

## AFi Explainer: Assessing Compliance at the Production Unit Level

The Accountability Framework specifies that companies should assess compliance with company policies, commitments, and other obligations at the level of an entire production unit. A production unit is a farm, plantation, ranch, or forest management unit, as defined below.

This explainer summarises what it means to assess compliance at the production unit level, why this is the most appropriate approach, and how companies can implement it in their supply chains.

The Accountability Framework definition of ‘production unit’

A plantation, farm, ranch, or forest management unit. This includes all plots used for agriculture or forestry that are under one management, located in the same general area, and share the same means of production. It also includes natural ecosystems, infrastructure, and other land within or associated with the plantation, farm, ranch, or forest management unit.

Explanatory note: A production unit can be a contiguous land area (regardless of any internal subdivisions) or a group of plots interspersed with other land units the same area or landscape and under the same management.

### What it means to assess compliance at the production unit level

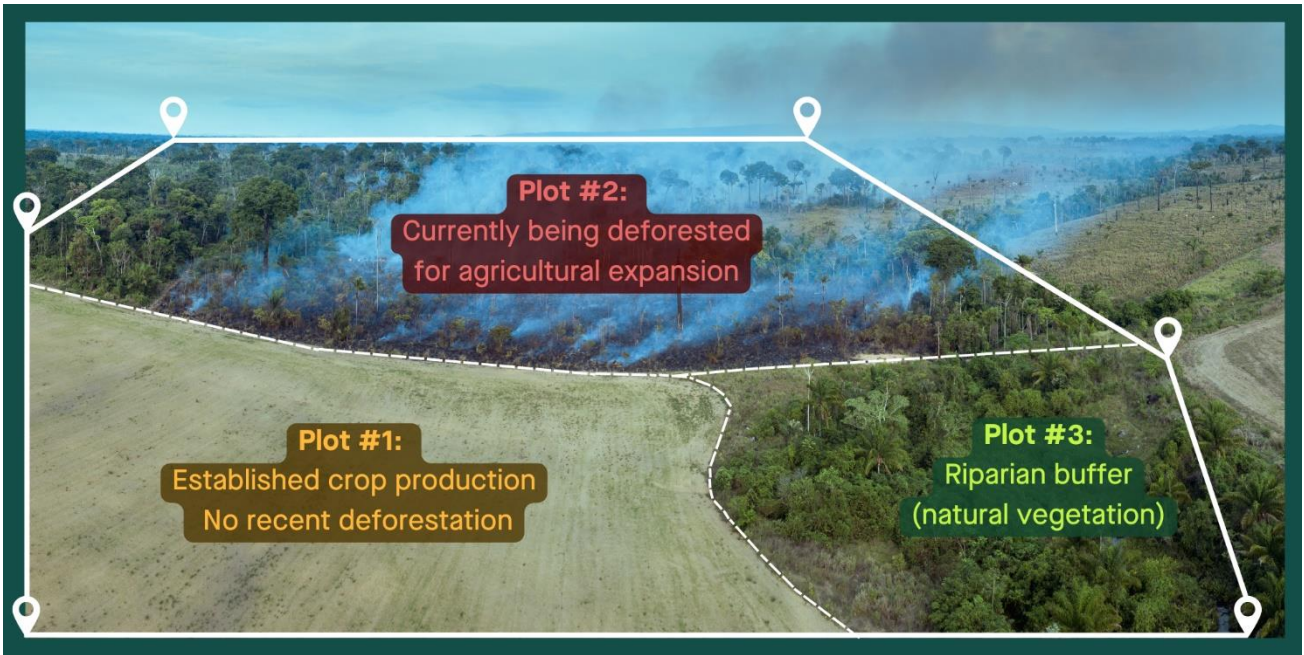
Production unit-level compliance assessment means that the entirety of a production unit must adhere to a given environmental or social policy in order for the production unit and any of the products from it to be considered compliant with that policy. If the production unit is involved in activities or includes areas of land that do not adhere to a given environmental or social policy, then neither the production unit nor any of the products from it should be designated, reported, or claimed as being compliant.

For human rights policies and obligations (such as no child labour, no forced labour, freedom of association, and safe working conditions), actual and potential human rights impacts, as well as measures to address them, should be assessed (and addressed, if needed) across the entire production unit.

For deforestation and conversion, compliance determinations should take into account all deforestation and conversion across the entire production unit. If there has been more than a minimal level<sup>1</sup> of deforestation or conversion on the production unit since the cutoff date, then neither the production unit nor any of the products from it may be considered deforestation-free or conversion-free, respectively.

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<sup>1</sup> This is a defined term in the Accountability Framework; see [here](#).



**Figure 1:** Farms and other production units may consist of multiple plots or fields under common ownership and management. Compliance with environmental and social policies should be assessed at the level of the entire production unit. In this example, the farm (and its products) cannot be considered deforestation-free since the farm is actively engaged in deforestation on Plot 2.

Assessments of compliance with no-deforestation or no-conversion policies should consider all land that was deforested or converted after the cutoff date, regardless of whether that land is currently used to produce the commodity that a given buyer is purchasing. For example, if a company buys soy from a farm on which land deforested after the cutoff date is currently being used for cattle raising, that soy should not be considered deforestation-free.<sup>2</sup>

## Rationale for assessing compliance at the production unit level

There are several reasons why the Accountability Framework initiative (AFi) recommends that compliance be assessed at the production unit level:

- This approach is consistent with existing conventions in supply chain management, compliance assessment, and claims. It thus supports clarity and accuracy in how product and supply chain attributes are described, communicated, and claimed across the value chain. (See the following section “Relation to other laws, standards, and protocols” for more detail on this point.)
- By definition, a production unit is a single economic unit under common management. Since compliance is usually a direct function of management decisions, it is logical to assess compliance at the level at which such decisions are taken.

<sup>2</sup> In some cases, it may be possible to remediate post-cutoff date deforestation or conversion such that the production unit can be brought back into compliance and materials from that production unit can be considered deforestation- and conversion-free. For more information, please see the Accountability Framework [Operational Guidance on Environmental Restoration and Compensation](#).

- Compliance assessment should consider all land-use change across a production unit because the economics and management of different land uses and crops are generally interdependent throughout the entire production unit. The intention of no-deforestation and no-conversion supply chains is to eliminate conversion associated with all commodity production, which requires avoiding leakage from one plot or another, or from one commodity to another.
- A whole production unit approach is better able to account for various farm management practices, such as crop rotations and fallows, as well as multi-year land-use change trajectories, such as from forest to pasture to cropland or from timber harvesting to palm oil plantations.

## Problems with sub-farm level compliance assessment

When compliance is assessed at scales smaller than a production unit (for example, at the plot or field level), then products could be classified as being deforestation-free when in fact there is new or ongoing deforestation being conducted on the same farm, by the same owner or operator, using the same workers and equipment (see Figure 1). When commodity buyers determine deforestation-free status at levels smaller than a production unit, they may be complicit in facilitating continued deforestation by their suppliers. They also risk making false or misleading claims about their products.

Similar problems arise if human rights impacts or compliance are assessed at a scale smaller than a production unit. For instance, if a plantation provides safe working conditions in one part of the operation but requires its workers to performance hazardous duties in a different part of the operation, then it would not be appropriate for a buyer to consider products from that plantation as fulfilling the buyer's responsibility to respect internationally-recognised human rights, such as the right to a safe working environment.

Regardless of the issue at hand, if a producer is actively engaging in harmful practices, it is misleading and contrary to the spirit of sustainability efforts to make a claim of compliance for the production unit or any portion of its goods.

Even if the policy of a buyer or market did allow for deforestation or other sustainability attributes to be assessed at the sub-farm level, the division of product volumes from the same farm into 'compliant' and 'non-compliant' portions is generally not possible in practice. That's because very few farms have the infrastructure to fully segregate materials based on their deforestation-free status. Rather, products from different plots on the same farm are typically mixed, whether in harvesting machines, trucks, silos, processing mills, or other processes (see Figure 2). In many contexts where there is active deforestation, sub-farm compliance assessment all but ensures that some materials claimed as deforestation-free were actually grown on recently deforested plots.



**Figure 2:** Sub-farm compliance assessment presents the risk that products may be called deforestation-free even if they are produced on farms with ongoing deforestation or recent deforestation after a cutoff date, such as 2020. This includes the typical case (show here) where products from different farm plots are mixed and sold in aggregate to commodity buyers.

## How to ensure that compliance is assessed at the correct scale

When developing their monitoring, verification, and reporting systems, companies should use a whole production unit approach to assessing and addressing deforestation, conversion, and human rights impacts. Commodity buyers should ask their direct and indirect suppliers to do the same—lest they unwittingly purchase products sold as deforestation-free or compliant that are not actually so. Companies should also report progress towards deforestation-free supply chains based on the whole production unit approach. This is in line with leading reporting standards such as GRI and disclosure systems such as CDP.

While compliance should be determined at the production unit level, in some cases it may be monitored at larger scales. Specifically, if a company can demonstrate that a given sourcing area<sup>3</sup> has negligible or insignificant risk of non-compliance with one or more aspects of a company’s commitments or obligations, then all production units in that area may be considered to fulfil those aspects of the commitments or obligations. For instance, if it can be demonstrated that there is no deforestation or conversion in a defined sourcing area after the applicable cutoff date, then any material originating from that area may be considered deforestation- and conversion-free. Such area-level approaches should be used to monitor and control supply chain compliance only when they are designed and applied in a credible manner in alignment with the Accountability Framework.

<sup>3</sup> This is a defined term in the Accountability Framework; see [here](#).

## Relation to other laws, standards, and protocols

Compliance assessment at the level of the farm, plantation, ranch, or forest management unit is a widely established convention. This includes the criteria of most major agricultural and forestry certification programmes. In addition, major industry associations, such as the Consumer Goods Forum, have indicated that compliance with deforestation-free policies should be assessed at the farm level.

The whole production unit approach is also a wise way to implement the EU deforestation regulation (EUDR). While it is unclear whether sub-farm level assessment is permissible according to the EUDR's stipulation to evaluate deforestation on the "plot of land," attempting to monitor and document compliance at the sub-farm level is a risky proposition. This is due to the practical difficulties of segregating and tracing materials from different plots of land within the same farm, and therefore of demonstrating the deforestation-free provenance of such materials to enforcement authorities.