
SUMMARY REPORT:
EXPLORING THE REALITY OF THE

JURISDICTIONAL APPROACH

AS A TOOL TO ACHIEVE SUSTAINABILITY
COMMITMENTS IN PALM OIL AND SOY SUPPLY CHAINS

CONSERVATION
INTERNATIONAL



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AT A GLANCE

Conservation International conducted a series of interviews with private sector, government and civil society stakeholders to test assumptions behind the utility of the jurisdictional approach (JA) as a vehicle to achieve commitments to eliminate deforestation, development on peatlands or exploitation in palm oil and soy supply chains. Our research confirms that the JA has significant and important potential to increase government engagement and leadership of efforts to drive sustainability of agricultural commodity production. Our research also highlighted significant challenges that need to be addressed to drive broad transformation of either sector rather than creating small pockets of sustainable production to serve niche markets. These include misalignment of incentives and capacity in commodity producing regions to drive sustainability as well as a need to define greater benefits at the local level for sustainable commodity production. International supply chain actors, governments in producing and consuming countries, donors and civil society must commit to working with sub-national (state, provincial, local) governments and communities in new and transformative ways if we are to address the main drivers of deforestation and conflict in commodity supply chains.

INTRODUCTION

Deforestation is one of the most pressing global environmental challenges today. Agricultural expansion is the leading driver of deforestation, accounting for up to 90% annually. Four globally traded commodities — palm oil, soy, beef and pulp/paper — are responsible for more than 50% of deforestation. Major companies in the food and agricultural supply chain have made commitments to end deforestation associated with agricultural commodity expansion.

To date, corporate efforts have largely focused on supply chain traceability, verification or certification programs with the intent to ensure that suppliers are using sustainable practices. Building on original commitments made by large food and beverage companies in 2010, these commitments have emphasized no deforestation, development on peatlands, or exploitation of people and local communities in the supply chain, also known as “NDPE commitments.”

Although these voluntary initiatives reflect important progress within the industry, market-focused interventions alone are proving insufficient to solve the larger challenges of deforestation, social conflict and exploitation in the supply chain, impacting only a small segment of key suppliers. This shortfall is in part a result of supply chain initiatives that do not address the vital role that governments play in allocating, regulating and managing the use of natural resources.

In response to this recognized challenge, a number of initiatives have emerged in recent years that aim to bridge market- and policy-based approaches to reducing commodity-driven deforestation. These “jurisdictional approaches” to sustainable commodity production and sourcing are place-based initiatives focused on areas defined by political jurisdictions.¹ The jurisdictional approach (JA) essentially seeks to create market drivers for improved governance as goods from jurisdictions that reduce deforestation and improve sustainability of commodity production would, in theory, be more attractive or valued in those markets demanding sustainability. By focusing on entire jurisdictions rather than individual suppliers, the JA also offers the potential to accelerate and scale sustainable commodity production initiatives and to be more inclusive of smallholder producers across the jurisdiction. The impetus for some, but not all, JAs has been the development of a government-led jurisdictional program to reduce emissions from deforestation and forest degradation (referred to as ‘REDD+’).

As this new commodity focused JA is relatively young, there is wide variability in approach and specifics of implementation. Generally speaking, implementation of the JA commonly includes a multi-stakeholder forum(s) to secure wide input and support; development of action plans or roadmaps that identify the key social, environmental and production goals and challenges in the jurisdiction, as well as actions needed to address them; and a monitoring or information system to track implementation of the plan and resulting progress towards goals.

Better understanding the strengths, weaknesses and opportunities to refine the JA is a key component of Conservation International’s Sustainable Production strategy. Conservation

International (CI) works to conserve nature for the benefit of people and is committed to transforming agricultural commodities to a sustainable production model in which agricultural production enhances community health and wellness, drives economic growth and development, and ensures that natural resources are conserved and managed to provide benefits now and into the future. In agricultural sectors, our efforts are aimed at 100% sector transformation to sustainable production as opposed to simply creating small “pockets” of sustainable production that serve only niche markets and would fail to address larger, widespread challenges such as deforestation, human rights abuse and social conflict.

This research initiative, made possible by the support of the Walmart Foundation, aims to explore and “ground-truth” the reality of the JA based on the needs of market actors potentially sourcing from JA initiatives and producing-country governments participating in JA initiatives. We further sought to shed light on the potential strengths and weaknesses of the JA as it emerges, as well as its potential value and utility in supporting sector-wide efforts to reduce deforestation and social conflict related to agricultural-driven land use change. Focusing on palm oil in Southeast Asia and soy in Brazil, our work built on a series of interviews with government officials in jurisdictions that are already implementing the JA, as well as officials in areas facing important deforestation challenges, but not yet significantly engaged. We spoke with NGOs that are deeply engaged in the JA, specifically those involved in pilots, implementation and thought leadership platforms. We further interviewed representatives from companies in soy and palm oil value chains, from producers and traders to consumer goods companies and retailers. Finally, we examined trade data to better understand current patterns and potential implications of commodity trade flows on the development of the JA and its potential to support 100% transformation of palm oil and soy sectors toward sustainable production.

This Summary Report focuses primarily on the conclusions and recommendations we have drawn from this work and summarizes the finding from the interviews and trade flow analysis. **The full report was published in March 2019.**

¹We define a JA as an integrated landscape approach that aims to reconcile competing social, economic and environmental objectives through participation across stakeholders and sectors, implemented within government administrative boundaries, and with a form of government involvement.

CONCLUSIONS AND RECOMMENDATIONS

Our findings from interviews and research have led to the following conclusions and recommendations:

Conclusion: Sustainability is emerging as a competitive differentiator for a small number of commodity-producing jurisdictions.

Trade data indicates that dominant palm oil producers Indonesia and Malaysia face increasing competition to sell into the “preferred” markets of the US and EU. Large American and European palm oil users, who are often willing to enter into longer-term contracts that are preferable to spot markets or more transactional business dealings, represent the primary markets asking for sustainable palm oil and soy products. It is clear from our interviews that a small number of sub-national governments are positioning to differentiate products from their jurisdictions based on sustainability performance. This is an extremely encouraging development for both the soy and palm oil sectors.

Recommendations:

- **Engage and invest.** Companies, donors and NGOs should support governments in those jurisdictions that have demonstrated commitment through an inclusive process and clear actions to reduce deforestation and improve sustainability of commodity production. As noted elsewhere, sustainability at the jurisdictional level is a difficult and long-term process. Implementing jurisdictional sustainability plans or “road maps” will be expensive, and government leaders willing to take on the challenge will need to see that their courage and commitments are being recognized and rewarded during the journey and not only at the end point. This is especially important if we hope and expect other jurisdictions to follow the leaders.
- **Explore and apply innovative and complementary investments to support jurisdictional transitions.** In addition to the investments required to reduce deforestation and implement sustainable production systems, sustainable management of forests and natural capital is fundamental to sustainability of a jurisdiction. Companies that have already made commitments to forest conservation, community development or similar sustainability goals through either corporate or philanthropic channels should consider directing these investments or philanthropic programs to support priority JAs.
- **Participate.** Multi-stakeholder platforms are a key part of the JA, and these initiatives need strong and consistent participation in and support for these dialogue platforms. For example, downstream companies could clarify market requests for sustainability if they meet directly or through multi-stakeholder platforms with their suppliers’ suppliers. Participation must go beyond simply attending discussions in capital cities; it means committing to the transformative potential of a JA by rewarding progress with purchases (below); better understanding and taking responsibility for company supply chains and their local effects; using influence and advocacy to bring together various parts of government with stakeholders to address issues at jurisdictional scale, and getting involved with the upstream production of products fundamental to a company’s portfolio.
- **Reward progress with strong commitments and purchases.** The salient goal of a JA is to bring market drivers to reward and promote good governance. Where governments have made strong commitments to reducing deforestation and driving sustainability with clear, timebound plans and are adhering to those plans, directing purchases and other business to these jurisdictions will create important and positive incentives. On the flip side, companies that are losing business because governments in their production areas are not seriously addressing sustainability may be more inclined to lobby for sustainability improvement (above).

Conclusion: The current balance of risk vs. reward for governments in a wider range of commodity-producing jurisdictions does not tip in favor of “halting deforestation.”

As noted below in results from the government interviews, the challenges to governments in reducing deforestation are significant, immediate and can be politically costly. By contrast, market benefits to governments that commit to sustainability can be uncertain and long-term. To encourage faster progress in leading jurisdictions and additional participation by those governments that are not yet significantly engaged, we must do more to rebalance the perceived cost-benefit calculation for government officials. This can be done by increasing incentives with both carrots and sticks for addressing deforestation and by lowering the perceived “costs” and barriers to addressing key challenges to sustainable development.

Recommendations:

- **Clarify the “local value proposition” from reducing deforestation.** NGOs, companies and other practitioners should place greater emphasis on investing in and demonstrating the significant benefits to local economies and populations that can be derived from conservation and sustainable commodity production. For example, floods and landslides are common in many parts of Indonesia and can be greatly exacerbated by deforestation. Similarly, drought and shifts in rainfall patterns that can be affected by large-scale clearing of natural vegetation are major concerns of soy farmers.
- **Bring additional demand signals for reduced deforestation and sustainable commodity production to government by recruiting additional companies and additional sectors into JA initiatives.** Sustainability at the broader jurisdiction scale is relevant to all economic sectors (e.g. broader agriculture such as cocoa, coffee or staple crops; timber; mining, energy, tourism and hospitality) and companies operating in or sourcing from those jurisdictions. NGOs and companies should recruit stakeholders from relevant sectors beyond palm and soy to show to governments the widest possible constituency for reducing deforestation and to increase potential supporters and investors willing to back government sustainability commitments.
- **Capture gains available through improved implementation and enforcement of existing laws, regulations and government programs.** In both Indonesia and Brazil, there are existing legal requirements that, if fully implemented and enforced, would translate into important benefits for reducing deforestation and conserving forests in production landscapes. Building on current policies, programs and regulations helps avoid the perception that sustainability is somehow additional or beyond what governments should already be doing and helps build common ground with government stakeholders. For example, the government of North Sumatra province conducted the legally mandated Strategic Environmental Assessment with support from CI and concluded that an additional 1.28 million hectares of remaining forest — 17% of the entire province — should be designated as protected forest to reduce the risk to development from floods and landslides. Full legal compliance will not address all concerns associated with market demands for NDPE, but it is an important and meaningful step that cannot be overlooked.
- **Build local government understanding of laws and regulations and build capacity for improved enforcement.** Provincial and local governments are essential to enforcement and implementation of any sustainability agenda. Investors, donors and governments need to invest in capacity building, strengthening institutions and technical training. Producing countries that are investing in international sustainability communications efforts should also invest in “domestic roadshows” or similar initiatives to drive greater capacity and alignment among government officials.

Conclusion: To harness the potential of the JA to reduce deforestation at scale, we need to make sustainability more relevant and meaningful to all producing jurisdictions, not just the sustainability pioneers.

Leading jurisdictions are pursuing a competitive edge in preferred markets based on sustainability performance. If the number of markets demanding more sustainable production does not grow, the potential for the JA to scale as it is currently framed is unclear. In theory, the Malaysian state of Sabah could satisfy the entire demand of the U.S. and EU markets, yet sustainable palm oil production in Sabah alone will not solve the broader challenge of transforming the palm oil sector to sustainability. Downstream U.S. and European companies looking for quick fixes to deforestation in their supply chains need to remember that they too need solutions to scale. “Cleaning up” individual supply chains by shifting to “safe” or low-risk production areas will not solve the widespread challenges of deforestation, which are central to the global challenge of climate change, nor will it solve the broader reputational challenges facing the soy and palm oil sectors.

Recommendations:

- **Expand the markets asking for sustainable commodities.** Efforts are underway to build demand in key markets outside of the U.S. and EU in the Asian markets that are significant consumers of palm oil and soy. In the long term, these efforts are essential, and practitioners should explore creative options in markets where high-level NDPE commitments might not be soon forthcoming, but where, for example,

demands for evidence of legality may be more immediately feasible. Indonesia, for example, is both the largest producer and the largest consumer of palm oil globally, and legal compliance should be a minimum requirement.

- **Recruit peers, partners and industry associations in markets outside of the U.S. and EU.** Downstream companies can play a critical role in building the demand for sustainable soy and palm oil outside the U.S. and EU. By sharing the lessons gained through experience, European and American companies, industry associations and related initiatives can help companies in other markets to better understand the issues, as well as the actions they can take toward sustainable production and sourcing of palm oil or soy.
- **Leverage existing supply chain commitments.** Downstream companies using palm oil and soy products can expand the impact of their sustainability commitments by requiring suppliers to apply sustainability commitments across their entire supply base and not simply what is shipped to them. This requirement is only clearly specified in a handful of downstream supply specifications and should be widespread.

Conclusion: The JA represents an important and promising systemic approach to address the complex challenges behind agriculture-driven deforestation and social conflict. It is not a quick fix.

The challenges behind deforestation are complex and multifaceted. Absent significant investment in jurisdictions to build their capacity and significantly accelerate and scale efforts from local projects to jurisdiction-wide initiatives, even the leading JAs are unlikely to have eliminated deforestation by 2020. That does not mean these efforts are not valuable and worthy of support and investment.

Recommendations:

- **Continue to send clear demand signals for sustainability.** Companies in the value chain should continue to work on supply chain improvements in transparency, visibility and certification/verification of supplier performance. In the short term, JAs are unlikely to replace the need for ongoing supply chain assurance

efforts. These efforts help build the visibility and relationships needed to address fundamental challenges, they can generate important lessons, and they represent an important market signal for sustainability. Directing these supply chain efforts to jurisdictions pursuing the JA may also help contribute to those larger initiatives.

- **Innovate.** Business as usual will not solve the complex and systemic challenges associated with deforestation, conflict and exploitation in supply chains. Companies should move beyond a compliance mindset and invest in supporting JAs and driving innovation aimed at solving the fundamental challenges behind these issues. Investments are required across the supply chain. Upstream producers and traders should participate in, encourage development of, and

invest cash and in-kind resources in JAs in their priority production or sourcing regions. Downstream companies may view investments in JAs as added cost or may view them as beyond their direct responsibility based on where they sit in the value chain. Yet, the supply chain is currently absorbing costs in the form of chain traceability, verification, certification and related programs. These investments are moving toward assurance of commitments made, but alone are insufficient to achieve the goals of NDPE commodity production. We can debate on where the line is between public and private sector interest and where costs should be borne up and down the supply chain, but this debate will not solve fundamental problems without leading companies driving innovations needed to unlock solutions.

Conclusion: A “stepwise path” with incentives provided proactively and along the way will be essential if we are to transform entire jurisdictions.

Some form of progressive or continuous improvement approach will be required given the breadth and scope of the challenge and the enormous variability in capacity and capability across producers in a jurisdiction. For example, it is unrealistic to think that all producers could achieve one fixed standard at one time, so jurisdictional implementation plans will need to account for this variability and provide appropriate flexibility and incentives, both carrots and sticks, to drive continued improvement and adherence to jurisdictional sustainability plans.

Recommendations:

- **Build flexibility and accountability into government-owned and -driven jurisdictional sustainability road maps.** Development and implementation of these road maps is a critical part of the JA process. In many cases, the beginning of the process may uncover additional and unknown problems or conflicts. Governments and JA participants should be supported and encouraged to build the appropriate institutions, processes and
- mechanisms for adaptive management to deal with these issues and challenges as they arise.
- **Recognize that legality is important, and in some jurisdictions, it can represent significant advances toward longer-term goals of eliminating deforestation, development on peat, or exploitation.** As noted elsewhere, legal compliance can be a critically important first step in a JA even though it is not the last. Where needed, we should capture the advances to be gained through legal compliance and move forward.
- **NGOs must not let the perfect be the enemy of the good.** By emphasizing the role of government, the JA has the potential to address a significant gap in previous supply chain dominated efforts to reduce deforestation and social conflict associated with commodity production. The JA is not a panacea, and these efforts will still represent a long journey. Where governments are making legitimate efforts and progress, it should be acknowledged

even if the final goals are not yet achieved. Let's not destroy the laboratory before the experiment is completed. We need innovation, experimentation, good monitoring, adaptive management and documentation of lessons learned along the way. There will be failures — let's learn from them.

- **Companies, especially downstream, must not claim premature victory or overinflate successes.** As noted, the JA represents a journey, not an immediate fix or one-stop-shop solution. Companies should participate in and support JAs, but such participation does not replace the need for companies to work actively and constructively with their suppliers to drive their own corporate sustainability action plans. Supply chain initiatives and JAs should not be seen as replacements for one another, but complementary approaches necessary to

achieve the end goal of a commodity supply chain of which any company, government or stakeholder can be proud. Claiming premature victory will only serve to spark criticism that does not serve to advance real solutions.

- **Leverage projects and “stepwise” or continuous improvement approaches to drive scale.** Companies, NGOs, governments and donors should build pathways to better align and scale landscape or supply chain projects into broader JAs. For example, clearly framing landscape level projects around key legal requirements or government programs as an interim milestone in leading JAs may provide powerful models and pathways for other nearby jurisdictions to follow, while allowing those leading JAs continue to pursue sustainability roadmaps that address key issues beyond legality.

INTERVIEWS: PRIVATE SECTOR + MARKET PERSPECTIVES

We conducted interviews with representatives from 14 companies at all levels of the palm oil and soy value chains from producers and traders to consumer goods companies and retailers. These discussions revealed optimism and support for the JA as well concerns and doubts. These can be summarized as:

- Broad familiarity with the overall concept of the JA and recognition that, by placing greater emphasis on the role of government and bottom-up multi-stakeholder processes, the JA brings a more holistic approach with potential to better address the systemic challenges that drive deforestation.
- Uncertainty on the role of private sector actors, especially downstream. Most companies recognized the importance to support JA initiatives and provide positive incentives in the supply chain. However, mechanisms to do so remain unclear and elusive, with some companies willing to invest directly through business or philanthropic means, and others willing to offer longer-term or flexible contracts, or positive profile and exposure to leading suppliers. Several companies challenged the value of premium pricing in driving lasting positive change in the value chain.
- Hope that the JA can provide greater scale, improve options for incorporating smallholder producers into sustainability programs, and eventually reduce or eliminate the need for costly traceability programs and supplier-by-supplier certification or verification.
- Concern regarding the diversity of emerging initiatives, high variability in approaches and uncertainty in the assurances that the JA will be able to provide regarding compliance with no-deforestation and sustainability commitments. Some initiatives are focused on single commodities such as palm oil and targeting a specific certification standard such as the Roundtable on Sustainable Palm Oil (RSPO), while others are targeting multiple commodities and focused around broader ambitions of reducing deforestation.
- Timelines for some of the major JA initiatives are not aligned with corporate 2020 commitments.

INTERVIEWS: GOVERNMENT + NGO PERSPECTIVE

At the other end of the value chain, we interviewed government officials at local, provincial/state and national levels as well as civil society actors involved in leading JA initiatives in Indonesia (North Sumatra, South Sumatra, Central Kalimantan), Malaysia (Sabah) and Brazil (Mato Grosso, Bahia, Tocantins, Para).

These discussions revealed:

- There is a wide spectrum of understanding of the JA concept. Some government leaders clearly see the JA as a means to improve competitiveness of their jurisdictions and differentiate themselves in international markets. Many others, even some within jurisdictions that are pursuing the JA, have never heard of the approach.
- All officials noted the significant challenges they face in addressing deforestation in their jurisdictions based on divisions and siloes within government — both between local, provincial/state and national, as well as between different ministries and departments within government. Political challenges associated with ending deforestation are significant. In some instances, officials viewed the JA with its emphasis on multi-stakeholder processes as a potential mechanism to help coordinate and unify government efforts. Similarly, officials viewed the JA as a useful framework to drive alignment and compliance with existing policies, programs and laws.
- In the Indonesian context, officials emphasized the importance of alignment of district, provincial and national-level government commitment and leadership as essential to making meaningful progress at local (i.e. district) levels.
- Representatives from all jurisdictions noted the significant capacity challenges that inhibit progress of JA initiatives and undermine efforts to reduce deforestation. Similarly, officials noted that resources available to them to advance the JA or address broader issues of deforestation pale in comparison to the complex drivers and challenges that must be addressed to reduce deforestation, resolve land and property conflicts, and promote sustainable commodity production in their jurisdictions.
- The intended scope and scale of the JA concept presents a unique challenge for initiatives aiming at compliance with a single standard such as RSPO. The JA is intended to encompass all producers in a jurisdiction, yet those producers vary significantly in their sustainability performance and ability to comply with a single standard at a single point in time.
- The process of initiating a JA is anticipated to uncover additional and unknown problems and conflicts as stakeholders are given a clear platform to air grievances that may not have been widely known previously.

ANALYSIS OF TRADE FLOWS

While a key aim of the JA is to increase government engagement and leadership in efforts to halt agricultural driven deforestation, it is still fundamentally built around markets for key products such as palm oil. Our research therefore included a component examining trade flows with the aim of better understanding the potential for the JA to contribute to long-term sectoral transformation. This analysis focused on palm oil due to the relatively higher number of distinct JAs in development in palm oil producing jurisdictions. Key findings from the trade flow analysis included:

- Indonesia is both the largest producer and consumer of palm oil globally. Outside of Indonesia, the largest importers of palm oil in 2017 were India (10.6 million metric tons) followed by the EU (6.5mmt), China (4.8mmt), Pakistan (3.1mmt), Bangladesh (1.6mmt) and the U.S. (1.45mmt). The key point is that only two of the top seven markets for palm oil are requesting a sustainable product, and the majority of the global market continues to operate on a business-as-usual approach.
- U.S. and EU markets are approaching saturation of demand for sustainable palm oil as the total volumes of certified oil reported by U.S. and EU global brands in RSPO annual reporting exceeds 80% of their global commitments, indicating future gains will be marginal.
- Jurisdictions implementing leading JAs produce significant volumes relative to demand from U.S. and EU markets requesting sustainable palm oil. For example, Sabah alone produced 9.34mmt in 2017 compared with a combined total of 7.95mmt imported to the U.S. and EU in 2017.
- Trade flows to major markets have shifted in recent years due to trade and economic policy in importing nations. For example, China was the largest palm oil importer in 2010. Its market share has dropped due to a shift toward soybean oil resulting from changes in the livestock sector that are driving an increase in the use of soybean meal for animal feed and increasing soybean oil substitution of palm oil. However, in late 2018, China decided to increase their purchase of CPO from Indonesia by an astonishing 500,000 tons. Equally, Indonesia's share of exports to India have dropped from 87% in 2010 to 56% in 2016 as a result of competing government policies aimed at capturing economic value from palm oil processing and refining. Other markets, including emerging markets and eastern European markets, are increasing in CPO trade flow importance. What these trade disruptions indicate is a new fluidity in CPO exports flows that will become the new norm. In order to be effective, JA of certified products will need to be cognizant of this modern reality.
- Latin America is gaining market share in the EU market. In 2016, 28% of the crude palm oil imports to the Netherlands came from Latin America. Similarly, Latin American imports to Germany have grown from 15% in 2011 to 31% in 2016.

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