Bad Influence: How McKinsey-inspired plans lead to rainforest destruction

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Introduction & 'Why'

I want to start by making a few over-arching comments about the purpose of the research and analysis which led to the Greenpeace report *Bad Influence: How McKinsey Inspired Plans lead to Rainforest Destruction* that I'm going to talk about this morning.

The fundamental point of REDD – reducing emissions from deforestation – is that it enables the simultaneous achievement of a number major global public goods.

Not only is cutting the rate of deforestation one of the most clearly effective ways of reducing carbon emissions, it provides a mechanism for bringing to heel the alarming rates of biodiversity loss in tropical rainforests across the word, as well as enabling the protection of the rights and livelihoods of the indigenous people and local communities who depend on these forests.

Productive of these great global public goods, in principle, REDD possesses an elegant simplicity of logic with which it is impossible to argue. REDD is meant to be win-win-win.

So to be clear, none of the comments I am going to make this morning – which are elaborated in the report *Bad Influence* – are intended as a criticism of REDD in principle. Greenpeace has supported the principle of REDD from the outset and we continue to do so.

Our concerns with McKinsey-inspired REDD+ plans – as detailed in *Bad Influence* – are not ideological or grounded in any kind of opposition to REDD per se.

Instead, our misgivings over McKinsey's advice on national REDD+ plans are that while in both commercial and discursive terms The Firm has obtained a level of market dominance; the McKinsey inspired REDD+ plans are simply not fit for purpose because – if followed – they prescribe measures that could actually lead to rainforest destruction.

There is no doubt that McKinsey's 'Climate Desk' has been very successful in becoming known as a leading provider of advice to governments about how to reduce carbon emissions at lowest cost. Indeed, in relation to reducing emissions from deforestation, McKinsey has attracted commissions to advise many forest nations on how to draw up national plans for applying for REDD+ funding.

And it appears that McKinsey's advice is influential. It seems most probable, for example, that the rainforest nations featured in *Bad Influence* are generally following and implementing the advice provided by McKinsey. Indeed in response to the release of *Bad Influence*, the DRC's Environment Minister Jose Endundo confirmed to Bloomberg that DRC had indeed 'adopted the McKinsey scenarios'.

Unfortunately, Greenpeace's assessment is that in the context of REDD, McKinsey influenced national REDD+ plans may be both methodologically suspect and not fit for purpose. Concomitantly, our concern is that where followed, McKinsey's advice could lead to poor outcomes in the real world that do not achieve the outcomes that REDD is meant to produce: reducing emissions through cutting the real rate of deforestation while at the same time preserving biodiversity and forest people's rights.

So *Bad Influence* is a document with an intensely practical purpose; to avoid real world results that neither reduce carbon emissions nor safeguard rainforests.

How – Method

Before moving on to make some brief observations about the report's content, I just want to note quickly that *Bad Influence* draws on two different strands of research and analysis, elements of which are synthesized in the report.

The first is an independent discussion of the McKinsey carbon emission cost abatement methodology undertaken by a team led by Professor Paul Ekins of the Energy Institute at the University of London. I'm grateful that Fabian Kesicki, one of Professor Ekins' team, was able to join us to be able to address this work in more detail.

The second is investigative and analytical work based on a wide range of REDD related documents often accompanied by in-country investigation undertaken by Greenpeace and relating to four countries in particular: Guyana, PNG, DRC and Indonesia.

In relation to the latter specifically, *Bad Influence* builds upon an earlier Greenpeace Report entitled *Protection Money*, published in November 2010, which specifically detailed how industry plans in Indonesia would use climate funds to bankroll further deforestation and undermine President Susilo Bambang Yudhoyono's commitment to low carbon development.

Our investigation and analysis in this area is continuing and very much remains an ongoing focus for further work.

Findings

I want to move on now to make a few summary observations about the findings contained in *Bad Influence*.

The central finding is that when rainforest countries hire McKinsey to apply its trademarked cost curve to their REDD+ prospects, few if any of the resulting plans meet basic standards of accuracy, rigor, utility or ethical acceptability. If implemented in their current form, these plans could actually result in an increase in deforestation and carbon emissions.

Let me make seven points by way of elaboration:

1. First, McKinsey's advice does not, in any example studied by Greenpeace, lead to a cessation of deforestation or forest degradation. Indeed, often it defends destruction of forests by industrial interests. In DRC, for example, McKinsey's advice implies a significant increase in industrial logging, proposing at least an additional 10 million hectares given as logging concessions.

2. Second, while McKinsey's cost curve has been extremely influential in informing government policy decisions, it has a number of fundamental methodological shortcomings as the UCL Energy Institute Report demonstrates. But I will add here that McKinsey's aggressive maintenance of intellectual property rights on some of the data underpinning its analysis actively prevents any proper scrutiny of the rationale underpinning the cost curve. It is an egregious lack of transparency that is clearly sub-optimal for governments, citizens and investors.

3. Third, in relation to gauging deforestation in particular, McKinsey's approach provides an incentive to over-estimate projected future levels of deforestation, allowing forest nations to claim REDD+ funding for preventing destruction which was unlikely ever to have happened: a clearly perverse outcome and one that is likely to be particularly galling to governments and taxpayers in the developed world. In the DRC for example, the projected rate of future logging is up to ten times the current rate, creating the prospect of the timber industry claiming a REDD+ windfall as compensation for logging that would not have occurred in any event.

4. Fourth, McKinsey inspired national REDD+ plans barely acknowledge governance issues within rainforest nations, such as the sheer scale of monitoring, reporting and verification,

capacity-building and governance challenges. As *The Economist* observed last year, given that nobody knows, to the nearest million, how many people perished in DRC's civil war, it is hard to know how its government can be expected to provide the international community with a reliable account of its forest-carbon stock. In the face of this reality, the relevant DRC documents give only cursory reference to governance issues, referring in one instance to the 'finalising' of institutional reform.

5. Fifth, McKinsey-inspired plans not only consistently fail to address the major drivers of deforestation, such as mining and logging, they actually reward the industries and interests that cause it. In PNG for example, the role of mining in causing deforestation is simply not included in mitigation proposals at all. The rewarding of the industries occurs not only through inflated baseline scenarios (meaning that loggers and others are in line for compensation for industrial activity that would never have occurred in any event) but sometimes – as with the funding of the Amaila Falls Hydro Electricity development in Guyana – by directly paying for industrial development.

6. Sixth, McKinsey inspired national REDD+ plans – and the cost curve behind them – systematically play down the environmental impact of industrial logging and deforestation for plantations. At the same time, they routinely exaggerate the destructive impact of smallholders and farmers. This leads to plans that advocate large-scale acquisition of local people's lands or resettling of subsistence farmers without sufficient attention to their land rights, prior informed consent and compensation.

7. Seventh and finally, McKinsey's advice has informed national plans which have then been criticised by funding institutions as unfit for purpose. The clear implication is that when rainforest countries employ McKinsey to apply its cost curve to their REDD+ prospects they are at risk of wasting money on advice that may be in violation of safeguards in the Cancun agreement on REDD+ and other decisions of the UNFCC, UN CBD and other international and regional institutions. This is a simple value for money question; if the purpose of obtaining McKinsey advice is to unlock REDD funding, it may well be unfit for that purpose.

Recommendations

I now just want to just take a minute or so to say something about the recommendations contained in *Bad Influence*.

They are measured and modest and can be summarized in three points.

First, McKinsey should publish the data, assumptions and analysis behind its cost curve methodology. Such transparency can only be in the interests of governments, citizens and investors – and to the extent that it salvages the Firm's reputation – McKinsey too.

Second, McKinsey should commit to reviewing and revising its methodology to take into account the criticisms contained in *Bad Influence*, and the Ekins Report on which it draws, and indeed the work of other academics and civil society actors. McKinsey should ensure that in future, in all the advice they give, that it is clear that The Firm regards protecting natural forests and the safeguarding of forest peoples' rights as non-negotiables in the design and delivery of REDD.

Third – and this should flow automatically from the second – The Firm should make clear that they fundamentally reject logging as a climate mitigation measure.

Let me make one final observation by way of conclusion.

Greenpeace has a certain track record in publicly challenging the environmental credentials of leading corporations, whether it is because they have been sourcing cattle products from the Amazon, palm oil from recently deforested lands in Indonesia, or tuna caught via fishing methods with unacceptable rates of bycatch in the Pacific.

Our campaigning work around McKinsey is in its essence no different. McKinsey does not sell timber, palm oil or fish, its product is the advice that it gives.

Our assessment is that at present McKinsey's advice, if followed, could actually result in an increase in rainforest destruction, rising carbon emissions and the loss of people's rights.

Just like a chocolate bar manufacturer finding that it is implicated in rainforest destruction, McKinsey's advice needs to change if The Firm wants to remain seen as a market leader and to avoid otherwise inevitable reputational damage.

END