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Rubber supply chains: Risks and opportunities for building a more responsible business

This briefing has been written by Global Witness to accompany the Chinese Guidelines for Sustainable Development of Natural Rubber. It aims to provide an overview of the natural rubber sector, details of associated supply chain risks for rubber companies and investors, and recommendations on how companies can reduce exposure to those risks through implementing the guidelines. Global Witness, an international NGO based in London, has been working with the Chinese Chamber of Commerce of Metals, Minerals and Chemicals Importers and Exporters (CCCMC) over several years to help formulate the guidelines in line with international standards.

The global demand for land – the need for the right investment model

The world is currently witnessing the fastest-growing commercial pressure on land in history. The past fifteen years has seen at least 48 million hectares of land in developing countries leased out to global investors¹ and agriculture is leading the way, accounting for approximately 78 per cent of targeted investments.² Within these agricultural investments, rubber plantations are significant, accounting for over 3.5 m hectares of recorded investments over the same period.³

In a world experiencing unprecedented demand for food and resource scarcity, this interest in farmland is set to rise. This is especially true for developing countries where land deals are often done under the guise of ‘national development’. However, the impact on the ground has been millions of people pushed off their land and deeper into poverty and the mass destruction of some of the world’s last intact forests.⁴ In turn irresponsible land investments have caused widespread loss of livelihoods and food insecurity among rural communities, as well as irreversible environmental devastation.

In South East Asia, large-scale rubber plantations are one of the main drivers of harmful large-scale transfers of land, known

commonly as ‘land grabs’, and deforestation. Land deals don’t need to happen this way – there is significant evidence to show that investing and supporting smallholder farmers brings lasting economic, social and environmental benefits.⁵ These CCCMC guidelines are aimed at promoting responsible investments and sourcing of natural rubber.

The 21st century rubber boom and its impact on human rights and the environment

Although traditionally a successful smallholder crop,⁶ as producer countries in South East Asia, including China, have run out of land, rubber producers have turned to several new ‘frontier’ markets such as Cambodia, Laos and Myanmar, this time through large-scale expansion. Companies should note that these are countries with weak governance and rule of law, high levels of corruption and poor land rights.⁷ Numerous case studies, including Global Witness research, have demonstrated that investments which are not accompanied by rigorous due diligence standards have disastrous consequences for local communities and the environment.

China is playing an increasingly significant role in the global rubber industry. In addition to being a major domestic producer of rubber, China is developing its overseas rubber base, and has become the world’s largest importer of natural rubber.⁸ China is by far the largest consumer of natural rubber accounting for a third of global consumption.⁹ Approximately 70% of natural rubber is used in the manufacture of tyres¹⁰ and in 2009 China became the largest car producing country in the world.¹¹

Risks faced by rubber companies

The environmental, social and financial risks of rubber investments

Through our on the ground research across the Mekong, Global Witness has shown that there are considerable environmental, social and financial risks associated with the global demand for natural rubber. The drive to expand the natural rubber sector in these new frontier countries has involved governments leasing out huge areas of land to private investors. As vast tracts of agricultural land have been cleared to make way for large scale rubber plantations, the costs are paid by poor rural communities and their surrounding forest ecosystems.¹²

In many cases in the Mekong, land acquired for plantations has been transferred without the consent of local customary users, that is, of Indigenous Peoples which traditionally own and use the land. Regional governments have failed to uphold their own national laws and international obligations to protect forest resources and the tenure rights of local people.¹³ There have been numerous cases of land grabbing without consent and forced evictions in Cambodia, Laos and Myanmar as a result of large-scale rubber investments.¹⁴ This has led to widespread poverty and food insecurity. It also poses serious risks to investments as described below.

Weak governance and corruption

The failure to protect the rights of vulnerable and marginalised groups is often a result of weak governance and corruption.¹⁵

Global Witness **has previously reported** on how rubber companies colluded with the former military junta to seize vast tracts of

land from farming communities in Myanmar. Previous research showed how **Vietnamese rubber companies** gained access to hundreds of thousands of hectares of land in Cambodia and Laos through secretive transactions and elaborate networks of subsidiary companies, devastating communities and local environments in the process.

In these cases national laws to ensure the protection of forests, responsible land governance, the provision of compensation for losses and consultation with local communities were not enforced.

As such, investors must not rely on host governments to ensure investments are undertaken without causing harm but instead take responsibility themselves.

Conflict over resources

Increasingly, local communities globally are attempting to defend their tenure rights with protests and local activism. However, as governments fail to properly resolve land disputes, private companies, often backed by state security forces, are responding using

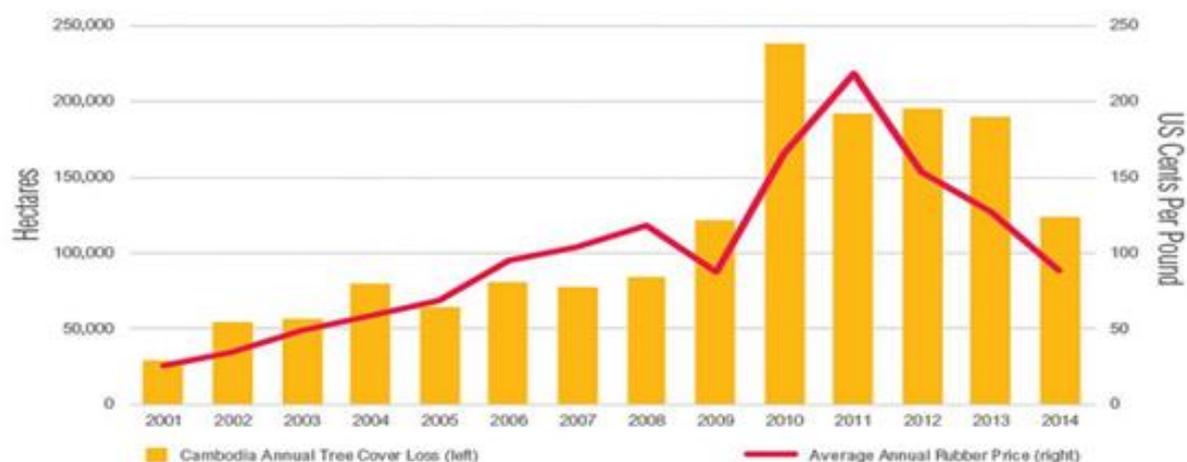
intimidation and force to defend their interests. This has led to violence, human rights abuses and even killings.¹⁶

Ongoing civil unrest can also have serious implications and risk for investors involved in land deals and for those sourcing materials from these regions. This includes stalled operations, labour problems and damaged plantations and equipment. These are risks which can be mitigated if tenure rights are recognised, local communities consulted prior to land acquisition, compensation paid and land deals are open and transparent. The CCCMC guidelines provide a framework to help companies achieve this.

Deforestation and environmental damage

As natural forests are converted to large-scale monoculture rubber plantations, the dramatic change in land-use can have a devastating impact on the local environment and biodiversity. Monoculture rubber plantations have resulted in loss of habitat and decreasing species diversity, poor water quality from run-off affecting food stocks and human health and soil erosion and landslides.

Cambodia's Tree Cover Loss Correlates with Global Rubber Prices



Correlation coefficient (r) = .86

*Source: World Bank. Rubber prices were calculated by averaging historical monthly data of world commodity markets.

Accessed from the web: <http://www.indexmundi.com/commodities/>

Source: World Resources Institute¹⁷

Governments have consistently ignored legal protections for natural forested areas in favour of rubber plantations.¹⁸ This poses both legal and reputational risk to companies who find themselves complicit in illegal deforestation. This issue is also addressed in the CCCMC guidelines.

Financial links between land rights and land investment

The financial links between land rights and investment are increasingly important. Finance think-tank, the Munden Project, looked at the financial costs associated with ignoring the issue of land tenure in land investments.¹⁹ Its report demonstrated that the financial risks posed are multiple, and range from a delay in construction times and unexpected financial loss due to suspensions, to seizure of assets following the loss of insurance coverage.²⁰ The escalation of risk can be extremely rapid and irreversible: the report concluded that the average global operating costs of a three-year investment of around USD\$10 million could be as much as 29 times higher than normal, if the project was forced to stop its activities because of local opposition.²¹

A follow up report used publicly available geospatial data to establish the extent of “land tenure risk” (defined as ‘overlapping land claims that diminish the value and viability of industrial concessions’) in emerging market economies. Cambodia was one of more than ten countries studied. The report concluded that ‘industrial concessions on public lands representing 31% of the total hectares sampled had some overlap with a demarcated local territory.’²²

European Union (EU) policy makers are also considering legislation to put regulations on the EU finance industry to prevent

investments into damaging projects overseas including those which contribute to deforestation and land grabbing, adhering to the CCCMC guidelines could help companies to secure this investment and avoid prosecution.

CASE STUDIES:

Hoang Anh Gia Lai and the Vietnam Rubber Group

The Global Witness report *Rubber Barons*, documented the devastating impact of Vietnam’s rush for rubber on local communities in Laos and Cambodia. The investigation also showed how international financiers Deutsche Bank and the International Finance Corporation (IFC) were backing these land grabs – often in contravention of their own policies.

In both Laos and Cambodia, national laws are supposed to protect forests, limit the size of foreign land concessions and require consultation with local communities over land use, but these laws are rarely enforced. Millions of hectares of land have been handed over without the knowledge or consent of the people who live on it.

Two giant Vietnamese companies lie at the heart of this story: Hoang Anh Gia Lai (HAGL) and the Vietnam Rubber Group (VRG). These Rubber Barons and their subsidiaries carried out forced land grabs without compensation, and satellite images showed they were logging illegally in protected forests.

HAGL and VRG both received substantial foreign investments from Deutsche Bank and the World Bank’s International Finance Corporation (IFC), either directly or via intermediary funds. Since the launch of *Rubber Barons*, international backers of both

companies have divested,²³ and the global timber certifier the Forest Stewardship Council suspended VRG following a formal complaint from Global Witness.²⁴ Meanwhile, communities in Cambodia who lost land to HAGL are still in negotiations with the company under an IFC-initiated dispute resolution process.

Our investigation into HAGL and VRG provides a strong example of consequences companies face when they do not undertake adequate due diligence to ensure that plantations allocated by governments are in line with the law. The complaint submitted by the communities against HAGL in Cambodia led to its investor, the International Finance Corporation, pulling out, in a stark reminder, that companies are increasingly expected to follow international standards throughout their operations.

Improvements in global standards

As global agribusiness standards and soft laws improved over the last few years, the natural rubber sector stood out as one of the last remaining key global commodity industries yet to commit to sustainability standards. However, this is changing.

The last two years has seen public commitments from major big brand corporations on the sourcing of sustainable natural rubber. In 2016, tyre giant Michelin released its new Sustainable Natural Rubber Sourcing Policy which commits the company to zero-deforestation and the protection of land rights in all its operations. The company aims to map 100% of its suppliers to ensure full traceability of its supply chain.²⁵

In September 2017, Continental also made an announcement that it was prioritising

sustainability in its supply-chain, including full-traceability of all its suppliers.²⁶ This followed a statement from US General Motors in May that it would be working with tyre companies to ensure traceability in their supply chains and sourcing sustainable natural rubber for tyres.²⁷ Major rubber producer, Olam, has already launched a 'Rubber Sustainability Standard' which includes commitments to 'Free, Prior and Informed Consent' and forest protection.²⁸

Rubber companies, including those based in China, failing to adopt the new guidelines, risk losing business from major international downstream players.

Land-grabbing as a crime against humanity?

Company executives could now be held criminally responsible under international law for crimes linked to land grabbing and environmental destruction, following developments under the International Criminal Court. A recent move by the Prosecutor of the International Criminal Court (ICC) to expand its focus signals a landmark shift in international criminal justice; in Cambodia land grabbing has happened at such scale and so systematically that the ICC is considering investigating it as a crime against humanity

Conclusion

The recent downturn in global rubber prices has caused concern over the viability and demand for the crop in the long term. However, as major natural rubber consuming economies continue to grow and oil prices rise again the demand for continuing expansion of natural rubber plantations in these new frontier countries is likely.

Lessons from the palm oil sector reveal how consumer awareness and sensitivities about where key commodities are coming has shifted. Global brand name producers and traders are now increasingly being expected to prove their supply chains are responsible, and not linked to land grabbing, deforestation or human rights abuses.

Given China's dominance in terms of production of global natural rubber, if Chinese companies step forward to match these higher and more ambitious standards and take steps to prove their supply chains are responsible, the risk of being associated with environmental and human rights violations would be significantly reduced. Chinese companies and other companies along the supply chain should look to adopt and implement the new rubber guidelines in order to mitigate risk in their own supply chains and lead the way for other companies to do the same.

www.globalwitness.org

¹ According to figures from the Land Matrix database <http://www.landmatrix.org/en/> (accessed 03rd October 2017)

² 'Land rights and the Rush for Land: Findings of the Global Commercial Pressures on Land Research Project', Anseeuw, W., Alden Wily, L., Cotula, L., Taylor, M., January 2012 http://www.landcoalition.org/sites/default/files/publication/1205/ILC%20GSR%20report_ENG.pdf, p.4

³ According to figures from the Land Matrix database at the time of writing <http://www.landmatrix.org/en/get-the-detail/by-crop/rubber/?more=70> (accessed 11th October 2017)

⁴ 'World's Last Intact Forests Are Becoming Increasingly Fragmented', World Resources Institute, January 17th 2017, <http://www.wri.org/blog/2017/01/world%E2%80%99s-last-intact-forests-are-becoming-increasingly-fragmented>

⁵ Report submitted by the Special Rapporteur on the right to food, Olivier De Schutter, to the Human Rights Council Sixteenth Session, 20th December 2010; 'Wake Up Before It's Too Late: Make Agriculture Truly Sustainable Now For Food Security In A Changing Climate', Trade and Environment Review 2013, United Nations Conference on Trade and Development (UNCTAD)

⁶ Smallholders make up the majority of production in the top three producing countries accounting for 90 percent of rubber in Thailand, 85 per cent in Indonesia and 93 per cent in Malaysia. Globally smallholders generate up to 80-85% of global natural rubber production.

⁷ Transparency International, 'Corruption Perceptions Index 2016' https://www.transparency.org/news/feature/corruption_perceptions_index_2016#table

⁸ World Stop Exports, Natural Rubber Imports by Country <http://www.worldstopexports.com/natural-rubber-imports-by-country/> (accessed 5th October 2017)

⁹ According to UNCOMTRADE figures (accessed 5th October 2017)

¹⁰ 'Tyre and Rubber Industry's contribution to a public consultation on the Raw Materials Initiative', European Tyre and Rubber Manufacturers Association (ETRMA), September 2010, p.3 <http://www.etrma.org/uploads/Modules/Documentsmanager/2010-09-17-tyre-and-rubber-industry's-contribution-to-a-public-consultation-on-the-raw-materials-initiative.pdf>

¹¹ 'China Passes U.S. as World's Top Car Market', Wall Street Journal, January 12th 2010

<https://www.wsj.com/articles/SB10001424052748703652104574651833126548364>; According to

figures from the OICA (International Organization of Motor Vehicle Manufacturers)

<http://www.oica.net/category/production-statistics/> (accessed 5th October 2017)

¹² See 'Rubber Barons: how Vietnamese companies and international financiers are driving a land-grabbing crisis in Cambodia and Laos', Global Witness, May 2013

<https://www.globalwitness.org/en/campaigns/land-deals/rubberbarons/>

¹³ 'Tainted Lands; Corruption in large-scale land deals', authored by authored by Global Witness, Professor Olivier De Schutter, the former UN Special Rapporteur on the right to food, and the International Corporate Accountability Roundtable (ICAR), November 2016

<https://www.globalwitness.org/en/campaigns/land-deals/tainted-lands-corruption-large-scale-land-deals/>

¹⁴ 'Rubber Barons: how Vietnamese companies and international financiers are driving a land-grabbing crisis in Cambodia and Laos', Global Witness, May 2013; 'Guns, Cronies and Crops: How military, political and business cronies conspired to grab land in Myanmar', Global Witness, March 2015

<https://www.globalwitness.org/en/campaigns/land-deals/guns-cronies-and-crops/>

¹⁵ Transparency International, *op cit*; Global Witness et al. 2016, *op cit*

¹⁶ See Global Witness' extensive research on environmental activists

<https://www.globalwitness.org/en/campaigns/environmental-activists/>

¹⁷ Petersen, R; Sizer, N; Hansen, M; Potapov, P. and Thau, D. September 2, 2015 "Satellites Uncover 5 Surprising Hotspots for Tree Cover Loss" World Resources Institute. <http://ow.ly/RBbgw>

¹⁸ Global Witness, 2013, *op cit*

¹⁹ The Financial Risks of Insecure Land Tenure: An Investment View, Prepared for the Rights and Resources Initiative by The Munden Project, December 2012

²⁰ *op cit*, p.5

²¹ *op cit*, p.2

²² Global Capital, Local Concessions: A Data-Driven Examination of Land Tenure Risk and Industrial Concessions in Emerging Market Economies, Prepared for the Rights and Resources Initiative by The Munden Project, September 2013; Business and Human Rights Resource Centre

[https://business-humanrights.org/en/pdf-global-](https://business-humanrights.org/en/pdf-global-capital-local-concessions-a-data-driven-examination-of-land-tenure-risk-and-industrial-concessions-in-emerging-market-economies)

[capital-local-concessions-a-data-driven-examination-of-land-tenure-risk-and-industrial-concessions-in-emerging-market-economies](https://business-humanrights.org/en/pdf-global-capital-local-concessions-a-data-driven-examination-of-land-tenure-risk-and-industrial-concessions-in-emerging-market-economies)

²³ 'Deutsche Bank divests from Vietnamese land-grabber HAGL following Global Witness' expose', Global Witness, November 29th 2013

<https://www.globalwitness.org/en/archive/deutsche-bank-divests-vietnamese-land-grabber-hagl-following-global-witness-expose/>; 'Credit Suisse

ignored human rights commitments and became major shareholder in Vietnamese rubber giant 2 weeks after land grab scandal', Global Witness, December 12th 2013

<https://www.globalwitness.org/en/archive/credit-suisse-ignored-human-rights-commitments-and-became-major-shareholder-vietnamese/>

²⁴ 'Forest Stewardship Council disassociates from the Vietnam Rubber Group', FSC, November 26th 2015 <https://ic.fsc.org/en/news-updates/fsc-press-releases/id/1288>

²⁵ Michelin, 'Responsible Management of the Natural Rubber Supply Chain'

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²⁶ Continental, Importance of Sustainability in Supplier Selection Is Further Increased by Continental in Purchasing'

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²⁷ General Motors, 'GM Works to Set Sustainable Natural Rubber Tires into Motion'

<http://www.gm.com/mol/m-2017-may-0515-tires.html> (accessed 5th October 2017)

²⁸ 'Free Prior and Informed Consent' or 'FPIC' is a UN global standard on the establishment of 'bottom up participation and consultation of an Indigenous Population prior to the beginning of a development on ancestral land or using resources within the Indigenous Population's territory', Lorenza B. Fontana and Jean Grugel, "The Politics of Indigenous Participation Through "Free Prior Informed Consent": Reflections from the Bolivian Case" (2016) 77 World Development 249-261; Olam Rubber Sustainability Standard 2013.