SETTING AND IMPLEMENTING DEFORESTATION CUTOFF DATES IN LAND USE FINANCE

Learnings from the ESKEN webinar

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The Environmental and Social Knowledge Exchange Network (ESKEN) is a workspace for a community of practice involved in the environmental and social (E&S) aspects of financing deforestation-free commodity production, protection of natural ecosystems, forest landscape restoration, and other forms of sustainable land-use.

The ESKEN webinar **'Setting and implementing deforestation cutoff dates in land use finance'** was held on the 9th of March 2023. The webinar covered the principles of cutoff dates, as well as the technical and practical challenges that funds experience when setting and implementing cutoff dates.

The webinar was delivered by:

- **Leah Samberg-** Lead Scientist, Global Policy at Rainforest Alliance and the Accountability Framework initiative
- **Leandro Baumgarten**- Zero Conversion Commodities Strategy Scientist at The Nature Conservancy
- **Pedro Moura Costa-** CEO of Sustainable Investment Management and Founder of the Responsible Commodities Facility

With additional remarks from Marthe Tollenaar, ESG Director at SAIL Ventures.

The slides and recording of the webinar can be accessed on the Land Use Finance Hub website.

Key takeaways from the webinar

- Cutoff dates are essential to no-conversion and no-deforestation commitments set by companies and financial institutions. The cutoff date provides a timepoint from which the company or financial institution can claim that deforestation or conversion hasn't taken place.
- The Accountability Framework initiative provides guidelines to setting no-deforestation and no-conversion cutoff dates. Cutoff dates should be set in the past and align with sector-practices and existing regulation.
- Companies setting no-deforestation and no-conversion commitments can increase the demand for deforestation and conversion-free (DCF) commodities by signalling strongly to the market that they will only be purchasing commodities in compliance with the cutoff date going forward.
- Communicating the cutoff date with producers is essential to ensure that producers can adapt their practices, rather than driving producers to sell to buyers without these commitments.

Introducing no-deforestation and no-conversion cutoff dates

Leah Samberg, from Accountability Framework initiative (AFi), provided an overview of cutoff dates, why are they needed, and when they should be set. AFi provides principles, guidance and definitions for achieving agricultural and forestry supply chains that are free of deforestation, conversion of other natural ecosystems and human rights abuses.

A cutoff date is defined by the Accountability Framework initiative as *'the date after which deforestation or conversion renders a production area non-compliant with no-deforestation or no-conversion commitments'.* [1]

Cutoff dates are important to set for a number of reasons. All agricultural land has been converted from a natural ecosystem or forest at some point. Therefore, cutoff dates set the timepoint that a company or financial institution can claim that no-conversion or deforestation has occurred since. A policy or commitment to no-deforestation or no-conversion cannot be claimed without this timepoint. Cutoff dates are also an essential communication tool. The cutoff dates can be communicated in purchasing contracts and supplier codes, which sets the expectation to suppliers on the production of commodities within the supply chain.

AFi provides best practice guidance and principles for when cutoff dates should be set. Best practice for cutoff dates will vary by region. The key recommendations that AFi provides include the requirement for cutoff dates to be set in the past, to prevent additional deforestation in advance of the cutoff date. For deforestation, the cutoff date is advised to be no later than 2020, to align with the global goals to halt deforestation by 2020. For other ecosystems, there is not a specified date, but this can be influenced by geography or existing regulation and sector practices.

Cutoff dates should align with any existing or commonly used cutoff dates for specific commodities and geographies, aligning with certification schemes (e.g. RSPO or FSC) or regulation (e.g. Amazon Soy Moratorium). This ensures that there is wider impact across landscapes with a consistent cutoff date, by avoiding new deforestation and preventing leakage markets.

A number of emerging initiatives and regulation are specifying cutoff dates. These include:

- The *draft* Science Based Targets Network (SBTN) No Conversion of Natural Ecosystem Target uses a cutoff date of 2020 for all ecosystems.[2]
- EU regulation on deforestation-free supply chains sets a cutoff date of 31st December 2020 for deforestation. The scoping for a cutoff date for other ecosystems is ongoing. [3]

[1] https://accountability-framework.org/wp-content/uploads/2020/03/OG_Cutoff_Dates-Mar2020.pdf
[2] https://sciencebasedtargetsnetwork.org/resources/public-consultation-for-the-first-land-science-based-targets/
[3] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7444

- SBTi FLAG and GHG Protocol land use change emissions accounting assess the 20-year period prior to the reporting year for short-rotating crops, or the length of the crop cycle or rotation period when this is more than 20 years.[4]

From the no-conversion or no-deforestation commitments set by companies responding to the 2021 CDP Forests Disclosure, there is wide variability in the no-conversion and no-deforestation cutoff dates set. 74% of companies disclosed a cutoff date, and these ranged from pre-2005 to no cutoff date selected in the disclosure, highlighting the challenge to ensure consistency.[5]

Technical challenges to define and implement commitments

Leandro Baumgarten from The Nature Conservancy, talked through technical challenges to define and implement no-conversion and no-deforestation commitments.

Companies have to consider the opportunities and challenges to set and implement cutoff dates. The timing of the cutoff date has implications. AFi recommends that deforestation cutoff dates are set no later than 2020, however cutoff dates need to also be defined for other types of ecosystems. Leandro shares his view that the best time to define a cutoff date is a little earlier than when the commitment is set, so as to allow suppliers to adapt their production methods to the commitment, and not suddenly find themselves locked out of a market. The further the cutoff date is in the past, the more non-compliance there will be in the supply chain. Another challenge is that legal deforestation may have occurred which conflicts with the cutoff date. This can be unfair on the producers which legally deforested, but cannot then sell the commodity once the commitment is set, and this could also drive the producers to pivot to another buyer without a no-deforestation commitment. Therefore, cutoff dates too far in the past can be complicated, but can also create urgency for supply chain companies to implement the commitments. Leandro also highlighted the risk that the commitment date could be pushed into the future, which can stimulate pre-emptive deforestation.

When looking at conversion rates in the Cerrado soy crop area, from 2012-2021 there are relatively consistent rates of conversion per year. Therefore, the further the cutoff is in the past, the more there is an accumulation of non-compliant commodities in the supply chain. However, deforestation is always localised, occurring at a frontier rather than across the landscape. This doesn't mean that conversion or deforestation is a small issue, but year-by-year the majority of the production at any given time is considered deforestation and conversion free, based off the cutoff date and relative to the total area used for commodity production.

[4] https://accountability-framework.org/deforestation-and-conversion-free-supply-chains-and-land-use-change-emissions-a-guide-to-aligning-corporate-targets-accounting-and-disclosure/

[5] https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/368/original/CDP_AFI_Forest_Report_2022_%2814%29.pdf?1654614758

An additional challenge is monitoring compliance with cutoff dates. Remote sensing is used to monitor deforestation worldwide in near real-time. Publicly available datasets to monitor deforestation and conversion allow for increased accuracy, transparency and wider understanding of the limitations of the dataset. For example, the Brazilian government produces the PRODES dataset tracking deforestation in the Amazon which is used to monitor compliance with the Amazon Soy Moratorium. However, for some ecosystems there isn't data available, and companies will need to source new data which can be costly. It is important to consider data availability when establishing the commitments, to ensure they can be monitored.

Cutoff dates can send strong market signals to decrease deforestation and conversion. For example, with the Amazon Soy Moratorium, the deforestation footprint started to decrease prior to the monitoring of the commitment in 2008. Companies signalled that that wouldn't purchase soy associated with deforestation after the cutoff date, which drove a reduction in deforestation relating to soy production. This highlights the role companies have when making no-conversion and no-deforestation commitments, to signal strongly to the market to ensure the commitment has impact.

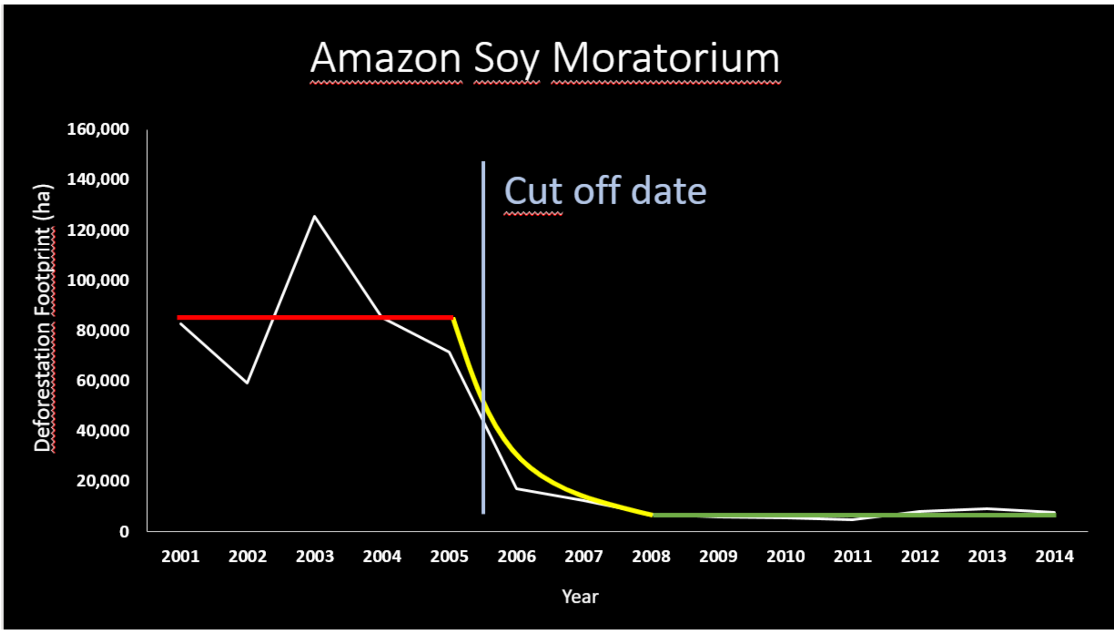

Figure 1: Deforestation footprint at the time the cutoff date was set and began to be monitored in 2008, for the Amazon Soy Moratorium.

Deforestation cutoff dates and other challenges in blended finance

Pedro Moura Costa presented the challenges of setting and implementing cutoff dates, from his experience at the Responsible Commodities Facility (RCF). When there are multiple investors in a fund this can add complexity when setting a cutoff date, as there may be conflicting objectives set out by different investors.

RCF is a fund supporting the production of deforestation and conversion-free (DCF) soy in the Cerrado, by providing low interest credit lines for crop finance on the condition that investee farmers agree to leave any remaining natural habitat on their farms intact. The RCF is a delivery mechanism for the Cerrado manifesto, supporting efforts of the Tropical Forest Alliance (TFA), Consumer Goods Forum (CGF), SOS Cerrado, Brazil's Nationally Determined Contributions, and other initiatives.

The eligibility criteria which farmers have to meet to qualify for the low interest credit lines provided by RCF includes no illegal and legal deforestation, conservation of excess legal reserves (i.e., maintaining natural ecosystems beyond what is legally required) and an E&S framework developed in collaboration with UN Environment Programme. This E&S framework has incorporated requirements based on relevant frameworks and initiatives, such as the Consumer Goods Forum and the Forest Positive Coalition amongst others.

Setting and implementing cutoff dates can present challenges, including managing contradictions. One example is the push back faced by RCF from their Environmental Committee, to adopt a landscape perspective and concentrate investments to reach landscape level impact, which is contradicted by the fact that funds are also encouraged to diversify the locations of its investment to manage risk (e.g., at some point RCF was advised by an insurer to only finance one farm per Brazilian State).

Contradictions can also be seen in the timing of the cutoff date. Green funds aim to reduce current trends in deforestation. However cutoff dates set too far in the past have less impact in disincentivising current deforestation, and rather just champion the leaders in the field, who have avoided deforestation in the past, even in the absence of the incentive to do so. Therefore, the cutoff date needs to align with the aim of the fund.

Another challenge is how to approach *legal* deforestation. There are also not always financial incentives, such as green bond finance, available to incentivise producers to stop legal deforestation. For example, the Climate Bond Initiative cutoff date for deforestation is 2008 or 2010. Therefore, producers have legally deforested (in line with national legislation) since this date are not in compliance with this cutoff date and cannot access the finance.

Additional example of setting cutoff dates

Finally, **Marthe Tollenaar** from SAIL Ventures shared remarks on the topic. &Green is managed by SAIL Ventures, established with the aim to decouple and delink commodity production with deforestation in the tropics. &Green have recently developed a forest and biodiversity framework using standards such as AFi. The approach taken is to not set a single standardised cutoff date, but instead set cutoff dates dependent on the geographic location and commodity in question, with reference to guidance from well-known initiatives. Once the cutoff date is set, additional parameters are also required to assess deforestation, such as how big an area would be considered as deforestation. Additionally, the fund considers whether suppliers have commitments to reforestation, and these commitments are followed through to ensure a transition to no-conversion and no-deforestation is possible.