutan>

19 [http://news.mongabay.com/2015/0402-jacobson-land-reform-indonesia.html?utm\\_source=feedburner&utm\\_medium=email&utm\\_campaign=Feed%3A+Mongabay+%28Mongabay+Environmental+News%29](http://news.mongabay.com/2015/0402-jacobson-land-reform-indonesia.html?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+Mongabay+%28Mongabay+Environmental+News%29)

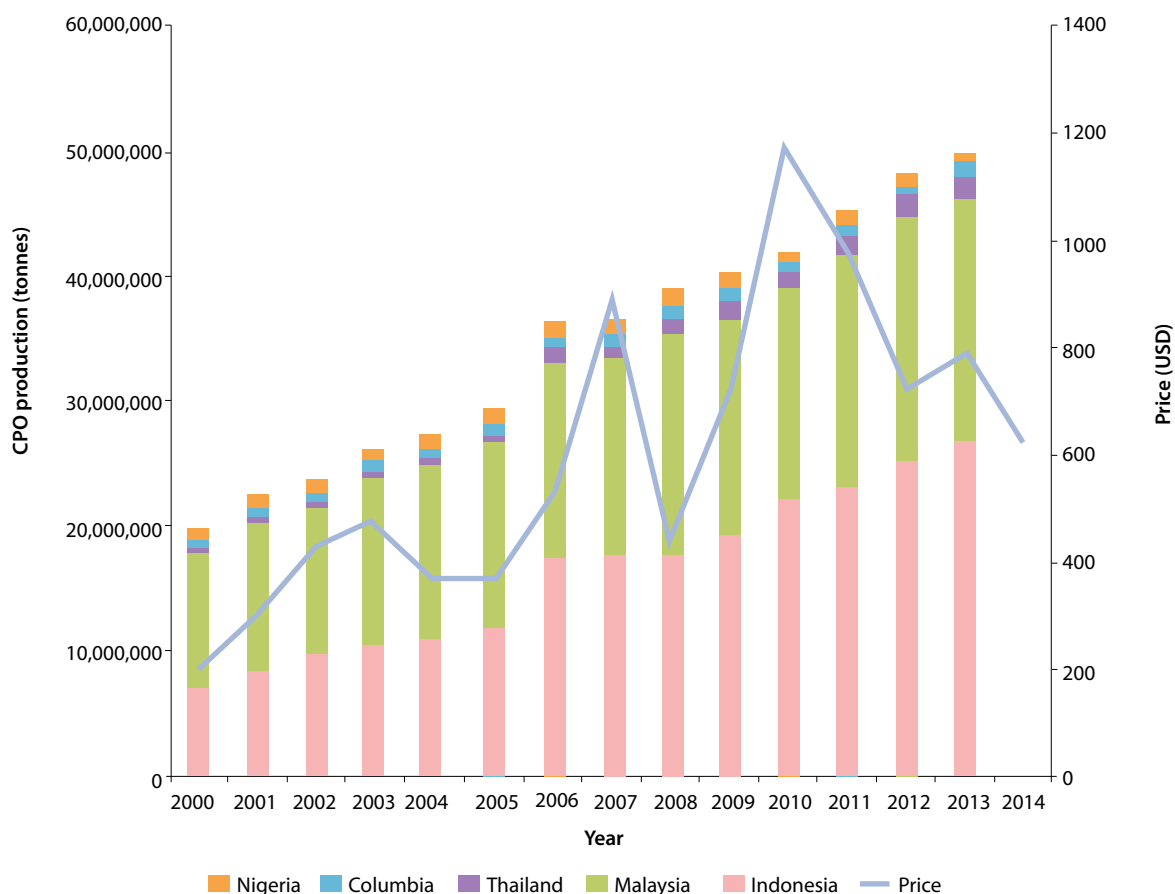
16 CDP (2014) indicates 100% of palm oil producing companies report on specific policies related to deforestation-free pledges, hence giving the impression that the sector is entirely covered.

## 4 Focus on implementation in Indonesia: Early action in a difficult context

We describe the Indonesian case, trying as much as possible to connect to the list of issues above. The two sectors – oil palm and pulp and paper – have a history with sustainability/legality efforts over time. They are also associated with slowness and shortcomings. Finally, zero-deforestation is touted as being able to cut through the inertia.

### 4.1 Oil palm: A pioneer

Palm oil is a prominent, internationally traded, tropical agricultural commodity, with derivatives found in half of the products on our supermarket shelves. In addition, it is emerging as a viable feedstock for biofuels, particularly for domestic



**Figure 2. International palm oil price and production among the top 5 global producers**

Source: Adapted by the authors from Indexmundi, 2015<sup>a</sup> and FAOSTAT, 2015<sup>b</sup>

a Indexmundi, 2015. Crude palm oil futures end of the day settlement price <http://www.indexmundi.com/commodities/?commodity=palm-oil> Accessed: 08/03/15

b FAOSTAT (2015) <http://faostat3.fao.org/home/E> Date: Tue Mar 03 11:24:39 CET 2015

biodiesel production in Indonesia. With consumers in emerging economies achieving a higher standard of living and greater access to luxury goods, demand for products containing vegetable oils is growing. Oil palm has the highest productivity of any vegetable oil crop per hectare. This makes it not only efficient, but also less expensive to produce and highly profitable. As a perennial crop, it also has enormous poverty alleviation potential. It provides year-long employment and income to tens of thousands of farmers and laborers, as well as contributing to state revenues and the development of infrastructure in rural areas.

Indonesia is the world's largest producer of palm oil globally (see Figure 2): the oil palm sector comprised 6,404,377 ha of private estates, 4,551,854 ha of smallholders (preliminary data for 2014 according to the Ministry of Agriculture) and 711,286 ha managed by state companies, which showed almost no growth in the past 10 years (data for 2012 according to ISPO annual statistics). Comprehensive and reliable data on the composition and diversity of oil palm growers in Indonesia is lacking, however, especially concerning ownership, financing, plantation boundaries and locations. The majority of the total area managed by SMEs and smallholders in Indonesia is located in Sumatra. This is in contrast to frontier regions such as East Kalimantan and Central Kalimantan, where large-scale firms dominate.

Increasing numbers of smallholders are gradually expanding their plantation assets from 2-3 ha (managed by one household), to tens and even hundreds of hectares; in the latter case they may qualify as mid-scale plantations rather than as smallholders, but this requires further research on ownership). In addition, as the oil palm industry becomes better established in frontier areas, local and transmigrant investors and absentee landlords flock to develop land, contributing to deforestation. These new and expanding investments lack transparency; this is often linked to their smaller size, rapid exchanges in ownership, absence of comprehensive and up-to-date spatial plans at the provincial level, and poor monitoring and reporting at the district level.

Frontier regions are experiencing some of the highest levels of new investment and therefore provide the greatest deforestation threat. The diversity of producers and lack of transparency limit access to growers, understanding of their operations and the ability to regulate. This has been one of the major

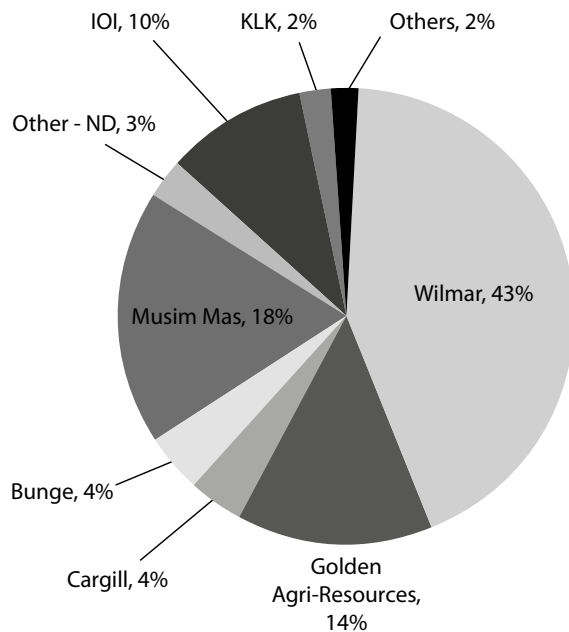
hurdles for existing standards for palm oil such as the RSPO, ISCC and ISPO, and has resulted in the perceived failure of these standards to significantly limit deforestation.

Conflicting legislation related to plantation development and land use in Indonesia has also limited the success of previous standards. For example, the Neglected Lands Act (Government Regulation No. 10 of 2010) allows the government to take land that has not been deforested and planted, and relocate it to other companies willing to develop. This law hinders companies that have the good intention of preserving parts of their concession for biodiversity, and environmental and social purposes, such as areas designated as HCV under the RSPO (see sub-section 3.2). These legislative hurdles are accompanied by a nationalistic sentiment. Private sustainability standards, with their origins in Western markets, may be perceived as new manifestations of Western control. The emergence of ISPO was seen by many as an attempt by the Indonesian government to reclaim a key industry and chart its own course.

The deforestation-free movement is seen by many as a chance to change all of this.

Despite the vast number of producers operating in Indonesia, international trade of palm oil and palm kernel oil is dominated by a handful of firms; Wilmar controls nearly half of this trade. Civil society and advocacy groups targeted actors at key supply chain bottlenecks, traders in Singapore, Malaysia and Indonesia, in an attempt to reach and reform the entire supply base. By extending deforestation-free commitments beyond the firm itself to its third-party suppliers, advocacy groups translate the "brand reputational risk" felt by consumer goods manufacturers and retailers into "market and supply chain risk" for traders and producers. The fact that few companies control the international trade might lead to attempts to dictate their own terms of trade to the rest, hence raising the bar; yet it remains to be seen whether this would succeed or, on the contrary, lead major CPO importing markets such as China, India, Pakistan, Bangladesh or Gulf countries to create alternative shipping channels.

The potential to influence the global trade in palm oil toward deforestation-free products is clear given the commitments by major traders. However, it is also important to keep an eye on the expanding domestic use of CPO in Indonesia and Malaysia – a development that may blunt the international trade



Share of palm oil traded on international markets that is now bound by zero-deforestation commitments, based on 2013 global consumption figures of 57 million metric tonnes, reflecting globally traded volume. Total global production volume is estimated at 63 million tonnes, suggesting zero-deforestation commitments now cover 87% of palm oil production. Company data may include some overlap due to inter-company trading (Finkelstein 2014, for Chain Reaction Research).

**Figure 3. Percentage coverage of global trade in palm oil**

approach and may require additional measures. Under the umbrella of renewable energy policy, Indonesia is taking steps to boost its biodiesel production that may result in a 4-5 million tonnes/yr increase in domestic use of CPO. This will raise the profile of the domestic market and reduce the impact of international shipping constraints. Consequently, it may require additional thinking on how to ensure zero-deforestation compliance in this emerging part of Indonesia's economy.

For many advocates of the “deforestation-free” approach, these commitments have the potential to overcome the inertia that has dominated the Indonesian oil palm industry and unite all stakeholders, including government, to transform the sector. The theory of change suggests that a coordinated and united message from producers, leveraged by traders, will create greater national-level ownership of environmental and social policy processes, and encourage government to resolve conflicting legislation and policies, reconsider

expansion strategies and level the playing field among producers. This, however, remains to be seen.

Numerous Western consumer goods manufacturers such as Kellogg's and Pepsico have committed to deforestation-free supply chains. However, in December 2013, Wilmar was the first producer/trader to commit to “No Deforestation, No Peat, No Exploitation” for its own plantations and those of its third-party suppliers. The firm immediately started working on mapping its extensive supply base and implementing its commitments with The Forest Trust (TFT), reporting on progress on a quarterly basis. Other major producers and traders of Indonesian produced palm oil – GAR, Cargill, Musim Mas and IOI – followed the lead of Wilmar in March 2014.

It is early days in the implementation of “deforestation-free” and its economic, environmental and social impacts are yet to be fully understood. One of the best indicators of challenges that might emerge, however, is GAR's experience implementing its Forest Conservation Policy, launched in 2011. According to Greenpeace (2014b), successful implementation in both Indonesia and Liberia has been mixed. Important progress has been made to develop the HCS methodology and identify forest for conservation. However, urgent action is needed to improve social performance, ensure FPIC and conflict resolution in dealings with local communities (also raised in a report on Kapuas Hulu district by Forest Peoples Programme – Colchester et al. 2014). The quality of HCV assessments must also be improved, both in transparency, and in the application of responsible practices across its supply chain.

The challenges faced by GAR highlight the potential social and legal problems to come for many producers in Indonesia looking to develop their land banks under these new “deforestation-free” commitments. The distance of plantations and suppliers from head office presents a significant hurdle for internal monitoring and control. This seismic shift in operational standards will also take a long time to penetrate the industry and those who have worked in it for decades. While policy change can be rapid, behavioral change is a slow process. It will be interesting to see how each of the firms that have made commitments will work together and with other stakeholders, such as government and civil society, to overcome these operational

challenges. Collaborative engagement may be the key to coordinating and upgrading such an extensive and independent supply base.

## 4.2 Pulp and Paper: Ambitious plans

The other sector currently concerned by pledges is pulp and paper, which is huge and growing in Indonesia; the country is among the top 10 of world producers of pulp and of paper (and in the top 5 outside of OECD member countries). The industry in Indonesia is made up of two giants – APP and APRIL (in decreasing order of production capacities) – and several much smaller companies with discontinued production and without pledges. The two main groups have a history of bad practices. Fiber supplies are mostly based on natural forest clear-cutting over several decades, while rates of development of pulpwood plantations lag way behind needs and are largely established on peatland with severe environmental impacts. The expansion in the pulp and paper sector continues apace as APP is currently building a 2 million tonne/yr pulp mill in South Sumatra at a cost of USD 1.5 billion. Once completed in 2016, it will be the largest single line mill in Southeast Asia.

The industry failed to live up to zero-deforestation promises made over the last decade (pledges for full reliance on plantation timber made for 2006, 2009, 2014). Overall, however, the industry has made significant progress toward sustainability over the past couple of years. This progress is in line with the emergence of the deforestation-free movement (e.g. APP signed the New York Forest Declaration in 2014). Although using another terminology in public documents and action plans, the two groups follow similar objectives and we propose to briefly discuss their process, content and prospects.

APP announced the implementation of its Forest Conservation Policy (FCP) with immediate effect in February 2013. This policy has several pillars (some of these were clarified in subsequent statements): end of clearing of natural forests (i.e. non HCV/ HCS forests) along its supply chain in Indonesia (the group is a producer in China as well), suspension of activities in areas where HCVF assessments are not completed yet, no processing of natural forest logs cut after the FCP comes into force, extension of the policy to external suppliers and application of FPIC methodology among local populations for any new development of plantations, among others.

Importantly, the group also committed to an independent evaluation of its policy by the Rainforest Alliance, whose report was released in February 2015 (Rainforest Alliance 2015). This effort was praised by most stakeholders as a demonstration of the willingness of the group to change practices on the ground and its acceptance of transparency principles. The evaluation concluded on moderate progress overall. It acknowledged a complete halt of natural forest conversion for supply needs and development of new plantations, but noted shortcomings on the social side, for instance with incomplete FPIC in South Sumatra around the new pulp mill.<sup>20</sup> Other voices expressed concern about the absence of evidence that the plantation estate would be able to satisfy the pulp production capacity; a new giant mill is under construction in South Sumatra, fires and diseases are common in Acacia plantations especially in Sumatra and the case of plantations on peatland remains largely experimental on such a scale.

These concerns, although undocumented, are worth mentioning because they are an important aspect of deforestation-free commitments by the group: in the absence of sufficient sustainable supplies from the plantation estate (which covers about 1 million ha), there will be incentives to go back to the old bad habits, although the group firmly denies such a risk. Besides, the independent evaluation also stressed the continued degradation and deforestation within concessions because of “third parties”, a polite term for all sorts of actors involved in illegal activities and a phenomenon that developed out of control in the country. This issue is also a potential impediment to the realization of the commitments.

APP is also an interesting case from our perspective because it decided to go one step further with the announcement of a “One million hectares forest conservation program”. The group says it may neither lead nor fund this program in the future, but only intends to promote the approach as part of its sustainability goals. However, it says that taking action at the concession level only is not up to the challenge of conservation in the Indonesian context. Therefore, 10 landscapes over the islands of Borneo and Sumatra, out of which 5 landscapes are priority for immediate action, will be subject to coordinated management and conservation among all stakeholders.

<sup>20</sup> <http://www.forestpeoples.org/topics/pulp-paper/news/2015/01/new-report-finds-asia-pulp-and-paper-app-lagging-behind-social-respon>

This is of great interest in a discussion of the processes at play (and conditions for success) with deforestation-free pledges. It points to the need to involve other actors than those along the supply chain: local police for law enforcement, national governments for adequate regulations, various levels of government to avoid overlaps in licenses, surrounding populations to prevent encroachment and other companies to take action at the landscape level. This inclusive approach is even more necessary when one raises expectations beyond strict zero-deforestation within concession limits to consider ecological processes at a greater level, with biological corridors, for instance. It is also a potential prototype for future multi-stakeholder and landscape-oriented approaches to deforestation-free supply chains.

The other group, APRIL, has also invested in a change of practices with yet a different terminology. Indeed, the group launched a Sustainable Forest Management Policy (SFMP) in January 2014 with the following commitments: fiber supplies from non-HCVF only and based on independent assessments; moratorium on plantation development in concessions where HCV assessments are not completed yet; application of a “robust” chain of custody; no increase of pulp capacities as long as plantation fiber self-sufficiency is not guaranteed; and application of FPIC methodology and full reliance on plantation supplies by 2019, among others.

In addition, the group established a Stakeholder Advisory Committee (SAC) to monitor compliance to its commitments and provide advice on steps for improvement toward sustainability. In terms of conservation, the group created its own expression with the “one-to-one” policy that proposes to set aside and manage 1 ha of natural forest for each hectare of plantation. With almost 500,000 ha of plantations already established, but only about 250,000 ha of set-aside areas, there is still some way to go.

The first independent assessment (by KPMG, a third-party auditor tasked by the SAC) was also completed in 2015. However, it took place on a much lower scale than the one by the Rainforest Alliance for APP. It is also poorly advertised since it is not available on the company’s website and only available upon request (although the recommendations by the SAC based on its findings are downloadable).

It found moderate progress overall, according to our interpretation (the reporting document only disclosed findings for each of the SFMP components and did not provide any rating or analysis for the policy as a whole). It acknowledged the absence of conversion of HCV forests or of forests that would not have been assessed yet, and the translation into practice of the objective of plantation self-sufficiency by 2019, among others. On the other hand, it criticized the fact that the policy only applies to new concessions and does not include existing concessions, and that HCVF assessments are not peer reviewed by the HCV Resource Network but by individuals listed by this network instead. It also found fault in the controversial distinction between long-term supply partners and others (not subject to the policy) and how suppliers are distributed among these two categories, among other concerns.

APRIL transmitted this evaluation to the SAC to receive guidance as to next steps for compliance. Among its responses, the SAC urged the group to build better relations with the HCV Resource Network for reviews of its HCVF assessments, to clarify the status of non-long term supply partners, to apply the FPIC methodology and to address claims in its concessions more effectively. In response, APRIL released an Action Plan in March 2015.

Some lessons that we derive from observation of the strategies followed by both groups are the challenge to have actual control of operations and practices over the entire plantation estate (which is aggravated by the heavy reliance on contractors and sub-contractors), and to tackle deforestation by third parties in their supply partner concessions. We also take stock of their preference for the use of HCV methodologies to operationalize their commitments, and of another interesting phenomenon which is their great interest in restoration. This latter point might suggest that they also lean toward “net positive” targets that might translate into new sources of funding for the management of ecosystem restoration concessions. These concessions are created based on a relatively new policy designed by the Ministry of Forestry a few years ago. The goal is to restore the production potential of over-logged natural forests for a second cut, and to ensure the provision of a number of ecosystem services. Such a source of funding would be welcome as a side effect of deforestation-free commitments by the main forestry groups in Indonesia.

## 5 Conclusion

This background paper has presented the rationale of the deforestation-free movement and early implementation in Indonesia, and discussed a number of fundamental issues that will determine its effectiveness. There are opportunities for changing practices and reducing forest conversion in the main industrial sectors: oil palm and pulp and paper, and we could observe that a number of companies have indeed started to modify their approach. Interesting developments are at play with the application of High Carbon Stocks (HCS) and High Conservation Value Forest (HCVF) assessments, consultations with rural communities and the acknowledgment that peatland management requires specific measures.

Yet the movement is still in its early stages and a number of issues will have to be tackled in order to produce substantial and long-term impacts on the natural forests of Indonesia. We list these issues below and emphasize their importance. Overall, the challenge is very substantial. What started as an initiative by the private sector under the pressure of consumers through NGOs will have to engage national governments and lower levels of public governance progressively. This is not just a requirement for large-scale and sustainable impacts, but also to ensure its feasibility in the first place.

Indeed, we found that the legal framework was not just unsupportive, but also unsuitable and contradictory to a large extent. The case of oil palm plantations established on public land and based on a concession regime is telling, as virtuous companies that set aside HCS or HCVF areas according to their commitments were not protected by regulations. These set-aside areas could be reallocated to other companies for development, hence eventually converted. Companies could also have their temporary permit withdrawn when these assessments were not finalized soon enough for the plantation to be established within the legal timeframe. This calls out for a greater involvement of the Indonesian government with an adaptation of the legal framework in order to enable zero-deforestation commitments to realize their full potential in the country. Note that the case of the pulp and paper

sector is different in this regard as timber plantations are subject to forestry laws that appear to be more flexible; the two main groups have been able to limit plantation development below 50% of the area in some concessions without any interference from the government so far.

Another major obstacle to effective implementation lies with the recurrent uncertainties with land tenure and the rise of conversion by smallholders in and around oil palm and pulpwood plantations. These companies have traditionally been involved in forest conversion and a lack of recognition of the rights of communities. However, it is fair to recognize that the situation is not that simple now, with large implications for deforestation-free. In a context of very weak law enforcement on the ground, and the clear position of the Indonesian government to provide more rights to people in forested areas, companies are sometimes in a complicated situation with little capacity to enforce the boundaries of their concessions and to meet their commitments. Here again, the involvement of the public authorities is required to clarify the situation; otherwise, forest conversion to smallholder agriculture might continue apace and deforestation-free commitments will be little more than promises on paper.

Having said that, the issue of legacy is critical and probably underestimated. The main groups committing to deforestation-free, whatever their efforts and achievements, have been involved in huge deforestation in the past, including conversion of primary forests in Sumatra and Kalimantan. This must be part of the debate and addressed in their commitments and actions. While it would make no sense to disqualify their policies, and these recent initiatives definitely have to be encouraged, they should actually aim at achieving positive net reforestation. One way to do so is to invest in restoration, which is all the more desirable now that the government has created the system of Ecosystem Restoration Concessions. This allows companies to manage degraded areas in order to restore their productivity and a number of ecosystem services. Some groups have already followed this path with

a landscape approach that goes beyond their own concessions. Observers should definitely scrutinize and encourage these initiatives, and push for their inclusion in formal deforestation-free commitments.

The impacts on smallholders are still insufficiently understood, but might prove to be substantial. Indeed, deforestation-free commitments are much more suitable to large companies that have the capacities, and can rely on economies of scale, to go through the process. But the risk exists that they marginalize smallholders' production because of market fragmentation, with premium markets inaccessible to smallholders. Another risk is that they freeze large areas of set-asides that will not be available for production by individuals, while at the same time taking over degraded lands and in turn putting pressure on smallholder-occupied lands. These various risks usually relate to land tenure and the uncertainties surrounding rights over land in rural Indonesia and especially the forest estate.

We have studied the evolution of definitions and standards; the problems associated with the implementation of the commitments on the ground; and the potentially major obstacles related to weak governance, insecure land tenure and an insufficiently

supportive legal framework. But the assessment of positive and negative direct and indirect effects is still to be made as they can only be approached at this stage. The capacity gap, with decisions made by the management of these companies but that require the involvement, understanding and support of all levels of the companies down to the operational level on the ground, suggests that full implementation might take some time to materialize. There is potential for conservation gains, but the more general implications for the various actors along the supply chains with the distribution of costs (including who will eventually be charged for traceability and opportunity costs) and risks, and for the welfare of rural populations engaging in smallholder agricultural and timber production, will have to be understood very early in the process. This is the only way to solve trade-offs and maximize gains, and hence ensure the credibility, support and sustainability of the movement.

To conclude, the deforestation-free movement as an ambitious wave of commitments mostly by the private sector is still in its infancy. Yet some lessons emerge from its implementation in Indonesia along with challenges that will deserve collective discussions among stakeholders.



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The deforestation-free movement (or “zero-deforestation”) has emerged recently in a context of lower state control, globalization and pressure on corporations by nongovernmental organizations (NGOs) through consumer awareness campaigns, acknowledging the essential role of agricultural commodities in deforestation. It takes the form of commitments by corporations to ensure that the products they either produce, process, trade or retail are not linked to forest conversion.

This movement has particular relevance for Indonesia. Ambitious targets have been set with concrete action on the ground, and typically go beyond forest conservation to also include peatland management and social issues. Regarding the zero-deforestation component, its implementation relies essentially on two complementary methodologies: High Conservation Value Forest (HCVF) and High Carbon Stocks (HCS).

Yet the movement is in its early stages and significant challenges remain to realize its full potential. There might be contradictions between the achievement of conservation benefits and the recognition of rights for rural populations in a context of significant pressures on the land and remaining uncertainties in land tenure. Public authorities will also have to be involved to a much greater extent to provide a supportive legal framework. Rather than relying strictly on separate commitments to clean supply chains, a complementary approach based on jurisdictions or even at a national or regional scale might be considered to tackle deforestation globally. With the main groups previously involved in huge deforestation and abuses of communities’ rights, the legacy issue should not be neglected. Impact of the movement on smallholders is another issue that deserves a lot of attention as there is a risk that these commitments will eventually prevent smallholders from accessing land and/or fragment markets.



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