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# Global Shifts

## Business, Politics, and Deforestation in a Changing World Economy

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## 4 The Comparative Politics of Sustainable Markets

In 2010, the Consumer Goods Forum pledged to achieve zero net deforestation by the end of the decade. This has accelerated the diffusion of sustainability standards and commitments in global agricultural supply chains. However, as described in the previous chapter, the emerging regime complex for forest-risk commodities faces multiple challenges, including a growing incongruence between the regime's coverage and the "new geography of trade" (UNCTAD 2004, 2). The objective of this chapter is to gain deeper understanding of the political economy conditions that promote or frustrate uptake of transnational business governance and how these conditions are interacting and evolving in the age of advanced globalization.

My aims in this chapter are twofold. First, I provide a more detailed analysis of the state of "sustainable markets" in major forest-risk commodity sectors, including palm oil and soy.<sup>1</sup> Linked to questions about the authority and effectiveness of transnational business governance, the study of market adoption has been an important focus in the political science and impact evaluation literatures on sustainability certification and corporate zero-deforestation commitments (Cashore 2002; Cashore, Auld, and Newsom 2004; Espach 2009; Garrett et al. 2016; Marx and Cuypers 2010; Prakash and Potoski 2006). To advance understanding of patterns related to this important outcome variable, this chapter reviews new data sources that allow for a more nuanced examination.

My second objective is explanatory. Building on the description of adoption patterns in the first part of the chapter, I conduct a comparative political economy analysis of two mature private governance programs: the Roundtable on Sustainable Palm Oil (RSPO) in the palm oil sector and the Roundtable on Roundtable on Responsible Soy (RTRS) in the soy sector. Although very similar in their institutional design, these two programs display significant

variation in their global market uptake. At the same time, the two cases reveal a common overall trend: the adoption of private sustainability standards has stagnated in recent years. Studying the political economy of sustainable markets in the palm oil and soy industries, this chapter reviews the arguments and integrates them in a comparative framework. By focusing on demand-side and supply-side drivers of private governance uptake, the framework offers a structured and focused comparison of these two commodity sectors, with particular attention paid to Brazil and Indonesia as the main producer countries.

### **The State of Sustainable Markets**

Market uptake or adoption is an important dependent and independent variable in the research literature on transnational business governance (Cashore 2002; Cashore, Auld, and Newsom 2004; Cashore et al. 2007; Espach 2009; Marx and Cuypers 2010; Schleifer and Sun 2018). As discussed in chapter 2, large-scale adoption is a necessary, although not a sufficient condition for the effectiveness of market-driven sustainability governance, such as certification schemes and zero-deforestation commitments. Likewise, the impact evaluation literature views large-scale adoption as a precondition for these programs to generate “additionality” beyond business-as-usual practices (Garrett et al. 2016). Against this background, some scholars argue that large-scale adoption of voluntary sustainability standards could significantly reduce the environmental impact of global agriculture (Smith et al. 2019). However, caution is advisable. Evidence suggests that even in sectors with high adoption rates, private standards have not successfully overcome sustainability challenges. A notable example is the coffee sector, in which more than 50 percent of global production is grown according to some sustainability standard (Grabs 2020b; Ponte 2019, 71–83). Moreover, recommendations to increase adoption of private standards are of little use if the political economy conditions that drive these processes remain poorly understood.

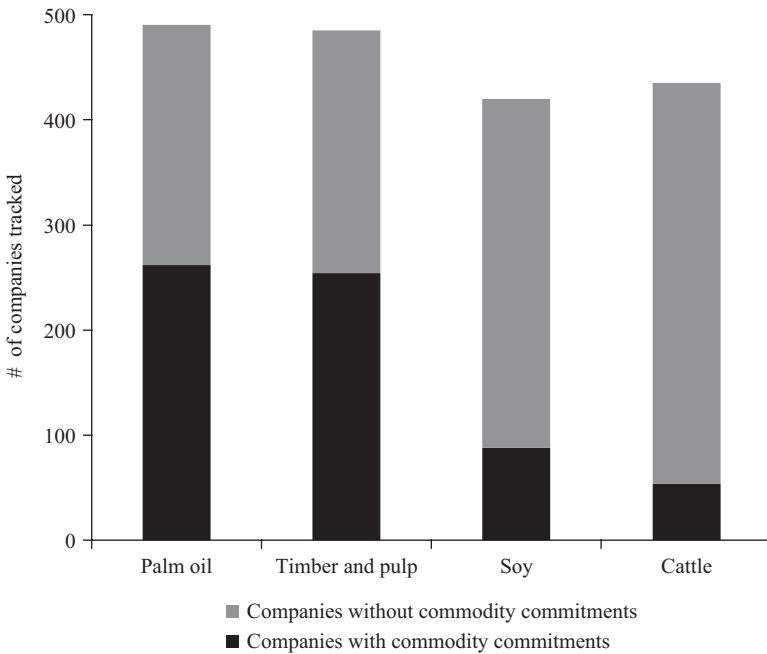
To advance our understanding of the issue, this section begins with a descriptive analysis of the state of sustainable markets in the major forest-risk commodity sectors (i.e., palm oil, timber and pulp, soy, and cattle). In recent years, new data sources have become available for a deeper and more nuanced analysis. Using this new information, this chapter triangulates information from the Global Canopy Program’s Forest 500 Index,<sup>2</sup> Forest Trends’

Supply Change Initiative,<sup>3</sup> and International Trade Centre's Sustainability Map.<sup>4</sup> The analysis focuses on the adoption of firm-level sustainability and no-deforestation commitments and third-party certification programs.

The Global Canopy Program's Forest 500 Index is the "world's first rain-forest rating agency" (Forest 500 2017, 1). It identifies the most influential companies with exposure to the production of palm oil, timber and pulp, soy, and beef and leather and assesses the quality of their sustainability commitments.<sup>5</sup> Forest 500's selection methodology is based on corporate concentration and uses a combination of qualitative and quantitative indicators to identify 350 "corporate powerbrokers" with the highest market shares along forest-risk commodity chains.<sup>6</sup> Forest 500's 2019 Assessment Report highlights that 140 (40 percent) of these powerbrokers do not have a deforestation commitment, and seventy-five (21 percent) have a commitment for one of the commodities they source but not the others (Forest 500 2019a, 3). A closer look at the sectoral distribution of companies' no-deforestation commitments reveals significant variation across commodity sectors. With considerable margin, adoption is highest in the palm oil sector, where 73 percent of exposed companies adopted a sustainability commitment, followed by 58 percent in the timber and pulp industry, and just 37 percent and 28 percent, respectively, in the soy and cattle sectors (analysis of data from Forest 500).

Data published by the Supply Change Initiative reveal a similar pattern. Introduced by Forest Trends, a Washington-based nonprofit organization, the platform aims to cover the "global universe of companies" whose supply chains depend on palm oil, timber and pulp, soy, or cattle (Donofrio, Leonard, and Rothrock 2017, 4). With 718 companies profiled in 2017, the Supply Change Initiative works with a larger sample than the Forest 500 Index. However, similar to the Forest 500 Index, it omits small- and medium-sized companies (Supply Change 2020a), which is problematic because collectively these companies have a major deforestation footprint with low uptake of sustainability commitments (Taylor and Streck 2018, 9). Figure 4.1 depicts the uptake of deforestation-related commodity commitments by companies across the major forest-risk commodity sectors.

The International Trade Centre's Sustainability Map includes information about the uptake of third-party certification programs. Table 4.1 summarizes the leading schemes in the four major forest-risk commodity sectors. The data reveal a close correlation between the number of corporate commitments in a sector and the adoption of certification programs. There



**Figure 4.1**

Companies' sustainability commitments by commodity, in values for 2017 (number of companies tracked)

*Source:* Analysis of data from Supply Change, available from <https://www.supply-change.org>

are several reasons for this. First, in sectors with well-established third-party sustainability standards, companies can base their deforestation commitments on existing standards. Second, certification programs often provide off-the-shelf implementation mechanisms. In this regard, analysts find that progress reporting by companies is much more frequent for certification-based commitments than it is for non-certification-based commitments (Donofrio, Leonard, and Rothrock 2017, 12). However, as observed in sectors with mature private sustainability governance (e.g., coffee), global buyers may abandon third-party certification programs over time in favor of firm-level programs, which offer more direct control over standard development and implementation (see Grabs 2017).

The data collected by Forest 500, Supply Change, and Sustainability Map have various limitations, including incomplete samples and selection bias. However, triangulating the data can help identify general adoption patterns

**Table 4.1**

Market uptake of leading certification programs by commodity

Leading certification programs	Commodity	Total certified area, as of 2019 (hectares)	Percent of global production area, as of 2019
Roundtable on Sustainable Palm Oil (RSPO), Rainforest Alliance	Palm oil	3.1 million	11
Forest Stewardship Council (FSC), Program for the Endorsement of Forest Certification (PEFC)	Timber and pulp	528 million	13
Roundtable on Sustainable Soy (RTRS), ProTerra Foundation	Soy	1.8 million	1.5
Global Roundtable for Sustainable Beef (GRSB), Brazilian Roundtable for Sustainable Livestock (GTPS), Rainforest Alliance	Cattle*	Very small (no precise estimate available)	< 1

*Source:* Analysis of data from the International Trade Centre's Sustainability Map, available at <https://www.sustainabilitymap.org>

\* For the cattle sector, which is excluded from the Sustainability Map, a manual review of the leading certification programs in the sector was conducted.

and trends. First, a clear divergence occurs in adoption rates across commodity sectors. Notably, the sectors with the highest deforestation footprint, namely soy and cattle, have the lowest uptake of corporate zero-deforestation commitments and third-party certification systems.<sup>7</sup> This finding indicates that the size of sustainable markets has no apparent correlation with the severity of environmental degradation in a sector. The emerging distribution of private governance is thus suboptimal from a problem-solving perspective. Second, the overall adoption rate remains far below expectations (Climate Focus 2016). Since the declaration of the Consumer Goods Forum in 2010, the number of corporate no-deforestation commitments has grown year by year (see Slavin 2018). However, many companies in these sectors have not adopted such policies, and some firms have reneged on their earlier commitments or stopped reporting progress (Forest 500 2019a, 4). Analysts estimate that some 20 percent of all company commitments are currently “dormant,” meaning they are past their target date (Donofrio, Leonard, and Rothrock 2017, 7). The uptake of third-party certification schemes reveals a similar

picture. According to the theory of change put forward by WWF, sectorwide sustainability transformations require a market share between 40 and 50 percent of total production being certified (former director of the Forest Conversion Initiative, phone interview, May 2013). As shown in table 4.1, none of the leading schemes has gained transformative market share. Instead, as we shall see later in the chapter, market share of some leading schemes has stagnated or declined in recent years.

### Explaining Market Uptake

Using data from Forest 500, Supply Change, and Sustainability Map, the preceding section sought to increase understanding of the state of sustainable markets in the major forest-risk commodity sectors. Some of the previously described patterns are easily explained. For instance, low uptake of transnational sustainability standards in the cattle sector is due to the dominance of local supply chains and local consumption in that sector. For example, in Brazil, some 80 percent of beef production is consumed domestically (Chain Reaction Research 2018a). Thus, a key condition for the adoption of non-state market-driven governance, high export dependency (Cashore, Auld, and Newsom 2004, 43), is absent in this commodity sector. Conversely, the relatively high adoption rate in the timber and pulp industry can at least partially be attributed to the fact that sustainability certification is most advanced in this sector. Two of the world's first global certification programs, the Forest Stewardship Council and the Program for the Endorsement of Forest Certification, date from the early 1990s. Many studies have examined the institutionalization and adoption of these programs in this sector (e.g., Auld 2014; Cashore et al. 2007; Cashore, Auld, and Newsom 2004; Gulbrandsen 2010; Marx and Cuypers 2010; Pattberg 2007).

Some of the other patterns identified are less well understood, however. In particular, the observed variation in the adoption of private sustainability governance in the palm oil and soy sectors raises questions. At first glance, the two cases have many commonalities. Both are highly traded commodities. Indonesia, the world's largest palm oil producer, exports about 70 percent of its production, and Brazil exports approximately 65 percent of its soy (analysis of data from FAOSTAT; ITC n.d.). Both sectors also attract public controversy regarding the environmental impact of commodity production. NGOs and the media have publicly linked palm oil and soy production to

tropical deforestation, biodiversity loss, and other environmental and social problems, and firms linked to these commodity chains have been targeted by transnational advocacy networks (see Dauvergne 2017; Greenpeace 2006). These sectors also have nearly identical “twin initiatives” for third-party certification (RSPO and RTRS) (former director of the Forest Conversion Initiative, phone interview, May 2013), both of which began with the WWF’s Forest Conversion Initiative in the early 2000s. Finally, these two sectors also appear to be connected by stagnating or decreased market share of leading third-party certification schemes. The RTRS has struggled to capture a significant market share of the global soy trade from the beginning, and though more successful in that regard, RSPO also has largely stagnated in its certification growth in recent years.

### **A Comparative Political Economy Analysis**

In preparation for the empirical analysis, this section reviews the literature on the adoption of transnational business governance, identifies the conditions for market uptake, and integrates them into a comparative political economy framework. At a general level, two types of conditions can be distinguished: institutional and contextual. Institutional conditions are linked to the design and operations of private governance programs (e.g., stringency of standards, robustness of monitoring and enforcement procedures). Scholars have studied these institutional design features as key drivers of program efficacy (see Potoski and Prakash 2009; Prakash and Potoski 2006, 2007). In the present chapter, these factors are largely held constant because the analysis focuses on two private governance schemes (the RSPO and RTRS) with very similar institutional designs. Contextual conditions are linked to the political economy setting of private governance. Building on the discussion in chapter 2, I systematically review these factors and integrate them into a common analytical framework that draws on my past work (Schleifer 2016b, 2017; Schleifer and Sun 2018).

In developing the framework further, I add two new features. First, I include a geographical dimension by distinguishing between demand-side and supply-side conditions. This dimension represents a parsimonious view of the organization of global commodity chains, which in reality have many more segments (see Gereffi and Fernandez-Stark 2016, 8–10). However, this serves the important analytical function of distinguishing between conditions that



are linked to different positions in these commodity chains, while maintaining parsimony in the overall framework. Second, I add a temporal dimension to the analysis. A criticism of the literature on the adoption of private governance is its static analysis (Bloomfield and Schleifer 2017, 130). A longitudinal approach allows examination of the politics of transnational sustainability governance over an extended period of time. Covering the decade following the launch of the RSPO and RTRS in the mid-2000s, I investigate how the political economy of sustainable markets in the palm oil and soy sectors has evolved during a period of major structural change in the world economy.

### **Demand-Side Conditions**

In developing the framework, I identify four demand-side conditions. The first condition is the *location of end markets* in a sector. In their pioneering study on the drivers of forest certification, Cashore, Auld, and Newsom (2004) show how export dependency was a key factor in determining the level of business support for the Forest Stewardship Council in different geographical regions. Subsequently, the link between a sector's export dependency and its adoption of transnational private governance has been investigated in a wide range of studies and contexts (e.g., Bartley 2010; Cashore et al. 2007; Overdevest 2010). More recently, scholars have started to examine how shifts in the location of end markets from the Global North to the Global South can undermine support for environmental and social standards in the global economy (Adolph, Quince, and Prakash 2017; Kaplinsky, Terheggen, and Tijaja 2011; Schleifer 2016b; Schleifer and Sun 2018). I therefore hypothesize that the size of Southern end markets in a sector will limit the global uptake of transnational sustainability standards.

Related to the discussion on export dependency, the second condition, *support from lead firms*, is a key factor (Mayer and Gereffi 2010, 8). So-called buyer-driven global value chains are characterized by significant power asymmetries between upstream buyers and downstream suppliers (Gereffi 1994; Gereffi, Humphrey, and Sturgeon 2005). Private governance programs seek to harness these power differentials between supply chain actors to push their standards upstream in globally dispersed production networks. However, as research on global value chains has shown, the degree of "drivenness" in supply chains is not constant but varies across industries (see Gibbon, Bair, and Ponte 2008; Ponte 2019, 3). Returning to the discussion on global market shifts, buyers from emerging economies may also not be attuned to

sustainability issues in the same way as their developed country counterparts (Forest 500 2019a, 8).

Third, *transnational advocacy pressure* is an important condition that is stressed throughout the academic literature (Bartley 2009; Bloomfield 2017, 2014; Haufler 2009). According to Bartley (2009), this pressure is a strong catalyst for action, but the strength of transnational advocacy networks varies (see Risse 2013, 432–439). Depending on industry concentration, product characteristics, and proximity to consumers, firms' "vulnerability" to transnational advocacy campaigns can vary too (Mayer and Gereffi 2010, 10). Moreover, these campaigns could become less effective as trade flows shift from North-South to South-South. For example, national pressures might cause state-owned emerging market enterprises to be less responsive to transnational advocacy campaigns (Whelan and Muthuri 2015). Research shows that advocacy NGOs are generally less likely to target firms from remote and unfamiliar locations (Hatte and Koenig 2018). Finally, evidence suggests that transnational advocacy networks face increasing regulatory restrictions in emerging economies that limit their activities (Fransen et al. 2021).

The final demand-side condition is *support from external state actors*. In recent years, governments in major consumer countries have taken steps to regulate transnational business conduct (LeBaron and Rühmkorf 2017; Overdevest and Zeitlin 2014). These regulatory pressures are transmitted through global supply chains as lead firms in consumer countries engage in mandatory due diligence reporting of their social and environmental practices. Weak institutions in producer countries can further intensify regulatory pressures if they induce policy makers to demand additional assurance through private governance (Berliner and Prakash 2014). The literature on orchestration shows how, in addition to enforcing hard regulatory pressures, public actors can generate support for private governance through various soft measures, such as endorsement, financial assistance, and coordination (Abbott et al. 2015). However, as with some of the other factors discussed, global power shifts might limit the strength of transnational regulatory pressures from Northern government actors.

### Supply-Side Conditions

Moving to the supply side, I identify four further conditions. First, the *domestic industry structure* condition draws on arguments from transaction cost economics hypothesizing that large producers can generate economies of

scale when they adopt sustainability standards, which means they face proportionally lower adoption costs than smaller producers (see Cashore, Auld, and Newsom 2004, 45). By that same logic, auditing and implementation costs can be prohibitively high for small- and medium-sized enterprises, depending on factors such as prior preparedness (see Hidayat, Offermans, and Glasbergen 2016). In addition to high costs, small-scale producers often lack the necessary organizational capacity and access to technology to comply with transnational sustainability standards (Brandi et al. 2015). Hence, all else being equal, concentrated industries provide more favorable conditions for private governance programs than fragmented ones.

The second supply side factor is *support from producer groups* for transnational business governance. A highly concentrated production segment has more bargaining power in the global supply chain (see Locke, Amengual, and Mangla 2009, 325). The extant research literature also suggests that peak producer associations can be powerful forums through which domestic industry actors organize collective action. Just as support from an influential industry association can increase uptake of a private governance scheme, opposition can limit uptake (see Andonova 2004; Auld et al. 2007; Overdevest and Zeitlin 2014).

The third condition is *support from domestic state actors*. The literature on the political economy of natural resource production in the Global South indicates that these industries are often controlled by powerful state-industrial complexes consisting of tightly knit elite networks and interplay between government agencies and major firms (see Cramb and McCarthy 2016b; Kaup 2015). Successful private governance through external actors requires support from dominant bureaucratic and political coalitions. The literature finds that host governments' attitudes toward transnational business governance vary from supportive to indifferent and even hostile (Espach 2009, 43–44; also see Marques and Eberlein 2020). However, as hypothesized by Bartley (2018a, 61), when transnational standards and domestic governance clash, the latter usually retains primacy. As foreshadowed in chapter 3, global power shifts could increase the likelihood of such clashes. If their “go it alone” power increases (see Abbott and Snidal 2009, 72), actors in producer countries are likely to insert themselves more forcefully into the “regulatory standards bargaining game.”

Finally, *support from local civil society* can be an important factor. Domestic civil society actors campaign for sustainability by partnering with international NGOs in transnational networks to support the adoption of private

governance and to encourage participation, capacity building, and local advocacy (see Cheyns 2014; Keck and Sikkink 1998; Nikkhah and Redzuan 2010). A strong local civil society can encourage adoption of transnational sustainably standards, but evidence also points to an inverse relationship. For example, Bartley (2018a, 59–61) finds that (at least initially), the Forest Stewardship Council’s market uptake increased quickly in authoritarian China as the scheme’s auditors, in the absence of pressure from a local civil society, were more likely to accept minimalistic definitions of compliance.

The demand-side and supply-side conditions identified above will guide the empirical analysis of the RSPO in the palm oil sector and the RTRS in the soy sector. The objective is not to examine the individual conditions as competing hypotheses. Instead, the framework aids in investigating the configuration of relevant political economy factors in the two cases and how they relate to the adoption of the two schemes. This analysis requires a structured, focused comparison that accounts for changes in demand-side and supply-side conditions over time.

Despite the notable interaction effects between the above-described conditions, a refined theory of such interactions has not yet been proposed. Therefore, my working assumption at the start of the analysis is that the different conditions are complementary: all else being equal, a more favorable political economy context is associated with a higher uptake of transnational business governance in a sector (see table 4.2). Although similar to a qualitative comparative analysis (Ragin 2008), this configurational approach is less formal, and the small number of cases ( $N=2$ ) allows for a more in-depth analysis. I also include induction as an important element of the research strategy (George and Bennett 2005, 23). To this end, I use the case material to inductively learn about the relationships between the

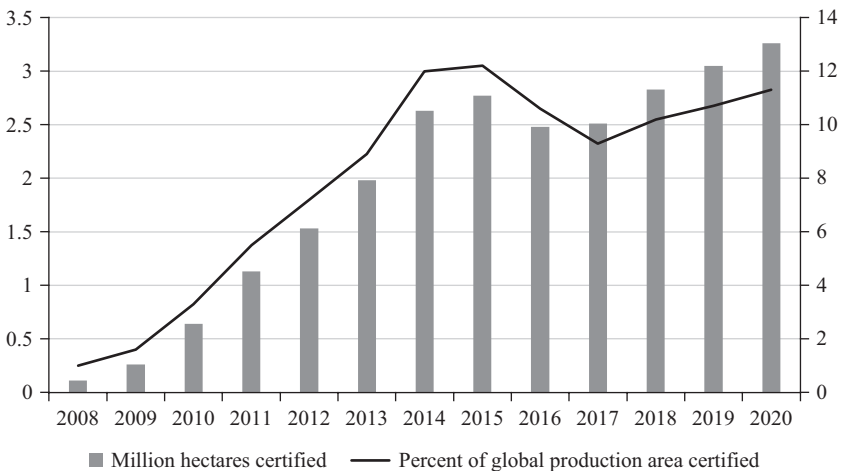
**Table 4.2**  
Hypothesized outcomes for private governance uptake

		Supply-side conditions		
		Favorable	Moderately favorable	Unfavorable
Demand-side conditions	Favorable	Very high	High	Moderate
	Moderately favorable	High	Moderate	Low
	Unfavorable	Moderate	Low	Very low

different factors. In light of major structural changes in the world economy, I am particularly interested in the favorability of the global political economy context in the two sectors and how it has changed over time.

### The Roundtable on Sustainable Palm Oil

Palm oil is a highly versatile edible vegetable oil. It is mainly used as a cooking oil and as an ingredient in a large variety of food, cosmetic, and chemical products. A significant proportion of global production is also processed into biodiesel. Because of palm oil's cost-effectiveness, global demand for the commodity is booming. The environmental impact of palm oil expansion is amplified by the fact that almost 90 percent of global production is concentrated in just two countries, Indonesia and Malaysia. Against this background, the comparatively high adoption rate of transnational sustainability standards in the industry can be interpreted as a positive development. And analysts have identified the RSPO as an important driver behind the relative success of the zero-deforestation supply chain movement in this sector (Climate Focus 2016; Donofrio, Leonard, and Rothrock 2017). A closer look at certification data shows that the RSPO had indeed been able to gain a significant global market share in a relatively short time (see figure 4.2).



**Figure 4.2**

Global adoption of the RSPO

Source: Analysis of data from FAOSTAT and RSPO (2021a)

As shown in figure 4.2, today, the RSPO certifies approximately 11 percent of the global oil palm production area, making it one of the most certified commodities in the world. Moreover, the RSPO is one of the largest certification programs in terms of membership, with 2,045 full members as of February 2022 (RSPO 2022). However, the RSPO market uptake data also show that most of its growth occurred prior to 2014 and that progress has stagnated since. To explain the observed patterns in the palm oil certification market, I employ the framework developed in this chapter to investigate the political economy context in this sector and how it has evolved over time.

### **Demand-Side Conditions**

*Location of end markets.* Palm oil has one of the highest export rates of all agricultural commodities. In 2018, approximately 70 percent of palm oil from Indonesia (valued at US\$18 billion), the world's largest producer, shipped to overseas markets (analysis of data from ITC n.d.). High export dependency is a key scope condition for the uptake of transnational sustainability standards (Cashore, Auld, and Newsom 2004, 40–43). However, as hypothesized, a change in the direction of trade from North-South to South-South could offset the effect. Indeed, today, most of Indonesia's palm oil is destined for Global South markets. Unlike some other industries with high volumes of South-South trade, where a significant proportion of raw material imports is used in reexports to developed countries (Zeitlin and Overdevest 2019, 31), almost all palm oil imported by developing countries is for domestic consumption. In an interview, an Indonesian official at the Council of Palm Oil Producing Countries shared his assessment of the changing market environment: "It [Europe] is significant but it is not as significant as in the past. In 1990 most palm oil exports were to Europe. Now it's much less. Now it's mostly India, China, Bangladesh, and other developing countries. And the direction is clear. And then there is also our own domestic market. We had production last year of 37 million tons and we consume almost 10 million tons" (Indonesian official at the Council of Palm Oil Producing Countries, interview, Jakarta, April 2018). Trade statistics confirm that palm oil consumption within the Global South has increased strongly over the past decade, but also Europe continues to be a major importer of the commodity. Since the launch of the RSPO, the EU's share of Indonesian exports has declined only moderately from 19 percent in 2004 to about 14 percent in 2019. In comparison, in 2019, China's and India's share of Indonesian palm oil exports was 19 percent and 18 percent,

respectively (analysis of data from ITC n.d.). These data suggest that this scope condition remains moderately favorable for the RSPO.

Nonetheless, the changing global market environment poses a challenge to the large-scale global adoption of the program. Indeed, in a study investigating the uptake of certified palm oil in the Chinese and Indian end markets, Yixian Sun and I find that unfavorable market and nonmarket conditions limit RSPO adoption in these two countries, although conditions are somewhat better in China (Schleifer and Sun 2018). At the same time, an Indonesian official of the Council of Palm Oil Producing Countries pointed out to me that it is “not only about the size of the market. Of course, [Europe’s] market size is decreasing but it is also about signals and agenda. Europe is still an important setter of standards for the industry” (interview, Jakarta, April 2018).

This suggests that Europe continues to have significant agenda-setting power in the palm oil sector. However, recent developments could further undermine its position. In 2017, the European Parliament passed a resolution to phase out the use of palm oil-based biofuels by 2030, which would reduce Europe’s palm oil imports. Countries producing palm oil have fiercely criticized the move, calling it a form of “crop apartheid” (Reuters 2018) and filing a complaint with the WTO’s Dispute Settlement Body (WTO 2019). The EU’s decision has also motivated Indonesia to further intensify its trade relationships with China and India and to shore up domestic consumption of palm oil (Coca 2020). The Indonesian government’s new biofuel mandate, which is believed to pose a major deforestation risk (Jong 2020b), must be seen in this context. If these dynamics continue, experts at the Centre for International Forestry Research in Bogor, Indonesia, warn that international sustainability standards, such as the RSPO, could be further weakened (Robinson and Purnomo 2019).

*Support from lead firms.* In the palm oil sector, support from lead firms for the zero-deforestation agenda has increased significantly over time. As shown in the data from Forest 500 and Supply Change, a comparatively large number of firms in the palm oil sector have formulated sustainability and no-deforestation commitments, and many joined the RSPO. As of February 2022, the organization had 983 buyers (retailers and consumer goods manufacturers) as full members. This suggests growing support for the RSPO from lead firms in the industry. Hence, this scope condition can be said to have improved from moderately favorable to favorable. However, two caveats must

be noted. Most member firms are from the Global North, mainly Europe, with only fourteen and eight buyers participating in the RSPO from China and India, respectively (analysis of data from RSPO 2022). At a conference of the Centre for Responsible Business in Delhi, the employee of a large Indian consumer goods manufacturer shared his assessment of the situation: “there are some globally oriented brands that have taken to [palm oil] certification, but companies in the domestic market have little incentives” (personal communication, Delhi, November 2015). The second caveat concerns the high level of fragmentation of the palm oil supply chain’s downstream segment. As explored in more detail in chapter 5, palm oil is used in a wide range of industries, including foodstuffs, cosmetics, pharmaceuticals, and biofuels. This limits the possibility of buyer-driven sustainability in the sector.

*Transnational advocacy pressure.* The literature on transnational advocacy suggests that civil society actors are most successful in promoting norm changes if they form strong networks in which domestic and international NGOs coordinate activities and exercise pressure from below and above (Keck and Sikkink 1998; Risse, Roop, and Sikkink 1999). For more than a decade, companies in the palm oil sector have been targeted by a powerful advocacy network focused on deforestation, biodiversity, land rights, and climate change (see Friends of the Earth 2013; Greenpeace 2008). The transnational palm oil campaign network has successfully pushed these topics up the media agenda through “information politics” (Keck and Sikkink 1999, 95). A study of media coverage of commodity-driven deforestation analyzed thirty-four media outlets from six major forest-risk countries, as well as a selection of international media outlets, during the period 2013–2017 (Chagas et al. 2018, 9–10).<sup>8</sup> The results show that media coverage on deforestation increased significantly during this period, from fewer than 500 media mentions in 2013 to over 1,600 in 2017. They also show that the palm oil sector dominates in the domestic and international media, accounting for approximately 50 percent of total coverage on commodity-driven deforestation.<sup>9</sup>

Evidence also suggests increasing awareness of sustainable consumption in China and India (Tropical Forest Alliance 2018, 15), but transnational advocacy targeting palm oil firms in these countries remains weak. In authoritarian China, the movements of international and local NGOs are strongly restricted. “Naming and shaming campaigns” against companies are uncommon (Schleifer and Sun 2018, 12). In India, Greenpeace launched a campaign focused on the country’s growing consumption of



palm oil as a driver of deforestation (Greenpeace 2012). However, the campaign had weak links with domestic civil society groups (policy officer, Centre for Responsible Business, personal communication, New Delhi, November 2015). Other concerns include the increasingly restrictive policy environment for international NGOs in India. In 2015, the Indian government froze Greenpeace India's assets and suspended its license to receive foreign donations. A spokesman for the group described it as "yet another attempt to silence campaigns for a more sustainable future" (Singh 2015). This suggests that advocacy groups may not function as a "catalyst" for the RSPO in emerging economies in the same way they did in the Global North (see Bartley 2009). Overall, however, it can be said that the organization has benefited from a favorable environment on this dimension of the framework.

*Role of external state actors.* Environmental and social standards have long been excluded from the WTO, which views process standards as a nontariff barrier. To bypass gridlock in the multilateral trade regime, policymakers in the European Union have actively supported the use of private standards to achieve its sustainability objectives in global production (see Schleifer 2013). In recent years, particularly, the issue of commodity-driven deforestation has risen on the EU's external action agenda. Following the New York Declaration on Forests in 2014, European regulators have taken various measures at the EU and national levels to address problems with "imported deforestation." Many of these efforts have focused on the palm oil supply chain, and the use of private governance mechanisms has long been central to the overall approach. In the context of the 2015 Paris Agreement on Climate Change, seven European countries (Denmark, France, Germany, Italy, the Netherlands, Norway, and the United Kingdom) signed the Amsterdam Palm Oil Declaration, committed to 100 percent sustainable sourcing and trade by no later than 2020 (Amsterdam Declarations Partnership 2015). In 2016, the newly formed Amsterdam Declarations Partnerships adopted an implementation strategy delineating concrete steps to achieve its sustainable sourcing objectives. The strategy mentions the RSPO as a baseline sustainability standard for the industry (Amsterdam Declarations Partnership 2016). More recently, the EU Commission has proposed a new regulation for deforestation-free supply chains, including the palm oil supply chain (EU Commission 2021). Although the proposal does not formally allow certification schemes to provide companies with a "green lane" into the EU market (Lawson 2021), it is likely to increase the adoption of established

private sustainability standards, as companies make efforts to comply with the EU's mandatory due diligence requirements (Europe director at RSPO, phone interview, May 2022).

In recent years, Chinese government actors have also become more supportive of private standards and certification systems to promote sustainability in the palm oil supply chain. Despite its being a “foreign standard,” this effort has benefited the RSPO in this important demand-side market (Schleifer and Sun 2018, 12–13). This optimism is tempered by a cautionary tale from the Chinese forestry sector, however. Since its entry in China around the turn of the millennium, the Forest Stewardship Council experienced strong growth until the mid-2010s, but faltered after the Chinese state withdrew its support in favor of a government-controlled and less stringent China Forest Certification Council (Bartley 2018a, 119–163). Nonetheless, the developments described above suggest a moderately favorable transnational regulatory context for the RSPO.

### **Supply-Side Conditions**

*Domestic industry structure.* In Indonesia, privately owned plantation companies account for about 50 percent of the country's total oil palm area. The five largest groups control about 20 percent of the concessions (Trase 2020a). When applying for sustainability certification, large companies benefit from economies of scale, which lower their cost to adopt and comply with the standards of the RSPO. This is not the case for the growing number oil palm smallholders, however. Since the mid-1980s, smallholders' share of national production grew from 10 percent to almost 40 percent by 2015. Today, Indonesia has about two million small-scale oil palm farmers with less than 25 hectares of land (Jelsma and Schoneveld 2016, 2). The Palm Oil Agribusiness Strategic Policy Institute estimates that the share of smallholder farms could reach 60 percent by 2030 (Saragih 2017). Advancing sustainability certification in the smallholder sector is a major challenge for the RSPO, as these farmers typically lack the organizational capacity and access to finance and technology necessary to adopt and implement transnational standards (Brandt et al. 2015). In an interview, a union representative highlighted the problems faced by independent smallholders in the sector, that is, smallholder farmers who are not associated with and managed by an oil palm estate: “Our experience is where the smallholder farmers got RSPO certification like in Jambi in Riau in South Sumatra, they

are all managed farmers. Off the concession there is no chance to get RSPO certification. All the smallholders that got certification are on the concession" (interview, Bogor, April 2018). In sum, this suggests that the structure of Indonesia's palm oil industry has become less favorable for sustainability certification over time.

*Support from producer groups.* In Indonesia, the leading producer association is the Indonesian Palm Oil Association (GAPKI). GAPKI has about 700 members, which collectively account for over 25 percent of the country's total oil palm acreage (IPOC 2018). The RSPO initially enjoyed the support of this important industry association, and the director of GAPKI sat on its founding board. However, as explored in more detail in chapter 5, stakeholder relations in the RSPO became more conflictual over time, and GAPKI clashed with Northern NGOs and buyers over the strengthening of the RSPO's rules and certification regime. These issues have intensified producers' concerns over the cost of RSPO certification: "The costs are born by the producers. RSPO gives incentives through a premium for certified sustainable palm oil. Although declining, declining now, there are still incentives, but they don't match the costs for certification. For RSPO, we are talking about US\$30 per hectare, which is a lot" (industry representative, interview, Jakarta, April 2018). In 2011, these problems led GAPKI to leave RSPO and to join the government-controlled Indonesian Sustainable Palm Oil program instead. Although many major Indonesian palm oil producers continued their membership in the RSPO, GAPKI's withdrawal was a major setback for the organization in the country (NGO member of RSPO, personal communication, Paris, June 2018). This points to an increasingly unfavorable context for the RSPO on this dimension of the framework.

*Support from domestic government actors.* GAPKI's decision to leave the RSPO must be understood in the national policy context, which has also become less favorable over time (see Schouten and Hospes 2018). The RSPO was conceived as a private governance mechanism without formal government involvement (former director of the Forest Conversion Initiative, phone interview, May 2013). However, in many producer countries, industry and state actors have close ties. In Indonesia, the influence of the state became clear when the government shifted from initially supporting the RSPO to opposing it, when politicians and bureaucrats began to perceive it as intruding in Indonesia's domestic affairs. The Ministry of Agriculture

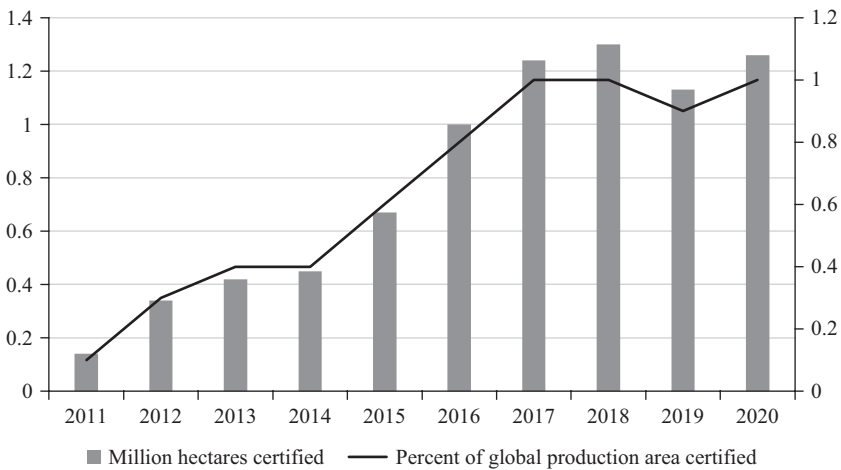
responded by launching its own national palm oil certification program in 2011. A few years later, the Indonesian government dealt another blow to transnational sustainability governance in the sector. Following the New York Declaration on Forests in 2014, a group of leading international palm oil buyers launched the Indonesian Palm Oil Pledge to coordinate implementation of their zero-deforestation commitments in the country. The government, suspicious of this pledge from the start, ordered its dissolution in July 2016 (Vit 2016). As shown by Dermawan and Hospes (2018), these decisions were driven by domestic considerations of sovereignty and legitimacy. However, they also need to be seen in the global context, how global market changes influence the strategies of actors in the producer countries. In this regard, the Indonesian official at the Council for Palm Oil Producing Countries, cited above, explained: “We see different markets with very different demands on price and sustainability. For sustainability you will have two different markets. It is already happening, and we respond to that” (interview, Jakarta, April 2018).

*Support from local civil society.* Following the fall of the Suharto regime in the late 1990s, civil society organizations became important catalysts of political change in Indonesia (Nyman 2006). In the palm oil industry, in addition to the local affiliates of large transnational NGOs, these organizations include mostly small-scale environmental, labor rights, and indigenous people’s rights groups. As of February 2022, nine Indonesian NGOs participated in the RSPO (RSPO 2022). One of the most active organizations in the palm oil sector is Sawit Watch (“Oil Palm Watch” in Bahasa). Founded in 1998, Sawit Watch is a network of over fifty local advocacy groups from across the archipelago (Sawit Watch 2020). The organization has been a member of the RSPO since 2004. A campaigner at Sawit Watch described its position vis-à-vis the RSPO: “RSPO is an important mechanism for us but there are many problems and troubles inside the system. [The palm oil companies] have a lot of power inside and can steer the RSPO. That is the problem but as X said we still need RSPO. At least, we can use this system to improve production. Because besides RSPO there is no alternative” (interview, Bogor, April 2018). This and further communications with representatives from civil society organizations in Indonesia, including Greenpeace Indonesia, Inobu, and Solidaridad Indonesia, indicate a moderately favorable local civil society context for the RSPO in Indonesia.

## The Roundtable on Responsible Soy

The soybean is often referred to as the “king the beans” (Clay 2004, 174). The dry seed contains 38 percent protein, more than any other food crop and twice as much as pork. About 85 percent of global production is processed into meal and oil. Due to its cost-effectiveness and high protein content, approximately 98 percent of soybean meal is processed as a raw material for industrial livestock feed (Clay 2004, 173–202). Soybean oil contributes to about 15 percent of the world’s biodiesel (Kim, Hanifzadeh, and Kumar 2018, 9). To satisfy rapidly growing global demand for vegetable oil and protein, Brazil has converted millions of hectares of land into soybean fields, which has contributed directly and indirectly to deforestation in the country (Arima et al. 2011; Henders, Persson, and Kastner 2015).

The WWF’s Forest Conversion Initiative has targeted both palm oil and soy commodities (WWF 2005). However, unlike the RSPO with palm oil, the RTRS never successfully captured a significant share of global soy production. As shown in figure 4.3, the RTRS scheme remains significantly behind the RSPO in terms of global market uptake. With some 200 firms participating, the RTRS also has a much smaller membership (RTRS 2020). To explain this lack of market uptake, I use the analytical framework developed above to examine the demand-side and supply-side conditions in this industry.



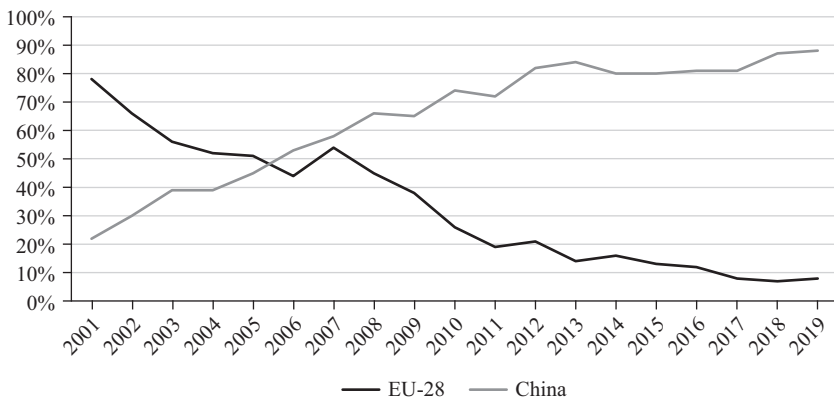
**Figure 4.3**

Global adoption of the RTRS

Source: Analysis of data from FAOSTAT and RTRS (2021a)

### Demand-Side Conditions

*Location of end markets.* Brazil is the world's largest exporter of soybeans. In 2018, the value of its exports was US\$33 billion, with 65 percent of this production being shipped overseas (analysis of data from ITC n.d.). The EU has long been the world's largest importer of Brazilian soy. European soy imports increased strongly after the "mad cow disease" in the UK and a ban throughout the EU on feeding animal protein to ruminants in 1994. According to theories of nonstate market-driven governance (see Cashore, Auld, and Newsom 2004, 40–43), European demand for Brazilian soy should have made the sector a favorable environment for transnational sustainability certification. Indeed, when the WWF's FCI was launched in 2001, its founders recognized an opportunity for European supply chains to function as a "powerful driver of change" in the industry. As explained by its former director, "we did stakeholder analysis, we mapped the trade flows and got into the details how this industry operates and who the key players are" (phone interview, May 2013). However, the global soy economy has shifted dramatically since the FCI conducted its mapping analysis in the early 2000s (see figure 4.4.). The EU's share of Brazilian soy exports dropped sharply, whereas China's skyrocketed. To a large extent, this shift in the global trade in soy was driven by changing diets in China. Growing meat consumption in China, particularly pork, in combination with limited domestic supply of animal feed, drove large-scale soy imports from Brazil



**Figure 4.4**

Share of Brazilian soybean and soymeal exports (in value terms)

Source: Analysis of data from ITC International Trade Statistics, <https://www.intracen.org/itc/market-info-tools/trade-statistics/>

and the United States for the country's growing livestock industry (Brown-Lima, Cooney, and Cleary 2009). More recently, the trade conflict between China and the United States has increased China's reliance on Brazil even further. In 2018, in response to US tariffs, the Chinese government imposed import duties of 25 percent on select US goods, including soybeans. As a result, Chinese imports of soybeans from the United States dropped sharply by 50 percent in 2018. Analysts expect that the US-Chinese trade conflict risks causing further agricultural expansion and deforestation in Brazil and other soybean-producing countries (Fuchs et al. 2019).

Responding to the changing global context, the RTRS and its partners have made several attempts to gain traction in the Chinese soy supply chain. In 2013, the organization held its annual conference in Beijing to better understand the Chinese market and to develop partnerships with buyers in this market. However, as noted by a member of the RTRS secretariat, Chinese companies have yet to embrace sustainability as a priority. In China, "it's mainly about food safety. Food safety and food security. Sustainability in the soy supply chain is not a big issue yet" (member of RTRS secretariat, phone interview, June 2013). In sum, for this condition, the analysis reveals a shift from a favorable to an unfavorable context for the RTRS.

*Role of lead firms.* Since the launch of the RTRS in the mid-2000s, lead firms in the soy supply chain have increased their support for transnational sustainability standards and the zero-deforestation agenda in the sector. However, in comparison to the palm oil sector, support from lead firms has been weaker. Worldwide, 113 buyers joined the RTRS (compared to 983 in the RSPO) (analysis of data from RTRS 2020). As can be seen from figure 4.1, lead firms in the soy supply chains are also behind the palm oil sector when it comes to the formulation of zero-deforestation commitments. Given the strong increase in the Brazil-China soy trade described above, particularly, the lack of support from Chinese buyers poses a challenge for transnational business governance. According to data from Forest 500, Chinese companies in the soy supply chain have yet to formulate sustainable commodity commitments for their operations. Out of eleven Chinese companies ranked in the index, only COFCO has a commitment of medium strength in place. Other major Chinese buyers, including New Hope Group, Sinograin, Beidahuang Group, and East Hope Group, have made no commitments (Forest 500 2021). Moreover, none of these companies has endorsed the New York Declaration on Forests, and the RTRS does not have a single buyer from

China among its members (NYDF Global Platform 2019; RTRS 2020). While several of the major trading companies supplying soybeans to China (e.g., Bunge, Cargill, and ADM) have commitments in place, their willingness and ability to implement their standards remain in question (see chapter 5). Overall, the analysis suggests that this condition has improved, from unfavorably to moderately favorably. However, in comparison to the palm oil sector, support from lead firms is weaker.

*Transnational advocacy pressure.* In the early 2000s, a Greenpeace campaign targeting McDonalds, Cargill, and other major players in the soy supply chain was instrumental in putting pressure on these companies to engage with the problem of commodity-driven deforestation (e.g., Greenpeace 2006). Ever since, the soy industry's link to deforestation has been the focus of transnational activism, particularly among civil society groups in Europe. However, this campaign did not have the same strength as the similar campaign in the palm oil sector. One indicator for this is the previously cited media analysis by Chagas et al. (2018, 10). It shows that soy is less frequently mentioned as a driver of tropical deforestation than palm oil. According to a campaigner at an NGO based in Brussels, one reason for this is that soy is mainly used as animal feed, which is even more "hidden" from consumers than palm oil (personal communication, Brussels, July 2018). Another challenge is the widespread use of genetically modified organisms (GMOs) in the industry. About 80 percent of global soy production is genetically modified (European Biotechnology 2017). The widespread use of GMOs in the sector and the RTRS decision to certify genetically modified soy as "responsible" resulted in activist groups in Europe and the producer countries opposing the RTRS (campaigner at GM Watch, interview, London, July 2013). In sum, the RTRS has benefited from international campaigns on soy-driven deforestation. However, the international campaign has been less powerful than in the palm oil sector, and concerns about GMOs have led to resistance from civil society groups in Europe. The result is a moderately favorable context for the RTRS.

*Support from external state actors.* As in the palm oil sector, private governance in the soy sector has benefited from the support of European governments and institutions, though arguably to a somewhat lesser degree. Due to the importance of the port of Rotterdam in the Netherlands for Europe's soy trade, the Dutch government in particular has taken a proactive stance on the issue. In the past, the Dutch state had directly supported the RTRS with



financial contributions and was a main driver behind the Amsterdam Declaration on Deforestation, which included soy as one of the focus commodities (policy officer, Dutch Ministry of Economic Affairs, personal communication, Amsterdam, December 2017). Another European-led initiative is the EU-Brazil Sustainable Soy Partnership. Launched in 2017, it includes a memorandum of understanding between leading Brazilian producers and European feed manufacturers to advance sustainability in the soy supply chain. To reach its objectives, the partnership relies on existing sustainability standards. Interestingly, however, this partnership did not benefit the RTRS. Instead, it used the Soja Plus Program, sponsored by the Brazilian soy industry, as a benchmark (policy analyst at ITC, personal communication, Geneva, October 2017). The WWF criticized the partnership, arguing that it would strengthen the industry-controlled Soja Plus program over the more stringent and inclusive RTRS (see Byrne 2017). More recently, soy was also included in the above-mentioned EU regulation for deforestation-free supply chains (EU Commission 2021). When it comes into force, the regulation will intensify transnational regulatory pressures on companies in the soy supply chain to address problems of deforestation. As in the case of palm oil, these developments suggest a more favorable transnational regulatory context for the RTRS.

At the same time, intensifying regulatory pressures from Europe are likely to be tempered by the EU's strongly decreased share of Brazilian soy exports. As shown in figure 4.4, in 2019, the EU accounted for only 8 percent of Brazil's exports, whereas China absorbed 88 percent. According to analysts, this puts the Chinese government in a strong position to provide sustainability regulation for the industry. "If the Chinese government starts to advocate, regulate and develop guidelines for sustainable agricultural supply chains, and starts to ask financial institutions to incorporate deforestation considerations into their financial decisions, that would provide a strong driving force for both companies and financial institutions to implement changes in line with the government" (director of CDP China, as cited in China Dialogue 2019, 46). Recently, representatives of the Chinese Ministry of Commerce have signaled their support for the efforts of Solidaridad, a Dutch NGO, to draft sustainable soy guidelines for China (Solidaridad 2019). However, at this point in time, there is no indication of the formation of a broader regulatory coalition on the issue in China.

### Supply-Side Conditions

*Domestic industry structure.* Supported by government programs, large-scale soybean cultivation started in the 1960s in southern Brazil, and then expanded to the tropical savannas of the Cerrado in the midwestern part of the country. In 2018, 216,000 farms produced 122 million megatons of soybeans on 36 million hectares of land, accounting for approximately 36 percent of global production (Cattelan and Dall’Agnol 2018; FAOSTAT). Brazil’s major soy-producing states are Mato Grosso (nicknamed “Soylandia”), followed by Paraná and Rio Grande do Sul (USDA 2020). In terms of production modes, the sector is divided along geographical lines. Large-scale, highly mechanized farms dominate in the midwest and small-scale farms in the south. In the industrial midwest, where the majority of production takes place, Byerlee and Deiniger (2010) estimate that the average farm size is over 1,000 hectares, with many megafarms planting more than 100,000 hectares of cropland. For example, the Mato Grosso-based Amaggi Group owns nineteen farms on 200,000 hectares (Barbosa 2015, 69). In contrast, the average farm in southern Brazil is about 35 hectares (Cattelan and Dall’Agnol 2018, 4). For certification schemes, this means that conditions are favorable in some parts of the country but unfavorable in others, pointing to a moderately favorable environment for certification programs like the RTRS in Brazil.

*Support from producer groups.* Brazilian soy farmers and processing companies are organized in two powerful industry associations, the Brazilian Association of Soy Producers (Aprosoja), founded in 1990, and the Brazilian Association of Vegetable Oils (ABIOVE), founded in 1981. Aprosoja represents approximately 90 percent of Brazil’s soybean cultivation, and ABIOVE accounts for approximately 70 percent of the country’s soy-processing volume (Zanon, Saes, and Macchione 2010). Similar to the dynamics observed in the palm oil sector, the two industry associations initially supported the RTRS, but the relationships with Northern NGOs and buyers was conflictual. In particular, the RTRS’s policy on agricultural expansion and deforestation became a major source of disagreement between Brazilian producer groups and Northern NGOs and buyers. Aprosoja and ABIOVE both strongly opposed a criterion that prohibited the clearing of new land for soybean production after a certain cut-off date (manager at soy producing company, phone interview, July 2013). As one of their representatives stated in a meeting of the RTRS executive board: “Producers are legally entitled to deforest because their level of compliance goes beyond the quota required by law. RTRS should

not forbid something that is permitted by Brazilian law” (RTRS 2009, 3). Eventually, these disagreements between producers, NGOs, and downstream companies could not be resolved, and the two industry associations left the RTRS in 2010 (member of the RTRS executive board, phone interview, May 2013). Shortly after, ABIOVE, Aprosoja, and other major Brazilian industry actors created the Soja Plus program, “as an alternative to the imposing and removed-from-reality character of some certification programs, such as the Roundtable on Responsible Soy” (ABIOVE, as cited in Schouten and Bitzer 2015, 180). A policy officer of the Amazon Environmental Research Institute described the Soja Plus Program as more “flexible” and “easy” for producers to implement, questioning its effectiveness on the ground. He also expressed concerns about the competition that Soja Plus posed for the RTRS, worrying that the loss of support from the two industry associations would undermine the RTRS in Brazil (phone interview, July 2013). As in the palm oil sector, this condition changed from moderately favorable to unfavorable over time.

*Support from domestic government actors.* The Amazon Soy Moratorium of 2006, a regional moratorium on the sourcing of deforestation-linked soy production from the Amazon biome, is often cited as a successful example of supply chain interventions and domestic policies reinforcing one another. In this case, public policy initiatives complemented the buyer-driven moratorium by improving land-use management, forest protection, and government monitoring in the Amazon. The result was a significant reduction in deforestation in the Amazon toward the end of the 2000s (Boucher, Roque-more, and Fitzhugh 2013; Hansen et al. 2013; Nepstad et al. 2014). The example of the Amazon Soy Moratorium shows that supportive government policies are of key importance for the effectiveness of supply chain initiatives to reduce tropical deforestation. Unfortunately, Brazil’s domestic policy context has changed dramatically in recent years. Emboldened by President Bolsonaro’s antienvironmentalist agenda, the country’s powerful agribusiness lobby has further increased its influence and environmental institutions and regulations have been weakened (Branford and Borges 2019). This weakening includes growing opposition against the Amazon Soy Moratorium and the broader zero-deforestation agenda (Samora 2019b). According to the director of agriculture at the Nature Conservancy, “under Bolsonaro, soy farm associations have been emboldened. . . . [Bolsonaro] whipped a populist support against interfering NGOs [while billing] zero deforestation as a neo-imperialistic manoeuvre” (as cited in Hillson 2020).

However, even before Bolsonaro's rise to power, the local policy context had become increasingly unfavorable for the RTRS. The country's central legislation to protect forests, the National Forest Code of 1965, which became a de facto environmental law in the 1990s, requires landowners to conserve parts of the natural vegetation on their property. The law also creates Areas of Permanent Preservation across the country to protect valuable ecosystems. Under pressure from the agriculture lobby, which used declining deforestation rates in the Amazon to make its case, the government reformed the Forest Code in 2012 (researcher at the Amazon Environmental Research Institute, phone interview, July 2013). The revisions made significant reductions in the size of preservation areas and granted amnesty for past illegal deforestation (Soares-Filho et al. 2014). The decision of Brazil's producer associations to withdraw their support from the RTRS, as described above, occurred in the context of these policy changes. The standards of the RTRS were increasingly at odds with domestic legislation at a time when Brazilian producers were becoming less dependent on Europe as an end market (see also Schleifer 2017, 7–8).

*Support from local civil society.* Like Indonesia, Brazil has a vibrant civil society sphere, with many domestic groups focused directly or indirectly on the agriculture sector as part of their work on rainforest protection, rural development, and indigenous peoples' rights. Local civil society groups played an important role in the Amazon Soy Moratorium (see Boucher, Roquemore, and Fitzhugh 2013). However, attempts by the RTRS to create a sectorwide certification scheme were met with skepticism and outright opposition from a coalition of transnational and local civil society actors. Only two Brazilian NGOs (Aliança da Terra and Associação Amigos da Terra) joined the RTRS (RTRS 2020). A campaigner from Amigos da Terra described fierce opposition to RTRS from local groups in Brazil and other South American countries (phone interview, December 2012). The roundtable's first conference in Foz do Iguaçu in 2005 became a highly politicized event when Via Campesina, Grupo de Reflexión Rural, and other local groups protested against its close ties with big agribusiness and the RTRS's acceptance of genetically modified and monoculture soybeans (Grupo de Reflexión Rural 2005). Criticism of the RTRS spread to other producer countries and international NGOs, and more protests were held at the second and third roundtable conferences in Paraguay and Argentina (campaigner at Friends of the Earth, phone interview, December 2012). The

intense criticism faced by the RTRS from civil society actors in the producer countries points to an unfavorable context.

**Comparative Findings**

The comparative analysis reveals differences and similarities between the political economy context of the RSPO and RTRS as well as changes over time (see table 4.3). Since the launch of the WWF’s FCI in the early 2000s, global markets for tropical commodities have shifted. These shifts are changing the geography of trade in both the palm oil and soy industries, but to different degrees. In the soy sector, the shifting of supply chains from North-South to South-South was dramatic. In the decade following the launch of the RTRS, Europe’s share of Brazilian soy exports dropped from over 50 percent to less than 10 percent (see figure 4.4). More recently, the trade conflict between the United States and China has accelerated this trend, with Chinese buyers shifting even more orders to Brazil to avoid costly tariffs (Bloomberg 2019a). The international trade in palm oil also experienced global market shifts, including growing domestic consumption and demand for imported vegetable oil in China and India. However, unlike the soy sector, the EU has retained more of its share of the global palm oil market.

Market size is not the only factor that matters though. In the palm oil sector, European actors retained substantial agenda-setting power in this industry due to the interplay of several market and nonmarket conditions, which reinforced one another. In particular, the RSPO benefited from a high level of support from European buyers and a powerful transnational

**Table 4.3**  
The scope conditions for the RSPO and RTRS

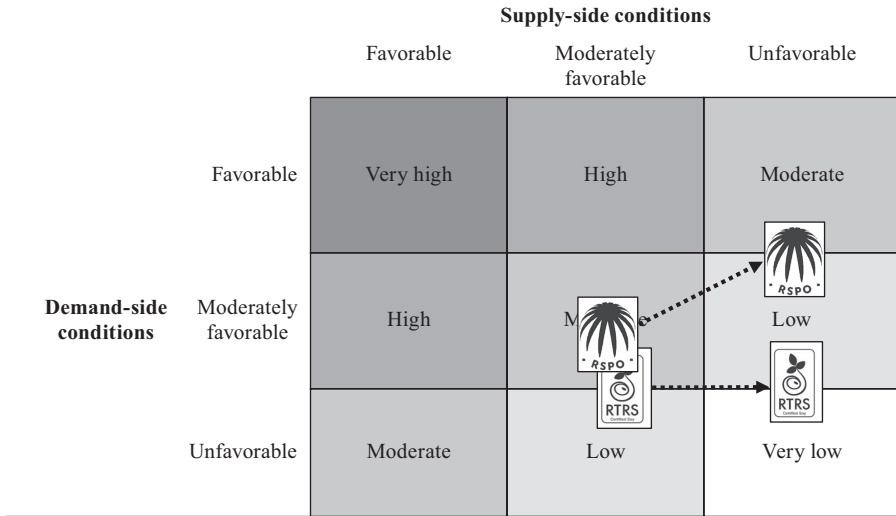
Position	Condition	Type	Palm oil	Soy
Demand-side	Location of end markets	Market	+	++ → -
	Support from lead firms		- → ++	- → +
	Transnational advocacy pressure	Nonmarket	++	+
	Support from external state actors		- → +	- → +
Supply-side	Domestic industry structure	Market	+ → -	+
	Support from producer groups		+ → -	+ → -
	Support from domestic state actors	Nonmarket	+ → -	+ → -
	Support from local civil society		+	-

++ favorable, + moderately favorable, - unfavorable, → change over time

advocacy network, as well as from direct endorsement and support from EU state actors. In comparison, in the soy sector, the RTRS had less support from lead firms and relations with civil society actors were more antagonistic. Together, these differences help explain the observed variation in market uptake between the two schemes and why the RSPO was at least moderately successful, but the RTRS was not.

At the same time, these cases have important similarities that can help explain why even the initially successful RSPO has stalled in its mission to transform global markets and to “make sustainable palm oil the norm” beyond European supply chains (RSPO 2014). One important reason is the previously described bifurcation of global commodity markets and the apparent inability of established transnational schemes to gain traction among emerging market buyers. Many of the described scope conditions are absent in these end markets (Schleifer and Sun 2018), though some promising developments are noted. For example, major emerging market players, such as China’s COFCO, have announced efforts to increase action on commodity-driven deforestation and other sustainability issues (World Economic Forum 2019). Also, there is growing awareness among state actors in emerging economies about the importance of sustainable sourcing guidelines and standards for their industries. However, as examined in more depth in chapter 5, it is unclear whether and how this will translate into transnational regulatory action.

In addition to challenges at the global level, the RSPO and RTRS confronted a deterioration of the domestic political economy context in the producer countries. Indeed, the supply-side conditions experienced negative trends in both sectors. Over the period of investigation, producer groups and state actors in Indonesia and Brazil changed their positions from initially supporting these programs to opposing them. These attempts by Southern actors to reclaim the regulatory space have multiple causes, including bureaucratic politics, the transnational scheme’s lack of local legitimacy, and changing discourses about national sovereignty (see Giesen et al. 2016; Schouten and Bitzer 2015; Schouten and Hospes 2018). However, these developments also need to be understood in the global context. As markets for agricultural commodities shift to the Global South, actors in producer countries will become empowered to transition from rule takers to rule makers. These dynamics are indeed observed in the soy and palm oil industries. Figure 4.5 illustrates the findings from the comparative analysis. Based on the empirical assessment of demand-side and



**Figure 4.5**  
Potential for private governance adoption in the palm oil and soy sectors

supply-side conditions, it shows how the potential for private governance uptake in the two sectors has evolved.

**Conclusion**

This chapter explores two questions linked to the uptake of private sustainability standards in the agrifood sector. First, what is the state of sustainable markets in the major forest-risk commodity sectors? Second, how do differences and common trends emerge in the palm oil and soy sectors during times of major structural change in the world economy? Below, I revisit these questions in light of the chapter’s main empirical findings.

Regarding the first question, the triangulation of data from Forest 500, Supply Change, and Sustainability Map allows for a detailed description of the state of private governance in global markets for forest-risk commodities. The emerging patterns and trends confirm past criticisms regarding insufficient progress in meeting international policy targets. Although certification coverage and corporate commitments have increased significantly since the New York Declaration on Forests, overall policy uptake has fallen far short of expectations (NYDF Assessment Partners 2019). Moreover, the

analysis reveals a highly uneven distribution of company commitments and adoption of third-party certification schemes across commodity sectors. In particular, low adoption rates in the beef and soy supply chains are problematic, as these commodities have the highest deforestation impact. Another observation is that policy uptake has slowed overall, with some companies even backtracking on their earlier commitments.

To explain the observed variations and commonalities, the second part of the chapter focused on two mature transnational sustainability schemes: the RSPO in the palm oil sector and the RTRS in the soy sector. Using a comparative political economy framework, relevant demand-side and supply-side conditions were systematically compared across the two cases. The results help explain why the RSPO remains at least moderately successful, as the interplay of several demand-side factors enabled the scheme to gain significant uptake in the North-South setting of the Indonesia-EU palm oil trade. In contrast, with less support from European firms, civil society, and state actors, the almost identical RTRS failed to achieve the same level of success in the soy sector.

Some important commonalities between the two cases are worth mentioning. Confronted with global market shifts, a lack of support from emerging market buyers, and growing antagonism from powerful state and industry actors in the producer countries, both schemes have struggled to adapt to the new geography of polycentric trade. As a consequence, their uptake in emerging market and domestic supply chains remains low. As the volume of South-South trade in forest-risk commodities continues to grow—and there are good reasons to believe that it will (Chain Reaction Research 2020a)—challenges to the effectiveness of transnational private governance in these sectors will become even more salient. To further deepen this analysis, the next chapter shifts the focus from questions of market uptake to the ways in which sustainability governance disseminates through global, regional, and domestic production networks. Therefore, chapter 5 uses the lens of global value chain analysis to examine the politics and governance of environmental upgrading in Indonesia's palm oil supply chain.





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