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# Preparing Vietnam for new rules on international market

## Zero deforestation production and business

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CIFOR
CGIAR
RESEARCH PROGRAM ON Forests, Trees and Agroforestry

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# Contents

# List of figures, tables and boxes

## Figures



## Table



## Boxes

# Abbreviations

| | |
|---|---|
| CIFOR | Center for International Forestry Research |
| CRP-FTA | CGIAR Research Program on Forests, Trees and Agroforestry |
| FLEGT | Forest Law Enforcement, Governance and Trade |
| FSC | Forest Stewardship Council |
| GDP | Gross domestic product |
| GHG | Greenhouse gas |
| NGO | Non-governmental organization |
| NORAD | Norwegian Agency for Development Cooperation |
| REDD+ | Reducing Emissions from Deforestation and Forest Degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries |
| RSPO | Roundtable on Sustainable Palm Oil |
| RTRS | Roundtable on Responsible Soy |
| USAID | United States Agency for International Development |
| VPA | Voluntary Partnership Agreement |

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# 1 Introduction

The production and export of agroforestry products represent a large portion of Vietnam's gross domestic product (GDP). Yet the amount of revenue that can be generated by these industries is heavily influenced by the demands of the international market. Currently, this market is experiencing trends that will require significant changes in the way agroforestry goods are produced for the next 30 years, in particular the consumer-driven trend toward 'zero deforestation' value chains. If Vietnam is not well prepared for this shift – both in terms of policy and implementation capacity – the country may lose its market share. There are two strategic questions that must be carefully considered during the development of Vietnam's new rural program 2020–2035:

1. In the next 20 years, what new rules will shape the international market for agroforestry products?
2. To get ahead in this new game, how will Vietnam need to prepare, both in terms of policies and stakeholder capacity building?

This paper summarizes existing information on zero deforestation and draws on 10 years of research findings and analysis by the Center for International Forestry Research (CIFOR). The paper will answer three main questions, outlined in Box 1.

**Box 1. Issues that need to be addressed in the new rural program 2020–2035**

- What does 'zero deforestation' mean? Why should Vietnam pay attention to this new requirement of the market?
- What strategies have multinational companies and other countries devised to prepare for this new market, and how will these strategies affect Vietnam?
- What will Vietnam need to do during the next 30 years to stay competitive in this new market?

# 2 What does ‘zero deforestation’ mean?

The need to reduce greenhouse gas (GHG) emissions to avoid the worst effects of climate change is possibly the world’s most urgent and challenging problem. Activities related to deforestation and forest degradation account for 20% of global emissions, and 70% of global deforestation is due to the conversion of forests to agricultural land. Faced with the potentially disastrous impacts of this climate crisis, consumers are demanding that companies ensure that the production of their goods does not exacerbate GHG emissions and ecological decline. Such pressure led to the rise of ‘zero deforestation’ commitments by major corporations – essentially the promise to produce and source commodities in ways that lower the risks to forests. For example, 87% of consumers in Europe are demanding deforestation-free products (IDH 2019b), and similar forecasts have been announced at forums that promote investment and development in the US and Asia-Pacific (FAO 2019). This reality has prompted countries with agriculture-based economies, as well as large corporations that use agroforestry products, to develop strict requirements for imports and exports, audits, procurement and trading, piloting of monitoring and evaluating systems, and capacity building for stakeholders in an effort to ensure no part of their value chain is linked to deforestation or forest degradation. The Government of Norway, for example, has developed a policy requiring soy products for animal consumption to carry a proof of origin, in order to ensure that their production did not result in deforestation or forest degradation. The United Kingdom is also developing policies and procedures to monitor imported products ranging from livestock and poultry, to palm oil used in cosmetics, to medicine, food and wood, in order to guarantee that they do not originate from deforestation-related activities.

Box 2 outlines the number of countries and private sector actors that have made zero-deforestation commitments or similar pledges. They are joined by thousands of multinational companies around the world, whose annual revenues total at least USD 7.3 trillion (Forest Trends 2016 and South Pole n.d.)

**Box 2. Worldwide trends in forest protection commitments**

- CDP’s Forest Disclosure (2014) – 240 companies and financial institutions in the world (e.g. banks, commission funds and financial management organizations), owning assets worth more than USD 15 trillion, signed on to disclose their use of forest resources
- New York Declaration on Forests (2014) – 34 global companies signed the United Nations’ commitment to forest protection
- Consumer Goods Forum – 416 members, including Walmart and Nestlé, committed to deforestation-free production and supply chains between 2020 and 2030. The Consumer Goods Forum is a global initiative involving many economies, financial institutions and service providers jointly created by 70 countries. Their combined gross income is almost 2.5 billion Euros, and together they create direct employment for 10 million people, with over 90 million people involved in the agricultural supply chain all over the globe.
- Other commitments – 366 companies have made 579 public commitment to delink their production to deforestation and forest degradation

Source: Forest Trends 2016 and South Pole n.d.

These commitments extend not only to enterprises that directly manufacture products, but also to those involved in processing, purchasing, mediation, retail, wholesale and trading. Figure 1 compares the percentage of actors that have made such commitments in Vietnam and globally.

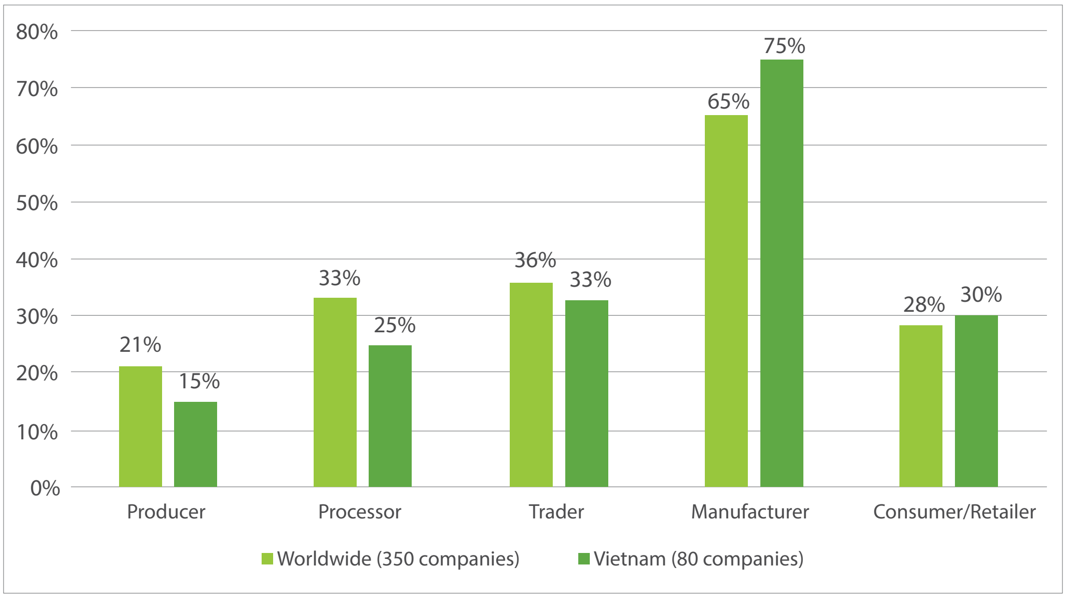


**Figure 1. Sustainability commitments of various actors at the supply chain level, worldwide and in Vietnam**

Source: Compiled from the forest500.org database (available at https://forest500.org/data/companies)

Commercial agriculture accounts for more than 70% of global deforestation; 49% of this is due to illegal agricultural production, and 24% of products from these illegal activities are exported to the international market (South Pole n.d.). Although the companies that have signed no-deforestation commitments operate across a wide range of industries both in Vietnam and globally (Figure 2), the majority are in the agriculture and food sectors, particularly on the production of popular goods such as coffee, rubber, palm oil, wood products, soy, poultry and meat (Wensing 2019)

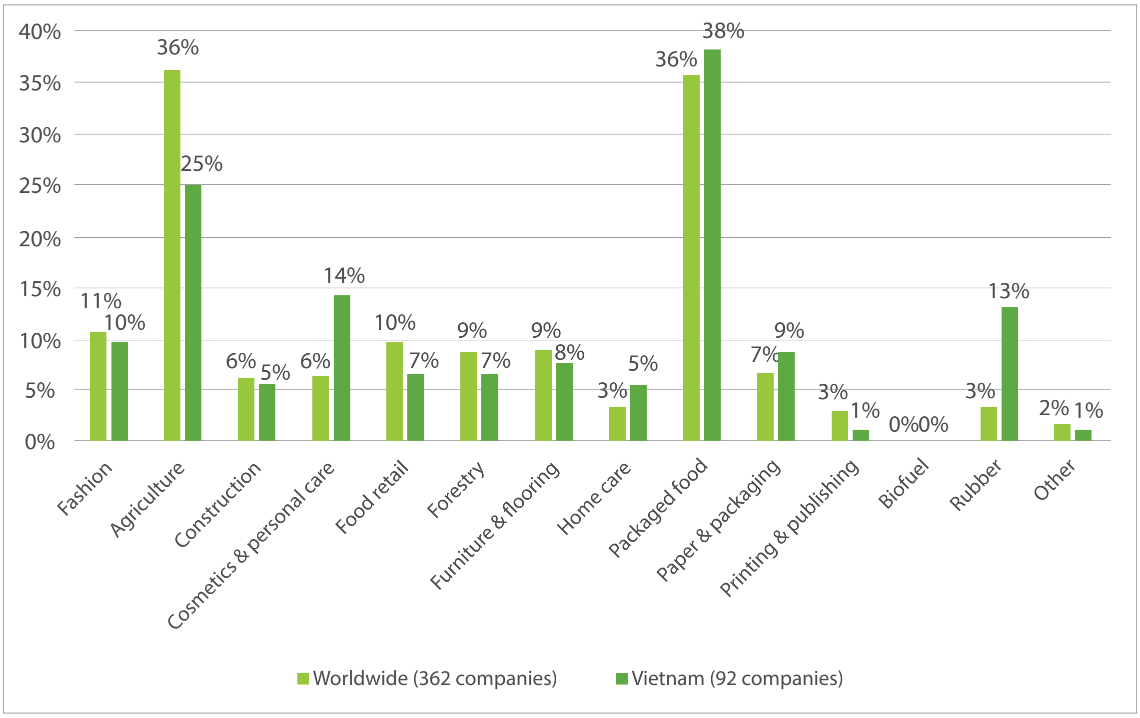


**Figure 2. Sectors engaged in sustainability commitments, globally and in Vietnam**

Source: Compiled from the databases of forest500.org (available at https://forest500.org/data/companies and WWF n.d.

# 3 Why should Vietnam pay attention to this new market requirement?

According to CIFOR research, there are 92 companies operating in 21 industries in Vietnam that have committed to zero-deforestation supply chains by 2020 (Table 1 and Figure 2).

**Table 1. Companies that have made sustainability commitments in key industries worldwide**

| | Number of companies | Company name |
|---|---|---|
| **Fashion** | | |
| • Apparel and footwear | 9 | Hennes & Mauritz AB (H&M); Tapestry; Marks & Spencer Group plc; Inditex S.A.; Fast Retailing; Asics Corp.; Nike, Inc.; Pou chen Corp.; Associated British Foods plc |
| • Accessories and luggage | 4 | Hennes & Mauritz AB (H&M); Tapestry; Marks & Spencer Group plc; Inditex S.A. |
| **Agriculture** | | |
| • Agriculture | 5 | Archer Daniels Midland Co.; Musim Mas; Sime Darby Bhd.; Wilmar International, Ltd.; Bunge, Ltd. |
| • Agricultural products | 14 | Louis Dreyfus; Ameropa, Ltd.; Sadesa; Glencore; Archer Daniels Midland Co.; Musim Mas; Sime Darby Bhd.; Wilmar International, Ltd.; Bunge, Ltd.; Charoen Pokphand Group; Cargill; Mitsubishi Corp.; China Oil and Food Corporation (COFCO); Olam International |
| • Animal feed | 11 | Charoen Pokphand Group; Cargill; Haid Group; CJ Cheiljedang Corporation; De Heus; Danish Agro; InVivo; New Hope Group; East Hope Group; Japfa, Ltd; Uni-President Enterprises Corp. |
| Construction | 5 | Mitsubishi Corp.; Daiwa House Group; Sumitomo Forestry; Danzer Group; Nippon Paper Industries Co., Ltd. |
| Cosmetics and personal care | 13 | Esteé Lauder Companies, Inc.; GlaxoSmithKline Plc; Shiseido Co., Ltd.; Amorepacific Corp; CK Hutchison Holdings; Kao Corp.; Henkel AG & Co. (KgaA); Procter & Gamble Co.; Colgate-Palmolive Co.; Unilever PLC; Kimberly-Clark Group; Unicharm Corporation |
| Food retail | 6 | Marks & Spencer Group plc; Charoen Pokphand Group; CK Hutchison Holdings; AEON Co., Ltd.; Association Familiale Mulliez (AFM); Lotte Co., Ltd. |
| Forestry | 6 | COFCO; Olam International; Sumitomo Forestry Co., LTd.; Danzer Group; Oji Holdings Corp.; International Paper Co. |

| | Number of companies | Company name |
|---|---|---|
| **Household** | | |
| • Furniture and flooring | 7 | Inditex S.A.; Association Familiale Mulliez (AFM); Adient plc; Lear Corp.; Nitori Holdings Co., Ltd.; Ashley Furniture Industries, Inc.; 3M Company |
| • Home improvement | 1 | Association Familiale Mulliez (AFM) |
| Consumer goods | 5 | Kao Corp.; Henkel AG & Co. (KgaA); Procter & Gamble Co.; Colgate-Palmolive Co.; Unilever PLC |
| **Food** | | |
| • Packaged food | 14 | Mitsubishi Corp.; COFCO; Olam International; Uni-President Enterprises Corp.; Associated British Foods Plc; Unilever PLC; Koninklijke FrieslandCampina N.V.; Lotte Co., Ltd.; Nestlé S.A.; Mars, Inc.; Mondelez International, Inc.; Kewpie Corp.; Yakult Honsha Co., Ltd.; Yamazaki Baking Co. |
| • Spices | 6 | Archer Daniels Midland Co.; Cargill; Associated British Foods Plc; Koninklijke DSM N.V.; BASF SE; DuPont |
| • Cooking oil | 5 | Musim Mas; Sime Darby Bhd.; Wilmar International, Ltd.; Bunge, Ltd.; Uni-President Enterprises Corp. |
| • Butter, milk | 1 | Koninklijke FrieslandCampina N.V. |
| • Fast food | 7 | McDonald’s Corp.; Restaurant Brands International; Doctor’s Associates, Inc.; Dunkin’ Brands Group, Inc.; Yum! Brands, Inc.; Starbucks Corp.; Domino’s Pizza, Inc. |
| Paper and packaging | 8 | Nippon Paper Industries Co., Ltd.; Kimberly-Clark Group; Unicharm Corporation; Oji Holdings Corp.; 3M Company; Nine Dragons Paper Holdings; Gold Best Holdings; International Paper |
| Printing and publishing | 1 | Dai Nippon Printing |
| Other | 3 | BASF SE; DuPont; Royal Dutch Shell plc |
| **Automobile industries** | | |
| • Rubber | 10 | Michelin, Pirelli & C. S.p.A., Bridgestone Corp., Goodyear, Sumitomo Corp., Continental AG, Yokohama, Hankook Toyo Tires, Halcyon |
| • Car manufacturing | 3 | General Motors, BMW AG, Toyota |
| **Total** | **92**[1] | |

Sources: Compiled from the databases of forest500.org (available at https://forest500.org/data/companies), WWF n.d.

1 Compiled data in Table 1 are updated to 2019; whereas available data for Figure 1 date to 2018 only.

By total number, these companies account for 22.7% of global commitments. However, they represent a large market share in Vietnam and are key contributors to the country's economy.

The following sections present examples of similar companies and industries, to illustrate the potential economic impacts for Vietnam if the country does not prepare its production and business chains in these industries for this new phase of the global market.

## 3.1 The textile industry, with the example of Nike

The textile industry is one of Vietnam's key industries and represents its second-largest export turnover, with export revenues contributing 10–15% to GDP. In recent years, Vietnam's textile industry has continuously grown at an average rate of 17% annually. Vietnam is one of the 10 largest textile and garment exporting countries in the world. Although enterprises that bring in foreign direct investment account for only 25% of domestic companies, they contributed more than 60% in garment export turnover in 2017 to Vietnam's textile and garment industry (VIRAC 2019). In 2018, Vietnam's textile and garment industry had a successful year, with a total export turnover of over USD 36 billion, up 16.01% compared to 2017 (Lê 2018). The textile and apparel industry is also the sector with a large number of companies engaged in production and business that could undertake zero-deforestation commitments.

Nike owns the largest market share in the global apparel industry (38%), with annual sales revenues of USD 23 billion (Forbes n.d.). Nike is committed to reducing by 50% its emissions worldwide by 2025, and these are largely related to deforestation. Out of a total of 150 factories in 14 countries worldwide (CSIMarket n.d.), Nike currently has 105 companies based in Vietnam, employing 440,922 workers (Nike n.d.), and 41% of its global workforce is Vietnamese. Nike's factories in Vietnam contribute 16% of its worldwide production (Warner n.d.).

Nike and its suppliers in Vietnam have created jobs and are a significant source of tax revenue for Vietnam. However, environmental concerns, especially regarding deforestation, have put Nike in the spotlight of consumer awareness since 2009, and the company has made it a top priority to eliminate its impact on forests. In 2009, Nike issued a new purchasing policy for Brazil to ensure its footwear products are not related to deforestation (McDermott 2009; Mongabay 2009; Nike News 2009). In Vietnam, Nike is also working with its suppliers to find ways to reduce its emissions (Aparna 2016). In addition to Nike, other fashion companies such as H&M and Adidas have also made no-deforestation pledges, and they are making efforts to develop purchasing policies that ensure only sustainable products that do not threaten forests are selected (Siegle 2013; Walker et al. 2013). If Vietnam does not step up and adapt to these new trends that target forest protection and prioritization of renewable energy sources, the potential loss of its market share and resulting economic impacts could be severe.

## 3.2 The coffee industry, with the example of Nestlé

Coffee is one of the key economic sectors of Vietnam. According to calculations from preliminary statistics of the Department of Customs, in the first 8 months of 2017, the country exported over 1.02 million tons of coffee, earning over USD 2.29 billion (Caphenguyenchat, n.d.). According to the Vietnam Coffee and Cocoa Association (VICOFA), Vietnam currently has about 150 coffee exporters and more than 3,000 coffee purchasing agents across the country (National Business Registration Portal 2018). Although the number of foreign enterprises investing in the coffee industry is not large, they account for a large proportion of the total value of coffee beans exported by Vietnam (National Business Registration Portal 2018). Net coffee sales in 2017 achieved an average growth of 12–13% compared to 2016, much higher than other industries (National Business Registration Portal 2018). Net sales for companies include over USD 100 billion for Nestlé and revenues of over USD 470 billion for Walmart.

Although the coffee industry is a key sector in Vietnam, many international and domestic reports have highlighted the fact that growing coffee is one of the main causes of deforestation and forest degradation, both in the country and globally (Pham et al. 2012 and; Kaufman 2016). The Nestlé Group, Vietnam's largest coffee buyer and also the company with the largest retail sales in Vietnam (Figure 3), is also one of the first companies in the world to commit to deforestation-free production (Box 3).

**Box 3. Case study: The Nestlé company**

In other countries, Nestlé has a strong presence in just one or two products. But in Vietnam, Nestlé is present in markets with a full range of products and brands, including Milo (a well-known and successful brand, with the highest revenues), Nescafé, Maggi, Nestlé, La Vie and NAN infant formula).

In 2010, Nestlé officially announced that it would end deforestation in its supply and production chains by 2020. The company developed a map to identify risks across all global supply chains and consequently, it currently buys the following products originating only from:

- agricultural land interspersed with forests and forests
- land converted from forest land to agricultural land in the past
- directly from forest

Nestlé Waters also owns and leases forests to Nestlé Mineral Water Companies. When granting certificates and making purchasing decisions, Nestlé uses certain criteria to evaluate companies, which must:

- fully comply with the provisions of domestic and foreign laws
- be implemented uniformly and comprehensively worldwide
- have a process of management and decision making that includes the participation of stakeholders
- have support from non-governmental organizations (NGOs)
- respect and exercise the rights of ethnic minorities
- support smallholders
- be able to eliminate activities that adversely affect forests, concurrently examine and conserve the commodity value chains
- use the allowable limits and time periods adopted by the Forest Stewardship Council (FSC), the Roundtable on Sustainable Palm Oil (RSPO) and Roundtable on Responsible Soy (RTRS) when deciding on conversion of forest land and forest exploitation.

Nestlé will not buy from anyone involved in deforestation or the conversion of forest land. Nestlé has established an independent unit that issues certificates verifying companies that meet this standard. Products related to coffee, paper and cardboard, wood, palm oil, dairy products, soy sauce, agricultural products, meat, milk and cocoa are guaranteed by Nestlé to not lead to deforestation or biodiversity loss. Suppliers are required to demonstrate that they are capable of tracking and using value chain methods and systems to confirm when this commitment will be fulfilled, and that this can be verified and certified by a third party. When companies do not meet these standards, Nestlé no longer buy from these businesses. Nestlé monitors the supply chain of palm oil-related products using satellite imaging, and conducts scientific and technological applications to manage the supply chain related to its coffee, paper and soy products. Nestlé allows its suppliers a three-year preparatory period, and after five years it requires absolute compliance with all requirements related to the prevention of deforestation.

Source: Nestlé n.d.

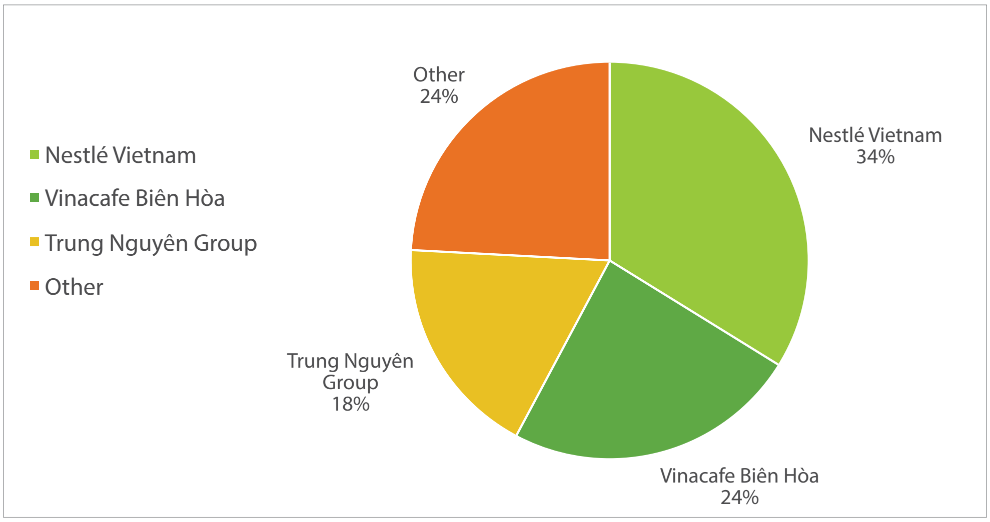


**Figure 3. Coffee retail sales in 2017**

Source: Vu 2018

Over the past 20 years, Nestlé's investment in the Vietnamese market has increased from USD 24 million in 1995 to USD 520 million in 2015. Nestlé Vietnam has almost doubled its revenue in the last four years and has become one of the largest 'fast-moving consumer goods' food and beverage corporations in Vietnam (Figure 3).

As the largest buyer of coffee in Vietnam, and with its target achieving its 2020 benchmark for zero-deforestation Nestlé is sure to set new requirements for Vietnamese businesses and households that cultivate and trade coffee beans. If they do not meet these requirements by the target date, the economic impact could be devastating. Specifically:

- Vietnam is Nestlé's fastest growing market in Asia and the company has contributed greatly to Vietnam's foreign direct investment over the past 30 years. Therefore, if Vietnam does not meet Nestlé's value chain requirements, Nestlé will likely turn to other markets that have already established procedures to avoid deforestation and thus meet the requirements.
- Annually, Nestlé purchases at least 20–25% of Vietnam's total coffee production, and invests about USD 600 million in the country's coffee supply and export chain. In addition, Nestlé was the company with the highest revenue in the milk industry in 2017, after Vinamilk. Therefore, if Nestlé introduces new requirements to comply with zero-deforestation that households and businesses are not fundamentally prepared for, coffee and milk production can become undersold, and the market may experience country-wide price reductions.
- Nestlé is recognized by the Ministry of Finance as the 59th largest multinational corporation in Vietnam. Total investment of Nestlé in Hung Yen province reached nearly USD 100 million in 2017, making a strong contribution to economic development (Ly 2019). If Nestlé withdraws for the reasons outlined above, this potential economic contribution would be lost.
- Nestlé has six factories in Vietnam, and has the goal of creating jobs for thousands of Vietnamese workers (Lan 2019). With the opening of the Nescafé Dolce Gusto production line in Dong Nai province in July 2019, this plant is expected to process 130 million capsules from 2,500 tonnes of Vietnamese coffee per year, and the volume is expected to increase in the coming years (VietnamPlus 2019).
- Nestlé owns over one third of the retail market chain for dairy products in Vietnam. It has the second-largest revenue (only after Vinamilk) (Dũng 2018) and provides employment for more than 3,000 workers in Vietnam (An 2016). Without sufficient competitiveness on the international market, thousands of Vietnamese workers risk losing their jobs if Nestlé withdraws from this market.

Besides Nestlé and its commitment in Vietnam; multiple sides have also agreed to sign on to another agreement regarding zero-deforestation in Vietnam. Jacobs Douwe Egberts, Louis Dreyfus and ACOM, along with The Sustainable Trade Initiative as well as the Dutch and Vietnamese governments committed to protect natural forests in the coffee-producing areas in Vietnam saying that by 2025 deforestation related to coffee will have stopped (IDH 2019a).

## 3.3 The timber industry, with the example of IKEA

The year 2018 marked a remarkable success in Vietnam's wood industry. It experienced a very strong growth rate in its export of wood and wood products, reaching more than USD 9 billion, and the country ranked fifth in the world and second in Asia, accounting for 6–7% of the global market share (Business Forum 2019). According to the General Department of Forestry, the export of wood and forest products reached over USD 6 billion in the first 8 months of 2019, up 17.5% over the same period in 2018 (Wood Vietnam 2019). Vietnam has participated in the European Union’s Forest Law Enforcement, Governance and Trade (FLEGT) initiative and has a National REDD+ Action Program (reducing deforestation and forest degradation). However, in addition to market commitments and rules related to sustainable timber, new market requirements related to company commitments to zero-deforestation production will also have a significant impact on businesses in the future. According to several studies, Vietnam currently has more than 3,000 timber-processing facilities and enterprises, most of which are small or medium-sized, with more than 300,000 employees across the industry (To and Canby 2011). Supporting these small and medium-sized businesses to meet the requirements of large companies and buyers, such as in the example of IKEA, presents new challenges for the country.

IKEA is the largest retailer and furniture producer in the world (Business Insider 2016). It consumes 1% of the total amount of wood produced in the world; 60% of IKEA products are manufactured from wood (IKEA 2013). IKEA's total revenue in 2018 increased by 4.7% compared to 2017 and reached 43.78 billion USD in 2018 with 1.77 billion USD of net profit (INGKA 2018).

IKEA is aiming to source 100% of its wood from sustainable sources such as recycled timber or Forest Stewardship Council (FSC)-certified wood as a way to deliver on the company’s promise of reducing the total emissions by 80 percent in absolute terms by 2030 compared to 2016 (Ringstrom 2018). In keeping with its commitment, IKEA sourced 77% of its wood from sustainable wood resources in 2017, and increased this to 85% in 2018. Additionally, as shown in Box 4, it is now mandatory for IKEA suppliers to obtain sustainable timber certificates (IKEA 2018). Through its IWAY Standard, IKEA sets out the minimum requirements for environment and social and working conditions when purchasing products, materials and services. This will present a major obstacle for Vietnamese suppliers if they cannot meet such standards.

**Box 4. IKEA’s requirements and procedures for purchasing and importing wood from suppliers**

IKEA requires that its suppliers ensure their products do not originate from:
- illegal exploitation
- social conflicts related to forests
- pristine natural forests and forests of high conservation value
- natural forests in the tropics and subtropics that have been converted to plantations or other non-forestry uses; or
- officially recognized commercially, genetically, engineered crops.

Source: Nguyen et al. 2018

According to Zhang and Hed (2009), as of March 2009 IKEA had 42 suppliers in Vietnam, and most of them achieved Level 2 of the IKEA IWAY standard, including many targets regarding the environment such as committing to use only sustainable timber resources. However, according to Nguyen et al. (2018), by 2016 IKEA had only 10 suppliers in Vietnam. One of the more likely explanations for this significant change in the number of Vietnamese suppliers is that they may not have been able to keep up with the quick shift to IKEA new standards and rigorous supplier selection processes. However, despite this significant decrease in the number of suppliers, in 2016 the total transaction value between IKEA and its 10 Vietnamese suppliers reached approximately 100 million Euros (USD 118 million). This may indicate that, for suppliers that are able to meet the new standards, there are opportunities to increase their market share at the loss of other insufficient competitors.

## 3.4 The rubber industry, with the example of several tire manufacturers and automotive companies

Vietnam is the third largest rubber producing and exporting country in the international market (USAID 2018). Rubber plantations and expansion is one of the main causes of deforestation globally, as well as in Vietnam (USAID 2018).

With a turnover of USD 30 billion, rubber is one of the industries for which consumers are desperately calling for sustainable production since 2016. This has led many tire companies to commit to using their rubber resources responsibly, beginning with Michelin and followed by Pirelli, Bridgestone, Goodyear, Sumitomo, Continental, Yokohama, Hankook and ToyoTires. In 2017, General Motors was the world's third-largest automotive company to pioneer a commitment to using 'responsible rubber'. It was followed by BMW and Toyota, which began by signing a commitment in 2016 to increase the amount of sustainable rubber in their products, including natural rubber (USAID 2018). In 2018, Halcyon was the first rubber processing company to adopt a zero-deforestation commitment (WWF n.d.).

In addition to cars, the aircraft, shipping, motorcycle, footwear and radio industries all use rubber in their manufacturing processes. The majority of natural rubber being sold on the world market comes from China, India, Indonesia and Vietnam, which together produce 90% of the world's natural rubber. Strengthening the capacity of rubber manufacturing companies in Vietnam to meet the new market requirements is essential, and thus more research and evaluation is needed in this area.

## 3.5 The cosmetics industry, with the example of L'Oréal

Cosmetics is the industry that is most committed to zero-deforestation manufacturing worldwide. For example, Unilever (n.d.) and L'Oréal adopted the zero-deforestation commitments in 2010 and 2014, respectively, and have pledged that by 2020 there will be no deforestation-related raw products in their supply chains. L'Oréal products use a lot of palm oil and soybean oil, and its main suppliers are concentrated in Indonesia (71%) and Malaysia (27%). L'Oréal's goal is to ensure all of its products are completely separated from deforestation and forest degradation, and it is strongly implementing measures to reach this ambitious target. To date, the company has already been able to trace the source of 95% of its total palm oil supply, which is closely monitored (L'Oréal 2018).

According to estimates, L'Oréal uses an average of 71,000 tons of palm oil each year, with very stringent standards related to the control of the oil supply. Since 2010, 100% of the palm oil purchased by the company has achieved RSPO standards through the Segregated (SG) rating, one of the most rigorous rating systems in the world. Suppliers from Indonesia and Malaysia are able to meet these standards, and thus draw a significant source of income to their economies.

In Indonesia, the palm oil industry is one of the largest exports industries, contributing 2.46% of the country's GDP (Jakarta Globe 2019). This is one country that can serve as an example for others, by demonstrating how to attract international corporations by becoming advanced in the supply of key source materials. Indonesia's economy has greatly benefited by efforts to meet the strict sustainability requirements of large multinational corporations, such as in the case of L'Oréal.

# 4 Recommendations for next steps

The above analysis shows that future commitments related to deforestation-free production will greatly affect many industries that currently playing a key role in the economy of Vietnam. Preparing stakeholders to understand this challenge and take the necessary steps to meeting it will be an urgent issue between 2020 and 2030; this needs to be addressed and carefully examined in order to develop effective zero-deforestation policies in Vietnam from 2020 to 2030.

Table 2 summarizes the role of stakeholders in this process, as well as priority activities to be implemented in the coming years to help Vietnam integrate into this new global market more quickly and efficiently.

**Table 2. Activities to help Vietnam transition to a market based on zero-deforestation production**

| Stakeholder | Tasks, responsibilities and next steps |
|---|---|
| **Government offices** | • Build a legal framework and improve law enforcement related to the implementation of zero-deforestation commitments for domestic and foreign companies<br>• Develop economic models that can harmonize sustainable production and forest protection<br>• Develop and implement guidelines for the import and export of deforestation-free goods<br>• Identify current and future material supply areas at risk of deforestation, and prioritize the implementation of strategies needed to minimize deforestation in these high-risk areas<br>• Establish monitoring and reporting systems, and improve appraisal and certification processes for deforestation-free production<br>• Provide financial support and market access to reinforce the capacity of small and medium-sized enterprises and communities to meet the requirements of zero-deforestation production<br>• Develop mechanisms for monitoring, using technology to identify and monitor suppliers of sustainable products in a timely manner.<br>• Enhance the transparency of the supply chain by conducting more regular monitoring; use smartphone technologies |
| **Businesses** | • Identify the deforestation footprints of current supply and production chains<br>• Redefine risks (who, where, how risky) and develop a zero-deforestation strategy<br>• Invest in communication and capacity building for suppliers<br>• Re-orient the sourcing, trading and management mechanism, and set censorship requirements for the procurement and purchasing process<br>• Create incentive mechanisms for efforts to reduce or avoid deforestation<br>• Monitor, investigate and issue certificates of zero-deforestation to compliant suppliers<br>• Consider adopting tools such as Global Forest Watch (GFW) Pro, which helps companies analyze trends associated with zero-deforestation products[2]<br>• Lessons can be studied, modified if needed and applied from different approaches that worldwide companies and governments have been implementing to avoid deforestation. Here we consider three approaches: the individual or group-based approach (based on the Voluntary Standards System), the sectoral approach (a focus on supply-chain interventions), and the mixed approach of supply chain and location (based on public–private partnership and negotiated by NGOs or stakeholders) (Pacheco et al. 2018) |

*Continued to next page*

2 For example, GWF Pro can help stakeholders consider data related to the history of deforestation: i.e. where they are being imported or the risk of fire, thereby assessing the risk that the supply chain may face and deciding whether to import or purchase goods from these areas (Amaral and Lloyd 2019). The tool is also widely used by banks (IDB Invest) and companies that produce agricultural products to identify more than 1,000 locations where palm oil, cocoa, wood and rubber are produced, and for which half of their supply chain risks leading to deforestation (Wensing 2019).

**Table 2. Continue**

| Stakeholder | Tasks, responsibilities and next steps |
|---|---|
| **Civil society organizations** | • Participate in independent monitoring of law enforcement of parties related to zero-deforestation production and business commitments<br>• Improve the capacity of stakeholders to ensure the evaluation process is transparent |
| **Research** | • Study the potential impact of that zero-deforestation production requirements will have on each industry, and identify priority actions to ensure a smooth transition to full compliance. |

Although zero deforestation policy and its relevant effects will have a strong impact on Vietnam's economy for many years to come, no adequate studies have been conducted to assess the level of risk to the 21 industries presented in this report.

This report provides an analysis of data from a number of key sectors. However, there remains a need for more intensive research and much deeper analysis, specifically on the potential impact of zero-deforestation production demands on each industry. Also needed is an identification of the main priorities for key actors that would require support during this transition, such as businesses and the Vietnam government itself.

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Deforestation-free production will be a requirement of the global market from now through 2030. More than 1,000 financial institutions (e.g. banks, trusts, donors) and 600 multinational companies have pledged to produce and supply zero-deforestation agricultural products, and these establishments (financial institutions and multinational companies) are developing a process of testing, screening and certification for service providers and countries that produce or export agroforestry products. The governments of European countries, the Americas and Australia are also aggressively building a legal framework to monitor and verify that imported goods have not resulted in deforestation or forest degradation.

In Vietnam, 92 domestic and foreign companies from 21 fields and industries have signed commitments to achieve zero deforestation by 2020. These industries include: fashion (apparel and footwear); agriculture; cosmetics and personal care; food and agriculture; retail chains; home construction (furniture and flooring, and renovation supplies); consumer goods; paper and packaging; printing and publishing; and automotive industry (rubber, automobile manufacturing). These companies contribute greatly to the national GDP and local economic development, and are major buyers of agricultural products including coffee, wood, soybeans and poultry.

However, businesses in Vietnam are not prepared to adapt the supply chain of agroforestry products to this trend; they require knowledge and skills to face the new market requirements. Without further research and long-term planning, Vietnam's agroforestry products industry is at risk of losing market share to fierce international competition, leading to enormous economic losses for the country.

The government needs to develop a legal framework to support and monitor companies that meet deforestation-free commitments, while building the capacity of stakeholders to respond to the requirements of new markets, in order to ensure a solid position for agroforestry products and their sustainable contribution to the national economy over the next 30 years.

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