

Environmental Audit Committee

Oral evidence: Sustainable timber and deforestation, HC 637

Wednesday 9 November 2022

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Members present: Philip Dunne (Chair); Jerome Mayhew; John McNally; Dr Matthew Offord.

Questions 83 - 114

Witnesses

I: Sir Ian Cheshire, Chair, We Mean Business Coalition; Alexandria Reid, Senior Global Policy Adviser, Global Witness; Michael Rice, Lawyer, Forest-risk Commodities, Client Earth; Dr Chris West, Lead for Sustainable Consumption and Production group, Stockholm Environment Institute York.

Written evidence from witnesses:

[Dr Chris West \(Senior Research Fellow at Stockholm Environment Institute, University of York\)](#)



Examination of witnesses

Witnesses: Sir Ian Cheshire, Alexandria Reid, Michael Rice and Dr Chris West.

Q83 **Chair:** Good afternoon and welcome to the Environmental Audit Committee and the second oral evidence session into our inquiry into sustainable timber. Today we are focused on the UK's contribution to tackling deforestation. I am very pleased to welcome our panellists. I invite you to introduce yourselves to the Committee and explain the role of your organisation, starting with Dr Chris West from the Stockholm Environment Institute in York.

Dr West: The Stockholm Environment Institute York is part of the SEI global think tank on environment and development. I am the deputy director for research at the York centre. I also lead a team of researchers working on sustainable consumption and production issues.

Alexandria Reid: I am a senior global policy adviser at Global Witness. Global Witness is a campaigning organisation, which has been around for about 25 years working on issues of corruption, justice and now climate change. I sit in the forest team and our campaign is for the introduction of due diligence for the financial sector in cases of deforestation and human rights abuses.

Chair: Sir Ian Cheshire is a well-known businessman but is here representing We Mean Business Coalition

Sir Ian Cheshire: Yes, and wearing two hats probably, Chair. I also chair the GRI taskforce, which reported on deforestation, and which fed into the Environment Bill, a cross-governmental business and NGO group, and chair of We Mean Business, which is a group of NGOs but very much engaged with the business world. I also have an interest going back to ancient times when I was chief executive of B&Q, and we spent quite a lot of time on deforestation and sustainable timber.

Chair: Are you happy to talk about B&Q?

Sir Ian Cheshire: Absolutely, and all of the above.

Chair: And Michael Rice from Client Earth.

Michael Rice: Good afternoon. It is a pleasure to be here. Thank you very much for the invitation. I am a lawyer with Client Earth, which is an environmental law charity, headquartered in London but I am based in Brussels. I have been leading our work on the emerging legal frameworks addressing forest risk commodities and imported deforestation in the United Kingdom as well as in the European Union.

Q84 **Chair:** We are meeting while COP27 is meeting in Egypt and the subject of deforestation has been on the agenda already in Sharm El Sheikh so I feel this is quite a topical session. It would be very helpful if we could start, Dr West, with a bit of an overview of the key drivers of



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deforestation. Some of us have seen maps, over time, of areas within the rainforest belt—I am thinking of Borneo in particular—where I think the amount of deforestation has been astonishing in the most recent three or four decades. Perhaps you could help to illustrate some of that for us.

Dr West: I have broken this down a little bit into a series of questions the first of which is how much deforestation is going on. Statistics from Global Forest Watch, which is a platform co-ordinated by the World Resources Institute, estimate that over the past 20 years 437 million hectares of forest or tree cover have been lost globally. That equates to about 174 gigatonnes, or billion tonnes, of CO₂. It is a quite staggering number. It represents an 11% decrease in total tree cover since 2001.

We estimate that tropical or humid primary forests in tropical regions have decreased by 6.7% in that time, with 3.75 million hectares lost in 2021 alone.

Globally, the drivers of tree-cover loss and deforestation vary so the question is how much of that is driven by agriculture. A number that is bandied around and has been used in UK policy is that 80% of tropical deforestation is driven by agriculture, but that number is not an easy one to confirm, not least because tree-cover loss is complex and does not necessarily lead to permanent deforestation. These landscapes are dynamic. Also, productive use of land following deforestation is not guaranteed; it does not necessarily result in agricultural production. Our recent study and census of evidence looking at the primary drivers of tropical deforestation concluded that between 90% and 99% of tropical deforestation could be linked to agriculture but looking at the productive agricultural output, only 45% to 65% of the deforested land becomes associated with agricultural output. There is a huge gap in terms of the use of the land.

Q85 **Chair:** Can you explain what the difference between those two figures means? One is half of the other.

Dr West: Essentially, we know that the dynamics of land-use change are complex but what we observe is that 90% to 99% of deforestation is in some way linked to agricultural expansion. However, there are activities such as speculative clearing—fires that co-exist with agricultural lands which do not necessarily produce agricultural product. There are issues with people clearing and then not planting following that clearance and those things mean that there is this gap, ultimately, between the clearance and the productive use of the land afterwards.

Another question is of that productive use, what commodities are linked to it. We observe that about half of that is down to pasture, so conversion to pasture for the rearing of beef. Of crops, we think that oil palm and soy account for about one-fifth of the total and there are a number of other commodities—cocoa, coffee, maize, rice and cassava counting for the majority of the rest.



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The final question is how much of that is linked to the UK.

Q86 **Chair:** Before you get on to that, you did not mention grazing there. We hear of Brazilian rainforest being cleared mostly for livestock grazing.

Dr West: That is the pasture.

Chair: Yes, you mentioned pasture.

Dr West: Of the productive us, approximately 50% is pasture.

The next question is how much of that is linked to the UK. This is an area of work that we have been leading on at the Stockholm Environment Institute in collaboration with the UK's Joint Nature Conservation Committee. We have developed an indicator to try to estimate how much of the agricultural production is linked to the UK and our estimates say that for the year 2018, about 36,000 hectares of tropical and sub-tropical deforestation can be linked to the UK economy. To put that into a bit of perspective, that equates to about 190-odd football pitches per day.

I hope that gives you a bit of a flavour of the context, but I am happy to answer any more questions.

Q87 **Chair:** Is that estimate widely recognised or is that calculation somewhat specific?

Dr West: It is a calculation based on a combination of remote sensing information, agricultural statistics and economic modelling. It is not a hard and fast number. We are dealing with an incredibly complex system when it comes to trying to track the products that are moving around the globe and therefore to do these sorts of global assessments, we essentially rely on modelling approaches. There are assumptions associated with those models so alternative figures do exist out in the landscape, but these estimates are based on peer-reviewed approaches and robust science. We can be confident, I think, that that is the right sort of ballpark.

Q88 **Chair:** Dr West did not mention mining or resource exploitation other than agriculture. Is anybody else in a position to comment on the extent to which there are activities other than agriculture responsible for deforestation?

Sir Ian Cheshire: The very short answer is that agriculture/human expansion—which is where it gets very difficult because that is often due to the pressure of settlement as well as just agriculture—is by far the biggest element but there are certain biomes where there are issues with extraction, notably in Congo and some other places, where particular places are under threat, but it is fair to say that human beings and agriculture are the biggest single global problem.

Alexandria Reid: I echo that and add to what Chris West said about how the drivers can differ greatly from region to region. In Africa, for example, the drivers of deforestation are quite distinct in comparison to



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Latin and South America. What Dr West raised about agri-conversion not necessarily leading to commodity production is particularly important. Crucially, not all of the commodities that are produced are exported. Lots of them are meant for the domestic market.

Q89 Chair: Sir Ian, in relation to the Global Resource Initiative and focusing on the UK's footprint in particular, do you recognise Dr West's figures? Do you think that is taken into account by British businesses when they are looking to import product from abroad?

Sir Ian Cheshire: The modelling is incredibly complicated, but it is getting easier as the technology and monitoring are getting better. Although the degree of space-based surveillance you can do now is improving, it is still hard to pick exact figures, but those are the basic facts.

The GRI experience, when we worked with a series of businesses such as Tesco, NGOs and others, was of a sense that the UK has an environmental footprint roughly twice the size of the UK in terms of what it imports. That is before you get to other impacts such as how much waste we send to other parts of the world, so just focusing on our commodity impact. Most of us in the business world have been conscious of this issue for some time. I can go back to my B&Q experience. The thing that brought me up short was when we calculated the timber in the kitchens and the wood and everything that we supplied. In the broader group, it was a forest the size of Switzerland every year. When you think of that sort of direct impact, it really brings it to life. Fortunately, that led us to being involved very early on in making sure that said forest was sustainable and could be regenerated as opposed to some of these other impacts which are not.

Across the board, the business world is extremely concerned to make sure it is first of all not inadvertently importing deforestation. One of the big issues is that you can sign up to all these things and then find that the supply chain actually is not as legitimate as it has been advertised because certification is not straightforward.

The second thing was a desire for a level playing field, that there should be no illegally deforested product coming into the UK. When I was at B&Q, Kingfisher, I was amazed to find that the EU still, at that point, allowed illegally felled wood to come in. Masses was coming in from particularly Russia and some other places.

The business world has woken up to the idea of asking where this stuff comes from and what its responsibility is. All businesses were very keen to make sure we were not importing deforestation and wanted to use Government procurement, due diligence and other things to make sure of it.

There is a big difference between now and when I started my business career when one of my predecessors was asked, "Where does the timber



come from?" to which the answer was, "It comes on a lorry," which was the correct answer at the time because we did not see back down the supply chain. The degree of involvement in things such as FSC-certifiable timber now is such that business absolutely understands that it has to do it.

The next frontier is not so much the business direct people like the B&Qs of this world or Wickes or Homebase; it is much more now the financing of it. Wearing another hat, when I was on the board of Barclays, we had finally started to try to work out where we were creating projects that could lead to deforestation. I think people understand that deforestation and biodiversity are the next challenges coming. It is much more complicated than a tonne of carbon but probably more vital in some ways. The business world, in my experience, is absolutely willing to engage with this but it would like clear standard rules and enforceable rules for everyone as opposed to some of the free riders going out and—

Q90 Chair: That is a very good segue into my next question. I think the GRI made some recommendations to the Government that there should be standards for monitoring, measuring and reporting. To what extent is it a British Government responsibility? Or are we talking about an international responsibility? Who is there to do the monitoring, measuring and reporting?

Sir Ian Cheshire: In the GRI, we have made it very clear that we need to act locally so that the UK can stand up and say we are taking this seriously, which includes things like Government procurement and our own action plan for sustainable commodities. Secondly, the UK has traditionally punched above its weight in this sort of area and also in the financing area where I think we can do a huge amount. One of our recommendations was for action that led to various initiatives at COP26. The UK Government needs to stay very close to this agenda because it is something that we should be leading on.

One of the challenges is that we have to also engage sensibly with the producer nations. Just standing there and wagging a finger at people is not okay. We have to engage in a way that creates incentives locally, looks after the local population, particularly indigenous populations, and thinks about a broad and longer-term transition.

One of the more depressing statistics I heard in the GRI process was about how we are very obviously engaged with palm oil. I was born in Borneo; I went back when I was in my 50s and saw some of the plantations that had grown up since I was there, and I was utterly distraught to see that. The UK's annual import of palm oil is equivalent to India's one-month import so we are not going to fix this on our own. We have to find collaboration—a coalition of the willing—rather than trying to get everyone on board. I think the UK Government's leadership over COP26 is vital.

Q91 Chair: We are the second largest importer of timber by percentage of



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any of the developed nations, though obviously not by volume or value. Does anybody have a view on how influential we are as a market to try to impose standards on the supplying nations?

Dr West: I am not on top of the specific timber perspective but in terms of the market for the broad portfolio of commodities that are linked to tropical deforestation, our consumption is linked to about 1% of that deforestation. If you average it out, we are probably in the region of a couple of percentage points of the global market for these commodities. This is an incredibly important point because it illustrates that we are, as Sir Ian has just said, part of a global system here and we need to act globally if we are going to address these problems.

As for our leadership here, we have, in the UK, in the last few years shown that leadership but there is a lot more that could and should be done, I think. However, we need to avoid thinking about that in terms of our market share because we are not the largest consumer. As I illustrated, a lot of deforestation is landscape-based and not commodity-based so if we are focusing very strongly on our commodity share, we will be missing a large portion of the deforestation that is happening without any productive output.

Michael Rice: The significance of this problem at a global scale is undeniable. We know that agricultural production causes roughly one-third of all global greenhouse gas emissions, so it is hugely relevant to solving the climate equation. The current state-of-the-art science tells us that somewhere between 80% to 99% of global deforestation is linked to the production of a very, very short list of commodities—cattle, cocoa, coffee, soy, palm oil, rubber, maize—and these are commodities that are consumed in huge volumes all around the world. Chris West mentioned India. Looking at the total picture—we were talking about the drivers of deforestation—there is a popular narrative that the root causes of deforestation are at the production level, which I think ignores the global dynamic.

I would argue the absence of any binding rules in major consumer countries like the UK, the EU, India and China, is also a driver of deforestation to produce these commodities consumed in those markets. While the UK might have a relatively small share of total commodities contributing to deforestation, looking at it on a per capita basis, the UK's carbon footprint associated with deforestation for food production places it around 12th in the world, above Japan, above the United States, almost three times as high as China, over four times as high as India.

The point that I am trying to emphasise here is that a more appropriate way of looking at the question of global deforestation is so much a problem of production but also of consumption, and consumption is closely linked to issues of lifestyle and culture but also public health and the regulation of markets and those things are responsibilities for Governments. When we talk about what the UK can do in shifting the dial on this global problem, the obvious answer is to show leadership in



regulating its own consumption of these commodities. In my humble opinion, the first step would be, to put it simply, for the UK to get its own house in order, to put itself in the strongest position possible to be having very frank discussions with its counterparts in India and China. Meeting the 1.5 degrees target means reducing the carbon and emissions footprint of the global food production system by about 80% by 2050 and that is a huge challenge, and it will not be achieved, as Chris West rightly says, without ensuring that other major consumer markets very quickly reach the same level of readiness as the UK to introduce binding rules in relation to the consumption of these commodities.

Q92 Chair: What sort of measures do you think need to be introduced in order first of all just to get the standards understood to monitor the impact of deforestation? I cannot get my head around how we begin to do that.

Perhaps I should ask the question in a different way. Are there any existing monitoring systems out there, measuring the impact of consumption in the developed economies on the areas where the trees are being disrupted?

Dr West: I will come in briefly. This is very much my area of research. In addition to indicator work that we developed for the UK, I work for a programme called Trase, which is part of a collaboration between the Stockholm Environment Institute and an NGO called Global Canopy based in the UK. Trase is trying to bring together the data that exists in the public domain that allows us to make the linkages between production locations and consumption activities.

Our challenge is that the data landscape remains, although it is improving, very untransparent. Sir Ian gave the example of forest products, which are probably a success story in a way because they are relatively traceable. A lot of progress has been made on the traceability of palm oil, at least back to mill level. So we have a relatively good understanding of where these are going, from an export perspective. However, when a product enters other economies and starts to be processed, the traceability starts to break down and that is where there is a need for enhanced efforts to increase the availability of data. That includes, for example, from the European Union or UK side, where the Government do not disclose who is importing these materials or in what quantities. That is a basic example of the sort of information that would be helpful.

We also know that these commodity sourcing strategies are very dynamic production landscapes. Big traders will be sourcing not just from their own farms or the farms they have contracts with but from a wide variety of producers and at that point, we also see traceability breaking down.

There is a requirement globally for increased transparency in the system and to an extent, increased traceability. Those are not end points because you also need a governance framework around those points of



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information, but they would be incredibly helpful for understanding where we are sourcing from, who is sourcing from there and how to hold those organisations to account and also protect the UK's food security interests because if we do not know where things are coming from, we are also vulnerable to environmental and social effects.

Sir Ian Cheshire: I have two points in response. GRI calls for mandatory due diligence in supply chains and we have had the experience in the timber world that it is not impossible. If all the players in the value chain get involved, it is not something that the end consumer or the small businesses bear the brunt of. It is a systemic change that has to happen and combined with Government procurement would be two very big levers to pull.

The other conversation we have had over some time at GRI was about the assertion—again this is very different data, but it was made—that 90% of deforestation is currently illegal under local law. If you take the Amazon in particular, and the Congo and even Indonesia, there are existing legal frameworks, but if they are not enforced, there is no point in having the further net.

Chris talked about the journey. Step 1 is to enforce against the local illegal deforestation, but that is a difficult political challenge in places like Brazil and Indonesia and we have to be sensitive to that. There is no doubt that beyond that there are further levels of deforestation occurring that are technically legal, which the supply chains need to address as well.

Going back to the businesses working with NGOs, there is a willingness to do this providing we can see that local actors and particularly some of the governmental actors are following through, which is where tracking and traceability, surveillance and space-based systems are vital, to say who has cut down that piece of land and who owns it and we can join those bits of data together. I completely take the point about consumption, because that is ultimately what creates the systemic need, but we have to recognise that if we are not even fulfilling the basic local producer legal framework, that is the obvious place to start.

Chair: We will hear the last word on this from Alexandria Reid before we move on to questions from John McNally.

Alexandria Reid: An underlying driver is insecure land rights and tenure rights for local communities. Traceability needs to be secured at the geo-location so that we can go back and assure the genuine legality of the very land that has been acquired and potentially deforested.

It is obviously often very difficult for indigenous and other local communities to secure their land rights in the face of violence, retribution and historical marginalisation. Sir Ian presented a very scary statistic about the scale of illegality, but the likelihood is that is even greater than



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we realise because plaintiffs do not always have the resources to be able to take that back to court.

I also echo what Sir Ian said about the role of good governance, political leadership and corruption abroad. It is very important in this context because the UK's Environment Act takes the stance that the due diligence system will be introduced to ensure that products are not illegally produced in relation to land use and land ownership laws. That is where the principle of land rights becomes the bedrock of the UK's approach. It is also why we need traceability to be a very sophisticated system because when you are dealing with countries where there is endemic corruption or where there are historical issues around the denial of land rights, you cannot just rely on a permit as evidence of legality. We are going to need a much more sophisticated set of corroborative data points.

Q93 Chair: John McNally is going to touch on several of these issues and that was a very good lead-in but just before we go on, you prompted one thought in my head. You touched on surveillance systems using technology. Satellites can now get down to the level of individual trees, but they do not tend to be owned and operated by the countries that are being surveilled. Any kind of monitoring system has to be by consent and not just of the Government of the land mass concerned. Is there any evidence of success, of countries that might be undertaking deforestation for economic reasons allowing western nations to start keeping an eye on what they are up to?

Dr West: Brazil has a very sophisticated agricultural monitoring system. It has satellite inventories and databases. We use one of them, PRODES, which is the dataset they use to enforce their forest codes and local laws. We think that is important because our data is then aligned with that information, and we can say concretely if deforestation is going on and it is covered by these laws.

Chair: But it is their own data.

Dr West: It is their own data. One challenge is how you link that across the international space because as I hinted earlier, even the definition of deforestation is contested. There are UN FAO definitions, and we are seeing those adopted now in some of the legislative frameworks, but they do not necessarily align with local datasets and that is a challenge to be overcome as we move forward.

Q94 John McNally: That does take us beautifully into my line of questioning. You have just touched on due diligence and how you monitor these things.

Starting with Dr West but to all panellists, what are your views on the scope of the Environment Act? You have touched on it a wee bit before, but just expand as much as you can because this is a fascinating insight already.



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Dr West: Sure, thank you for the question. The first thing to say is the regulation itself should be welcomed and I think we have also seen industry welcoming the regulation because it does provide a level playing field for industry to work towards. We also see industry going beyond the remit of our regulation across different commodities, which is encouraging.

There are some challenges associated with the regulation and its implementation, I should add. One is the focus on legality, which is an important part of the deforestation space, but it is not the only part of the deforestation space. There is scope, I think, and we have seen this in places around the world, for unintended perverse incentives to exist where actually there is deregulation in response to a legality-based framework. The UK has said that it wants to promote uprating in local legislation, but the law needs to be accompanied by soft diplomacy to raise the standards internationally.

Another concern is the potential for staging this legislation. The suggestion was made in earlier public consultation that in the short term just two commodities be the focus of this legislation. We can argue about which commodities those should be but fundamentally this is not a single commodity problem, and if we do not send the clear message that any commodity should be in the scope of this legislation, then I think that is the wrong message.

We also have this legislation applying to larger businesses only. That will probably capture the majority of the supply chain, but it will not capture all of the supply chain. I also think it is worth thinking about the implications of this legislation in terms of the impact it will have on small businesses because small businesses in the supply chain with larger businesses will still be asked to produce information about the supply chain most likely and therefore will be implicated. They will need to be supported to do that.

There is an obvious gap in that this legislation does not apply to financial institutions and I am sure Alex will come to that. Ultimately, this legislation will not be sufficient on its own for the reasons I was mentioning and the fact that we need to focus not just on cleaning up the UK supply chain, but on cleaning up the suppliers to that supply chain and cleaning up the landscapes that we are sourcing from.

I will finish by mentioning the fact that we are also in a situation where the UK is developing and implementing legislation at the same time as the EU is developing and will soon be implementing legislation. I would say that the EU legislation is somewhat more ambitious now than the UK legislation, which ultimately will all come down to the implementation phase in terms of what has the most impact, but there is an important need to align here across the UK and the EU. If we do not do that, we risk divergent standards, and bifurcated markets and that is not going to help the situation overall.



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Q95 **John McNally:** We hear fairly regularly that we are associating ourselves but we are not particularly aligned. There is quite a big gap in that. Alexandria Reid, could you, expand on your thoughts, please?

Alexandria Reid: We also very strongly welcome the regulation, but it will only be world leading depending on what is included in the secondary regulations that operationalise the law. Schedule 17 of the Environment Act is a very broad text, and it leaves a lot of discussion to the Secretary of State and to Government to develop how that due diligence system will work, what commodities will be included, the review process and so on.

I completely agree with the other experts sitting here that the legality versus illegality restrictions in how the Environment Act is drafted is a major drawback of the way the UK has approached this issue and is one area where the EU approach is certainly stronger.

In terms of the types of commodities and numbers, we mobilised a large response of around 14,000 responses to DEFRA's consultation on schedule 17 on which commodities should be included. We believe that cattle, palm oil, soy, cocoa and rubber should be included from the outset and that that regulation should come into force within 12 months.

The proposals that were available in the pre-tick box loaded consultation unfortunately were very restrictive and according to our calculations would still result in the UK contribution to around about 100,000 hectares of deforestation between 2023 and 2030. Clearly the approach that was articulated in the consultation we would not support.

Likewise on the scale of businesses we think that we should go for the lowest possible threshold to make sure that we are capturing the diversity of the market for these different commodities and the derived products. Finally to the point about financial institutions—Sir Ian can talk about the GRI's recommendations to include financial services within the scope of schedule 17—we believe that the omission in the Environment Act means that the UK is only addressing one part of its contribution to global deforestation. It is only half the story if you do not include the finance flowing from the City of London that is leading to deforestation.

John McNally: Sir Ian, would you like to follow on that?

Sir Ian Cheshire: It quite entertaining to hear two years of your work being gently attacked.

Alexandria Reid: Sorry.

John McNally: All done in the best possible taste.

Sir Ian Cheshire: That is fine, this is the real world, and this is what we are trying to do. There is a real danger here with the perfect being the enemy of the good. If we do not start doing something, we could wish for something better and we would all be sitting around here—the sad fact is



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that there have been voluntary schemes around deforestation for more than 20 years, and I would suggest they have not worked.

The biggest single thing we tried to get into the Environment Bill—I was very delighted to see after quite a lot of hairy negotiation—was a recommendation for due diligence. I think it is a start. It is probably not, I would agree, ultimately sufficient but it is the necessary step to get going on this.

I would make three other points. On an 80:20 rule, we were very conscious about the impact on SMEs and most of the system is controlled by the very big traders and very big companies, and if you get them in the tent you have 80%, 85% of the market. The same experience we had with the FSC and timber was if you got them in, it would ultimately drag the rest of the supply chain on, but you do not hit the SMEs with some of the expenses involved, which is important.

Secondly, the EU: we had the debate about legal versus illegal and my experience of dealing with the EU is that they will start with saying this and it will mysteriously disappear when you get to the end of the process. I would personally take a more pragmatic view, which says we start with legality and will work our way up because I am absolutely confident that the broad scope the EU is going for will not survive contact with the finish of the regulatory and legislative process. We thought about it, and we debated it.

The final point is on financial institutions. We had a similar historical debate in the timber world. It is correct to say that these supply chains are financed. However, the physical reality is much more in the supply chain and if you are looking for your first impact you have to go after that. If I looked at my options at B&Q for financing my timber supply chain, I could go to all sorts of different places, but if I know I have to go to FSC or PEFC product, that is the most important lever that switches me. If I am being really honest—I speak as an ex-bank chairman—I don't pay attention to what my financiers are telling me, and they have limited impact. It is my decision about where I source product from. So if the physical supply chain is motivated to make a change, that has a far bigger initial impact. It does not rule out the later impacts, but if you are thinking about where to start, I would start with the physical supply chain.

Michael Rice: I echo the sentiment that schedule 17 to the Environment Act is a step in the right direction, but I would also echo the sentiment that it is only a half-step. It is essentially a skeleton framework without any of the crucial details, which has not yet come into force, and we are all eagerly awaiting those details to be in the secondary regulations, which we hope will be presented sometime soon.

As schedule 17 was passing through Parliament, Lord Goldsmith described global deforestation as the biggest problem in the world. He is on record as saying that radical change is needed to solve that problem.



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We have heard that roughly 70% of global deforestation is illegal under local laws but 30% is perfectly legal. The Environment Act framework only looks at illegal deforestation. An obvious question is why ignore about 30% of the biggest problem in the world.

I will talk a little bit more about the distinction between illegal and legal deforestation. We know that the EU's equivalent proposal does not make that distinction; it looks at the conversion of forest to agricultural use so an objective deforestation standard. There are good policy reasons for that as well as very good environmental and biodiversity reasons.

From a policy perspective, I think for UK operators understanding the laws applicable in Côte d'Ivoire or Guyana relating to land use and land ownership can be a very complicated process. The general experience in countries producing significant volumes of these commodities—Côte d'Ivoire, Brazil, Indonesia—is that the legal framework for land use and land ownership can be very complicated, even for lawyers, and complex and sometimes inconsistent. At the production level, you are dealing with laws from national through to local governments, they may have different legal systems, different sources of law and in different languages. All of that can make it very difficult, timely and expensive for UK companies to investigate whether the products that their suppliers are providing have been produced in compliance with local laws.

In addition, laws change. What is illegal today may be legal tomorrow. Brazil is a very good example of that. Ten years ago Brazil was celebrated as a champion in addressing deforestation; in recent years a number of legislative changes, have dramatically turned that situation around and resulted in a much greater proportion of Brazil's deforestation being regarded as legal.

Another point is that a framework that ignores legal deforestation but also rewards it with access to the UK market I think risks creating perverse incentives for producer countries to change their laws to legalise deforestation. One example, not in response to the UK's proposal but in response to economic pressures, is in Indonesia where early into the Covid pandemic, to stimulate the national economy, a very broad deregulation package was quickly passed through Parliament, which deregulated the natural resources and extractive industries and reduced significantly the environmental and social safeguards required. Those are the kinds of incentives that this legislation is deliberately intended to avoid, to avoid a race to the bottom but to promote a race to the top.

If we were to compare the framework to what is already on the statute books, the closest example is the UK Timber Regulation, which is a carbon copy of the EU Timber Regulation, which is designed to tackle illegal logging. That is a framework that was enacted in 2010 and became effective in 2013. It is a decade old and last year the European Commission conducted an evaluation of the implementation of that regulation across the 27 EU member states and found there were



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structural weaknesses in the text itself that have undermined its effectiveness and the ability of national authorities to enforce it.

I would add that the schedule 17 framework introduces some additional structural loopholes in the form of potential exemptions for the companies to which it applies and the volumes of commodities to which it applies. There is an option in there for the Secretary of State to set in the secondary legislation an annual turnover threshold and only companies above that threshold would be subject to the law's requirements.

We have heard what has been said in Parliament, and also clearly from the impact assessment that accompanied the public consultation for the secondary legislation at the start of the year, the intention seems very, very clear that will be limited to large companies. While in practice that may mean that smaller companies in the supply chains within the UK of those large companies may be asked by those large companies to provide them with the information they need to complete their due diligence. What that means as well is that there is a huge loophole for the commodities to which it applies to continue flowing freely into the UK market through small and medium-sized enterprises, which make up roughly 99% of the UK company landscape.

Sir Ian Cheshire: I hugely disagree with that—only about 20% of the economic activity.

John McNally: Do I have time for one more question, Chair?

Chair: Yes.

Q96 **John McNally:** I wanted to go back to Sir Ian and Dr West. You touched on the idea of short-termism earlier. Short-termism has been around for something like 20 years from what I am gathering, and it seems that the short term is unending as far as I can see. Since I have been here, everything is going to be done today, and then you come back a year later and you're still waiting for something to happen. Without going into that in great detail, Sir Ian, do you agree with the Government's approach to including businesses based on turnover? I think that is a big question that we need an answer to. Then if we could follow up with Dr West. I am running over my time as it is.

Sir Ian Cheshire: Technically it is impossible to argue there is no risk in this. There is potentially a loophole, but I think the pragmatic reality is if you look at these types of supply chains, they will not go through the SME. I generally disagree radically that there is a huge loophole. Bulk users are extremely aware of their responsibility to source these products and they are very worried about being played by some of the producers in the supply chain, all the way back to the base producers. They are extremely motivated to not find they are at risk. My personal experience of this was having committed to 98% FSC product, I found that one of my suppliers had picked up a whole pile of plywood from Brazil and stamped FSC on it; it was a fake product. We took it off sale as soon as



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we found out and trashed the product—we didn't sell it on. We didn't have to do that. That was not a legislative requirement.

I think the reality of the supply chain is a very important part of this. If you send messages to the supply chain, they will take it responsibly and it will be a start. I do think it is important that it is more than two commodities. We identified seven commodities that we felt should be regulated, and I hope that is what the Government will get to. We are all waiting for the secondary legislation. The secondary legislation is the point when I think you can start to really push into this. I would be very keen for the Committee to provide the scrutiny of that because that will be where, literally, the rubber hits the road, and we can see whether it is serious or not.

Dr West: Is it the same question on the turnover?

John McNally: Yes, please.

Dr West: Ideally, we would be dealing with a volume of material handling really. I can understand why the turnover threshold has been used, and I think it ultimately offers a pragmatic balance in many ways, but I do not think it undermines the fact that, regardless of whether it is significant or not, we will be missing a portion of the UK's supply chain if we do not regulate for every company. We also know that companies are not always structured in the same way. We have large traders who have small operations in the UK who are associated with significant volumes of deforestation and may not have the most robust anti-deforestation commitments. There is a potential for some loopholes there.

I want to make one other point, which is, as has been said, this is a starting point. It is a positive starting point, and the other important thing is that it is a starting point that many other countries will be looking at quite closely. It is not very easy to imagine that a country like India or China is going to start with a completely zero deforestation piece of legislation, but it is more realistic to think they might try to adopt legality-based legislation. If we can show leadership on the legality-based legislation and implement it effectively, again that provides us with a model for trying to influence the activities of other major consumers.

Q97 Jerome Mayhew: In one sense we are having this conversation a bit too soon, aren't we, because, great, we have the Environment Act—whoop-de-doo—but in schedule 17 we require secondary legislation, a statutory instrument, to put the meat on the bones? On the other hand, we have a draft EU Bill, which, as Sir Ian very rightly points out, once it has done two years of going around the Houses is going to change an awful lot. That said, one of the questions I am required to ask is about the degree of comparison between what we know of the UK position and what we currently know of the EU and other jurisdictions.

I am going to start with Michael Rice. Could you outline some of the similarities and differences between the UK system and the EU draft



regulations?

Michael Rice: Certainly. It certainly is still a draft regulation. We have the initial proposal from the European Commission that came out almost a year ago to the day, as well as the position of the Council of the European Union representing the member states, which came out in June, and from the European Parliament, which came out in September.

Those are three positions that are currently being reconciled in the triologue negotiating process. Already we have a reasonable idea of what the outcome might be. It is unlikely to be anything not included in those three positions. What is common across those three positions is, for example, the company scope. Similar to the EU Timber Regulation, the proposed deforestation-free products regulation is a regulation that is intended to apply at the border of the EU marketplace. We say it imposes obligations on first places, which are the companies first placing the listed products on to the EU market and for products coming from outside the European Union that means the regulation also applies at the customs border, which is a very clever place to implement a product-based regulatory regime.

Different from the UK approach, there are no exemptions to the companies to which it applies. If you are company, regardless of your size, if you are placing the listed products on to the EU market, these obligations will apply to you. There are no exemptions based on turnover or trading volumes. The logic there is that all of these products, like products, will have like deforestation risk.

Q98 **Jerome Mayhew:** Its application is absolute?

Michael Rice: That is right. So why have the application dependent on the size of the characteristics of the company that is putting them on the market?

Q99 **Jerome Mayhew:** Can I ask you to pause there? The economic argument, the adoptability argument, and you have already expressed in a way, but with all the experience you have in running B&Q, Sir Ian, and the practicalities of these regulations, could you put the counter-argument?

Sir Ian Cheshire: Yes, this is a choice about how you think this will land in implementation terms, and I have a lot of sympathy for the idea that the border is the right point, but you can have the point of border and an exemption of size; they are not mutually exclusive. My view would be if you are trying to make systemic change our experience on timber was that if you got 80% of the market to move, the rest would move. That is your policy choice. Do you think that is more doable?

My other experience of EU regulation for anything from incandescent lightbulbs to illegal timber is that things tend to fall apart later on in the process, despite the early consultation, and vested interests start lobbying to tune it down. The argument we had with Government was



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what is the first substantive step we can take. I would say they are rather different animals.

Q100 **Jerome Mayhew:** Is it your suggestion that we are seeing the difference in approach of the legislative process in the United Kingdom? In the legislative process of the European Union you start from, in one sense, what great looks like and then the lobbying gets applied all around the European Union and you come out with whatever comes out at the other end. In the United Kingdom, however, the lobbying starts to begin as you develop policy and then you propose legislation.

Sir Ian Cheshire: I would not say that happens 100% of the time. I would not be as philosophical as that because that would be quite dangerous.

Michael Rice: We were lobbying very hard to change schedule 17 of the Environment Act and didn't have any success.

Sir Ian Cheshire: There is a reality check with the way some Governments set themselves up, which is would you like to get some change and if you understand what will get through a system, you go for step one.

Q101 **Jerome Mayhew:** Let's go back to a bit more of the detail. As currently framed anyway, the EU draft regulation is going to cover all products of deforestation, and it goes beyond that and includes human rights and the obligations of the finance sector. I am going to come back to the finance sector in a second. Human rights: who would like to argue about that?

Sir Ian Cheshire: Not going to argue against it.

Alexandria Reid: I would certainly hope not.

Q102 **Jerome Mayhew:** Let's frame that a little more intelligently because we are all in favour of human rights. Is it the right place to load human rights considerations into this format?

Alexandria Reid: Absolutely, yes. Sir Ian's GRI taskforce was very clear in its initial recommendation that environmental and human rights due diligence should be conducted under the Environment Act. Let's start by making the case for why that is important. First, indigenous people, local communities are frontline environmental defenders who put themselves at risk every single day in the face of Governments, authoritarian regimes and also companies to defend their rights but also to save the future of our planet essentially.

Global Witness's tracker shows there have been 1,733 land and environmental defenders killed over the past 10 years; that is one person killed every other day. Our tracker finds agri-business to be a particularly deadly industry that is linked to lots of these extrajudicial killings, and we see in our exposes that we consistently identify human rights abuses as a key offence that accompanies deforestation. In many ways, and this is



written in the GRI report, deforestation and human rights abuses go hand in hand and that is part of the picture of illegality that we are looking at.

While indigenous peoples comprise a very small proportion of the global population, they are very much over-represented in datasets of extrajudicial killings. These defenders keep forests standing and contribute to the effective governance and health of those lands and that is a utility-based argument, but more importantly they obviously have inarguable human rights. That is the why. How do we do that within the scope of the Environment Act? What is written in the schedule 17?

As I mentioned earlier when I introduced the concept of how essentially the text is underpinned by the concept of land ownership and land rights, the way compliance needs to be proved is basically compliance with that kind of category of law. We would suggest that in the secondary regulations there is a specific outline of the types of laws that should be considered within that bucket of land use and land ownership. We would say that we should take quite an expansive view of what is included there in order to make sure that there is a human rights aspect to the way in which the Environment Act is applied. Even those kinds of specific words don't appear there.

The types of laws that would apply would be rights and protections for specific populations and communities domestically in those countries, laws that relate to the rights of using that land, including customary tenure, environmental protections and licensing conditions that we would expect in any other country in the world, zoning, spatial planning, not being able to infringe on special protected areas, laws relating to corruption, bribery and fraud, because we know how key that is to accessing land illegally, and then finally all land-related human rights protections. You can take that in very broad terms. We would, for example, expect people to apply the principle of free and prior informed consent for indigenous peoples as part of that.

Q103 Jerome Mayhew: Could I pause you there? Whose responsibility for ensuring compliance, do you suggest this would be? That is a lawyer's charter, isn't it? If you have 15 or 20 separate areas of third-country legislative and regulatory compliance that you have to demonstrate, whose responsibility is that?

Alexandria Reid: Michael Rice spoke about the complexity of the legal regimes in producer countries in particular. Our suggested approach would be not for the Government to be prescriptive about exactly what laws apply in Guyana, for example, because they are liable to change—that is why we take the approach of suggesting a category of law—but from there we would advocate for the company naming the relevant laws within those categories that they consider to apply to themselves, then to name the specific legal obligations under those laws that they consider themselves as having to comply with, and finally to show how they are complying with those laws.



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When you think about it, there is to some extent a strange irony to this Bill that we are asking businesses to comply with laws in the countries they are operating in. How strange that we would need to create another law to ask them to do business within the legal regimes in the countries they are operating in. The onus is very much on the company to operate an effective due diligence system because, ultimately, the company is exposed to risk—material, regulatory and reputational.

Q104 **Jerome Mayhew:** They can be challenged by organisations such as yours at every step of this process.

Alexandria Reid: We would very much like them to be challenged by the Government's enforcement regime as opposed to civil society. For too long, civil society has had to do this monitoring in the absence of enforcement, so we would like to see civil and criminal sanctions.

Michael Rice: This is a fundamental question. How will compliance be checked and non-compliance be scrutinised and enforced? That is an open question in schedule 17. There was one question in the public consultation about the enforcement framework for the secondary legislation. There is quite a lot of scope for the Secretary of State to include in the secondary legislation a robust enforcement framework and, in that case, quite a few lessons can be drawn from the proposal that the European Commission has presented.

Part of that proposal is built on the lessons learned from 10 years of implementing the EU Timber Regulation and the Commission has deliberately tried to close some of the structural gaps and loopholes in the EUTR in this new proposal. They are intentionally about providing greater clarity on the due diligence requirements, specifically listing what minimum information that companies need to gather, criteria they need to consider in their risk assessment and what the outcome of that due diligence needs to be for them to be confident that they have complied with their obligations.

There are also some quite clever enforcement measures in the sense that companies, when putting these products on the market, file a due diligence statement with a central register, which is essentially intended to be a mechanism to allow the enforcement authority to monitor in almost a real-time way, the flow of the covered products into their jurisdiction. There is greater clarity around the potential penalties. Knowing what the consequence of non-compliance will be is a good incentive for compliance.

That means greater clarity around penalties, the minimum requirements around enforcement actions, and specifying the kinds of enforcement action that can be taken in instances of non-compliance. We also need much more detail about information transparency, clearer requirements for the companies covered to report on their actions to comply with their obligations, as well as reporting on the part of the enforcement authority about the actions it is taking to check compliance, how those checks are



conducted, the findings and, where there are instances of non-compliance, what the results are. That is a fantastic way to create a greater culture of compliance, build public confidence that the law is being complied with and enforced appropriately, but also to provide civil society organisations with the information they need to perform the valuable watchdog function that they often do.

Q105 **Jerome Mayhew:** I will move on to ask for more detail about the Global Resource Initiative taskforce. It did great work and the Government sought to action at least some of the recommendations. Mark the Government's homework. How do you think they have done? What progress have they made?

Sir Ian Cheshire: I would say we set out to ask slightly more than they could give, so there was a level of ambition, possibly not as much as some of our colleagues wanted to have. I would not underestimate the degree of political difficulty in getting that into the Environment Bill. That was non-trivial; it was not universally greeted. There are other people not around this table who profoundly disagreed with any of that, so we should recognise that this is a start.

We also recommended we should carry on for a year to provide some further support, but we stopped short of saying the GRI should be enshrined as some sort of new quango forever, because we felt that was not appropriate. The two areas that have not seen much progress, that I would like to have seen more on, was the call for a sustainable commodity action plan, particularly around Government procurement; there is not much visibility of that.

In a different area, the separate report we followed up with on the finance area is getting traction and will increasingly see the light of day, but a bit later.

To pick up on Michael's comments, on EUTR, for example, I was involved personally in that process. Trying to get that passed in the first bit was interesting, and part of it came down to seeing how it goes and then doing round two, which is now happening. That is fine and that is how you get things done. But you must keep pushing and the danger is if we do not have someone pushing for this. I am encouraged that Lord Goldsmith and Secretary of State, Thérèse Coffey, who commissioned me, are both pushing this agenda.

Q106 **Jerome Mayhew:** I must make it clear I am not making any reference to that because I am PPS to Thérèse Coffey, so I am standing back from any comment relating to her.

This area spans several Departments, not just DEFRA or BEIS, and that is often a recipe for difficulty. It is hard to know who has personal responsibility for it, who is driving for implementation and who is responsible for failure to implement. Do you recognise that and, if so, how do we get round it?



Sir Ian Cheshire: An encouraging thing about the GRI design in terms of reference is that we were commissioned originally by Thérèse Coffey in DEFRA, but by BEIS and the Treasury, and it was incredibly important that we had that. In the experience of working with the GRI and, going back, including conversations with No. 10 about the implementation of these proposals, I found that to be one the less fraught bits of Government interaction I have had over the last 15 years. I found that relatively joined up as a common theme, and that was definitely helped by the leadership around COP26 with Alok Sharma and others. I think everyone understood they had to play a part, but there was leadership in different areas.

Q107 **Jerome Mayhew:** You helpfully mentioned COP26. We had the Glasgow leaders' declaration on forest and land use, but it is not a legally-binding target to end deforestation. Where have we got to on that? Just comment on it.

Sir Ian Cheshire: We had this very extensive debate inside the GRI about the challenge of perfect being the enemy of the good and some problems of the COP26 process is if you wait for all 190 countries to agree, do you fundamentally fail? I would rather have a coalition of the willing doing stuff, including great countries like Norway, who finance incredible initiatives. Germany and France are also doing great things.

Yes, we still must move the dial on China and India but—this is the frustration with this—if we wait for either perfect 100% compliance or voluntary compliance, which has not worked, we are in no-man's-land. We must get going, and I think this is better than the alternative.

Q108 **Jerome Mayhew:** It goes back to your basic premise which is that regulation is iterative.

Sir Ian Cheshire: And really important. I would stress that all the businesses involved, the likes of Tesco and others, voted for this. It was not business pushing that.

Q109 **Dr Matthew Offord:** Building on some of the questions that Jerome Mayhew asked, I want to ask about the financial sector and the role it plays in funding deforestation.

Alexandria Reid: This is what Global Witness's forest campaign is all about. We have a rich history of working on illegal timber, but over the years have transitioned to focusing on deforestation finance because it is an undertreated side of the debate compared to commodities, as we have seen with the nature of the legislation being brought forward in the UK and EU. We have published reports for years showing who and how the financial sector in the UK is bankrolling deforestation, so we are able to find this information out.

Our "Deforestation Dividends" report published shortly before COP26, showed that the UK financial sector was bankrolling 20 agri-businesses historically engaged in deforestation to the tune of about \$16.6 billion in



the five years following the Paris agreement, making about \$192 million in the process. The scale of the financing is very significant. Over £300 billion of UK pension money is exposed to deforestation risk, and the UK financial sector, according to WWF, faces about £200 billion in risk exposure from Brazilian beef and Indonesian palm oil supply chains alone.

The financial institutions we are talking about are not obscure names. They are high-street retail banks. We recently named Barclays in one of our reports as a major financier of the Brazilian beef giant, JBS. We named HSBC as a significant financier in our “Deforestation Dividends” report. It is not that this activity is not carried out by institutions that the British public knows, loves and would expect more from.

It is now well recognised in the UK and other key financial centres that deforestation and associated biodiversity loss is a risk to the financial sector as a whole in the financial system. That was evident in the Dasgupta review and the fact that Treasury promised a nature-positive economy as a result of exposure to the global economy to nature loss. It is also a major risk for individual financial institutions, from regulatory risk where, hopefully, we will see communities able to bring suits and win damages where their rights have been infringed or where there have been environmental offences in countries abroad, states should bring those cases.

Also, through reputational and material risks, a recent report from Race to Zero, a UN body, said that the agri-business sector is expected to lose around 7% in value by 2030 due to unpriced nature and climate risk, with some companies losing up to 26% of their value in the next eight years. It is a big material threat and deforestation has been described by the UN climate champions as the new coal in portfolios because it represents such significant emissions and is not being eliminated from portfolios quickly enough.

Q110 Dr Matthew Offord: The Global Resource Initiative recommended that mandatory due diligence requirements be applied to the financial sector. But the financial sector is not covered by the proposed due diligence system. Should the Government reconsider that?

Alexandria Reid: Absolutely. For us, the next major opportunity to introduce an amendment that would enact that recommendation from the GRI would be an amendment to the Financial Services and Markets Bill that is passing through Parliament now. It is about to head into the Report stage. It is the perfect type of financial legislation—an appropriate place to put that amendment and we will pursue that.

Q111 Dr Matthew Offord: We will take your lead. Sir Ian, what can the Government do to incentivise and support the financial sector to reduce its exposure to deforestation?



Sir Ian Cheshire: Those of us who have been in the boardroom trying to grapple with these things recognise that deforestation—and I would add biodiversity issues in the broader sense—are the next phase of this, because most institutions trying to grapple with climate change are starting with the power systems and the natural gas and oil resources. For something the size of Barclays, it is not the nice, cuddly high-street bank personally funding it—I ran the high-street bank—it is the rather more complicated investment bank in New York that is financing this, even getting a handle on what exactly is being financed is difficult. If you handle a twentieth of a bond issue that you hold for a month, are you financing this? This is non-trivial stuff. Just getting the data on fossil fuels took us a year to document the portfolio.

It is easy to paint these numbers simplistically, but to give the boardroom the tools to say, “What we really want to do is fund the transition to a more sustainable economy, we want to get out of fossil fuels, climate change and biodiversity and deforestation,” step one is about understanding what impact you have. The classic example we had in the fossil fuels sector was an Indian coal manufacturer historically had been supported by us. We were now funding their solar power, but it was described that we were funding coal production. That is the level of complexity and detail you get into.

But the intent must be right—financial institutions should be funding the transition to a different model and there are lots of economic opportunities over there and that should be fine and doable. The real challenge, if you thought climate was complicated, is measuring deforestation and biodiversity in measures that you can turn into a KPI you can report on; it is frankly horrific. We made the recommendation and we followed up because we felt that financial institutions in the UK play a global role. It is important we lead on it, but let us also boringly be a little bit pragmatic about how we develop some of this into frameworks that you can use, that are relatable to the everyday.

We must find a coalition of the willing in this area to say, “We will work with you,” but simply disinvesting out of this I think has as many issues as the other way. How you can be part of the change is the challenge the boardrooms do get and are on. It is really complicated.

Q112 **Dr Matthew Offord:** I want to move on to look at some of the supply chains. You mentioned earlier that when you were at B&Q and Kingfisher you received illicit timber. How would a business comply with the requirement of due diligence and how can the Government ensure that the processes they are following are achieving that?

Sir Ian Cheshire: This is essentially about traceability and certification as the first step, and I would also mention illegal deforestation versus legal. In a lot of cases, we are not following the laws in the places we are trading. I was not trading in Brazil. I was trading in the UK. I was buying product from EU and UK-based supply chains, and I was relying on their validation of what they were doing somewhere else. That will be the



reality for most UK businesses. The supply chain is over the horizon, and they are not dealing with it. If you talk to people who deal with this—McDonald's and Tesco and Unilever—they are increasingly understanding they must get back closer to the source because they are relying on attestations.

The two pluses are, first, that the technology is getting a lot better. We talked about surveillance, but blockchain technology should allow you to do a lot more in real time and create more extensive data flows. Secondly, there is a real desire to understand who is behind this stuff, and the danger is that you have people way down the supply chain who are gaming the system. That is not driven by the desire of the people who are ultimately taking the product, but it will be. As businesses it is our responsibility to go back and clean up.

Q113 Dr Matthew Offord: Are you saying part of the business world is committed to preventing deforestation, for example, through the supply chains, but there will be parts of the supply chain that are unwilling or not interested in ensuring they are following the guidelines of the Government?

Sir Ian Cheshire: The reality is particularly the major companies are extremely conscious of their responsibilities and want to do everything right. They will never vote for anything that adds to deforestation. However, if they are buying product from a number of suppliers and you have one rogue supplier, you must put the systems in place to catch the rogue supplier, but you will never eradicate rogue suppliers. Transparency and the disinfectant of sunshine—put more transparency and data into it and you can see where this stuff is coming from. That is the necessary step and we found that with timber. If you stop there and do not go back into the supply chain, you will find that people play games further down.

Q114 Dr Matthew Offord: We know the industry has led some certification schemes. How can we rely on that when it is industry-led?

Sir Ian Cheshire: It is in the industry's self-interest to get this right. There is no lack of understanding of that, and timber and palm oil have made progress. They are not perfect, but they have made massive progress from where we started. In the early days of the EUTR, there was virtually no data floating around. There were all sorts of strange operators. You must constantly ask yourself if you are making enough progress. One question is whether there is enough of a regulatory playing field with enforcement, which is fair enough, to make sure there are some consequences. My view is that if it is left entirely to voluntary schemes that are well-meaning, they do not have the teeth to get things done.

Michael Rice: This is a point that often comes up in this space. Should certification schemes receive some formal role in these regulatory frameworks? They are a useful service for companies in this space who,



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for whatever reason, voluntarily want to investigate the sustainability of their supply chains. You make a good point, Dr Offord, that they are often industry-led schemes. The decision-makers within the governance bodies are often the participants in the scheme itself. There is quite a lot of evidence and reports on the public record identifying the structural weaknesses in the schemes in terms of their governance frameworks but also how they are implemented in practice, the checks and balances they have to make sure their standards are being implemented on the ground.

A lot of the major companies in these commodity sectors we are talking about have already made commitments to achieve deforestation-free supply chains. Many of those commitments were to achieve that by 2020. Now, quite a few are by 2025. The means to demonstrate progress towards that is transparency and traceability of their supply chains.

For example, there is a group of four large global commodity traders referred to as the ABCDs. Archer Daniel Midland, Bunge, Cargill and the Louis Dreyfus Company are giant multinational companies. They control collectively somewhere between 75% to 90% of the global grain trade. They are major players in cattle, cocoa, soy, palm oil and other commodity sectors and they all have commitments to achieve deforestation-free and human rights violation-free supply chains across their global supply chains without differentiation between the commodities, without differentiation between the markets.

We know many of the major global players have had commitments like these to go beyond the Environment Act requirements on their policy books for years, and now some of them have made timebound commitments to achieve them, for example, before 2025. There are plenty of examples in all the commodity sectors where traceability to the farm level is achievable. It is being done in practice. The technology exists. It is possible, and all that has been achieved voluntarily without any binding obligation, simply from market pressure.

In the public response to the consultation on the Environment Act framework, over 99% of respondents called for an ambitious approach that looks at all deforestation irrespective of its legal treatment in the country of production but also considers human rights issues. Consumers want this. The business community—in reference to an open letter from 22 large consumer goods and retail companies in the UK from October 2022—is calling for an ambitious framework. There is plenty of public support for this. It is possible, it is feasible, and it will happen if supported by an ambitious and regulatory framework.

Dr West: Michael is right. A lot of large multinationals have these commitments. Those commitments tend to be focused on the direct supply chain of those companies, so not necessarily the indirect sourcing, trading on spot markets locally, non-contractual supplies. Supplies not from their farms tend not to be covered by those commitments. A portion of those commitments do not cover the supply and that portion is highly



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variable, depending on the commodity context. For example, in cocoa in Africa, 90% of the supply of a trader can be completely indirect from a variety of smallholders processed via different groups. Those commitments are not necessarily substantial enough.

I agree that traceability to plot level is by and large perfectly feasible across these commodities. It is not trivial. It requires investigative work or working with your supply chain or formulating contracts, etc. but it is perfectly feasible and that needs to be encouraged because we will only have this understanding that will emerge and enable greater transparency for organisations in the finance sector if we have those requirements set down.

Certification can play a role. There is a role for Government in guiding which certification schemes are appropriate in meeting legislative targets and this comes back to public disclosure. If certification is being used as a justification—a point of evidence to say, “We are deforestation-free”—that needs to be on the public record and then other organisations can scrutinise and hold those companies to account. It does play a role, but it is not the only solution.

Chair: This has been a very helpful session for us in introducing this topic to our Committee. I will conclude by thanking Dr Chris West of the Stockholm Environment Institute York, Alexandria Reid from Global Witness, Sir Ian Cheshire from the Global Resource Initiative taskforce and many other things, and Michael Rice from Client Earth for joining us.

I would like to welcome, as I should have done at the beginning, the nine Fast Stream programme members who have recently joined the civil service and who are undertaking some research into the value of Select Committees. I hope they found that useful today. Thank you, Emma Wilding, for preparing our brief.