

The Forest, Agriculture and Commodity Trade (FACT) Dialogue

Solutions proposed to the G2G Working Groups on Trade and Markets

Draft v.07 01 July 2021

RECOMMENDATIONS – PRELIMINARY DISCUSSION DRAFT

SCOPE OF THIS DOCUMENT

Objective of the T&M Deep Dive Group

The Trade & Markets (T&M) Deep Dive Group has been asked to provide “a succinct set of action-orientated ideas that can be translated into ambitious government-to-government principles, commitments and roadmaps for COP26”. The thematic scope for the group is:

“Trade and market development: Aligning and synergizing the development, implementation, and enforcement of policies across the global market for agricultural commodities’ fair and equitable trade and market development as well as sustainable land use and investment in sustainably produced commodities.”

The recommendations of the Deep Dive Group will be provided to the FACT government-to-government T&M Working Group (G2G T&M WG). We will also be liaising with the three other FACT Deep Dive groups (smallholder support; transparency & traceability; research, development & innovation) to ensure that the recommendations are aligned, given the overlapping nature of the issues.

Stakeholder engagement

The intention of the T&M Deep Dive Group is to hold a series of multi-stakeholder workshops through July – September. As an intermediary milestone, it was requested an initial draft set of preliminary recommendations by 28 June so that the T&M WG can provide feedback. These draft recommendations have not had broad stakeholder input. They are based on discussions as follows:

1. Initial planning meeting on 18 May with an expert group to: review and discuss the scope of the topic; identify an initial set of key questions, issues and challenges to address; discuss which stakeholder groups should be represented in the consultations. Individuals participated from several organisations.
2. G2G T&M Working Group meeting on 4 June.
3. Multi-Stakeholder Taskforce (MSTF) meeting on 8 June.
4. Meeting with members of the COP Presidency team from UK Government, TFA and FACT MSTF Thematic Deep Dive group leads on 17 June.
5. Review and feedback on this document from an expert group on 25 June.

DRAFT RECOMMENDATIONS

We have identified the following key areas to propose for recommendations for commitments & action:

1. Strengthening collaboration for policy reform

The challenge

The environmental and social challenges relating to forests, agriculture and commodity trade are well known, as are the potential solutions. The fact that these challenges persist is not for a lack of knowing what needs to be done. Rather, they persist primarily because of the practical, political and economic difficulties of taking these actions.

We believe the key to unlocking greater effectiveness in addressing these challenges will come through investing more time and attention in the *how* of change, not just the *what*. The political, economic, financial, social and environmental challenges of forests, agriculture and commodity trade are inter-connected and touch many policy areas, domestically and internationally. Currently many issues are addressed in separate silos and the inter-connections and inter-relationships are often not recognized or integrated into policy. As a result, initiatives in different policy areas can end up working against each other. Effective collaboration processes can help:

- Increase policy harmonization – both domestically and internationally – between different areas of policy that impact on food and agricultural production and forests (e.g. agriculture, environment, health, finance, trade, infrastructure, regional economic development), including the development of common standards, criteria and approaches to align and strengthen incentives across these different policy areas
- Develop inter-governmental, bilateral and multilateral partnerships
- Support technology transfer and research & development
- Mobilize public and private finance
- Develop public private partnerships
- Facilitate learning and knowledge sharing

More effective collaboration is needed domestically (at the national and subnational level) as well as internationally, given that typically the majority of agricultural output is consumed within the country where it is produced.

Recommendation

Our recommendation is for governments to commit to a **permanent, on-going focused dialogue and collaboration process** to agree on **specific commitments and roadmaps for action** and to facilitate collaboration and the development of **bilateral and multilateral inter-governmental partnerships**, to achieve the commitments, which once agreed are only the beginning of the challenge to implement all the support required for their achievement. We are cognizant that the policy issues to be negotiated and committed to are extremely complex so by COP 26 it is unlikely specific policy reform commitments will be made but broader areas of commitment which commit governments to an on-going process to go deeper and advance to committing to specific policy measures essential to the purpose of this WG.

So in essence we are proposing a two stage dialogue and collaboration process based on the initial broad agreements and commitments coming out of Cop 26: 1. Broad inter-governmental dialogue to

agree specific commitments on trade and market policies, and 2. Focused dialogues around each set of commitments to identify and agree how to achieve and report on.

In addition, we recommend that governments also commit to **strengthen collaboration** within their own countries on issues relating to forests, agriculture and commodity trade (1) **between different ministerial portfolios** (2) **between the different levels of national and sub-national government** (2) **between public, private and civil society organisations** (3) **between companies** within specific agricultural sectors facing common issues. This can be through national dialogue platforms which then also connect with the global dialogues.

The creation of a robust inter-governmental collaboration process on the inter-connected issues of forests, agricultural and commodity trade would be a major step forward in the global imperative to address these issues. Given the political challenges of multilateral alignment across the many policy areas that are relevant to this agenda we recommend the following:

- The process should aim to be inclusive, acknowledging that the social, environmental and economic issues relating to forests, agriculture and commodity trade: are of global significance; are **complex and inter-connected**; cannot be solved by individual countries acting on their own; **require collective action and collaborative solutions**.
- Governments acknowledge that action is needed to: **harmonise, align and strengthen policies** at both the international and national levels; **increase data availability and transparency**; **invest in research, development and innovation**; **align and strengthen public incentives**; **mobilise private finance**.
- By COP26, governments agree to **create national level roadmaps with specific policy commitments and targets**, aligned with the NDCs (Nationally Determined Contributions) and integrated into NAPs (National Action Plans) in line with the Paris Agreement.
- The collaboration process will allow for a **multi-speed approach** and countries will be encouraged to create **multilateral coalitions and bilateral partnerships** to advance the agenda as quickly as possible.
- Recognizing the inter-connected nature of the issues we need to address, the dialogue processes (at international, national and subnational levels) should integrate **collaborative, multi-stakeholder approaches** to ensure that solutions designed take account of the wider systemic factors and have the buy-in of key the stakeholders whose support will be required for effective implementation. The process should make use of the latest collaboration methodologies drawing from **systems thinking approaches** to ensure high quality and effective dialogues, paying particular attention to building trust, finding alignment & common interests, acknowledging and working with complexity, and taking shared responsibility for action.
- Accountability and reporting measures are integrated into the on-going dialogue processes.

Next steps

We recommend that governments in the FACT Dialogue aim to reach a common position on:

- The degree of specificity of commitments that can be expected by COP 26 by governments on these WG recommendations
- The nature and objectives of the on-going dialogue process post-COP26

- The design of the process and principles of collaboration
- The scope of the policy areas to be addressed
- A list of specific policy reform measures and challenges to be addressed and measures to be developed through the dialogue process
- The timeline and milestones for development of the roadmaps, targets and commitment

2. Harmonising, aligning and strengthening policies

The challenge

Sustainable food and agricultural production & consumption and forest conservation can be impacted by many policy areas from agriculture, environment, health, finance, trade, infrastructure & economic development. Currently agricultural related policy is often developed in separate silos and the inter-connections and inter-relationships are not made. Different ministries with different agendas often have conflicting policy agendas e.g. agricultural production expansion from the Ministry of Agriculture alongside forest conservation from the Ministry of Environment. As a result, there is a lack of coherence in policy making and initiatives in different policy areas can end up working against each other.

At national and international level there is need for coherence across the supply and demand dimensions of agricultural commodity markets so that all countries are working in the same direction - ensuring collective effort for maximum positive impact, lowering costs and reducing complexities to increase the global trade in commodities that have been produced sustainably, while supporting jobs and livelihoods, and protecting forests.

Recommendation

At the international level, we recommend countries commit to aligning their **international agreements** (e.g. on trade, climate, biodiversity) with shared sustainable agriculture production and consumption policy objectives. So, for example when countries commit to climate emission targets and NDCs, these are immediately embedded within national agricultural development plans.

With regard to international trade, we recommend that countries work to develop a protocol for the **minimum national standards** for both **production** and **consumption** respectively. These will be the foundation for national standards in all countries and the minimum benchmark for mutually agreed standards between countries.

At the national level, we recommend that countries commit to move towards **harmonization and strengthening of policy (at national and subnational levels)** so that important climate and biodiversity targets relating to forests, agriculture and commodity trade are integrated across different policy frameworks of key ministries and regions. This is relevant for both production and demand policy frameworks. As part of this, we recommend that countries use multi-stakeholder processes at national and sub-national levels to help align different stakeholders and different policy agendas around a common vision for agricultural production and forests, encompassing **land use planning and policy, land rights, standards for production and consumption**, and so on.

In addition to this, countries should identify key areas where existing regulations are not being adequately enforced and commit to strengthening **legal enforcement**.

A number of key policy reform measures are proposed below. As per the introduction, we expect that by COP, countries can commit to a process to review and discuss each of these measures over time as

each are substantial and we don't expect commitment on them by COP, but all require to be on the table, because without them, the objectives of the WG – aligned and synergized policies across the global market for agricultural commodities' fair and equitable trade, market development, sustainable land use and investment in sustainably produced commodities – cannot be met.

Policy measures for consideration

The following list identifies some of the main policy measures for consideration.

International policy commitments

1. Minimum sustainable production standards (MSPS)
 - Basic principles of sustainable production to be agreed (framed on legal land use change based on land use planning, HCV mapping etc)
 - Additional principles to be defined and agreed by commodity, drawing on existing international and national standards
 - Mechanisms for transparency, enforcement, accountability and verification of compliance with the MSPS
 - Technical support to be committed to build capacity of smallholders to comply with MSPS [link to smallholder working group]
 - Economic benefits for smallholders to comply (link to incentives commitments below)
2. Minimum sustainable consumption standards (MSCS)
 - Basic principles to be agreed around the sustainability of product/food consumed, including principles on food loss & waste, carbon footprint as well as production standards.
 - Specifics to be agreed by commodity – beef, palm, soy, coffee, timber.
 - Mechanisms for transparency, accountability and verification of compliance with the MSPS
3. Trade agreements recognize and include MSPS and MSCS (e.g. consider example of US-Peru Free Trade Agreement (PTPA) that includes a legally binding environmental chapter along with Forest Annex, establishing co-responsibility between both countries to strengthen environmental – and specifically forest – governance in Peru; another example is the US Lacey Act, legislation that prohibits the import of products sourced illegally according to laws at their point of origin).
4. Countries explicitly plan and demonstrate how their agricultural production and consumption policies and targets are contributing to their NDC targets
5. Countries explicitly plan and demonstrate how their agricultural production and consumption policies and targets are contributing to their globally committed CBD Protected Area targets (20%)

Production policies

1. Existing legal frameworks for sustainable, conversion free agriculture, enforced with necessary enforcement capacity building strengthened.
2. Agreement made on forest conservation and land conversion targets and embedded in national regulations, agriculture production targets and land use plans.

3. National development plans and policies evolve and re-directed from promoting extensive agricultural policy to promoting sustainable intensification.
4. Laws on HCV set asides within production land to meet the forest targets. Ambitious targets to be set – all HCVs to be mapped and protected by law.
5. Moratoriums on forest conversion for agriculture put in place in agreed important forest frontiers (where not already in place).
6. Demonstration of legal & policy compliance for the above commitments, linked to traceability and transparency.
7. Strongly links to incentives and technical assistance for smallholders to comply with these commitments so there is clear connectivity on how policies will be implemented on the ground.

Demand policies

1. Agricultural related and processed products sold to consumers in all markets meet the internationally agreed MSCS
2. Sustainable consumption (beyond the MSCS) targets – eg 50% – set and achieved.
3. Verification mechanisms established to prove sustainable consumption targets met and MSCS complied
4. Public procurement is 100% using sustainable product
5. Import regulations take into account producer country challenges and needs (e.g. smallholder technical assistance)

3. Aligning and strengthening public incentives

The challenge

Public subsidies into agriculture currently have the effect of incentivising production practices that can drive soil degradation, deforestation, loss of biodiversity, mismanagement of water, and greater emissions of greenhouse gases. This is both a problem and an opportunity, since countries could re-align these existing budgets behind practices that have positive environmental and social impacts.

In most countries public sector procurement policies include limited sustainability requirements and therefore public sector budgets may be allocated to sourcing of food and agriculture products that externalise social and environmental impacts on to communities and society (and can thereby become a direct or indirect cost to governments). This represents an opportunity to align these budgets to source in ways that incentivise sustainable production and consumption.

Recommendation

In relation to production side incentives, we recommend that countries commit to a roadmap leading to **alignment of public subsidies and other public incentives** in support of **sustainable agricultural production and sustainable land use & land management practices** that protect and enhance important ecosystem services (including clean water, healthy soils and increased biodiversity). As part of this, we recommend that **government farmer financing** provides preferential rates for sustainable farming practices and exclude unsustainable farming.

In relation to demand side incentives, we recommend that countries commit to a roadmap leading to **alignment of public subsidies, public procurement and other public incentives** to support **sustainable**

agricultural consumption. We recommend that countries commit to a roadmap towards strengthening **sustainability criteria and incentives within import standards and duties** and **strengthening due diligence requirements for importers** to incentivise increased sustainable agricultural production. At the same time, major importing countries can commit to the **provision of financial and technical support for producers** to transition towards sustainable production and landscape management practices.

Policy measures for consideration

The following list identifies some of the main policy measures for consideration.

Demand incentives

1. Tax incentives/breaks on imported sustainable (certified) products that go beyond MSPS
2. Incentives for sustainable consumption that go beyond MSCS in domestic and international markets e.g. no VAT paid on certain purchased certified products.
3. A reduction of corporate tax for revenues generated from the sale of sustainable sold goods (certified) that go beyond MSCS e.g. tax incentives in local markets for retailers, for e.g. sustainable palm oil sold on shelves.
4. Funding and debt forgiveness to countries for reaching MSPS.

Production

1. Re-purpose subsidies, reduce/stop subsidies that incentivize land conversion [identify and give examples] and replace them with incentives to incentivize forest conservation within and around production areas.
2. Subsidies for forest conservation within production areas/farms e.g. lower income tax, lower land tax.
3. Strong penalties for illegal forested land conversion to agriculture.
4. Payments to farmers for conserving forests on farms (carbon, RBP, PES). Payment mechanisms to directly reward the farmers not just governments.
5. Government farmer financing with preferential rates linked to deforestation-free better and no low-cost public finance for any farms not compliant with MSPS.

4. Mobilising private finance

The challenge

Currently, private sector financing of sustainable agricultural production and consumption is massively outweighed by the financing of ‘business as usual’ practices, where negative environmental and social impacts are externalised on to communities and wider society, creating significant costs to society. Much of the emphasis on financing more sustainable agricultural production and consumption practices has, to date, focused on the creation of niche products for sustainability focused investments. With smart regulation, governments can help to accelerate the shift of mainstream private sector finance into investments that are sustainable.

Recommendation

We recommend that countries commit to a roadmap leading to:

(1) Government regulations for **mandatory disclosure requirements for large companies (listed and unlisted) and financial institutions** on (a) **legal compliance with social and environmental laws and regulations**, applying to their operations, their supply chains and their investments (b) **direct and indirect environmental impacts** (including climate, forest and water related disclosures – with the longer term ambition to consider wider, upstream and downstream environmental impacts) in line with international guidance on climate-related and nature-related financial disclosures from the Taskforce on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD).

(2) Incentivisation of private sector investment in sustainable production and consumption through **trade related incentives, export and import regulations, fiscal incentives**, and so on. [Add illustrative examples]

Policy measures for consideration

1. Regulations on finance sector to disclose all agricultural investments and demonstrate investees are legally compliant.
2. Regulations on large listed and unlisted companies and on financial institutions for mandatory disclosure according to the TCFD and TNFD.
3. Tax incentives to banks that offer preferential lending to sustainable agriculture.
4. Government farmer finance only offered to sustainable production, or at least preferential rates.