

Environmental Audit Committee

Oral evidence: Sustainable timber and deforestation , HC 637

Wednesday 1 March 2023

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[Watch the meeting](#)

Members present: Philip Dunne (Chair); Duncan Baker; James Gray; Ian Levy; Clive Lewis; Caroline Lucas; Jerome Mayhew; Anna McMorrin; John McNally; and Dr Matthew Offord.

Questions 197 to 265

Witnesses

[I](#): Helen Bellfield, Policy Director, Global Canopy; Danielle Carreira, Head of Finance Sector Engagement, Tropical Forest Alliance, World Economic Forum; and Andrew Howard, Global Head of Sustainable Investment, Schroders.

[II](#): Ligia Baracat, UK Policy and Advocacy Officer, Forest Peoples Programme; Duncan Brack, Independent Environmental Policy Analyst, Associate Fellow at Chatham House, and Associate at Green Alliance; and Dr Constance McDermott, Jackson Senior Fellow and Associate Professor, Land Use and Environmental Change, University of Oxford.

Written evidence from witnesses:

[Global Canopy](#)

[Forest Peoples Programme](#)

Examination of witnesses

Witnesses: Helen Bellfield, Danielle Carreira and Andrew Howard.

Chair: Good afternoon and welcome to the Environmental Audit Committee where we have our final oral evidence session in our inquiry into sustainable timber and deforestation before we meet Ministers after the Easter recess.

Today we are focused in our first panel on the financial sector and the work that the financial community in the UK is doing to help tackle deforestation. I am very pleased to welcome, from my left—from the right on the table as you look at us—Helen Bellfield from Global Canopy. Could you introduce yourself, Helen, and tell us what you do?

Helen Bellfield: I am Policy Director at Global Canopy. It is an NGO that focuses on commodity-driven deforestation and in particular the role of the finance sector and how the finance sector can address those issues as well.

Chair: Thank you, and Danielle Carreira from the World Economic Forum.

Danielle Carreira: Thank you very much for having me here today. I am the Head of Finance Sector Engagement at the Tropical Forest Alliance, which is an initiative hosted by the World Economic Forum. As an initiative, we have been supporting co-ordinating dialogues between private and public, including the financial sector, to address deforestation linked to commodity production.

Chair: Thank you, and Andrew Howard from Schroders.

Andrew Howard: I am Andy Howard. I am the Global Head of Sustainable Investment at Schroders. For those who may not be familiar with Schroders, we are a UK-headquartered but global asset manager. We manage around £800 billion on behalf of clients across a whole range of different investment types, public markets and private markets. Sustainability broadly and nature and deforestation in particular have been a major focus within Schroders over the last few years and a growing focus. It is a significant part of how we think about managing assets, managing risk and identifying opportunities for our clients.

Q197 **Chair:** Thank you. The UK would claim to have led the way on trying to encourage financial disclosure and responsibility on financial institutions to desist from funding deforestation efforts internationally. I will ask each of you to start with your perception of the role that the UK has to play in achieving this and how you think it is going.

Helen Bellfield: Happy to. On the UK exposure, there is no definitive figure on the amount of exposure the UK finance sector has to deforestation. That is because it is not easy to get access to this data, the very nature of financial data, but there are a few studies that give an indication of the scale of this exposure.



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In 2021 WWF produced a report called “Risky Finance” with input from Global Canopy and that looked at the exposure of UK financial institutions’ investments and lending into commodity traders exporting beef, soy and palm oil. That identified about £40 billion of indirect investments in London in those companies and a further £200 billion if you look at indirect exposure through funds, for example. Last year a further study by Make My Money Matter and Global Canopy looked at the exposure of UK pension funds and identified about £300 billion in UK pension fund investments in companies with high exposure to deforestation. That gives an estimate of the scale. It will be an underestimate, of course, because it is only looking at a specific segment, such as trading companies or a specific handful of commodities, and it is not looking across the entire finance sector.

On how UK financial institutions are addressing this—and you will hear much more from Schroders on it—Global Canopy has an initiative called the Forest 500. Over the last 10 years, it has assessed the policies and the reporting on the implementation of those policies of 150 financial institutions and 350 companies with the most exposure to agricultural commodity deforestation. Eleven of those are headquartered in the UK, five of those have policy—

Q198 **Chair:** Of the 150?

Helen Bellfield: Of the 150, 11 are headquartered in the UK, five of those have voluntary policies that cover all of the relevant commodities, and three have no policies at all. This is better than the global benchmark and Schroders have the strongest policy of all financial institutions. It is still only 50%, so there is a long way to go in making sure those policies are strong, are being reported on and implemented, but globally when you look across all 150, two-thirds of them have no policy at all. The finance sector is lagging but I think there is some positive progress from some of the UK sector on that.

Q199 **Chair:** Do the underlying companies have policy? The focus of the panel is on financial investment and how that can drive behaviour—this might be better addressed to Andy—but if an investment company invests in a company that is not disclosing where its activities are contributing to the problem, they might plead that they are ignorant to the activity.

Helen Bellfield: The finance sector is clearly lagging behind companies in addressing this issue. Many more companies, more than two-thirds, have policies on this. There were implementation gaps and that is why we have seen in the UK, but also in the EU, mandatory due diligence come in for companies in schedule 17 of the Environment Act. This should rapidly increase the availability of the relevant information for the finance sector as well. We are seeing action on companies and we are seeing due diligence coming in that will extend that across all companies.

Q200 **Chair:** You mentioned the Environment Act. Danielle, is the introduction into UK legislation through the schedule 17 to the Environment Act ahead



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of the game, is it being copied by other countries elsewhere or is it behind the game?

Danielle Carreira: I think it is ahead of the game because it is the first one that is actually a lot. It is a different approach that other regions such as EU have taken because it is trying to focus on the illegality aspects. The EU has always been zero deforestation. Other countries are discussing it, such as the US, China a little bit, so I think what you did here was very welcome.

The implementation is not going to come without its challenges because as we know, especially looking from a commodity perspective, we do not have the entire traceability of those commodities to the grounds, so it will be challenged with different takes on what is legal versus illegal. I am Brazilian. It is a major issue in Brazil. We know that there is data for direct suppliers but the data is not yet available for indirect suppliers, not even for the companies to monitor their exposure throughout the entire sector. I think it is something to have in mind.

I would like to complement a little bit what Helen said about the exposure. It is important for us to try to separate the financial sector. It is a very complex sector, like the food sector. We have the banks, asset managers, pension funds, insurance. Each one has a different leverage point, a different exposure and a different role. I think that is really important when we are looking at and talking about exposure to deforestation itself.

I agree with Helen that here, looking from a UK financial sector perspective, most of the exposure is indirect. They are not lending directly to producers, but if we take different asset classes, which goes beyond the commodity approach and, for example, look into sovereign bond investments, you are investing directly in the country, which of course is impacted by deforestation.

On my way here, I was reading a very interesting article. It is a sustainability report by the Brazilian central bank talking about the drought impact and how much they had to cover for insurance in the country. There was 45.3 billion in lost harvests in Brazil. Of course, this is systemic. Now we see no forests, no rain, no water for the agricultural sector, no water for the energy sector, and this creates a systemic base for all the commodity supply chains, which are interconnected and impacting across various sectors.

Going back to the legislation, it is very welcome. I think the implementation and making it effective has to be seen.

Q201 **Chair:** Andy, Danielle mentioned the points of leverage. Schrodgers is primarily an investor in this context and I think you have got plaudits for being the best performing investor in this area last year. Could you outline the approach that Schrodgers is taking to direct and the indirect point that was made by Danielle?



Andrew Howard: Certainly. I similarly echo the points there. We are very pleased to have done well in recent assessments. I think we all recognise, us included, that there is a great deal more work to be done and this is a journey that will be a long one and needs to be moved along quickly.

Broadly speaking, we published a fairly detailed policy position or policy statement last year that encompasses three areas. The first is how do we identify where sources or exposure to deforestation sit within the portfolios that we manage. There is not a standard list that you can go to somewhere on the internet that tells you, "Here are the companies that you should be worrying about and here are the ones that are the laggards or are falling short and here are those that aren't". It is about dealing with highly imperfect information from individual companies and trying to identify as well as we can which companies have the greatest level of exposure, directly or indirectly, to commodity-driven deforestation in this context, deforestation more broadly, and which companies have not yet implemented policies or practices that will ensure that their operations and their sourcing practices are ultimately sustainable.

There is a piece of, first of all, around the analysis of how do we know where to focus attention. I won't claim for a moment that we have a perfect answer to that. We put a huge amount of energy into trying to understand which parts of the market, which individual companies have more exposure and which don't. That is an analytical exercise.

The second exercise, which I think is probably the critical one in driving change, is how do we use our voice and influence with those companies? We are a significant investor in many of those companies. We have the ability to engage management teams to push them to provide the information that will shed light on where they are sourcing from, what practices they have put in place, what controls they have and how they ensure that their sourcing practices ultimately avoid illegal or commodity-driven deforestation within their supply chains. If we are not seeing the level of action—

Q202 **Chair:** Is that a routine activity? If you decide to invest in any company or any company above a certain percentage, do you engage with the management to go through that enquiry?

Andrew Howard: The honest answer is not for every investment that we make. There are two halves to that question. One is which industries have a material level of exposure. I think it is important that we don't treat this as a blanket exercise, that we are focusing attention where the exposure and risks are biggest. Helen touched on the point earlier about some industries being particularly exposed, and that is a starting point. What we do after that essentially comes with what information is currently available and where we see companies lagging, using our voice to push those companies.



This is not a new exercise. We are very pleased with our ranking, but this journey has been under way within Schroders for a number of years. We have engaged hundreds of companies over the last years in understanding what action they are taking and pushing them to take more action where we see it is lagging.

I think that engagement is our key source of influence for two reasons. One, that is ultimately how we effect change in the real world. This is not ultimately about saying we are not going to invest in companies that have work to do. At some point that is the conclusion, but the decision not to invest in something is a failure of our ability to have influence with those companies rather than a place to start in our assessment.

Q203 **Chair:** Have you yet taken a decision to disinvest because of the reaction that the company had to your enquiry?

Andrew Howard: We have divested from a number of individual companies. This is generally speaking part of a broader set of questions that we have about a company. There are certainly companies that we have sold positions in. I would not say that this is solely and exclusively a function of that engagement exercise to date. It is part of a bigger set of considerations about why we would or wouldn't invest in something.

Q204 **Chair:** I think you have made a public commitment to the date of 2025 that you will have eliminated commodity deforestation companies from your portfolio.

Andrew Howard: That is right: by 2025 to eliminate commodity-driven deforestation from across our investment portfolios.

Q205 **Chair:** Do you expect to achieve that?

Andrew Howard: Yes, it is certainly an achievable goal. It is not straightforward in how we ensure—with the data that is available to us, the certainty that we have identified every company will never be perfect, but we are well on track to achieve the commitment of intent and it is an achievable goal.

Q206 **Chair:** Is the limit to that simply data availability rather than the commitment? If you have identified a company that has just done something heinous in a country at risk and you have an exposure to it, would you initially, based on the process you have just described, encourage them to change their policy or would you get out of the investment?

Andrew Howard: It depends a little on the level of heinous, if I am being honest. Heinous, taking it to an extreme, probably makes that company at face value uninvestable. In most cases it will be a case of trying to understand what the situation was to reach a conclusion. The conclusion will be that there are companies that by 2025 we will have to make a decision that we will no longer continue to invest in them if they have not changed.



Q207 **Chair:** In the various fora that you are engaged with your peers in the investment community, is this an approach that has been widely adopted by the investment management industry or are you a bit of an outlier?

Andrew Howard: If I am being honest, it is not as widely approached as it will ultimately need to be. I think there are a few considerations. We are in an advantageous position as an active manager. That practically speaking means we have analysts and fund managers who take the time to understand industries and companies in the context of where they are operating. That certainly gives us an advantage in understanding what companies do and how they do it.

Q208 **Chair:** I will come back to Danielle before moving on. We have just heard that Andy thinks he will get to 2025, but Schroders is one of the best performers in the sector. Do you think the sector as a whole will achieve this within the next two years, which is what the UN requires?

Danielle Carreira: I will go back to my initial point about the different types of financial sector actors. We are seeing someone who is an active investor here, engaging. We have passive investors as well in the markets. There is an abundance of data nowadays. I work with a very large group in different industries and I can give an overview of them to put it into context. I see that we have an abundance of data for publicly listed companies, not so much for private companies and, as I said, not so much for different asset classes. Within the amount of data that we have, which data to use and how to use the data is another question, which comes back to several people as well.

I think that the comparability between the different datapoints is another issue, which is being addressed by several investors. I am supporting, alongside other organisations such as Global Canopy, investors who are committed to the 2025 deadline to implement their commitments. I can see a huge effort not just engaged with companies like Andrew mentioned but also with data providers. It is very important that those players, who are also part of the financial sector, provide data that is comparable and reliable to enable the financial sector to make decisions.

The other approach that I also see, because I think deforestation is being seen as a systemic risk—as I mentioned before, I manage TFA and we are the secretariat of an initiative that is called Investor Policy Dialogue on Deforestation. This is a group of approximately 70 global investors from 19 countries. Collectively, they represent 10 trillion of assets under management and they have been engaged with the Brazilian Government over the past two and a half years. They have been engaged with the Indonesian Government and they have been engaging with the EU, UK, very soon the US and with China at some point next year as well. They are taking a systemic approach to try to complement their engagement activities with companies, data providers and governments as well.

I have been working with the financial sector on deforestation for over a decade now, and from my experience it has been one of the most



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incredible initiatives that I have been involved with because investors can really understand the local challenge from the producing countries to address the issue. Deforestation is not just an environmental issue—it is a social, political and cultural issue as well. We need a systemic approach to address that. A third of this group who are engaging with governments around the world are UK-based investors. I mentioned that the group collectively manage 10 trillion of assets under management.

From an asset management perspective, that is over 40% being engaged by UK investors. I am not saying that UK investors are doing amazingly well but over the past 10 years I have seen a big change in behaviour by leaders, but to resolve the problem we need more than leaders. We need the entire sector to step up again and to take the same position.

Q209 Chair: Do you have a sense of what proportion of the forest is owned or is influenced—perhaps saying “the forest” is the wrong way of looking at it. Looking at the area that we are talking about where deforestation has occurred and is being used for commodity production purposes and the rainforest, which is susceptible to investment by international investors or investment in public assets, my suspicion is that a large portion of it is owned by the private sector, as you mentioned. In many of these countries it will be large families or governments or local governments that own this land.

Danielle Carreira: It varies a lot around the world. Probably Helen is much better placed to respond to this question, but if we look, for example, at the Brazilian Cerrado, which is not a forest but a savanna and really important for biodiversity and water security, it is 50% gone already. That is a lot. We had a soy moratorium a few years ago, which limited the damage in the Amazon forest but of course we can see a lot of illegality there as well.

Indonesia, Malaysia, palm oil—a huge loss now, but of course we have seen a reverse in the trend of deforestation. Indonesia is doing extremely well because of various factors. We have seen a huge drop in the past few years, but maybe Helen has better data about areas.

Chair: I am going to move on because I have taken up too much time and we should let other colleagues have a go. Anna McMorris, you might like to pick up that point but you might not.

Q210 Anna McMorris: This moves on in much the same way; I want to ask about action by financial institutions in reducing deforestation risk exposure. First, I will ask Helen and Danielle to explain how deforestation creates material risk to financial institutions and their return on investments. Could you set that out?

Helen Bellfield: The way that it can impact on the material returns is through companies having reputational risks, regulatory risks. The new EU and UK legislation on due diligence will have penalties associated with it if companies do not comply. There are also operational risks where, for



example, soy becomes more susceptible to drought in areas that are affected by deforestation. That can lead to a high risk of default.

Importantly, when we look at the number of financial institutions that recognise deforestation as a material risk, a lot of them do not. Only 18 out of the 150 financial institutions recognise deforestation as a material risk, a further 20 saw it as a reputational risk. I think that is also why there is a clear need for regulation to bring the floor up. That gap in seeing it as a material risk is why we are seeing action by only a handful of the leading financial institutions. It is more of a systemic risk.

To reflect there, the Global Resource Initiative Taskforce and the subsequent working group on finance both considered this issue and recommended that due diligence is extended to the finance sector due to the slow progress by the sector voluntarily. I think that is really important. It was not included in schedule 17 of the Environment Act, but I want to draw attention to the Financial Services and Markets Bill that is currently going through. An amendment has been laid that has cross-party support on transposing schedule 17 for the finance sector in the context of this finance regulation. I think that is an exciting opportunity to close that gap and to fulfil the recommendations of the Global Resource Initiative Taskforce and the subsequent finance working group and potentially also to extend it to improve the coverage of human rights issues, which are also not fully addressed in schedule 17. I also encourage that to be followed up on.

Danielle Carreira: I agree with Helen. I think it is very clear. As I mentioned initially, deforestation is creating a massive risk across several sectors on the ground and this risk is spread across the supply chain. Regulations would create this ability as well, so I think that is important to highlight. However, we are talking a lot about risk and avoiding the risk and the only way to really avoid the risk and think about the longer term is resolving the problem, avoiding conflicts.

Andrew mentioned engagement. I think engagement is the most important activity the financial sector can undertake and governments can take, engaging to understand the problem and how to resolve the problem. I am seeing some financial institutions engaging to minimise the risk but they are also investing in solutions. They are finding ways to help producers to use already degraded lands to expand production.

Food demand is not going to stop, it is not going to reduce, it is just going to increase, so we need to find a balance between conservation and growth as well. Finding a solution is really important. That will minimise the risk in the longer term. Of course, we are talking a lot about illegal deforestation. Illegal is illegal. There is a regulatory risk without having regulations. I think the risk is very clear.

Q211 **Anna McMorris:** One big concern is the indirect investment. Andrew, you talked a little bit about this. You are taking action in trying to prevent investment that contributes to deforestation, but there is indirect risk as



well. How do you see your organisation working on tackling that and what can be done to prevent some of that? For example, we know that some of BlackRock's shares had shareholdings in soy traders that both carry deforestation risk and these were named as ESG. Where you have investors or financial institutions thinking they are investing in the right thing but this carries deforestation risk, how do you reconcile that and what needs to happen?

Andrew Howard: I will pick up on information and data availability. This is not a straightforward exercise. The energy and the effort, the investment that has been made across Schroders over the last few years in trying to understand what exposure individual companies and industries have is huge. The potential to get more transparency—the indirect point is critical because understanding the supply chain exposure of individual companies is critical if we are going to tackle this and it is almost impossible from the information that the large majority of companies currently provide.

Going back to the previous interrelated points, the relationship that we have as an investor in companies is different to the relationship that a company has with its own suppliers. Our ability to have that look through visibility into what individual companies' supply chains look like and where they are sourcing from and how they are sourcing clearly will also be detached from and less clear than the individual companies that we are talking about. It comes down to understanding as well as we can where those risks are likely to be greatest.

In the cases where there are industries, companies or business models where the risks are significant, it comes down to engaging with those companies on the one hand to push them to be more transparent, to using alternative sources of information where we can—I am thinking here about trade data and other data sources that we can use and there have been a lot of steps forward in databases on that front as well—but also encouraging more disclosure through mandatory means to make this ubiquitous. Rather than something that a few leaders have started to take steps on, it is comparable and ubiquitous across the exposed industries.

Q212 **Anna McMorris:** You mentioned the failure of the proposed due diligence system. What more could the Government be doing to provide assistance in moving forward on this apart from what has already been mentioned and ensuring we legislate for due diligence?

Andrew Howard: I would put it into three broad categories, two of them data related. I think there is a support for initiatives like, for example, the trade system, TNFD, CDP forest work. They are all initiatives that help us to understand what companies can provide and how that information can be used so that as we move further down the regulator or the mandatory route we have a clearer idea of what information leaders can provide and, therefore, what all companies can provide. I think it is important that we



provide support to the more voluntary initiatives so that we can make them mandatory, which is move more quickly and be more precise.

Anna McMorris: Transparency.

Andrew Howard: Yes, transparency in the right areas. I should stress that. Not just transparency but transparency into insights and information that will help, from my point of view, to make more informed investment decisions.

The other point I wanted to mention, which is not directly data related, is about the importance of alignment to policy across different areas. We have talked about the financial services and our ability to meet 2025 targets and so on. Ultimately, I think that is not the goal. It is our goal, it is the thing in front of us, but ultimately we are trying to achieve change in the real world rather than simply as a target to achieve an elimination of companies from investment portfolios for those companies that have made commitments.

Driving change in the real world at scale across the financial services industries needs an alignment across environmental policy, economic policy, industrial policy and even within environmental policy across nature and climate, how we ensure that all of these things are pulling in the same direction such that for us an investor we have a belief that commodity-driven deforestation is a material risk that is underappreciated by markets and that we, therefore, have a responsibility to understand where that risk is and to minimise it through the actions that we can take. The clearer that risk is in industrial and economic policy and the bigger the incentives for companies to take action in the right direction, the faster the finance industry as a whole will get behind this and move it.

Q213 **Anna McMorris:** Thank you. Danielle, do you want to add anything on that point?

Danielle Carreira: Yes. I think that pension funds are the ones giving the mandates for the investors and also to change how they are making business. There is a huge role there in asset allocation, what they want to see from their managers, apart from the real world as well.

Q214 **Anna McMorris:** Human rights is frequently linked to commodities-driven deforestation and I know that the GRI Taskforce recommended that companies and financial institutions set and implement strong commitments that cover human rights abuses. Can you set out why it is so very important to cover the human rights-based approach to deforestation?

Helen Bellfield: Excluding it ignores the fact that, as you said, deforestation is often associated with human rights abuses, particularly targeting indigenous peoples and local communities in production regions. Protecting the rights of indigenous peoples and those with customary tenure has been shown to be the most effective way of



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reducing deforestation rates. I think that is a critical piece of the puzzle too. Therefore, it is critical that policies and legislation include human rights under international law.

Often, as we have seen in Brazil over the last four years with the Bolsonaro Government, local legislation in countries is not necessarily strong enough. It often ignores customary tenure and rights of indigenous peoples. It has to include, as I said, customary tenure rights and also the rights of indigenous peoples and local communities to give or to withhold their consent for activities that might impact their rights, resources or food security. You can't tackle deforestation without looking at human rights abuses because they come hand in hand.

Q215 Anna McMorris: Yes, absolutely. Danielle, do you want to come in on the GRI initiative particularly?

Danielle Carreira: Yes, I think this is essential. I agree with Helen. You can't tackle the deforestation risks without looking to human rights. We saw in Brazil the Yanomami, which was genocide. Thousands of bodies were found there because of illegal goldmining. It was absolutely horrendous and also there is a role of them protecting the forests as well. There are no better communities for protecting the forests and they protect massive amounts of land through the entire world.

From a sustainability and financial perspective, it is the duration and the strategy for the company to treat their employees well throughout the entire supply chain because training employees, putting them into their business takes time as well. If you look from a financial perspective, the longer the duration, the better mentally and physically employees are throughout the supply chain, the better the company will perform.

Q216 Anna McMorris: Andrew, I think Schrodgers cover human rights very closely, don't you? Can you just add to this on why it is so important that this must be legislated for?

Andrew Howard: It is important on two grounds. First and most important, as you say there is a strong relationship between illegal deforestation, commodity-driven deforestation and abuse of human rights, perhaps unsurprisingly. It is also important in delivering and achieving the deforestation ambitions that we have. There are estimates that some 20% of the world's land and up to 80% of the world's biodiversity is owned or managed by indigenous people.

Unless we are thinking about how we ensure that a transition of business practices and forestry practices is beneficial to all the parties involved and to everybody involved in that process and this becomes something that is mutually beneficial as a different way of operating and a different way of managing land, it will be very hard to see how we create the right global incentives to drive real and sustained change. It is the right thing to do, and that is the most important, but it is also a necessary thing for how we think about how this will work.



Q217 Jerome Mayhew: There are two significant issues that this Committee is looking at in this hearing. The first one is whether regulation or initiatives should be voluntary or mandatory and the second one is what are you seeking to achieve in the first place. Is it the absence of illegality or is it, as the EU has been moving towards, a zero deforestation goal, which may not be the same thing, as we have been hearing?

My questions will deal with the first of those issues. Should we be relying on voluntary or should we be saying there is a requirement for mandatory intervention for financial services due diligence? I will start with Andrew as the representative of the sector. Looking at voluntary finance sector-led initiatives—marks out of 10, how are they doing? Is it “Nothing to see here, we have got it covered”, or do you think it is a little bit more nuanced in your response?

Andrew Howard: Probably a bit more of nuance out of those two options.

Jerome Mayhew: We have another couple of hours to fill so—

Andrew Howard: I think there has been a huge number of steps forward in many of the initiatives that we have seen. “Voluntary” sits on a spectrum, to be clear. There is a number of voluntary initiatives and then there are initiatives that are voluntary but are likely over time to transition into something that is more actual mandatory or quasi-mandatory. I am thinking here about things like the TNFD, which is an initiative that we have worked closed with over the last few years.

Jerome Mayhew: Can we ease up on the acronyms?

Andrew Howard: Apologies. TNFD is essentially the Taskforce on Nature-Related Financial Disclosures, which is basically a framework for how companies should be disclosing their exposure to and management of nature-related risks and impacts. I will not repeat the acronym but a similar initiative in climate change has over time gone from being a framework out there in the industry with participation from across the industry and support from the industry into mandatory disclosure requirements around climate change over the course of five or 10 years.

Q218 Jerome Mayhew: Made mandatory by whom?

Andrew Howard: For example, the UK Government for disclosure requirements in the UK and increasingly elsewhere in the world.

Q219 Jerome Mayhew: You are saying that trade bodies can be the genesis of a co-operative agreement that then gets adopted by government and made mandatory once it has widespread support?

Andrew Howard: Yes. I think in general the value of voluntary initiatives and initial work is twofold. It allows us to understand and ensures that we understand the information about companies and therefore we, as a collective community, trying to understand what information should be reported and what is most useful. It also



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demonstrates that those leaders who have moved earlier within the initiatives demonstrate that it can be done, so it is a framework that can be applied more broadly. This is particularly critical in this area.

The level of information and disclosure that we see in this field is significantly lower than it ultimately needs to be to make the robust investment decisions and capital allocation decisions that will be needed ultimately. To get to that point, disclosure will be required, in my opinion, but we need to make sure it is the right disclosure rather than jumping straight to it.

Q220 Jerome Mayhew: Danielle, joining on to that discussion, do you think it is wise to leave it to the industry to identify what kind of disclosure is appropriate? Are we exposing ourselves to a degree of risk of people marking their own homework?

Danielle Carreira: I think that voluntary is great for grace periods. No one else better than the financial sector knows what they need. It is very difficult for stakeholders outside a sector to identify what is the right and material data and what needs to be done to that data.

The consultation with the financial sector in the development of regulations is really important but it needs to be tested before. I do not think we should downplay the role of voluntary initiatives. They are extremely important for leaders to make the step forward, to test different approaches. It has to lead to regulations, but the regulations need to be developed in consultation because who knows what needs to go for which data.

Q221 Jerome Mayhew: In written evidence, we have heard about the power of governments and particularly that the United Kingdom Government has as a convenor. You have talked in your evidence to some of the earlier questions about how you have leaders in the field but there is a long tail of organisations that are not as engaged, have not gone down this journey. Could you expand? What role do you think the United Kingdom Government has in conversations with the wider sector to take the pioneering work from leadership organisations and spread it more widely short of mandatory regulation?

Danielle Carreira: I think it is very important to have this dialogue with the financial sector, and a stand from the leaders and to convene events. COP26 was a game changer and the role of the UK as the president. That was a massive change in the entire world. As I mentioned, I have been working on this for 10 years. I think COP26 was when forest was clearly inserted on the climate agenda and was addressed.

I think that raising this awareness throughout not just the financial sector but the population is really important. I know we talk about cattle, soya, palm, pulp and paper as the forest risk commodities. Again it is not the commodity but how it is being produced. I think it is important that this becomes clear because as we see with palm oil, we demonise certain



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commodities. It is not the commodity. It is the production model that is being taken into play.

Q222 **Jerome Mayhew:** This is slightly tangential. Off the top of your head, on the percentage of palm oil globally produced, which is from at risk, questionable production lines, compared to sustainable production of palm oil—where would you say the proportion lies?

Danielle Carreira: It is 20% certified globally produced, but certification is not just looking into deforestation; it is looking across several other issues. When you talk about sustainable commodity production, we have to think about water use, land use and different aspects of commodity production. Here of course we are focusing on deforestation. If you look at sustainable production, looking at the standard that is high, which is RSPO, it is 20% only, which is low. Soya is 2%.

Q223 **Jerome Mayhew:** You can see how it is not an enormous step from a 2% sustainable rating to demonisation of a product.

Danielle Carreira: It takes finance. It takes money to certify a product and that is why I think it is important for the supply chain—and I am including the financial sector as part of the supply chain—to share the cost and the responsibility, and not leave it all down to the producer.

Q224 **Jerome Mayhew:** Helen, the Global Resource Initiative Taskforce recommended that schedule 17 of the Environment Act, which we have talked about a little bit already today, extends mandatory due diligence duties to the financial sector. This is the other half of the argument. How important is this? Where do you place it in our fight for anti-deforestation initiatives that we go the extra step and say, “You know what—we need to move to mandatory reporting now”?

Helen Bellfield: I think it is absolutely critical. The original taskforce report and the follow-up on the finance sector report were incredibly clear that the most important step that the UK Government could do was mandatory due diligence requirements for the finance sector. That has obviously been missed in the Environment Act but, as I said earlier, there is an opportunity right now to include that in the Financial Services and Markets Bill. The finance working group report also recommended extending that to include legal deforestation—not just illegal, but also extending it around human rights.

I think it is the most important thing the UK can do. It could also be world leading. There is a big opportunity building from COP26 where the UK can be into a lot of voluntary commitments from investors to build on that and to demonstrate that the UK finance sector is world leading on this stage.

Q225 **Jerome Mayhew:** Cost comes with complexity. I am going to ask Andrew, as the representative of the investment industry: is there a risk of requiring too much? I want to understand the level of complexity, the level of cost, the level of time that these requirements—we all know time



kills deals in commerce. Are we at risk of stifling investment into a good sector by overcomplicating this or not?

Andrew Howard: It is a balance. I would argue that there are pros and cons. Creating more transparency can stimulate innovation and investment once you have more ability to be clearer about creating the right kinds of investment products and vehicles. Clearly there will be some costs associated with it as well for fund managers. I would argue that for the most part many of those costs should be being borne anyway, irrespective of disclosure requirements.

My concerns are slightly different. I feel that financial service companies should also be held to similar standards for disclosure and how they are overseeing their investments and due diligence and disclosure requirements. However, I think we have to recognise our ability to do that with the level of accuracy that people may expect, given the information that we have as investors in many different companies without the same level of visibility and insight into the supply chains of the companies that we are invested in.

We are at least one or two steps detached relative to the company itself, which has its own contracts with suppliers and its own contractual relationship. My worry, personally, is not so much that there is a cost element; it is about how we ensure that we can do this to the level of accuracy and transparency people expect.

Q226 **Jerome Mayhew:** It is a very interesting point, isn't it? If you assert that this is an ESG, a good investment on your best endeavours, but actually it isn't, that might be worse than not making any assertion at all. You are actively misleading people into their investments as opposed to not knowing.

Andrew Howard: I think there is a difference between actively misleading people—

Jerome Mayhew: Unintentionally.

Andrew Howard: Yes. Most investment comes down at some point to a form of judgment and trying to make the most informed, the most analytical and the most structured judgment that we can.

If anyone tells you they don't make mistakes at some point, I think that they have misunderstood the point. It is about are we doing this to the best of our ability with the information that is available to us and the judgments that we can make and are we being as transparent and honest as possible about the degree of uncertainty that exists with any of those points.

Q227 **Jerome Mayhew:** A final subsection is about the potential for divergence between our approach and that of the EU. As you very well know, it is requiring the European Commission to assess the need to extend mandatory due diligence to the financial sector. It is not quite the same



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as what we are anticipating. Is that a big deal, first for the sector and then we can talk about the NGO sector and your response to it? What do you think, Andrew?

Andrew Howard: I think that the legislation that we have seen out of the EU for us is an important and useful step in crystallising the question. If I am being honest, if we go back a few years, the question around deforestation was a somewhat conceptual question.

On the question of how this becomes financially material, regulation is a big part of that. The EU regulation will be a particularly important part of that and what we are seeing in the UK similarly is really important. Let's see where we get to in the US with discussions there.

We can see that it is shifting really quickly on the regulatory picture, that turns something from being an environmental problem to being a financial problem. Our view is that those two things will come together fairly quickly in this area, and what we are seeing in the EU will be a part of that. Regulation will differ in different parts of the world. That is inevitable in today's world, but all of them are effectively creating a business cost or a financial cost to an activity that was not historically costed in the same way. That is aligning nature goals with investment goals.

Q228 **Jerome Mayhew:** Helen, do you have any thoughts beyond this or do you agree broadly with what Andrew said?

Helen Bellfield: I broadly agree. I think in some ways the risk of divergence is greater at the moment with the secondary legislation still to come on the UK Environment Act. The European legislation sets out incredibly clear new norms on traceability.

For every single shipment coming into the EU, you will need the geolocation of the plot of land that it was produced on. That is a new norm across the sector, which is incredibly important and did not exist previously. Hopefully, the UK secondary legislation will be similarly as ambitious as well. A lot of the UK imports come from the EU so it makes sense for alignment across there. I think the fact that the EU is looking at this legislation in two years' time gives an opportunity in some ways for the UK to move ahead with this and to identify how it feels it can be done best and to inform the EU process as well.

Q229 **Jerome Mayhew:** Final word to you, Danielle.

Danielle Carreira: I don't think I have anything to add. I think they covered it really well.

Q230 **Caroline Lucas:** We have touched quite a bit on the voluntary versus mandatory already, but forgive me if I cover some of it again. As you know, target 15 of the Global Biodiversity Framework did not include mandatory wording on nature-related disclosure requirements. In your view, can firms and businesses be mobilised to disclose their risks,



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dependencies and impacts on nature without that agreement using mandatory wording?

Helen Bellfield: Building on what Andrew said before, I think some will. We have seen a huge amount of interest in the Taskforce on Nature-Related Financial Disclosures, but obviously a clearer pathway if that was mandatory is a pathway for ensuring institutions across the sector move forward.

Q231 **Caroline Lucas:** You would like to see it mandatory?

Helen Bellfield: Yes, I would like to see it mandatory but I think particularly in the forest space where there is much more data, much more work has been done, I don't think it replaces the need for due diligence requirements.

Q232 **Caroline Lucas:** One of my later questions was going to be whether or not making nature-related disclosures mandatory negates the need for mandatory due diligence for the finance sector under schedule 17 of the Environment Act. Would you say it does not negate that, that you need both?

Helen Bellfield: Yes, it doesn't. You need both. I think particularly because the Taskforce on Nature-Related Financial Disclosures is only on reporting. It is not due diligence and having to mitigate those. Also it covers a huge number of areas, different issues, plastic pollution all the way through to fisheries, whereas in the forest space we are very clear on the issue and the problem and we need to move.

Q233 **Caroline Lucas:** Thank you. I will move to Danielle. I can see that you are nodding and I will add in a further question at the same time. When the Taskforce on Nature-Related Financial Disclosures framework is launched in September, would you recommend that the UK Government makes nature-related disclosures mandatory at that point?

Danielle Carreira: To add to what Helen said, I think nature is broad. We are talking about water and forests, several nature issues here. Making it mandatory in September—and I think it has been piloted by several companies, several financial institutions—seems a bit too short. I think we need a major announcement and a phasing approach to be modified.

Q234 **Caroline Lucas:** Helen, do you agree with that?

Helen Bellfield: Yes. That is the same lessons from the TCFD that Andrew referred to.

Q235 **Caroline Lucas:** How long do we have to wait?

Helen Bellfield: I think it depends how stable the framework is and what it looks like when it comes out in September. The early versions have quite a lot of work to do in quite a lot of areas. I don't think any of it has been fully piloted yet, so I imagine there would need to be a run-through of at least a year before moving towards mandatory.



Caroline Lucas: At least a year.

Danielle Carreira: Yes. We can't take as long as it took for climate. We don't have the time but I don't think we are ready as of September.

Andrew Howard: I think the challenge we are articulating at the moment is we will see what it looks like in September. We have been involved—and I am sure all of us have been involved and many others as well—in the discussions leading up to that point. This will be a really important framework ultimately but it is very hard to form a view on when it should be applied until we see it.

Q236 **Caroline Lucas:** I have a specific follow-up for Andrew. Your website says that you will be calling on companies to improve disclosure on forest-related risk. Since you are a major shareholder in Drax, the world's biggest wood-burning power company, have you already asked them to do the same?

Andrew Howard: The short answer is yes. I am not the right person to go into full details on that particular company, but we have engaged very heavily on topics, including that one.

Q237 **Caroline Lucas:** Has Schroders considered divesting from Drax?

Andrew Howard: Again, I would rather not—

Caroline Lucas: Could you write to us?

Andrew Howard: We can.

Q238 **Caroline Lucas:** It would be an interesting test case to look at all of this abstract stuff and come to a company that is extremely controversial and is arguably—

Andrew Howard: Absolutely. My concern is primarily that we have investors, we have a process, we have fund managers who are very closely involved in that question, and I would not want to give you an incomplete answer.

Q239 **Caroline Lucas:** I appreciate that but if you could write to us, that would be really handy. Thank you.

Do you expect that lessons learnt from rolling out climate-related disclosures under the TCFD will aid the rollout of nature-related disclosures or do you expect the TNFD to be more challenging? I guess you have already said you think it probably will be more challenging because it is much broader but are there key lessons we can learn from the climate one?

Helen Bellfield: Yes. I think if you look at the TNFD it follows the same structure as the TCFD, so it is already taking that lesson from the TCFD. It has learned lessons in terms of piloting it as well, but nature is much more complex than climate, particularly thinking about the dependency side of things, so I think there are many more challenges there.



Danielle Carreira: I think we can see on TCFD scope 3 it should be worked out. That is how complex it is to get to nature.

Q240 **Caroline Lucas:** How can we speed this up? I am aware that on the one hand we have an accelerating biodiversity crisis and nature crisis and on the other hand we have got very reasonable understandings of why some of these definitions and so forth take time. But what can be done? Is it a matter of resources or what can we do to speed this up a bit?

Danielle Carreira: I have an opinion that again we go back to the traceability issue; knowing where things come from is very important. This is only possible if you have full visibility of the supply chain for investors and for companies. Traceability at the moment is a measure across several commodities that we are dealing with. It is a solution that needs compliance to come from the ground, from various producing countries. As I mentioned, I think having this dialogue, this collaboration with the global source is very important so they can develop reliable traceability systems to create—

Q241 **Caroline Lucas:** Does it need more resources to enable them to do it at a pace and a comprehensiveness that is consistent with the size of the crisis that we are facing?

Danielle Carreira: It is and I think it is beyond that as well. When we talk about traceability and we have been talking up to now, we are talking about exclusion and eliminating a problem. In my view, traceability should be to identify and resolve the problem. I think that is an issue of how we have been positioning ourselves on the use of traceability. For that purpose, especially if you talk about dependence and impact and all of that, traceability is essential.

Helen Bellfield: To build on that, I think the next session will dig into this more but many more resources are needed. We are talking a lot about demand-side measures but we also need to see financial investment and support for producer countries to comply with this legislation, support for monitoring enforcement. We also need to see support and investment going across governments to support indigenous peoples, to support land use and land use rights as well. Without that, we are not going to see progress.

Chair: That concludes our first panel. I thank our panellists, Andrew Howard, Danielle Carreira and Helen Bellfield, for joining us and ask you to leave while the second set of panellists come forward.

Examination of witnesses

Witnesses: Ligia Baracat, Duncan Brack and Dr Constance McDermott.

Q242 **Chair:** Welcome back to the Environmental Audit Committee, where I am very pleased to have our second set of panellists. I will ask them to introduce themselves briefly. We have Ligia Baracat from the Forest Peoples Programme.



Ligia Baracat: Hi, everyone. Thanks for having me here today. I am an Advocacy and Policy Officer with the Forest Peoples Programme. We are a human rights organisation that for 30 years has supported the self-determined efforts of indigenous and forest peoples to have their rights recognised, protected and fulfilled.

We work in solidarity with partners across the tropical forest belt and we work with indigenous organisations at national, regional and local levels. Environmental and human rights harms, we have found through our work, go hand in hand, and deforestation is highly correlated with the violation of indigenous peoples.

Chair: Thank you, Ligia. Dr Constance McDermott from Oxford University.

Dr McDermott: I am a Jackson Senior Fellow and Associate Professor, and I lead the land use governance programme at the Environmental Change Institute in the School of Geography at Oxford.

Chair: Thank you. Duncan Brack, who is an independent environmental analyst and an Associate at Green Alliance, is that right?

Duncan Brack: That is correct. I am a freelance researcher. I work primarily on consumer country mechanisms to try to reduce the impact of countries like the UK on deforestation. Among other clients, I work with Tropical Forest Alliance, which you heard from in the first panel, and I was an adviser to the Global Resource Initiative Taskforce.

Q243 **Chair:** Thank you. This panel is focused on trying to see how global alliances are or are not effective in trying to reduce deforestation. I am going to kick off specifically on that. We had the New York declaration in 2014 and that was followed in 2015 by the Amsterdam declaration partnership, in which both groups of different countries committed to eliminate deforestation, in the first case by 2030 and in the second case by 2025. How are either of those organisations going?

Dr McDermott: It is probably fair to say that there have been more promises than progress. I think there has been some frustration in making impacts on deforestation. Where there has been a reduction in deforestation, it varies a lot by country and the effects have been very uneven and volatile, as we know.

A core reason you can say for this lack of progress is, as has been talked about in other panels, the failure to address the underlying drivers of deforestation that are linked to broader issues of uneven development, problematic governance, and unclear or contested land and resource tenure across much of the forest frontier. There has also been a lack of incentives and support for affected stakeholders and communities.

One of the challenges we are facing is that there is a lot of enthusiasm to keep cranking up the ambition but not necessarily being accountable for the targets and policies that are already in place, focusing so much on



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increasing ambition to stop deforestation but not addressing these underlying drivers.

Q244 **Chair:** We have seen that Brazil often gets pointed to as the biggest reducer of its forests, but that is perhaps because it has the largest forested area, so it is mathematical. It lost over 1.5 million hectares of forest last year alone. Is Brazil a signatory to these agreements?

Dr McDermott: There is a number of different interesting lessons from Brazil. It highlights the importance of country ownership and national ownership of efforts to stop deforestation. When you see strong leadership at the national level to stop deforestation, that is when we tend to see action happening.

I think the big lesson from that is that while there are lots of ways that foreign powers and international actors can try to incentivise or pressure to stop deforestation, the ownership at the national level but also at subnational and community levels is so important.

Again, we have to be a little bit careful about too much focus on just continual target setting, which makes for good immediate media impact but it does not get at the issue of what the incentives are for these companies and countries to co-operate and drive change in a way that makes sense in their countries and in their local contexts.

Q245 **Chair:** In Glasgow and then again in Sharm El-Sheikh there have been more declarations by national leaders through COP26 and COP27 programmes. In COP26 I think that 140 world leaders signed up to the declaration on forest and land use, and more countries, including Brazil, Indonesia and the Congo, were signed up at the G20 following COP27 to make another pledge. Duncan, have you looked at how credible any of those pledges are and is it too early to say that these last two rounds of COP will make a difference?

Duncan Brack: It is too early to say, I think. It is easy to be cynical about declarations like this. In addition to the ones you mentioned earlier, you could have cited the sustainable development goals, which also had the target of ending deforestation by 2020. All those targets have been missed, and the next set of targets are all pretty much about 2030.

I think what is different about COP26 and COP27 is that we saw more activity on the action to support the declaration and the pledges. There was the global forest finance pledge at Glasgow, the Congo Basin joint donor statement, the indigenous peoples and local communities forest tenure joint donor statement, and then the forest and climate leaders partnership at COP27. Here I think you are beginning to see more commitment to provide funding and more commitment to put implementation frameworks in place.



The declarations by themselves are not terribly helpful. They are useful, it is probably better to have them than not, but you have to have action on finance, trade, political will and implementation.

Q246 **Chair:** The UK has been quite forward leaning on this, perhaps in part because it hosted Glasgow, and Lord Goldsmith has been making it one of his main mantras as a Minister. Have we seen the money from the UK being delivered and being put to work?

Duncan Brack: Yes, the UK is one of the big forest donors, along with countries like Norway and Germany and, to a lesser extent perhaps, the US. The UK record goes back quite a long way before Glasgow. It was quite instrumental in helping to create the FLEGT, the forest law enforcement, governance and trade programme, at the EU level. It has always been a big donor on forest-related commitments and it seems to be determined to keep that commitment up, which is very welcome.

Chair: We will bring you in in a second, Ligia, but I am going to ask Duncan Baker to take that forward.

Q247 **Duncan Baker:** I am going to focus on an important subject, which is indigenous people in the local communities built around these deforestation issues and how pertinent that really is. If I start first with you, Ligia, why are indigenous peoples in those local communities considered so important as forest defenders and why are their rights so important as well in the context of deforestation?

Ligia Baracat: Indigenous and forest peoples are distinct social and cultural groups who live under customary law and customary rules. They tend to share similar characteristics, such as having strong ancestral and spiritual ties to the lands and natural resources, which they own collectively. We know that they were brutally impacted by colonialism. Some never survived this encounter and others still face the consequences of this today. They are still dispossessed of their lands and many states do not recognise them as indigenous peoples. Furthermore, some of the national-level laws that we are talking about are based on laws from the colonial era, so they face very high levels of marginalisation and discrimination within the laws of the nation state that their lands now are within.

Ultimately, indigenous peoples' rights deserve protection and they have inherent value. They are at risk. Their cultures are at serious risk and their rights are at risk. Some of the threats include the dispossession of lands by states granting concessions to businesses way beyond agribusiness and timber but also mining, oil and gas, and renewable energies infrastructure. With deforestation, their rights are impacted, basic rights to food and shelter. Forests are also more vulnerable to encroachment and deforestation where tenure rights are not secure because indigenous peoples' right to self-governance has been undermined, which means they cannot effectively and collectively defend their lands any longer and they cannot defend the forests.



Where there is this land conflict, there is a lot of violence. Where indigenous peoples are seeking to defend their rights, sometimes their right to life is at risk, but their civil and political freedoms are often denied as well in authoritarian states.

You were talking about Brazil earlier. The reason why deforestation rose during that period was the policies being put in place by the Bolsonaro regime. The state plays a fundamental role in ensuring the protection and the UK needs to ensure that it is talking to states in a way that is referring to international human rights laws rather than national laws.

There is a lot of scientific and peer-reviewed evidence that shows that indigenous peoples and forest peoples are indispensable in forest protection. One report found that 91% of indigenous peoples and local peoples' forests were in good or fair ecological condition. Another that looked at 300 academic papers, and this is a report from the FAO and FILAC, said that where indigenous peoples have secure land tenure—and this is in the Latin American context—their forests store more carbon than protected areas that are protected by the state. I hope that answers your question.

Q248 Duncan Baker: It does. I think that the key point you have made is how indigenous people are indispensable when it comes to the threat of deforestation. Did you want to add anything to that, Dr McDermott?

Dr McDermott: Yes, I will, because Ligia pointed out the very important way that indigenous and local people are important as forest protectors. One of the things that has not been discussed very much in the panels so far is the way in which indigenous and local communities may themselves also have needs for timber or they may also even be producing some commodities for export. This is very important to their livelihoods. They are facing increasing layers and layers of international standards policies and regulations that are threatening their access to those markets, so this is also something we have to consider.

If you look to the history of many of the countries, let's say Indonesia and Ghana as two places that we have done a lot of work, the history of forest laws and access to land dating back to colonial times has been strongly around how to develop the land for especially commercial production and the export of resources. There has been as strong protections of local and community rights, so a lot of times concessions are overlapping with indigenous or local claims for land rights.

The challenge we have here is that adding on now additional requirements that are spilling over from the timber sector—something we have looked at a lot, the impact of the legality demands on timber—into commodities that are critical to smallholder livelihoods is a real risk. For example, with palm oil we have something like 3 million smallholders worldwide that produce palm oil, and in Indonesia, for example, the smallholder production is estimated to cover about 41% of the palm oil



area. Of course, the smallholders are diverse. In some countries outside of south-east Asia the number is much higher.

Many of the small and locally based farmers often do not have title to their land. They may have traditional claim and they are recognised as having a legitimate claim but they do not have title. They also produce very small volumes, so they are not so easy to trace. A lot of these farmers who may not be involved in deforestation will have a hard time proving it. If they lose access to the markets, there is a risk that they may lose their land and then be displaced and forced into more informality and potentially deforestation.

In Ghana we also have to consider the issue of cocoa because again I think something that has not been discussed very much here are the realities on the ground in production. Cocoa is predominantly produced by smallholders and it is also one of the commodities targeted for deforestation legislation. When we are talking about smallholders, these are farmers with farms of 5 hectares or less. They are already facing major challenges with drought and irregular rain patterns and climate change impacts, low and volatile cocoa prices and other shocks, and the layering again of many demands regarding certification, legality verification, carbon measurement, biodiversity monitoring and so on. It is very hard for them, especially if they also do not necessarily own land title, to prove that they are legal, let alone sustainable. Again, if they are driven away from cocoa—and the interesting thing in Ghana is that a lot of deforestation now is not necessarily linked to cocoa—they will move into goldmining. They might move into food crops. They will do what they need to do to survive.

What I am trying to say here is that we need to address the underlying drivers of deforestation in each country and each context because they are different or we are not likely to succeed in stopping it. This calls a lot for partnerships and there has been, I am sure you have heard, a lot of pushback in a lot of countries, including countries that have been engaged with the UK, for example, on VPAs feeling that they are not being consulted about these regulations. I think there needs to be a lot more emphasis on support for producers to be able to produce sustainably and verify to the extent that that will be required. These partnerships need to be sustained over the long term.

Q249 Duncan Baker: Is one mechanism to try to do that schedule 17 in the Environment Act? How would that try to help and support what you are talking about?

Dr McDermott: I am going to say something—because it is always good to have a diversity of opinions—and it is a little bit different. I think the idea of due diligence is absolutely needed. There is a lot of support for that now, this idea that we are responsible for consuming our products and where they are coming from and it is time to take action on that.



The idea of mandatory reporting makes a lot of sense because how are we going to move forward towards holding ourselves accountable for the impacts of our consumption? However, I think that this idea of rushing through legislation without enough consultation for the people who will be affected is quite problematic.

Q250 **Duncan Baker:** Will it have the impact that we think?

Dr McDermott: This is the other thing and it is such an excellent question. I think there is a lot of talking in abstract level but there is evidence of what has happened, for example, under the FLEGT VPA process. There, there have been all kinds of challenges over more than a decade of work trying to make these systems work, and there is a lot of very optimistic thinking about how easily these levers will be shifted over into these other major commodities worldwide.

We know that, for example, Ghana was one of the first countries to engage in a VPA and it is now over 14 years. The focus has been particularly on producing legality licensing for commercial export, especially to Europe, which is a small volume part of the amount of timber production that Ghana produces, and these legality licences have not materialised. Meanwhile, Ghana has seen the most rapid per cent increase in deforestation of tropical countries in the middle of these processes. There are still lots of challenges with informality and problematic tree tenure laws within domestic production and then a lot of timber going overland to west Africa and to China.

It is a longer discussion for what the VPA has and has not achieved, but I think we probably need to have our eyes open that moving into these large commodity sectors will be a challenge. It will require trying different approaches and trialling them on the ground. It will require the buy-in and willingness of the countries involved as well as more investment and support for all the people on the ground, trying to come up with different strategies in different countries that fit the country context.

Q251 **Duncan Baker:** My last question is for Ligia. If we think that schedule 17 may be a lever that may not be as effective as we perhaps think, there is funding available through the official development assistance. How could that be used to help some of these things we are talking about?

Ligia Baracat: I think that all ODA needs to take a human rights-based approach and at present it doesn't necessarily do that. To go back to schedule 17, the original GRI recommendation did say that the due diligence that should be brought into mandatory requirements should include human rights and environmental due diligence. That just did not come to pass. Had that been put into place or at least a proper conversation had about it, there would have been debate around the spirit and intentions of the UN guiding principles and what that says and what the expectations are on both the state and business.



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Under the UN guiding principles, businesses have to respect human rights and that is based on adherence with international human rights law. That is what we would have wanted to see going through in schedule 17 and that could have then created a whole different set of conversations, one of which would be about incentivising continuous improvements with suppliers.

Obviously, we would want indigenous peoples to be partners in that conversation, but unfortunately the various elements that a human rights-based approach could have brought to schedule 17 has not been discussed in any great detail.

Q252 **Ian Levy:** Duncan, could I direct a couple of questions at you? Could you please give the Committee a brief outline on the UK's timber importation regulations, the UKTR? How effective has the UK been in implementing these regulations?

Duncan Brack: To pick up on the tail end of the last discussion, I think that demand-side regulation, like the UK timber regulation, like schedule 17 of the Environment Act, like the EU deforestation regulation, has an important role to play but it will always be more effective if it is accompanied by some incentive to change behaviour on the ground. I think you need the partnership frameworks and partnership agreements that Connie was talking about, together with the demand-side regulation.

Having said that, the UK timber regulation is basically a carbon copy of the EU timber regulation, which was one of the outcomes of the FLEGT programme that I mentioned before, the EU forest law enforcement, governance and trade initiative. The heart of that was always the idea that you sign bilateral agreements between the EU and timber-producing countries where there is a timber legality assurance scheme set up in the producer country and an export licensing scheme so that only timber products that are identified as legally produced are exported from that country to the EU.

Connie is right that we have only seen that in one country so far, Indonesia. That is the big one of all the VPA partner countries. It was always recognised that there would be plenty of timber coming into the EU or the UK from non-partner countries, so you needed some mechanism to deal with that. That was where the EU timber regulation and the UK timber regulation came from.

They do two things. They prohibit the placing of illegally logged timber products on the European or the British market. It is very difficult to prove that beyond any reasonable doubt, so I think the element of it that has had most impact is the requirement on companies who are first placing timber products on the market to exercise due diligence, to scrutinise their supply chains for the risk of non-compliance with the legality criteria, and to take action to minimise the risk of handling illegal timber.



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Q253 **Ian Levy:** Thank you. You have answered part of my next question in that. How robust is the UK Government's timber procurement policy and what improvements could be made?

Duncan Brack: Perhaps I could just add to that last question. You can see that we do not have many studies of the impact of the EUTR and, of course, basically none of the UKTR because it has only been in force for a couple of years, essentially. You can see positive impacts on the way in which companies are behaving. They are tending to simplify their supply chains to work with a smaller number of suppliers but to get to know their suppliers in more detail and to work with them to eliminate, or reduce at least, illegality. We could have a longer discussion about that, but I think there are positive impacts of it.

The UK has been one of the better countries at implementing the EUTR when we were part of the EU. One of the problems with it has been quite patchy implementation. That has gone together with the UK's timber procurement policy, which again was another element in the FLEGT programme, encouragement for countries to adopt timber procurement policies. We can see that most EU countries, and the UK was one of the first, now have requirements on public purchasers to source legal and sustainable timber. It is going a bit beyond the timber regulation, which is just legality; it is going into a wider range of criteria around sustainability.

Q254 **Ian Levy:** If that needs to be increased, does it need to be tightened up?

Duncan Brack: I did a couple of studies for WWF on implementation of the UK's timber procurement policy; the last was about four years ago. As far as we could tell, compliance with the criteria was not bad.

Central Government Departments were, by and large, probably compliant with the criteria. Reporting was quite poor and getting worse as far as we could tell. Departments used to have to report under the Greening Government Commitments framework, but they were not always very good at doing that. There was no real follow-up when Departments did not report. You would have thought that in some cases just an ordinary email or a phone call could have sorted it out, but it didn't happen. Then the requirement to report detailed timber procurement figures was taken out of the Greening Government Commitments framework anyway.

I think that the design of the UK timber procurement policy is quite good. It is quite a sophisticated system. It has been copied in other countries, like Luxembourg, for example. It is probably complied with, but we don't know very well because we do not have a picture of it. Probably the major weakness with it is that it only covers central government, so central government Departments. If you think of the Ministry of Defence or the Ministry of Justice with the prison estate, that covers quite a lot of timber purchasing but outside central government you have the NHS facilities, local authorities—



Ian Levy: I was going to say the NHS would come into it.

Duncan Brack: —and they are not covered at all. Some of these agencies have taken on similar policies themselves voluntarily, but they are not required to.

Ian Levy: That is very helpful. Thank you.

Dr McDermott: Can we add to that?

Ligia Baracat: Yes, can we add to VPAs?

Ian Levy: Yes, sorry.

Ligia Baracat: I will just quickly start with a little thing.

Q255 **Ian Levy:** I did not realise I had such an interesting question.

Ligia Baracat: It is because it is a tale of two stories. You were just talking about the UK timber trade regulation but did not really talk about the supply side, so the voluntary partnership agreement approach.

Essentially, since its inception, the SVLK, which is the Indonesian certification system, has been challenged. The legitimacy of it has been challenged because it does not safeguard against violations of customary land rights and indigenous peoples' rights more broadly. The issue is that it relies on national laws to protect and respect human rights, and those national laws are not up to scratch. It does not provide any further incentive for Indonesia to improve its laws and, in fact, Indonesia rolled back some of its social and environmental laws during the Covid crisis in the omnibus law.

Q256 **Chair:** Ligia, I am going to interrupt you because we are about to get on to this with the next set of questions. Rather than eat all John's homework, I will just ask a follow-up question on the UK's role.

The UK is the second largest importer of timber for domestic timber needs and much of that is softwoods, but in the construction trade it is increasingly hardwoods, which are more likely to be the timber coming out of areas that we are concerned about. How much—"regulation" is the wrong word—policing is there of the voluntary standards that are currently in force? Do any of you think that we as a Committee should be recommending something to Government to change that?

Duncan Brack: Imports like that would be covered by the UK timber regulation, so it is not voluntary, that is a mandatory requirement. Any company bringing those in, putting them on the UK market for the first time, would have to exercise due diligence to ensure the minimal risk of them being illegally produced.

If they are supplying to central government, they would also meet the timber procurement policy, so it is going beyond legality. Many timber companies, particularly in the UK, have adopted voluntary standards and



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they will source legal and sustainable timber anyway, probably identified by the certification schemes, PEFC and FSC, where they exist. You do not always have that, particularly for tropical hardwoods.

The UK in general has a good record; when we were part of the EU we were probably one of the best competent authorities or enforcement agencies at implementing the EUTR. As I said, enforcement was quite patchy within the EU and that was one of the problems with it, but in general northern and western European states were better than southern and eastern, as you might expect.

The competent authority was quite active. The consultancy Forest Trends did do a study on this a couple of years ago; it is worth looking at. It was quite active. It was good at using scientific tools like isotopic testing to support identifying the source of the timber. It criticised the sanctions available as perhaps too weak and there was a tendency just to enter into dialogue with the companies and try to persuade them to do better, which was a sensible approach in the early years of the timber regulation but now it has had several years to enforce it you would want it to be a bit tougher. Where they were taken to court, the level of fines was quite low and it was questionable as to whether it was a real disincentive.

The budget available for the competent authority also seemed to be going down, which was a bit of a concern, particularly as the UK's exit from the EU meant that anything coming from the EU also now has to be subject to checks under the UK timber regulation. That is a huge volume. It is probably quite a low-risk product but there is a much bigger volume of timber now that has to be covered.

Chair: Thank you. We will come back to this on the last set of questions. Meanwhile, John McNally.

Q257 John McNally: My questions are continuing the theme that you were on, so it will not do any harm if you repeat what you have already said or come up with some new ideas.

My first question is that I think it would do us all the world of good to know what the actual aims are of forest law enforcement, governance and trade, particularly to go into a wee bit more depth on that, and the associated programme of the VPAs that goes along with it. How do they set out to improve forest governance overseas and what is the UK's role in implementing that programme that you have just spoken about? Can you go into a bit more depth to develop that, Duncan, in the first place and then I will come back to the two ladies thereafter?

Duncan Brack: I have a bit more of a positive view, I think, of the whole FLEGT process than my colleagues, but that is why you have a variety of views here.

This goes back to about 2001 when I think it was the forest law enforcement and governance conference in Indonesia, in Bali, which was hosted by the World Bank but with a lot of input from the UK and the US.



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The understanding was growing there that countries like Indonesia were probably losing more money in uncollected revenues from illegal timber than they were getting in development aid for their forests. There was a need to tackle the underlying drivers of illegal logging and the concept was to enter into these partnership agreements, these voluntary partnership agreements, where the partner countries would undertake to reform their laws and policies, to improve transparency and scrutiny over the timber sector, to open them up to greater scrutiny from outside, to put in place timber legality assurance schemes, so tracking the movement of timber within the country to make sure it was legally produced all the way through the supply chain, and then to export that to the EU under an export licence guaranteeing that it is legally produced. The EU would then close its borders to anything from the partner country that was not accompanied by a legality export licence.

Connie is right: nine VPAs have been signed but only one has led to a licensing system—Indonesia's. As I said, that is bigger than all the others put together in timber trade. There are weaknesses probably in the legality assurance schemes. However, I think you can see, and there are a number of studies that show this, improvements in forest sector governance even in countries without licensing schemes, greater transparency, greater scrutiny, greater involvement of civil society and industry in the partner countries, in some cases measurable reductions in illegal logging, increases in tax revenue from the forest sector, and generally improvements in governance in some partner countries. It has not been universal and you need the political will on the partner country side.

One of the problems, of course, is that the EU and the UK, though they are big importers of timber products, are now much smaller in proportional importance than they were when the FLEGT programme was come up with. China is a much more important destination for these exports than it used to be. Illegal logging is not the main driver of clearance of forests in most of these countries; it is clearance for agriculture, which is why I think the debate now has moved on to these other forest risk commodities.

The whole FLEGT VPA programme—and there were other components as well, the timber regulation, public procurement, encouragement for industry voluntary initiatives—has been long drawn out and resource intensive, but you are addressing very hard underlying drivers of deforestation so in a sense it is not surprising. There are also positive lessons to be drawn from it and it is a shame that the European Commission is basically abandoning the programme now.

Q258 John McNally: Yes, I have read that in the notes. Could I move on to Dr McDermott and Ligia? This is probably a good opportunity to tell us what lessons have been learned from the EUTR and FLEGT, which you have already said in full. Could that be applied to the design of the future due diligence that you were speaking about earlier and what lessons should



be learned in which producer countries?

I would like to know some producer countries that you say could tackle the commodity-driven deforestation. You mentioned a couple earlier, but even in my notes I was quite amazed at some of the countries. I can also say that having been in touch with some of the carbon capture deforestation people I have seen some amazing videos of virgin forests being cut down. Whether they were absolutely true or not I do not know, but it certainly needs further investigation.

Dr McDermott: Yes, these are all enormous issues. Thanks for asking about what the end goal of this is. We are looking at addressing the challenge of deforestation, but we are also looking at sustainable and inclusive development, which is part of the Glasgow forest pledge, and doing this in a way that leads to sustainable development and a sharing of benefits across the world communities and local and indigenous people.

From that perspective, what can we learn from FLEGT? One is that partnerships are key. On the engagement of CSOs at national level, it is true that support from the UK and other EU countries has helped to increase the engagement of certain NGOs. That has been seen as a very positive impact of FLEGT, but another lesson from it is that legality is not equal to sustainability.

Let's take first the case of Indonesia briefly, and maybe Ligia will talk about it some more. Looking back again at the history of forest laws in the countries that we are talking about, and taking Indonesia, they date back to colonial times. The focus is on securing resources, oftentimes involving political elites and political favours over the years, for commercial production of timber and largely focused on export. The local and community overlapping rights are not well recognised in law.

The effect of focusing on legality is the risk that you will reinforce this prioritisation. What you see in Indonesia, I think, is the sense that commercial production has been regularised to some extent but no questions asked as to how those concessions were given out, whether there necessarily are overlapping indigenous rights or local rights. You are giving a green stamp, I guess, to a system that is not necessarily, as I was saying, protecting local and indigenous rights.

What we saw was that when the FLEGT licensing or the SVLK in the case of Indonesia came into play, very quickly the large international forest companies got legality certified. It was not a problem for them. Again, you are putting a legality stamp on it. We do not really know what that means in the violation of local rights. You also see the exclusion of domestic timber in small and medium enterprises within Indonesia, which are expected to pay for legality verification, something that the state is supposed to do but has not delivered, so now the cost is being borne by the poorest people in the supply chain, essentially. This is a real risk with



the commodity legislation as well that again it is offloading the costs on to the poorest people in the supply chain.

I also want to take the case of Ghana because it is a particularly interesting case in regards to forest rights. Something you might know is that a lot of timber that is being produced is produced on farmlands, outside of forest reserves. Farmers do not hold the legal rights to naturally growing trees on their farms that they have allowed to grow there. They also often lack formal land title. As we witnessed very vividly in our fieldwork, timber contractors can be given legal permits to harvest timbers from the farms of cocoa farmers and the farmers receive no money for the timber. They might receive a few dollars in compensation for damage to cocoa crops, but just their cocoa crops, not food crops, not other damage. We saw very large tractors in a legal—not illegal—timber operation—

Q259 **John McNally:** You are saying that there is a whole weakness here?

Dr McDermott: Yes, that is a major weakness and the challenge is that again in Ghana, like in Indonesia, the focus of the VPA has been particularly on creating a digitised legality licensing system for export of timber especially to Europe, which is actually a small part of the timber production in Ghana. All this effort is on how we can formalise the legal logging, which includes logging on cocoa farms, and not on the tenure reform issue.

That said, we did say that the FLEGT process has given civil society organisations more access to the forestry department. They are aware of the timber tenure problem and the tree tenure problem on cocoa farms. They have been aware for decades, so this is not something that came up because of the FLEGT VPA. The CSOs in Ghana, unlike in Indonesia, have been trying to use the VPA process to push for tenure reform and to strengthen farmers' rights to the trees on their farm. The problem is that it is a very sticky problem and unless that is given higher priority it gets shifted to the side. Meanwhile, the timber keeps going out and being sold as legal and the problem is not resolved. It has not been a high enough priority.

In Indonesia, though, compared to Ghana, what we found was that the human rights NGOs—and I am sure FPP can speak to this—lost interest in the VPA process and in the SVLK and legality certification. It is seen as, "Okay, this is an interesting way to regularise commercial timber production but it is not useful for us to reform issues around community rights and access." What does that say about improving forest governance? It is a very particular definition of what improved forest governance looks like but it is not necessarily an image that is fully meeting all the different SDGs and targets and ideas of inclusive rural development.

Ligia Baracat: I just want to say that it is not that we don't want to have a positive stance to all this. What we want is initiatives such as



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these to work on the ground for both human rights and the environment. That is why we challenge some of the conversation around this.

Ultimately, we are talking about underlying drivers of deforestation, but one of the main drivers of deforestation from our perspective and from the perspective of indigenous and forest peoples is the land tenure security. To give you an idea of the greater picture worldwide, only a third of the world is estimated to be under the stewardship of indigenous peoples but only 10% of that has secure land tenure.

In Indonesia, seeing as we are talking about Indonesia, I think 0.6% of forests are under the secure ownership of indigenous peoples and 95% of it is state forest. Obviously, that means that all that can be opened up to concession granting.

I just want to give a couple of quick examples about some of the issues to exemplify the issues with the SVLK certification in timber. Essentially, this certification is given to companies. There are an awful lot of licences and certification obtained through corrupt means and it displaces people.

For example, the Toba Batak in north Sumatra, their customary forest where they had an agroecology system approach was deforested by a company and a monoculture of eucalyptus was placed on that land. They were certified through this VPA SVLK system. There are instances on the ground that we can bring to show that this is not working as a system.

John McNally: I did read that in the notes and it comes as quite a shock that that is still going on and, of course, the whole supply chain, that we are not aware of all these things happening. The whole regulations, it seems to me, need to be improved from start to finish and need to be constantly reviewed. Chair, that is enough from me, I think.

Q260 **Dr Matthew Offord:** Mr Brack, I just want to talk to you about some of the issues surrounding trade-based mechanisms that this country, the United Kingdom, could leverage. In particular, there have been groups established such as the Retail Soy Group and the sustainable soya group. How could these organisations be used to remove agricultural production from deforestation to ensure that these products do not come from such locations?

Duncan Brack: I think that the lessons from the tail end of the last discussion that pushes on to this is that focusing just on legality only takes you so far and focusing just on timber production only takes you so far. The debate for several years now has been widened out to look at forest risk commodities like soy, palm oil, cocoa, cattle products and so on, and that is absolutely right, and a wider range of criteria than just legality, and that is absolutely right as well.

In general, a voluntary action like the various voluntary commitments undertaken by companies importing palm oil or soy or cocoa or timber or whatever into the UK is a good first start. It helps demonstrate what is



possible. It helps demonstrate the weaknesses in systems like the lack of data that people were talking about in the first panel, and it helps in developing mechanisms to deal with that.

Voluntary initiatives like that can only take you so far and the logical next step is mandatory regulation, and we are seeing that brought in in the UK Environment Act and the EU deforestation regulation. The point about those is that they catch everybody. The front-running companies, the ones with high ambition, investing in systems to try to decouple their sourcing from deforestation are not undercut by cheaper competitors not doing any of the same thing. You have to apply it across the field, I think, and try to regulate the entire sector.

Q261 Dr Matthew Offord: Before we go down the route of a mandatory system, which you are advocating, it is sometimes useful to engage with consumers of these particular products. They could be individual consumers or they could be production and manufacturing consumers. Which consumers would you envisage would be the ones that the UK should work with in the case of agricultural and forest risk commodities?

Duncan Brack: The lesson from timber in particular and the other commodities as well is that there will always be a small number of individual end users, sensitive consumers like, I am sure, everybody in this room, who will look to try to find FSC certified timber or Rainforest Alliance certified chocolate, but there aren't very many of us and it does not have a big impact in the market.

The important people are the big buyers, which are the big manufacturers and processors, but further up the supply chain the big traders. Something like 80% of most of these commodities are imported into the UK or the EU by the big multi-commodity traders like Cargill or ADM, and they all have programmes in place. I work quite a lot in cocoa and I am working with companies like Mars, Mondelēz, Ferrero and so on, and they all have quite high levels of ambition.

Also then remember government procurement policy. We talked about timber procurement policy but government or public agencies are quite big consumers of food and catering contracts as well. Again, it is not just central government, though army, prisons, police and so on are important. Hospitals, care homes, universities and local authorities, the broader public sector, can have quite a big impact. You can see the UK has built in palm oil sustainability standards to its procurement policy. I think that we could go much broader and look at other commodities as well.

Q262 Dr Matthew Offord: Thank you. To open up to the rest of the panel as well, some of the certification schemes for some of these products have been criticised in the past as being not just self-serving but self-regulating as well. How effective do you think these certification schemes are, particularly to ensure that products are not as a result of deforestation?



Duncan Brack: In general, it is probably better to have certified products than not have certified products, but it is not difficult to look at weaknesses in the criteria and the design of the system, though in general they have all tended to evolve. The RSPO scheme for palm oil, for example, is a good example of that, where the criteria have steadily got more and more comprehensive and ambitious. The bigger weaknesses are probably in their ability to police their own supply chains and ensure that no fraud or multiple claiming of certificates is going on.

I think there is a case that more and more certification systems like this are used for keys for market access. For example, for timber procurement policy it is pretty clear, I think, that competent authorities for the EU and the UK timber regulation are not supposed to treat certified timber as total proof of criteria but if it is coming in from low-risk countries it is probably pretty good. More and more these are being co-opted by public agencies for regulatory purposes.

I think there is a strong case for Governments to get involved more with the certification schemes and try to beef up their systems and make them more robust and proof against fraud. It is better than having to devise their own systems or buy from scratch.

Q263 **Dr Matthew Offord:** Dr McDermott, do you have anything to add to that?

Dr McDermott: Yes. When we are talking about what any due diligence legislation should cover and we don't want to take too narrow a focus on deforestation without looking at human rights and other key issues, certification standards are an interesting template because intentionally from the beginning many of these schemes—for example, the Forest Stewardship Council—have been trying to address the problem of sustainability holistically.

You cannot just look at forest cover. You have to consider indigenous rights. You have to look at dispute resolution mechanisms. You have to look at sustainability and protection of endangered species, all these other dimensions of sustainability. When we are thinking about due diligence legislation, certification has learned a lot in that space of how you think about these problems more holistically.

I would also definitely agree that standards are not enough and, again, there are problems with certification creating barriers for smallholders, that standardisation can also work against locally adaptive and creative approaches to box things in. They are also very vulnerable to controversy, as we are probably aware with the recent controversies around carbon certification and Verra and so on. That is an inevitable part of it.

What we can learn from certification is that, yes, it is one tool but it is definitely not going to be enough. It does have something to offer in how to think about issues of due diligence more holistically.



Ligia Baracat: I will very quickly agree with some of this. On certification, some criteria are more aligned to human rights law than others, so it really depends which certification you are looking at. Some of the major issues with certification tend to be across the board, whether you are talking about carbon, timber or agro-commodity certification. This is things like independent verification.

A lot of the downstream buyers are asking suppliers to give them information about what is happening on the ground, and essentially they are marking their own homework. They are self-reporting and sending it back. The downstream buyer has no idea what is going on on the ground. There needs to be some form of checking, of ground truthing.

One of the things for indigenous peoples that is very important is checking that there actually was free, prior and informed consent granted at the beginning of the concession lease. Certification also tends to have some issues around being able to deliver remedies. Some of them have grievance mechanisms but they cannot actually deliver remedy for the peoples whose rights have been impacted. There is then a whole set of issues around auditing as well, which I am sure you have heard about with others so I won't go into those.

Dr McDermott: Can I add to that? Those are all excellent points and I think there will be problems for due diligence legislation as well. We have to be realistic about the quality of reporting that will happen, beginning with legality and the complexity of laws. How can you expect UK companies to be able to credibly verify that products coming—for example, even timber from Indonesia—are legal, given how complex the forest laws are to begin with? Yes, certification processes also face these challenges but at least there often are people out on the ground looking at what is happening and following through and there is a regular audit process. What are we talking about with due diligence legislation? How solid is that information?

That is another reason why I think we have to be careful how we proceed. It is very important to work on reporting, but it will have to improve over time because these are not transparent or simple frontiers. We are looking at areas where there is lots of illegality, land tenure is insecure and so on, very complex places. The due diligence legislation will suffer from a lot of the same challenges that Ligia was just talking about and we need to have our eyes open about that.

Duncan Brack: That was one of the lessons from the EUTR and UKTR studies: that companies found it a lot easier to find evidence of some of the categories of legality, like the right to harvest timber, much more difficult to find other ones like land rights. It is not an easy thing to find convincing evidence of.

You often cannot rely on particularly good co-operation with enforcement agencies in the country of origin either, which is why I think the better



competent authorities, including the UK, have tended to, where possible, use scientific evidence.

For example, you could do isotopic testing of timber samples, which will certainly tell you what species it is to see if the company is correctly declaring the species, but also to a certain level of specificity what area it came from. I think that is also why in the EU the deforestation regulation has the zero deforestation criterion alongside legality and, in principle at least, you can check that with satellite monitoring. You are not relying just on evidence from the country of origin.

Q264 Dr Matthew Offord: Yes, that is very interesting. I am aware that there could be a vote; the Minister is on her feet at the moment. To wrap up this final question, at COP26 the Forests, Agriculture and Commodity Trade was launched to great fanfare. I want to gain your perspective on whether that was a good example of different stakeholders coming together, be it government, producers, suppliers or consumers, and to see whether this falls into the category of what you have just said about the ability to hold some of these producers to account.

Duncan Brack: I do not have good visibility on the FACT dialogue, but I gave a presentation at one of the working groups last autumn. I think the initiative is well worthwhile. The key thing here is that there is quite a lot of dialogue between countries like the UK or the EU and producer countries.

The missing part of the puzzle is the other big consumer countries, which means, for almost all these commodities, China. India is also quite important, and we have better dialogue with Japan, Korea, the US, Australia and so on. If you can build the big consumers in—and the UK has done quite a bit of work with China through the forest governance, markets and climate programme in trying to encourage China to build up its own supply chain controls. It is a huge importer of most of these commodities. If you can develop a dialogue with the other big consumers, I think that is a worthwhile thing to try to do.

Dr McDermott: I think the key will be whether this dialogue helps lead to action on community rights, land tenure, basically law reforms that are tailored to local context. One of the challenges is that if you have these large multi-stakeholder fora involving people with very unequal access to resources and information, they might tend to perpetuate status quo approaches, and we have seen what some of the challenges are with that.

FACT dialogues can be very good but what we really need are long-term, meaningful partnerships invested and accountable to particular countries and locations, ongoing investments and ongoing conversations in Ghana and Indonesia and support, especially for local CSOs, over the long run to try to tackle these challenges. I don't think one year of global discussion will be enough.



Ligia Baracat: In brief, I agree. *[Interruption.]*

Chair: I am afraid the bell has gone so it will be a final comment.

Ligia Baracat: I know. I was wondering whether that was—

Q265 **Chair:** You can have a quick comment and then we will have to go.

Ligia Baracat: It was just to say that we agree that the multi-stakeholder processes can cover up a whole load of power imbalances. Ultimately, there might have been some dialogue with indigenous peoples prior to the state-to-state negotiation, but in the roadmap that came out there is no mention of tenure rights security and there is no mention of indigenous peoples' rights. Somewhere along the way the message has got lost from the multi-stakeholder side in the state-to-state dialogue.

Duncan Brack: I think that you need all these things, everything we have been talking about. There is no single silver bullet.

Dr Matthew Offord: That really is very interesting. Thank you very much.

Chair: Thank you all very much for attending this afternoon, Ligia Baracat, Dr Constance McDermott and Duncan Brack. That concludes our panel.