

SUCCESSFUL JOINT IMPLEMENTATION OF THE EU REGULATION FOR DEFORESTATION-FREE SUPPLY CHAINS (EUDR)

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"Politicians must act to avoid a false start"

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Grain Club expert panel on the EUDR at the Global Forum for Food and Agriculture (GFFA) on 18 January 2024 in Berlin

Editorial

Dear Readers,

In the fight against international deforestation, we, the German agricultural sector, have long been committed to the effective establishment of sustainable supply chains. We therefore generally support the EU's principle, as introduced in 2023 with the „Regulation on deforestation-free supply chains“ (EUDR).

The EUDR entered into force in June 2023. It aims to ensure that goods placed on the EU market do not contribute to deforestation, covering goods such as palm oil, beef, soy, coffee, cocoa, timber and rubber, and any products made from them.

On the demand side, the EUDR is a milestone in fighting deforestation, but it overshoots the mark. The European Commission is acting unilaterally by trying to impose its own values and policies on other countries. This raises issues of transnational social justice and power differentials, and highlights the changing dynamics of market power in global structures. The EUDR also cast a shadow on the EU's reputation as a trustworthy partner on the

international scene and its relations with key producer countries.

As the EU's market influence is dwindling, it becomes increasingly important to position the EU as a reliable partner. Demand-side measures, such as the EUDR, need to be combined with supply-side measures to avoid leakage effects. The success of the EUDR will therefore depend on careful and efficient implementation, ideally accompanied by meaningful consultation and close cooperation with producer countries.

Time is running out before the 30 December 2024 deadline for implementation. Many issues need to be resolved before then. We need clear rules for the transition period, and a secure and practical legal framework for the transfer of a lot of sensitive data.

In this Trend Letter, we try to categorize the challenges from the perspective of practitioners and experts. **We urge policymakers to move as quickly as possible on the practical**

implementation of the Regulation in order to successfully combat deforestation. As an agricultural sector, we stand ready to offer constructive, practical solutions.



Björn Meyer, Chairman of the German Association of the Wholesale Trade with Oils, Fats and Oil Raw Products (Grofor), Chairman of the Grain Club 2023

Christian Grütters: “Politicians must act to avoid a false start”

Mr. Grütters, you are Head of Services and Sustainability at AGRAVIS, one of the largest agricultural companies in northern Germany. Do you share the EU Commission's optimism about the positive impact of the EUDR on sustainability?

The entire German agricultural sector and certainly AGRAVIS fully support the goals of the EUDR. We want to fight deforestation and a lot has been done in the agricultural sector in recent years to make progress in this area. However, I do not share the optimism of the EU Commission. The new regulation largely ignores the complex reality of global markets and supply chains. If you want to do something positive for local farmers and forests, you have to work with market actors and countries of origin, not against them. The regulation, and in particular its implementation, poses major problems and many unanswered questions, not only for us companies, but also for the administration, which has to monitor compliance with the new rules but is ill-equipped to do so. It may be well-intentioned, but that doesn't mean it will be done well.

What new requirements does the GDPR impose on market participants? Where do you see the biggest challenges?

The requirement to collect information, including geolocation data of production areas, will represent a massive due diligence effort. Our goal is to be able to make a due diligence declaration based on the information collected and the risk assessment prior to the marketing or export of the relevant goods, and to be able to trace every kilogram of imported goods back to the respective production parcel. Anyone familiar with the global flow of goods, markets and agricultural production conditions knows that this is almost impossible to accomplish - at least not without far-reaching negative consequences. The biggest challenge for companies is to document and adapt their own enterprise resource planning systems. Equally challenging is the requirement to provide documentation in an online infor-

mation system before products are imported or placed on the EU market.

In addition, we see an avoidable double burden on trading companies with regard to the mandatory batch-related risk assessment and evaluation. As part of fulfilling the new due diligence obligations, we are required to perform these checks and mitigate identified risks through targeted measures.

How are market participants preparing for the implementation of the EUDR on 30.12.2024? How far along are companies, traders and producers in the countries of origin?

AGRAVIS is already purchasing verifiably deforestation-free goods and fully documenting this. The basic necessity of this has been agreed with the suppliers. However, we have not yet been able to discuss the technical details of the documentation requirements, as these have not yet been published by the EU. In particular, it is not clear how the online information system will be used. We still do not know what the information system will look like and whether there will even be a practical interface for us companies.

For years to come, we will simply not be able to meet the EU's demand for verifiably deforestation-free products. Currently, in the countries of origin, it is not possible to fully segregate the EU's demand of approximately 30 million metric tons of soy meal. On the one hand, domestic logistics to the major export ports result in mixing with uncertified commodities at the point of origin. On the other hand, terminals are already reaching their limits without segregation. At the export ports at the latest, it is currently impossible to distinguish between certified and non-certified goods. Massive investments in concrete in the ports and inland are needed to meet the requirements, which will take years. Additional land will have to be cleared, silos and warehouses will have to be built, and goods will have to travel longer distances by truck in order to be consol-



Christian Grütters, Director Services and Sustainability, AGRAVIS Raiffeisen AG

idated in dedicated warehouses for segregated goods. All in all, the EUDR encourage additional unnecessary and high CO₂ emissions, moving us further away from the climate goals we have set for ourselves.

Where is there a lack of preparation for the implementation of the Regulation? What questions need urgent clarification?

The hurdles in preparing to meet the requirements of the EUDR are mainly related to many serious ambiguities in the implementation of technical details, such as the use of the online information system. The lack of official information on the required data formats and interfaces makes it extremely difficult to clarify these aspects.

Questions that need to be addressed urgently also concern the practical handling of ships with incomplete documentation. There is also uncertainty about how to deal with short-term delivery delays.

At present, there is no other way to meet the EU's protein demand of some 30 million tons of soybean meal.

What do the EU Commission and Member States need to do now to ensure the successful launch of the EUDR at the end of 2024?

It is now particularly relevant and urgent to clarify the technical implementation of the online information system. Furthermore, the only reasonable approach would be to import on the basis of a mass balance.

How do you expect the regulation to affect supply chains, markets and market participants?

The reaction of the target markets for our goods will be detrimental to EU companies. The additional logistical effort for suppliers to create segregated chains for EUDR-compliant goods and the significant additional bureaucratic effort will have an impact on the efficiency and cost structure of supply chains. Given the EU's often small share of the global market for the products in question, this will result in goods being diverted and a significant competitive disadvantage for EU companies.

Instead of processing in the EU, the current directives will lead to an exodus of the industry from the EU to the countries of origin or neighboring countries. The traceability of raw materials can no longer be monitored. **In short, the regulation is in danger of getting off to a bad start, with far-reaching consequences for the economy, farmers, the environment and the climate.**

What do you expect from politicians?

Politicians must now move quickly to clarify the many unresolved technical, administrative and legal questions regarding the application of the

new regulation. And they need to put the effectiveness of the EUDR to a thorough test very soon, not in 2028. This is particularly important with regard to the main objective of reducing global deforestation. There is a need to assess whether the EUDR has actually had a positive impact and what adjustments need to be made or what is logistically and logically feasible. Special attention should be given to the question of how to reduce administrative barriers and bureaucracy within the EUDR.

From deforestation-free supply chains to forest protection



Prof. Dr. Jan Börner, Institute of Food and Resource Economics and Center for Development Research, University of Bonn, Germany

The countdown to the new **EU Regulation on deforestation-free products** (short in English, EUDR¹) started in the summer of 2023. From December 30, 2024, seven internationally traded forestry and agricultural products, including soy, palm oil, beef and timber, as well as many of their derivatives, will have to be certified as 'deforestation-free' when imported into the EU. The extensive due diligence requirements include the geo-location of the relevant production areas and proof that no deforestation will take place on these areas after 2020. It is irrelevant whether deforestation is considered legal or illegal under the national laws of the country of production.

While the EUDR has been hailed as a bold step towards protecting tropical forests in particular, critics have questioned the effectiveness of the regulation or fear high implementation costs associated with the Duty of Care^{2,3}. What can be said about the expected effects of the EUDR from today's perspective and from a scientific point of view?

1. Direct impacts on deforestation:

As a step from voluntary to mandatory due diligence, the EUDR will initially challenge a larger number of actors in affected value chains than before to prove that their supply chains are deforestation-free. If a supply chain is at risk of deforestation, there are basically two options: Either they invest in measures to reduce deforestation in the current production regions, or they source primary products from regions with a lower risk of deforestation. Both strategies meet the legal requirements, but only the first has the potential to reduce deforestation. The second strategy is all the more attractive the smaller the EU's share of a product's exports and the larger the share of established low-risk production areas in a producer country. For example, in 2020, EU Member States will import just under 15% of Brazil's soy production, but over 60% of Côte d'Ivoire's

cocoa production. In Brazil, the majority of soy production is located in regions with a low risk of deforestation - scope for deforestation-free sourcing for exports to the EU is therefore much greater than in Côte d'Ivoire.

2. Indirect impacts on deforestation:

In producing countries that have economically significant trade relations with the EU, the EUDR may also have an indirect impact on forest conservation. If political and private sector forces prevail that consider the benefits of trade with the EU to be greater than the costs of combating deforestation, it can be expected that efforts at the national level will contribute to reducing the risk of deforestation in the medium term. Nevertheless, it cannot be ruled out that the cost-benefit assessment of some EU trading partners will be unfavorable to forest protection. As long as there are alternative target regions and countries for export products that do not require corresponding due diligence obligations, these could gain in importance and thus soften existing requirements for environmental and forest protection standards. Whether and to what extent this happens will certainly depend on the political impact of the EUDR initiative. For example,

earlier EU regulatory approaches such as Forest Law Enforcement, Governance and Trade (FLEGT) have been partially adopted in other regions of the world⁴. Thus, in the long run, forests could benefit both directly and indirectly from a positive spill-over effect.

These considerations clearly show that deforestation-free EU supply chains do not necessarily lead to effective forest protection in the short term. Rather, both the direct and indirect effects of EUDR will vary greatly depending on the product and the country of production. At the same time, significant implementation costs are to be expected, which need to be assessed against efficiency criteria. Similar considerations in connection with the EU Directive on Corporate Sustainability Due Diligence have recently led

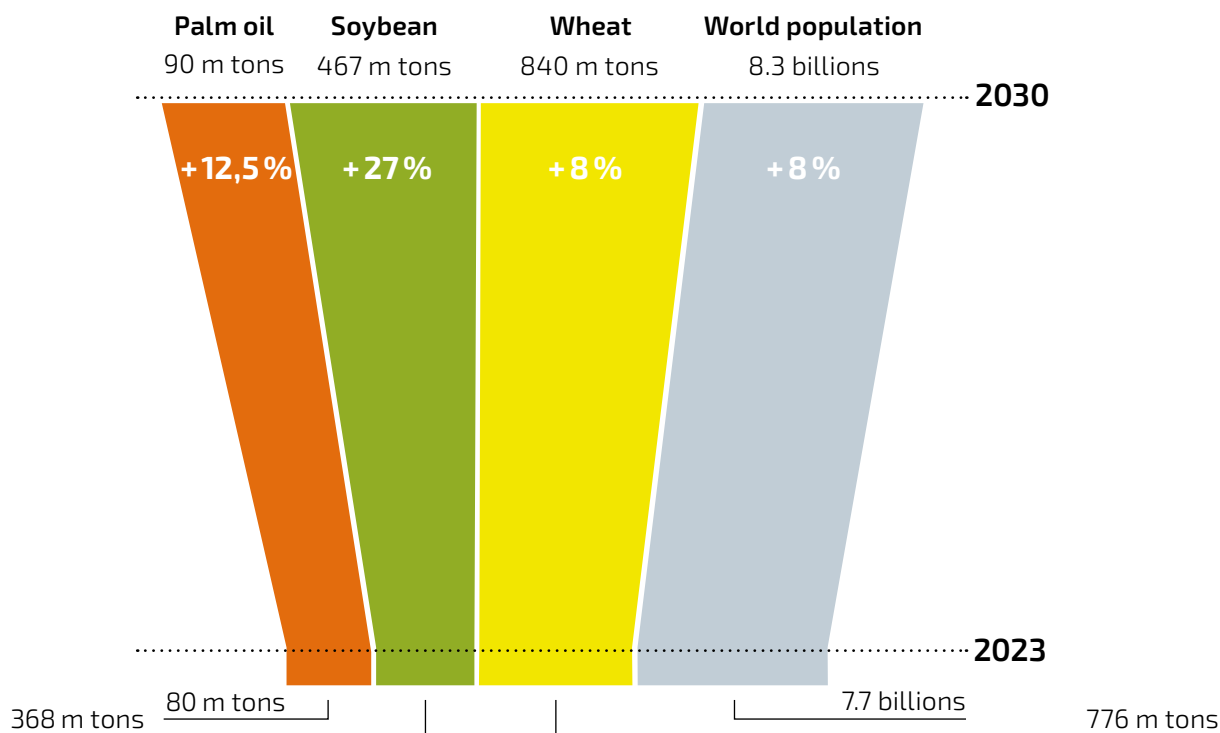
to economically motivated revision recommendations⁵. Finally, implementation and transaction costs can also have structural and social impacts. For example, investments in detailed tracking systems are subject to so-called economies of scale. Larger market players will find it easier to develop competitive solutions for providing evidence than small companies. The same is true for small farms in partly poor production regions if the EUDR leads to increased documentation requirements for buyers⁶.

While there is no near global consensus on sustainability criteria for internationally traded forest and agricultural products, the world's major importing regions can be expected to do more than simply legislate for deforestation-free supply chains. The criteria for effective forest protection

are well documented in the extensive scientific literature⁷. The costs must be shared by all parties involved, in line with the distribution of trade-related benefits, and accompanied by the provision of sufficient resources for the implementation of regionally targeted and socially equitable forest protection and social compensation measures.

¹ https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en
² <https://www.wwf.eu/?8350966/EU-leaders-seal-deal-for-groundbreaking-law-to-stop-deforestation>
³ <https://glp.earth/news-events/blog/telecoupled-implications-new-eu-regulation-deforestation-free-products-eudr-0>
⁴ <https://doi.org/10.1016/j.forpol.2013.10.004>
⁵ https://ascii.ac.at/wp-content/uploads/CS3D_Policy_Brief_dt.pdf
⁶ <https://de.apdbrasil.de/die-europaeische-entwaldungsverordnung-eudr/>
⁷ <https://doi.org/10.1146/annurev-resource-110119-025703>

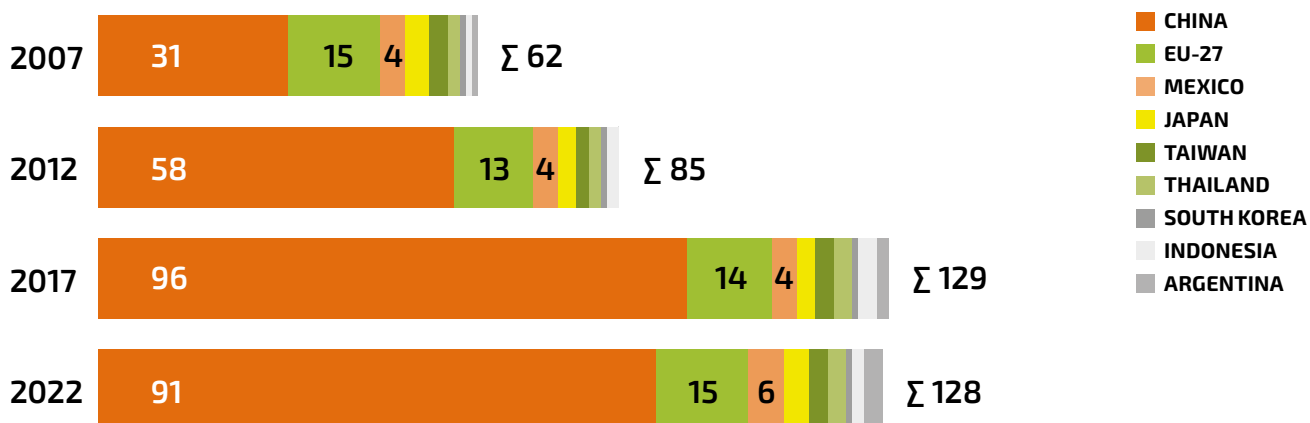
Demand of a growing world population



Source: USDA Long-Term Projections, 2023, FAO-OECD Agricultural Outlook 2021-2030

Worldwide soybean imports 2007 – 2022

In million tons

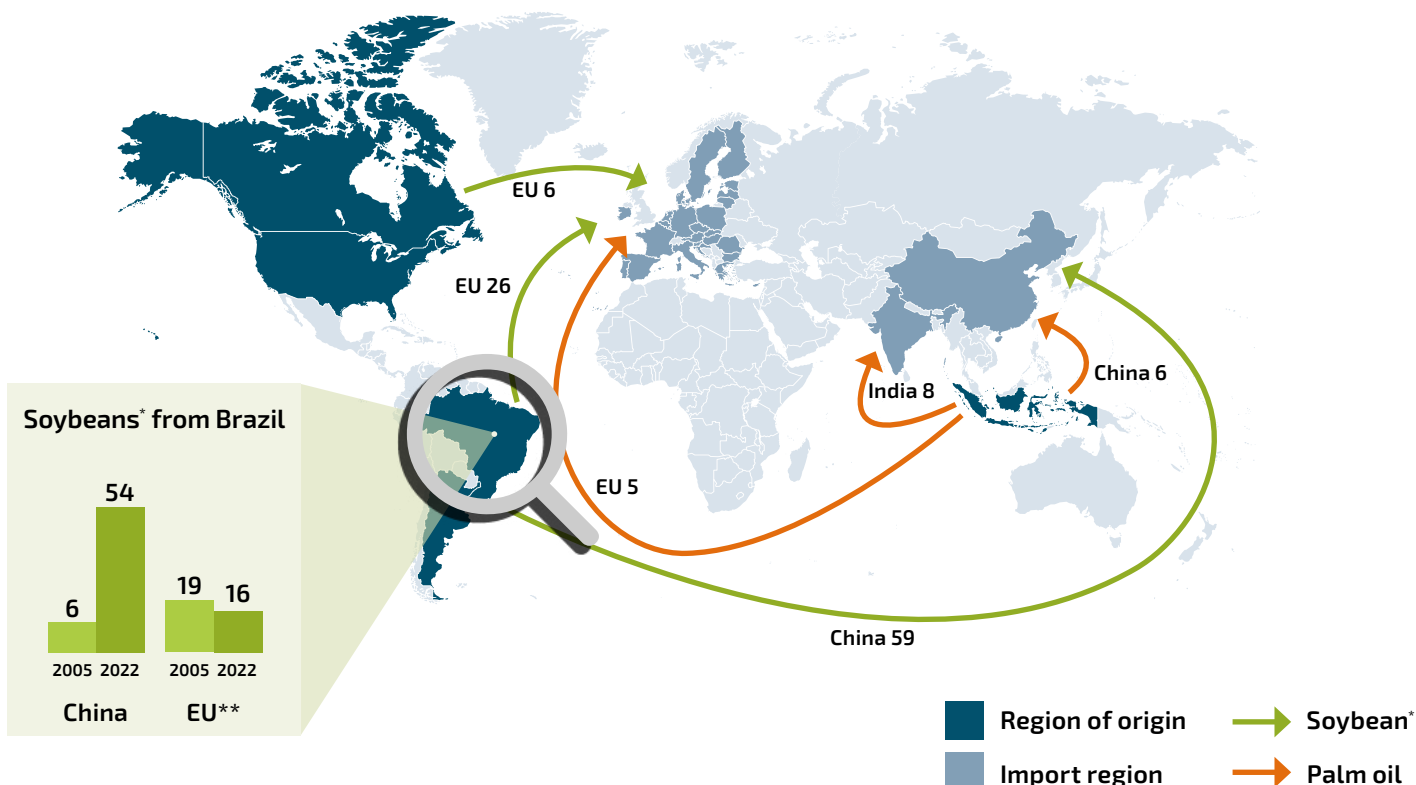


Source: Oil World © OVID 2023

“The demand for palm oil and soy is growing worldwide, especially in China. And the trend is rising. The EU is therefore ill-advised to raise the barriers to importing these raw materials excessively. This jeopardises Europe’s supply and at the same time weakens the European commitment to greater sustainability in regions with a high risk of deforestation.”

Grain Club

Selected flows of trade of Soybean* and Palm Oil in 2022



Source: Oil World 2023 | Figures in million tons

* Soybeans and soybean meal, expressed in soybean meal equivalents (1 metric ton of soybeans = 0.8 metric tons of soybean meal)

** 2005: EU-25, 2023: EU-27

INVITATION

GLOBAL FORUM FOR FOOD AND AGRICULTURE (GFFA) 2024

Food systems of the future: Together for a world without hunger

Expert panel of the Grain Club

Ready, steady, go! Towards a successful implementation of the EU Regulation on deforestation-free supply chains (EUDR) together

**Thursday, January 18, 2024,
at 4:00 – 5:30 p.m.**

CityCube Berlin, Messedamm 26,
14055 Berlin, Germany and via
livestream at www.gffa-berlin.de/en

Functioning agricultural supply chains are crucial for global food security. The current crises are highlighting the fragility of commodity flows. The climate crisis and loss of biodiversity show

how important it is to make global supply chains sustainable. Global food security and sustainability must therefore be linked. The EUDR is a key project in this respect. The ambitious commitments entail immense challenges for everyone involved. Where do we stand in terms of implementation? What hurdles need to be overcome before the launch on 30.12.2024? The perspectives of smallholder farmers, NGOs and multi-stakeholder

partnerships will be included as well as the perspectives of market participants, politics and administration. We look forward to a joint exchange at our [expert panel!](#)

**Discuss with us on X(Twitter) under
#ProtectForests, #EUDR and #GFFA.**

Information and registration:
gffa-berlin.de/en

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