



How can demand-side measures (DSM) enhance inclusive governance of deforestation-free supply chains

June 2021

Briefing Notes on State-of-Play of Demand-side Measures

1. European context

Helen Bellfield, Global Canopy/Trase

There are **no existing demand-side regulatory measures in Europe^[1] that directly target imported deforestation^[2]**, either at the member-state or EU level. However, there are a number of existing and proposed European demand-side measures that could be used to address imported deforestation via broader scopes (e.g. climate, environment, trade)^[3]. Meanwhile, **the first demand-side regulatory measure in Europe to specifically address imported deforestation^[4] is expected to be proposed by the European Commission (led by Directorate-General for Environment) in the second half of 2021**. The UK Environment Bill that is currently passing through Parliament also includes a specific provision for corporate due diligence on forest risk commodities^[5].

Existing and proposed demand-side measures that are relevant for deforestation

There are a number of existing and proposed regulatory and non-regulatory measures which may impact imported deforestation. Regulatory measures include renewable energy/environment legislation^[6], mandatory due diligence^[7], and mandatory reporting and disclosure^[8]. Non-regulatory measures include voluntary approaches, such as reporting and disclosure^[9], standards and labels^[10], transparency^[11], stakeholder dialogues^[12], trade agreements^[13] and green public procurement criteria^[14].

Focusing in on the EU's regulatory proposal

The European Commission's upcoming proposal for a demand-side regulatory measure to “*minimise the placing of products associated with deforestation on the EU market*” is receiving attention from decision makers and other key stakeholders. This is due to its expected level of ambition, the relevance of the EU as the second largest importer of forest risk commodities, the breadth of its application (the entire EU market) - particularly in the context of a number of emerging due diligence legislation proposals at the country level that risk a fragmentation of

approaches^[15], the infrequency with which such concrete, environmentally-related legislation comes about at the EU level, and the failure of companies and governments to meet voluntary deforestation commitments to date.^[16]

DG ENV is now considering the following five regulatory options for the proposal: (1) mandatory due diligence (2) deforestation free requirement for market access based on the EU's Illegal, Unreported and Unregulated Fishing Regulation^[17] (3) mandatory certification (4) mandatory labelling and (5) benchmarking criteria/country carding with options 3, 4 and 5 complementary to due diligence and option 5 complementary to the deforestation-free requirement^[18]. The impact assessment and stakeholder consultation highlighted five key areas of the proposal necessitating further definition: (1) environmental coverage: forests or all ecosystems and legal or illegal conversion^[19], (2) the inclusion of human, worker and indigenous peoples' rights^[20], (3) the coverage of private sector actors, particularly the inclusion of the finance sector^[21], (4) the types of liability^[22] and (5) the scope of commodities/products covered.

Although a number of studies highlight mandatory due diligence as an effective policy option^[23], there is acknowledgement and awareness that **such legislation alone will not solve the multiple challenges linked to products associated with deforestation**. Stakeholders on all sides note that a mix of regulatory and non-regulatory measures will be required to achieve impactful change. This includes the need for supply-side measures that support producer countries to address underlying drivers of deforestation^[24]. It is worth noting that even when the proposal is passed into regulation there is likely to be a period of time before it enters into force^[25].

The proposal faces three key **challenges to its adoption**, amongst many. Firstly, the potential contrasting, and not necessarily complementary, priorities and market sensitivities of the varying EU member states. Secondly, the private sector which historically has not supported legislation that is likely to increase their costs, although some companies with existing voluntary deforestation commitments have called for regulation to level the playing field^[26]. Thirdly, push back from producer countries that see the proposal as a form of market discrimination and pushing costs onto producers.

The proposal also faces two key **challenges to its implementation**. Firstly, the cooperation and coordination between EU member states' implementation, including clear and comparable penalties and sanctions, well defined implementation mechanisms (e.g. transparent monitoring and accountability systems) and investments in the capacity of competent authorities to ensure due diligence requirements are appropriately implemented by the private sector. Secondly, the sufficient availability and robustness of supply chain and deforestation data for companies to carry out due diligence, as well as for parties to evidence instances of alleged breaches. This challenge is currently being addressed both by the DG ENV proposal through the consideration of different options including mandatory labelling, mandatory certification and country benchmarks, as well as in other policy proposals on reporting and disclosure^[27] and public information systems^[28].

[1] References to Europe include the European Union and Norway, Switzerland and the United Kingdom.

[2] Defined as the importation of goods whose production has contributed, directly or indirectly, to the deforestation, forest degradation or conversion of natural ecosystems.

[3] E.g. The French Vigilance Law has a broad scope that covers human rights and the environment, but has been applied to deforestation through [the filing of a lawsuit in 2020 against Groupe Casino](#) by Indigenous peoples from the Brazilian and Colombian Amazon and non-governmental organizations over selling beef products linked to deforestation and land grabbing.

[4] The EC proposal would apply to any goods placed on the EU market (imported or otherwise).

[5] See Schedule 16 of the [Bill](#).

[6] E.g. The Renewable Energy Directive II that phases out high impact land use change biofuels (such as palm oil) by 2030 and Sustainability Chapters within trade agreements to follow international labour and environmental standards and to maintain current standards.

[7] E.g. Currently there are a number of mandatory due diligence proposals across Europe on human rights, environmental harm and corporate governance whose scope may be applicable to forest risk commodities. The French Vigilance Law remains the only operational regulation that covers due diligence on forest commodity deforestation risk under its broad remit. [See summary of proposals and their scope by the ECCJ](#).

[8] E.g. [Article 29 France](#) will require financial institutions to disclose biodiversity risks; [EU Corporate Sustainability Reporting Directive proposal](#) to amend the existing Non-Financial Reporting Directive to include a requirement a requirement to report according to mandatory EU sustainability reporting standards; Sustainable Finance Disclosure Regulation; EU Taxonomy that defines sustainable activities that can be classified as green.

[9] E.g. the [Task Force for Nature Related Disclosures](#) - a market led initiative that will develop a framework for finance and companies to report on nature-related risks.

[10] E.g. [Donau Soja and Europe Soya labels](#); approval of voluntary certification schemes as meeting criteria (e.g. biofuels labelling, EU Renewable Energy Directive).

[11] E.g. the proposed EU Observatory under the [EU's 2019 Communication on Forests](#); France's [public information platform](#) as part of its National Strategy to Combat Imported Deforestation (SNDI); EU-wide platform (European single access point) to provide investors with seamless access to financial and sustainability-related company information under [EU's Capital Markets Action Plan](#).

[12] E.g. Amsterdam Declaration Partnership; the COP 26 convened FACT dialogues.

[13] E.g. Under the Indonesia - EFTA free trade agreement Switzerland grants tariff reductions for a quota of palm oil imports if they meet sustainability criteria (likely assured via certification).

[14] E.g. The proposed French Climate and Resilience law includes mandatory vegetarian choices and public procurement criteria that reduces demand for feed and incentivises local sourcing; EU Green Procurement Principles criteria guidance on increased plant based menus, % of oils and fats deforestation free (RSPO, RTRS).

[15] See map of current proposals by the [European Coalition for Corporate Justice](#), noting that only the proposal in [the UK Environment Bill](#) is specifically focused on forest risk commodities with the majority focused on human rights and/or environmental harm more broadly. The French Vigilance Law remains the only operational regulation that potentially covers due diligence on forest commodity deforestation risk, but only in limited circumstances and only for a limited category of corporate actors.

- [16] See the [Forest 500 2020 assessments](#) of voluntary private sector commitments.
- [17] See the [2010 EU IUU Regulation](#).
- [18] See Hugo-Maria Schally's [presentation](#) on the policy options in March 2021.
- [19] The proposals may include illegal deforestation, legal *and* illegal deforestation, and/or land conversion.
- [20] The proposals may or may not include any combination of human rights, labour rights, indigenous peoples' rights, and/or land rights.
- [21] The proposals may or may not be prescriptive in their application to first importers, businesses of a certain size/threshold, and/or the finance sector.
- [22] The proposals may include any combination of the following liability: civil, criminal and/or sanctions.
- [23] E.g. "[European added-value assessment](#)", European Parliament Research Services on "[An EU legal framework to halt and reverse EU-driven global deforestation](#)" European Parliament, 2020; "[Stepping up EU action against deforestation and forest degradation](#)" COWI, 2018.
- [24] E.g. Weak governance and enforcement systems and land tenure rights; dialogues to facilitate coordinated approaches such as the recent Cocoa Dialogues; financing to support investments in deforestation-free production including the EU 25 million financing to Ghana, Cote D'Ivoire & Cameroon for sustainable cocoa production.
- [25] E.g. The EU Minerals Regulation, a mandatory due diligence regulation for metals, was passed in 2017 and became operational in January 2021. It may take 18 – 24 months for a proposal to be passed following amendments by the Council and the Parliament and a further two years or more to come into force.
- [26] E.g. [Joint position paper on the EU's policy and regulatory approach to cocoa](#) 2019; [TFA Collective position paper on EU action to protect and restore the world's forests: proposal for a 'smart mix' of measures](#), 2020
- [27] E.g. [Article 29 France](#) will require financial institutions to disclose biodiversity risks; [EU Corporate Sustainability Reporting Directive proposal](#) to amend existing NFRD; EU Sustainable Finance Disclosure Regulation; EU Taxonomy Regulation.
- [28] E.g. the proposed EU Observatory under the [EU's 2019 Communication on Forests](#) , France's [public information platform](#) as part of its National Strategy to Combat Imported Deforestation (SNDI), EU-wide platform (European single access point) to provide investors with seamless access to financial and sustainability-related company information under [EU's Capital Markets Action Plan](#).

2. US context

Michael Wolosin, Forest Trends

Sustained public and media attention to the issue of deforestation abroad is minimal and generally limited to left-leaning communities and outlets in the U.S. As such, policy progress on deforestation has been most significant when it is addressed as part of a larger policy agenda. In current international policy efforts by the United States, climate is the highest priority motivator for addressing deforestation, although there is also active engagement in the context of other priorities including biodiversity and wildlife crime.

The new dawn for U.S. climate action under the Biden Administration is widely understood. Biden has prioritized climate as one of the top crises threatening the country and world, and the Executive Branch has moved quickly on climate actions within its purview. On his first day in office, President Biden rejoined the Paris Agreement; he has since announced an economy-wide net zero target no later than 2050; launched a new Civilian Climate Corps as part of the COVID recovery; convened an Earth Day Leaders Summit on Climate; and prioritized climate in the G-7. Even so, the path for broad unilateral Administrative action on climate is constrained by existing law and authority. A conservative U.S. Supreme Court majority will likely interpret such authority quite narrowly when unilateral Administrative climate actions are inevitably challenged.

Legislative action in the U.S. is not guided by the President but by the bicameral Congress. Here, motivation to address climate is a different story, as a shared understanding of the risks from climate change – or even of well-established science for that matter – is lacking. With extreme partisanship, no guaranteed majority for any vote, and a supermajority in the Senate usually required by arcane rules, bipartisan legislation is only narrowly possible. The Democrats can pass budget bills with a simple majority, which in practical terms may allow for some climate-related legislation given their prioritization of climate action. But here too, the path is narrow.

With limited room for Executive action due to a conservative Court, a deeply partisan legislature with one of two parties uninterested in climate action, and a deeply polarized public that may well flip control of Congress in the next election, the international community may be justifiably sceptical of whether the U.S. can execute on its current climate ambition let alone maintain it.

Deforestation and Demand-side Approaches Writ-Large

Deforestation writ large is absolutely on Biden's climate agenda. The Administration appears to be prioritizing diplomacy and performance-based partnerships. Candidate Biden pledged in 2020 that if elected, he would mobilize \$20 billion to help protect the Amazon. Once in office, deforestation was high on the bilateral diplomacy agenda with Brazil in the lead-up to the April Climate Summit. More recently, the US and the UK joined with Germany and Norway to finance deforestation reduction in Peru, and the US government has partnered with the UK, Norway and the private sector to mobilize jurisdictional REDD+ finance through the LEAF coalition.

The US has a history of productive engagement to reduce trade that drives social and environmental harms – with many points of leadership but also some low points. For example, it was a global leader on illegal timber trade with the 2008 Lacey Act Amendments, but was behind other advanced democracies on addressing child and slave labor until recent years.

The new Administration has shown a willingness to explore new directions and new tools available to the executive branch. For example, the new US Trade Representative Katherine Tai gave a speech in April outlining a sweeping and new (for the U.S.) vision of using trade policy to advance climate and environmental objectives. Combined with a perhaps surprising continuation of the previous Administration's prioritization of domestic economy and jobs over continued trade liberalization, this suggests a potential opening for demand-side trade measures on deforestation.

Agricultural commodity imports to the United States from forest-risk regions

The U.S. is itself a major global producer of soy, cattle, and timber products, so it generally imports only a small proportion of these most significant deforestation-risk commodities from the largest deforesting countries: less than 4% and 3% respectively of Indonesian and Malaysian palm oil, no Brazilian soy, and relatively little (but increasing) Brazilian beef. It is a more globally significant destination for forest-risk cocoa, coffee, and rubber – directly importing about 12% of Côte d'Ivoire's and Ghana's cocoa bean exports in 2019; 20% and 44% of Brazil's and Colombia's coffee exports respectively; and 22% of Indonesia's natural rubber exports. Regardless, it is a significant or even the largest importer of forest risk commodities from some smaller producing countries (for example buying the vast majority of beef from Nicaragua where illegal ranching is rampant), and its total forest-risk commodity imports exceed \$3 billion per year.

The story is quite different for deforestation-risk *products* like leather goods, tires, and chocolate, which the U.S. imports from processing countries that are themselves highly exposed to deforestation risk in their raw materials sourcing. The U.S. imported \$6.5, \$2.6 and \$2.5 billion worth of leather goods from China, Vietnam, and Italy respectively – some of which made from deforestation-risk hides these countries imported and processed (e.g., one-third of Italy's tanned hides come from Brazil). This is equally true of the \$2.5 billion in Chinese tire imports; \$1.6 and \$1.4 billion of Canadian tires and chocolate respectively; and nearly \$600 million of EU chocolate. When it comes to these secondary deforestation-risk products, U.S. imports exceed \$20 billion. (All data in these two paragraphs are for 2019, based on analysis of UN COMTRADE data by the Environmental Investigation Agency).

Demand-side Policy Measures for Deforestation – U.S. State of Play

The most promising signs of significant U.S. demand-side action on deforestation at the Federal level are coming from Congress rather than the Executive branch, in the form of draft legislation spearheaded by Senator Brian Schatz (D-Hawaii) and Representative Earl Blumenauer (D-Oregon). California and New York have also considered state-level action in recent legislative sessions.

The Schatz/Blumenauer draft legislation has four core elements: 1) a prohibition on importing covered deforestation-risk commodities that were produced on *illegally* deforested land, according the laws of the country of origin; 2) enhanced traceability / due diligence obligations associated with new declarations requirements for importers; 3) working with countries committed to eliminating illegal deforestation; and 4) a federal procurement preference for deforestation-free contractors. The third is undergoing revisions, likely to shift away from European FLEGT VPA-like partnerships (with formal bilateral negotiations) to a risk-assessment approach coupled with support for risk-reduction by trading partners.

The prohibition on agricultural commodity imports sourced from illegally cleared lands is the heart of the bill, and is similar in many ways to the 2008 Lacey Act amendments that banned the import of illegal timber. U.S. government agencies would provide regulatory guidance listing covered commodities and products, with an initial list specified in the bill to include palm oil, soy, cattle, rubber, pulp, and cocoa, and declarations required of product classes by HS

code that are predominantly composed of a covered commodity. Annual updates to the product list would aim to maximize the effectiveness of the bill while taking into account the administrative burdens when considering products with diminishing amounts of a commodity. A regulatory process would also set and periodically update a list of high-risk countries. The importer of record would be responsible for ensuring that their supplies were legal – risking civil and criminal penalties if not – and would be required to provide import declarations certifying they had exercised “reasonable care” in that determination. Importers of listed commodities from high-risk countries would need to provide information showing full traceability of their supply chain and evidence that the geographic origin was not subject to illegal deforestation. **The bill would only apply to land deforested after the Bill is enacted – not to any historical year or baseline – with various required actions phasing in over two years.**

The Federal procurement provision creates a “carrot” for deforestation-free production, paired with the legal “stick” of the import ban on illegality. It would give preference in the form of a 10% price adjustment during the bid-comparison phase to contractors with deforestation-free supplies.

As of early June 2021, the Schatz/Blumenauer draft legislation is undergoing substantive revisions in response to initial stakeholder and industry outreach by staff, in preparation for a formal introduction into Congress. The NGO community is organized and providing input on the legislation, identifying additional legislative co-sponsors, undertaking broad outreach and education efforts, and seeking to identify leaders in the private sector to join the effort.

Two states – **California and New York** – have also been considering procurement bills that would require suppliers of forest-risk commodities to certify that they are entirely deforestation-free. On June 3, the California State Assembly passed AB 416, with strong support from the environmental community and investors. It now moves on to debate and a likely vote in the State Senate. A similar bill in New York was recently put on hold by the bill’s sponsors as the New York State Assembly’s 2021 session neared its closing. Sponsors plan to return the Bill to consideration in 2022.

None of these bills are guaranteed success. There are some implementation concerns by consumer goods companies and some of the agencies that would be tasked with an expanded mandate. But the biggest challenges are political: vertical integration in the industry means some U.S. companies – especially big traders and processors – are implicated in deforestation abroad while also deeply influential in domestic agricultural policy; domestic US agricultural producers are wary of additional regulation, even though they would be considered “low risk” compared to competition abroad; and political polarization over climate neutralizes one of the biggest motivating reasons to act. To date, leading Consumer Goods companies that have been proven leaders on deforestation-free supply chain policies in Europe have been noticeably and regrettably silent in the U.S.

Annex: Sources and Links:

[G7 Leader’s Statement](#) announcing the [2030 Nature Compact](#)

G7 Climate and Environment Minister’s [Communique](#)

USTR Katherine Tai April 15 [Speech](#) on Greening US Trade Policy and [Coverage](#)

[Hope](#) and [Failure](#) of Brazil-US negotiations on deforestation

The [LEAF Coalition](#)

Schatz/Blumenauer Bill:

Sen Schatz – [Deforestation can't be stopped by voluntary action alone](#)

[CBS Article](#) about Schatz/Blumenauer

NGO [Open Letter of Support](#)

California AB 416:

Ash Kalra AB 416 [Press Release](#)

Friends of the Earth AB 416 [FAQ](#)

California AB 416 NGO [support letter](#)

New York A6872/S5921:

Anna Kaplan [Press Release](#)

NRDC [Blog on Industry Opposition](#)

3. Chinese context

Chunquan Zhu, China head of Platform for Global Public Goods, World Economic Forum

1. Consumption driven deforestation

The centre of demand globally traded agricultural commodities is shifting. China and India are now among the main consumer countries with Chinese demand for agricultural commodities growing faster than GDP in the last two decades. China is the main destination for soya from Latin America, palm oil from Malaysia, leather from Brazil and timber from all around the world.

Income and levels of protein consumption show a strong positive relationship implying that a burgeoning middle class will continue to drive further increases in per-capita consumption.. The fact that per-capita consumption levels remain significantly higher in developed nations underscores the critical role of these countries and markets in providing leadership and support to emerging markets in tackling consumption patterns and behaviour as a key driver of environmental degradation. 2. Shaping the future of more sustainable soft commodity markets

Collective action by public, private and civil society actors is essential to tackle the increasing challenge of soft commodity driven deforestation in tropical regions from a demand perspective. These collaborative efforts need to be underpinned by a global independent, impartial, and future oriented platform for leaders to come together around a shared agenda and seek solutions to shape the future of a more sustainable soft commodity market.

3. Public sector roles and actions

The most important demand-side measures in China come from the public sector in providing the overarching guidance and mandates for markets, businesses, and individual consumers. Here China has taken a number of significant actions in recent years, including:

1) Regarding **international rules and cooperation**, illustrated by the participation of Chinese government agencies' participation in and implementation of international cooperation frameworks such as the CBD COP15 that can play a key role in encouraging demand side businesses to adopt more ambitious deforestation-free commitments for their supply chains. Linked to international frameworks bilateral and multilateral dialogues such as China-Brazil dialogues on sustainable agriculture can be instrumental in potential transformations towards more sustainable supply chains.

2) Regarding **legislation and sourcing guidelines**, where the revised Chinese Forest Law has a strong potential to help drive demand side supply chain transformation, including through Articles 64 and 65 that strengthen efforts to combat illegally sourced forestry products. China's Ministry of Commerce and National State Forestry and Grassland Administration have published a number of practice guidelines over the past 20 years, regulating oversea Chinese companies around sustainable investment, trade and management in forest products and more recently for palm oil.

3) Regarding the **government-back research agenda**, in which China's Council on International Cooperation of Environment and Development (CCICED, governed by Ministry of Ecology and Environment's - MEE - Special Policy Studies (SPS) has been working on sustainable development of soft commodity supply chain for years. In this process the SPS functions as an effective vehicle to level up policy recommendations to China's State Council and seek senior leadership endorsement. TFA China is also engaging with MEE on the National Strategy (Roadmap) of greening soft commodity value chains with an integrated

approach and targets on climate goals, biodiversity frameworks, food security and supply chain stability, carbon neutrality targets, among others.

4. The private sector as a key driver of multi-stakeholder action. Chinese businesses and other stakeholders working together have formulated collective initiatives such as the Global Forest Trade Network which has secured endorsement in China's COP15 official statement paper. Although similar group initiatives such as China Sustainable Meat Declaration gained a significant amount of attention, many companies continue to face challenges to ensure an effective implementation and monitoring of different declarations and initiatives, with challenges exacerbated by the relatively low levels of consumer awareness. Voluntary certification is widely accepted by market, but the challenge to reduce the cost burden of this model remains a major entry cost for many companies. Financial mechanisms and technical innovation are two further categories of promising private-sector led demand side measures that have recently attracted significant attention, including around green finance and innovations to increase agricultural productivity.

5. Civil society as a key driver of collective action. Civil society actors in China play a critical role in shaping demand side measures including through awareness raising campaigns and applying pressure on laggards. Civil society is often the cornerstone in initiating and facilitating public and private partnerships, including the CBD COP15's Business and Biodiversity Forum (BBF) - a platform developed to deepen stakeholder dialogue and engagement in promoting international cooperation across both consumer and producer countries and companies.

6. Public engagement as a key variable in shaping demand side measures

Consumer pressure is an essential factor in any effort to shape a demand side transformation to sustainable soft commodity supply chains in China. Consumers' behaviour patterns and lifestyle choices change, especially in younger generations, particularly Gen Z, who represent the future consumption landscape, has a key role to play in influencing business practices and thus overall trends.

In summary, demand side measures in China require changes that can balance development and conservation, and requires a rethinking of concepts of affordability, sustainability, self-sufficiency and trade relations within a framework of livelihood, climate change and biodiversity. A comprehensive, well-knitted system of measures system can help demand markets in China obtain the widest support and acceptance, and hence mainstream sustainability practices.

4. Private sector context with a focus on Brazil

Isabel Garcia Drigo, Imaflora

Key-messages:

- There is a wide range of voluntary measures by private sector demand-side actors, including Monitoring Reporting and Verification (MRV) systems and broad sustainability criteria such as zero-deforestation commitments and transparent traceability systems. However, levels of adoption are often low, depending on the political context, institutional environment and vary considerably across supply chains.
- Recent years have seen increased attention by investors to adopt and implement more stringent Environmental Social and Governance (ESG) criteria to guide investment decisions.
- The effectiveness of demand-side measures can often be enhanced through increased public-private cooperation and subnational initiatives.

Demand-side measures in the Brazilian context

Demand-side measures include several measures ranging from legislation, public procurement policies, voluntary bilateral arrangements, multi-stakeholder roundtables, independent certification, moratoria, voluntary disclosure, investor activism and consumer campaigns. In Brazil, upstream and downstream companies, especially those involved in the beef and soy sectors have been under increasing pressure to adopt and implement some of these measures to curb deforestation and other social and environmental irregularities from their supply chain (i.e. slave labor, public land invasion) [1].

Among the most called-for measures include i) the definition of industry-wide sustainability criteria, such as zero deforestation and “sustainable” forestry and agricultural practices; ii) joint individual and/or collective commitments iii) design and implementation of Monitoring Reporting and Verification (MRV) systems; iv) development of voluntary sourcing guidelines, including the adoption of certification [2].

Meatpackers and soy traders operating in the Brazilian Amazon have been among the first to sign zero deforestation and zero illegal deforestation commitments with different actors (including both Federal Prosecutors and NGOs). Most commitments were signed in 2009 and the key ones still in force in 2021 include the Terms of Adjustment of Conduct (TACs) drawn up by the Public Prosecutor's Office that focuses on illegal deforestation, and a commitment to zero deforestation, known as the Cattle Agreement initiated by Greenpeace. The latter was aimed only at the three Brazilian meatpacking giants that account for more than 60% of Brazilian beef exports: JBS, Marfrig and Minerva. Both agreements apply only to the Amazon biome. Both establish the compliance criteria and control what meatpacking plants should put in place to ensure the elimination of illegal suppliers. From a total of 132 mapped meatpacking plants, around 100 Amazon-based meatpackers signed the TAC until 2021.

International retailers exposed to reputational risks in the trade of forest-risk commodities have also received pressure to implement measures. In the case of Brazilian beef companies, Federal Prosecutors called for voluntary campaigns and educational measures by retailers and meatpackers. However, the changes in the external regulatory environment, including European regulations related to companies' responsibilities (including the French law, on due diligence) increased pressure on international retailers. As a consequence, large companies including Carrefour, Casino group and BIG (ex- Walmart) developed sourcing policies and MRV systems to assess compliance by meatpackers. Such measures have been met by the meatpackers who have argued that retailers should accept the results of the TAC control

already in place and avoid duplication of costs. Action by national retailers has been much slower than international companies despite the huge role of the domestic market for the consumption of Brazilian beef. In the case of the soy sector engagement has been led by the trading companies and the Soy Moratorium in Amazon is still the main agreement in place. The agreement is governed by civil society organizations and industry representatives, with government involvement ending following the election of the current federal administration in 2018. A distinguishing feature of the Soy Moratorium is that it is a sectorial agreement and the monitoring of suppliers is centralized. The reporting and verification process have to follow established procedures, but each company is responsible for implementing each of the steps. A technical committee is in charge of the evaluation and approves the results of audits each year. A similar initiative for the Cerrado region, strongly supported by international NGOs and a group of international buyers and investors (SOS Manifesto), has been met with strong resistance from some quarters, particularly due to emphasis on zero-conversion in contrast to the higher level of legal permission to deforest in the Cerrado compared to the Brazilian Amazon. While large-scale concrete initiatives are largely lacking within the finance sector, national and international investors operating in Brazil are increasingly engaged with initiatives to improve guidance for responsible investment and divestment, to develop green financial products and encourage traceability and transparency of financial flows involved in commodity production, trade, and consumption.

Persistent issues and perspectives

Even with increased pressure on, and action by soy and beef companies and international retailers and investors to implement effective measures to reduce deforestation linked to commodity trade, the Brazilian institutional environment presents significant challenges for the scaling up of demand-side measures. In the beef sector, the implementation of comprehensive measures (including monitoring and auditing of all direct and indirect suppliers, transparency and traceability) remains stalled or slow in part due to a reduction in budgets of command and control programs, barriers to access of public data (e.g. cattle movement records) as well as an increase in market demand.

The Beef on Track Program (www.beefontrack.org) was conceived and developed by Imaflora, in partnership with the 4th Chamber of Environment and Cultural Heritage of the Public Prosecutor's Office, meatpackers, civil society organizations to address some of these barriers. The aim is to articulate actions with the purpose of strengthening the commitments (TACs) and accelerating their implementation in all states of the Legal Amazon region. The first significant step was taken on July 1, 2020 with the implementation of a first version of a Unified Monitoring Protocol, with a Unified Audit Protocol to be launched in 2021, providing a more robust MRV system necessary to deliver on any demand-side measures. The most important and urgent element of existing commitments that remains pending is the monitoring of indirect suppliers. There are different views on how to include indirect suppliers in the monitoring. For instance, how to assign responsibility, access the correct documents in a safe environment and share costs.

Similar to Beef on Track, the Soy on Track Program (www.soyontrack.org) aims to strengthen the Soy Moratorium. Despite the fact that the agreement is one of the more successful market-based measures currently in operation, there are a number of important areas where improvements can still be made, including stronger accounting of indirect suppliers and expansion of an agreement to the Cerrado region.

Efforts to strengthen responsible supply chains in the Amazon and Cerrado still rely on developing necessary institutional arrangements with sub-national governments and institutions like the Federal Prosecutors Office to reinforce agreements and secure access to relevant data. Investors have a key role to play in driving adoption of agreed measures, including through criteria and indicators to monitor the promises contained in the policies of

the companies in which they invest. Investors also need to adopt social and environmental metrics and transparently report the positive and negative impacts of investments, including support for smallholder producers who struggle to achieve compliance. Efforts to enhance ESG criteria and develop a responsible investment framework also face a number of key barriers. In Brazil, the three largest private banks announced a plan aimed at driving the sustainable development of the Amazon. The plan includes ten measures targeting three areas: environmental conservation and the development of a bioeconomy; investment in sustainable infrastructure; and the guarantee of fundamental human rights in the Amazon. These banks joined the Brazil Coalition for Climate, Forestry and Agriculture, an umbrella organization that brings environmental and agribusiness together. In addition the Banco Central do Brasil (BCB) has opened a public consultation on two draft regulations that define sustainability criteria to be applied to rural credit operations. In sum, banks are starting to respond and take initial actions. In another instance, Imaflora, with international partners (Cirad, GIZ, Uk Pact), is working with three banks to prototype MRV systems that aim to go beyond legal compliance and address carbon footprints. Nevertheless the costs of implementing any such measures are not trivial and tend to avoid adding bureaucracy that can increase the cost of the credit given. In sum, there is an urgent need to boost public and private actors' cooperation to enhance the feasibility of the different demand-side measures adoption and implementation. A combination of different approaches and hybrid governance mechanisms are likely to be most effective.

[1]Walker, N., Patel, S., Davies, F., Milledge.S., Hulse, J.Walker. 2013. Demand-side interventions to reduce deforestation and forest degradation. IIED

[2] Bager, S.L, Persson, U.M, dos Reis, T.2021. Eighty-six EU policy options for reducing imported deforestation.One Earth.