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Rethinking climate strategies in agriculture: leveraging climate targets to drive positive impact

Key Points:

- There is an urgent need for scaled-up investments into the Forest Land and Agriculture (FLAG) sector to promote its contribution to global climate mitigation goals and local adaptation efforts.
- In order to promote an equitable and efficient FLAG sector transformation, we need to accelerate and scale interventions with a proven positive impact on the ground, and rebalance the disproportionate investment in logistical, data and reporting.
- These actions include Deforestation and Conversion Free strategies, regenerative agriculture, and landscape initiatives. By integrating accounting for these interventions towards FLAG targets, we enable climate investment to support much needed actions on the ground. We need voluntary standards and policies that encourage this reallocation of investment.

Proforest Briefing Note **14**

The Forest, Land and Agriculture (FLAG) sector is a major contributor to global greenhouse gas (GHG) emissions. Current emissions from the sector account for nearly 23% of the global total emissions and with agricultural production expected to increase, the FLAG sector is one of the main challenges in terms of mitigation, while also representing an enormous opportunity for making progress. Agrifood systems are tightly linked to 80% of global potential for nature-based climate solutions and provide livelihoods for more than 3.8 billion people.

Meaningful progress in the FLAG sector requires mobilising producers and stakeholders to work towards positive outcomes for people, nature, and climate. Using climate as the only entry-point and only goal fails to take into account the lived realities of the producers and the ecosystems that constitute the sector.

> While the wider context is often acknowledged, the current business case for FLAG interventions is still largely reliant on quantifiable climate results, more specifically, GHG emission reductions or removals, while assigning value to nature and people is still in its early stages. This has led to fragmentation and a lack of policy coherence within corporate governance structures, as companies compartmentalise responsibilities for addressing deforestation, promoting regenerative agriculture, and tackling climate change across different teams and budgets.

Proforest's work in climate supports companies to define and meet their FLAG targets, by feeding into their carbon accounting and ensuring that their implementation strategy reflects coherent people, nature, and climate goals. Proforest's Agricultural Commodity Responsible Sourcing (ACRES) approach highlights that, while improving individual supply chains is an important starting point, to truly benefit the communities that cultivate commodities, the ecosystems that support their growth, and the climate that governs their environment, we must focus on driving positive impacts across entire production landscapes.

This briefing note aims to support companies to develop a climate strategy that prioritises constructive engagement and impact in their supply chain, their supply base, and the wider sector they are part of. It outlines general principles and policies that should lead to a more holistic approach to tackling the climate crisis. It presents both opportunities and challenges for how corporate climate targets can contribute to positive impact by leveraging deforestation and conversion free (DCF) supply chains, regenerative agriculture, and landscape initiatives.

Three principles to guide action

Proforest applies three guiding principles to all of our work – questions we ask ourselves about any approach to ensure we are working towards positive impacts. We have applied these within the climate space to guide our thinking, in collaboration with a number of organisations including World Business Council for Sustainable Development, Conservation International, the International Platform for Insetting, IETA, Environmental Defense Fund and The Nature Conservancy:

1. **We believe in driving transformation of the FLAG sector** – rather than simply shifting supply chains to meet climate goals, companies should invest in real and sustained action within, around and beyond their supply chains to tackle the root causes of FLAG emissions, and realise the benefits natural climate solutions can offer to the communities and biodiversity their supply chains depend on.

2. **We aim to ensure a just transition in the context of a changing climate –** companies should partner with smallholder and disadvantaged producers to transform their supply chains, not exclude them due to carbon accounting challenges.

3. **We seek to maximise impact with efficient use of financial resources –** companies should pragmatically leverage frameworks to resource interventions and strategies with a proven positive impact on the ground and avoid disproportionate investments into monitoring, reporting and verification, data and supply chain management.

Proforest seeks to realign the corporate mindset from "how do I reach my climate targets?" to "how do I leverage my climate targets to drive positive impact?". With such an approach embedded across the supply chain, downstream climate targets can be cascaded upstream, reaching the ultimate implementers of

FLAG interventions: producers. While increasing supply chain visibility and traceability is important and data collection is essential to identify where investment is needed, these need to be seen in service of outcomes for producers or productive landscapes, not as end-goals.

Leveraging SBTi targets for FLAG action and impact

FLAG emissions are made up of Land Use Change (LUC) emissions and Land Management (LM) emissions, both of which should be key focus areas for companies looking to decarbonise their supply chains. Typically, when companies seek to understand and reduce their FLAG emissions, they engage a consultant to develop a GHG inventory and recommendations for reducing them. These recommendations often boil down to changes in the supply chain by selecting a supplier, region, product or formula with lower emissions. However, switching suppliers leads to market segregation and leakage – the emissions continue but are associated with supply chains that are undiscriminating. The outcome is that nothing has actually changed in overall emissions.

For example, deforestation and conversion are widely recognised as key drivers of FLAG emissions. As they occur before agricultural production starts, the standard approach to accounting is to embed these emissions in reporting for the subsequent 20 years. As a result, switching supply chains to a production area with no recent land use change is particularly attractive as a tactic for reducing LUC emissions but has no positive impact on climate. Deforestation and conversion can only be addressed by engaging and investing in tackling current and future deforestation in production landscapes where natural ecosystems are most at risk of conversion, including those outside current farms. This is vital to ensure that sectoral FLAG emissions can actually be mitigated, and supply chains future proofed against deforestation or conversion.

Companies in the FLAG sector play a crucial role in mitigating these emissions and promoting climate adaptation. Now more than ever, the focus should be on implementing strategies and actions that meet net-zero and deforestation and conversion free commitments, but also promote positive impact on the ground. Proforest believes that investing in DCF supply chains, leveraging certified volumes and supplier engagement, engaging in landscape and jurisdictional initiatives and implementing regenerative agricultural practices that foster overall ecosystem resilience, are key actions that contribute to meeting the three principles laid out above.

Currently, there is a lack of clarity about how these different types of interventions can be accounted for in action to meet FLAG targets. The Science Based Targets initiative (SBTi) FLAG Guidance and the Greenhouse Gas Protocol Land Sector and Removals Guidance are important tools to promote and track corporate climate action. However, many of these new legislations and frameworks assume a universal, simultaneous adoption of their norms and rules across the majority of supply chain actors thereby avoiding market leakage. This is unrealistic given the breadth and diversity of actors driving agricultural production.

While climate targets and GHG accounting rules are absolutely critical for measuring and driving progress, they struggle to fully acknowledge the complexity of global agricultural supply chains, the varying rates of progress across different commodities and regions, and the necessity for a phased approach to achieve complete implementation. This creates an incentive for early adopters to avoid high emitting commodities, suppliers, or sourcing regions, without making the investments needed to avoid further deforestation, restore production landscapes, or promote sustainable land management.

Recognising positive interventions

Despite the challenges, we see clear opportunities for these interventions to be recognised in FLAG accounting. This recognition could attract a larger share of company ESG investments, supporting initiatives that advance broader goals for people, nature, and climate.

- The **Deforestation and Conversion Free (DCF) status** of a volume can result in lower embedded LUC emissions than conventional volumes. Following Proforest's generic VDCF methodology, pathways that could support lower LUC emissions include certification schemes, risk-based approaches, remote sensing, farm assessments, and supplier programs. It should be noted that there is divergence in the robustness of DCF claims between these pathways, which has implications for their interpretation to inform LUC emissions. For example, a certification scheme with an agreed a cut-off date should hold more weight than a supplier providing a non-verified cut-off date.

- **Regenerative agricultural practices** can result in lower emissions as well as enhanced removals at the farm level by using fewer resources and more sustainable land management approaches. Examples include reducing the use of fertilisers that release nitrous oxide and implementing no-tillage practices to increase soil organic carbon storage. Similarly, soil amendments like biochar and crop residue integration can increase carbon removals.

- **Landscape and jurisdictional initiatives** can include a wide range of FLAG interventions, including conservation activities, regenerative agriculture and restoration of native vegetation, which can result in LUC and LM emission reductions, or removals through carbon sequestration into the soil and biomass. Several interventions, especially in smallholder contexts, might require a landscape approach to be effective.

Lastly, by improving traceability in countries, jurisdictions, and sourcing regions with high emissions, a company will be able to prioritise where to implement interventions and enable their emissions calculation to accurately reflect the ongoing emission reductions from these interventions. Traceability by itself will not improve emissions but is an essential tool in tracking progress.

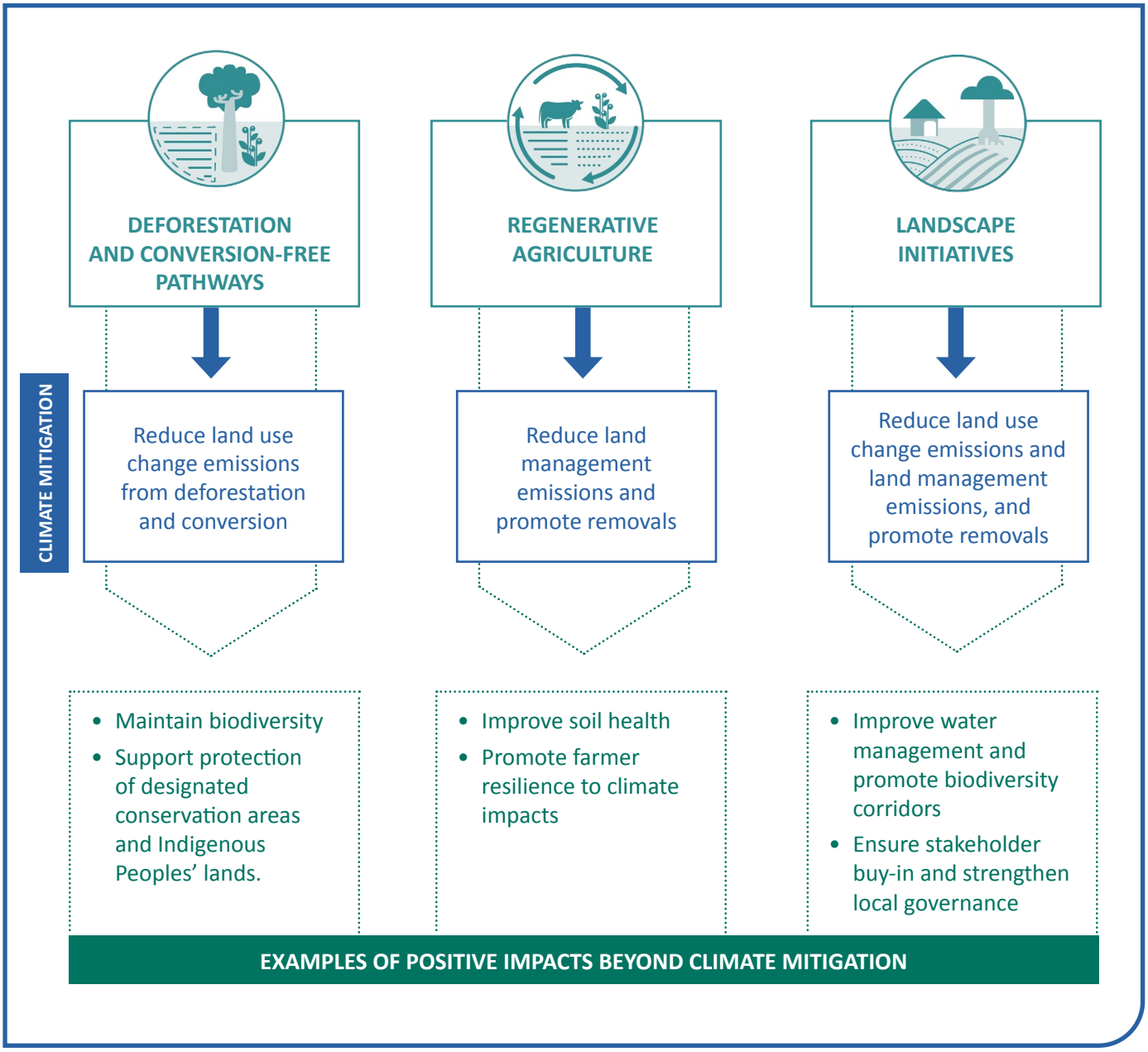

Figure 1: Leveraging climate targets to drive positive outcomes for people, nature and climate

Illustrating opportunities and challenges

Companies committed to SBTi are quickly approaching the dates for their short-term targets and are seeking to understand how to account for their efforts. Box 1 shows some examples, based on real cases, where FLAG commitments are leveraged for investment in DCF volumes, regenerative agriculture pilots, landscape initiatives, and traceability efforts as well as some of the challenges being faced.

Deforestation and Conversion Free: A downstream company has set its FLAG target. The scope of its target includes 10 commodities, and it only has traceability information beyond the country level for some of them. In line with SBTi requirements, the company has set a DCF target. In order to make progress towards its target, it is combining several DCF pathways, including buying certified volumes and engaging suppliers that have supplier programs with an appropriate cut-off date. In the absence of better traceability, it has developed an approach to attribute lower LUC emissions to the DCF volumes based on the cut-off dates of the certification scheme and the supplier programs. The company has set out an action plan to improve traceability, to continue to drive ambition with its suppliers and to invest in certified volumes.

Regenerative Agriculture: An upstream producer company is piloting a set of regenerative agriculture practices in sugarcane production. Soil Health and Carbon indicators illustrate the benefits of the no tillage, no burning, and organic fertilizers. Due to demands from customers, the company is monitoring soil carbon that might indicate carbon sequestration that could be claimed as removals for SBTi FLAG. However, one of the economic indicators, the profitability index, is showing a lag in improvement due to an initial reduction in yields and the high cost of monitoring, sometimes up to 50% of the total project cost. Only after five years will the producer get remunerative returns for its produce. In order to scale up, the company is asking for a premium on volumes to cover the diminished yield in the first years of implementation.

Landscape initiatives: A landscape initiative is having trouble to secure long-term financing. Within the landscape, several FLAG interventions are being implemented. Conservation, regenerative agriculture and forest restoration within the landscape deliver direct and indirect carbon benefits. Implementing partners explore how these carbon benefits can be leveraged to secure future funding. The options include carbon credits, which might be a good fit to fund large-scale conservation efforts. Conversely, downstream companies have an interest in restoration and regenerative agriculture within the context of their SBTi FLAG target. Companies are still wary about making any long-term investments, due to the absence of clear carbon attribution rules within landscapes, while they recognise the need for landscape-based approaches to tackle deforestation, biodiversity and livelihoods issues.

Traceability: A downstream company buys certified volumes to make progress towards its SBTi FLAG target. The certification scheme's systems, however, are not yet able to provide supplier and supply chain specific traceability or emission data. Traceability is required to attribute a lower emission factor to certified volumes, with the criteria of the certification standard being considered insufficient to inform emissions. Due to this limitation in carbon claims, the company is moving to buy certified volumes from another certification scheme. Even though it cannot confirm that the other scheme has the same advanced level in terms of non-climate KPIs, such as conserving biodiversity or protecting people, the procurement team is rewarded based on climate KPIs that are therefore prioritised.

Box 1. Opportunities and challenges created by FLAG commitments, illustrated by real cases

Beyond mitigation to adaptation, and beyond climate to people and nature

The only long-term solution to the current challenges facing us – from the climate crisis to the urgent need for human development – is to build production systems that integrate positive outcomes for people, for nature and for climate. Yet in practice this is often not happening, in part because external frameworks are not rewarding integration. Within companies (and often civil society organisations too) forest and climate strategies, programmes and budgets are often managed by different teams. This hampers collaboration and potential for synergy through alignment of actions towards more efficient use of resources and greater impact.

At present, it is important to continue to explore how to effectively integrate DCF sourcing, regenerative agriculture practices, and landscape initiatives into climate mitigation strategies. This will help ensure that these important efforts are recognised and not overlooked by companies due to their complexity in measurement and implementation.

Most companies recognise the need for FLAG interventions to deliver other co-benefits, but indicators for nature and people goals do not hold the same weight as climate indicators. New frameworks and legislation are arising beyond mitigation and carbon, such as the Corporate Sustainability Reporting Directive, Science Based Targets for Nature, and the Taskforce on Nature-related Financial Disclosures, but these frameworks are still in their early stages and have yet to gain the level of traction that climate and GHG reporting have achieved over the past decade.

Additionally, most climate-focused actions and investments by companies are directed towards mitigation through reduction or removal of GHG emissions. Not enough attention has been given to climate resilience and adaptation in the context of commodity production landscapes. Climate change is already impacting production of key commodities to varying degrees and the long-term systemic consequences of these impacts cannot be overstated in terms of global supply chain risks.

For interventions and projects to be effective, equitable and economic for the communities at the source of FLAG emissions, they need to be designed to deliver holistically not only climate mitigation, but also positive outcomes for nature and people.

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