

Global Canopy response to the EU consultation on deforestation and forest products

December 2020

Global Canopy welcomes the European Commission's commitment to presenting a legislative proposal and other measures next year to avoid or minimise the placing of products associated with deforestation or forest degradation on the European market and to encourage forest-friendly imports and value chains. We also welcome the opportunity to input on the potential regulatory and non-regulatory policy options being considered.

Summary

We urge the European Commission to:

- Take a broad approach to defining deforestation
 - Legislation should include other carbon-rich and biodiverse habitats including wetlands and savannahs
 - Legislation should include both legal and illegal deforestation, simplifying monitoring and reporting, and creating a level playing field for companies
- Include a broad range of commodities to avoid spill-over impacts;
- Include all companies in relevant supply chains, regardless of company size or their position in the supply chain;
- Recognise the crucial role played by financial institutions and include appropriate due diligence requirements for finance.

About Global Canopy

Global Canopy works to end tropical deforestation in supply chains by focusing on the production, trade and financing of the key commodities responsible for agricultural expansion into tropical forests. We know that the current climate and biodiversity crises cannot be addressed without ending tropical deforestation.

We partner with the Stockholm Environment Institute (SEI) to deliver [Trase](#), mapping commodity supply chains from tropical forest regions through to the country of import, identifying the links to environmental and social risks. Our [Forest 500](#) initiative assesses

the 500 most influential companies in forest-risk supply chains on their deforestation policies, and progress on implementation.

The problems of deforestation and forest degradation

Demand for forest-risk commodities from the European Union (EU) member countries is a significant driver of tropical deforestation, with imports of agricultural and forestry commodities such as palm oil and soy associated with over 200,000 hectares of tropical deforestation between 2015 and 2017. The EU deforestation footprint is second only to China in international consumer import markets. Within the EU, deforestation risk is concentrated in the largest economies - Spain, Netherlands, Italy, Germany, France, Belgium, and Poland (Pendriil et al 2020).

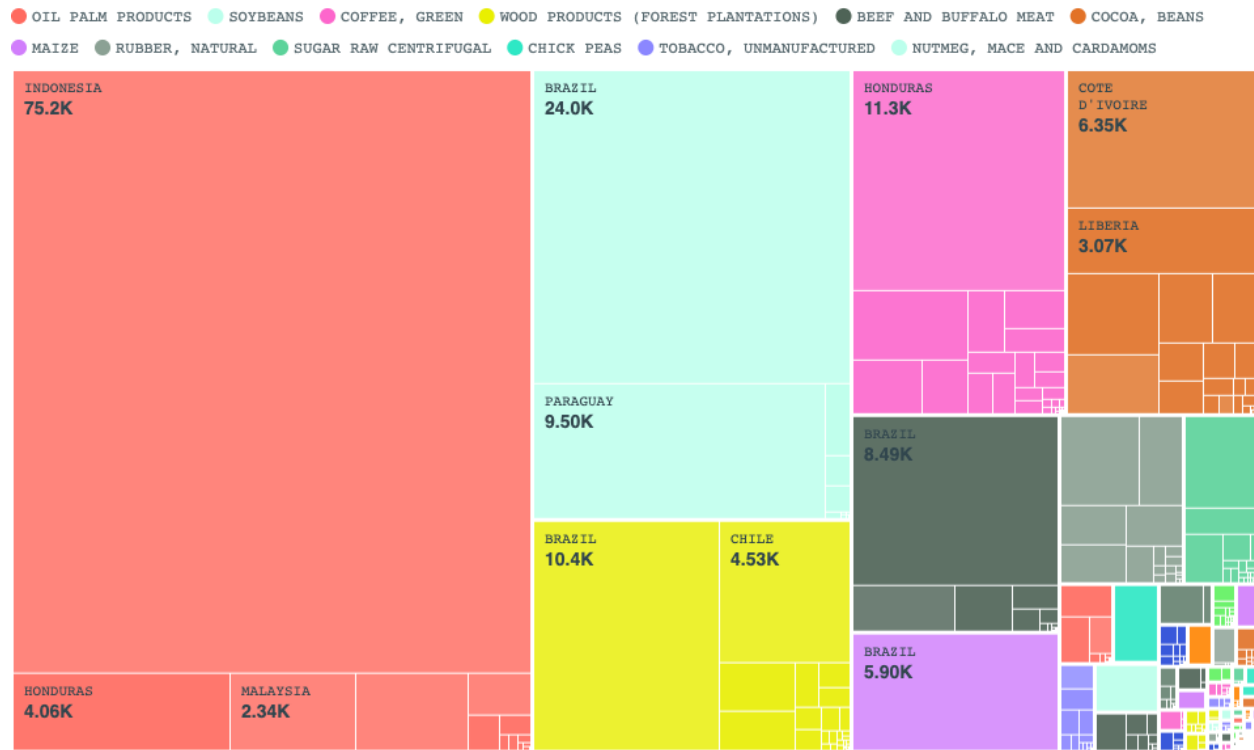
While imported tropical deforestation is linked to a wide number of commodities, 90% is concentrated in six commodities: palm oil, soybeans, wood products, cocoa, coffee and beef. Furthermore, data from Trase shows that the deforestation risk associated with the EU's imports of soy, beef and palm oil are concentrated in a handful of the production regions that supply the EU.

These imports are used across a number of different industries, with palm oil used in the chemical, pharmaceutical, food and beauty industries. Soy imports are primarily used for animal feed, while cocoa and coffee are used by the food and drink sectors. The inclusion of commodities in processed products (e.g. embedded soy feed in meat imports or palm oil in biscuits) is also relevant for the product scope.

The deforestation associated with EU imports has a significant impact on climate emissions, contributing [105 million tonnes](#) of carbon dioxide a year.

The impact on nature is harder to calculate, but clearing forests for agriculture has been shown to have a devastating impact on species numbers in tropical countries (see: <https://www.sciencedaily.com/releases/2015/08/150824064927.htm>)

Figure 1 Imported deforestation emissions by the EU product and country of origin in 2017 from Pendrill et al. (2020)



Governance for demand-side measures

Global Canopy believes that EU-level legislative action is needed to create a level-playing field for companies operating in Europe, and to prevent the market for commodities linked to deforestation simply shifting around the EU.

An EU-wide requirement for companies to ensure products are not linked to deforestation will also send a strong message to producer countries, and to global markets, about the urgent need for action to address tropical deforestation.

Potential demand-side measures and their impacts

a. Product and forests scope

While we know that most of the risk of tropical deforestation in EU imports is currently due to a handful of key commodities from a handful of countries, we argue that

legislation should apply to a broad range of commodities to ensure that measures against these products do not simply lead farmers to shift to other crops, while continuing to expand into forest areas.

Evidence from Brazil shows how the effects of leakage and indirect land use change can negate many positive impacts from existing zero deforestation commitments made by companies. In Brazil, the combined impact of soybean expansion onto pasture, and pasture onto native vegetation in both the Amazon and Cerrado biomes raises questions about the displacement of impacts from one commodity and biome to another. [Analysis](#) by the Trase team shows that while the majority of soy expansion across Brazil has occurred on existing pasture, the total area of land used for pasture has remained more or less unchanged. This is due to the conversion of old pasture to cropland (mostly soy) being offset by continued expansion of new pasture into forest and savannah. This dynamic suggests that crop expansion – and soy expansion in particular – is playing a key, indirect role in driving deforestation, despite the success of the Soy Moratorium in the Amazon in significantly reducing direct conversion of forest for soy since 2008. These results also cast doubt on any conclusion that agricultural production is being decoupled from deforestation in the Brazilian Amazon and the Cerrado (Trase 2020). To address indirect land use change and leakage, legislation needs to go beyond specific commodities, ecosystems and regions.

Legislation also needs to apply to all products potentially linked to natural habitat loss, including processed products that can contain embodied deforestation (e.g. chicken, leather products and wooden furniture).

b. Company scope

It is also important that measures apply to companies at different stages of the supply chain, and not just to companies directly responsible for imports. Incomplete supply chain coverage has been [identified as a potential loophole in the EU Timber Regulation](#), where due diligence requirements only apply to operators first placing timber products on the EU market. Legislation needs to apply to businesses across the supply chain. A simple threshold on business size is likely to miss smaller companies that import significant quantities of agricultural commodities, or that import small amounts but from particularly high-risk areas.

Global Canopy argues that due diligence legislation should also include investors and financial institutions, as recommended in the OECD guidelines. While banks and investors are already required to carry out due diligence, few consider the risks linked to deforestation. The Forest 500 shows that 102 of the 150 financial institutions (68%) with the highest exposure to deforestation risk have no policies, including BlackRock, Aviva

and the Bank of New York Mellon. This should be made an explicit requirement, given that their financing plays a crucial role in driving deforestation and other habitat loss.

c. Issues scope - beyond legality

Legislation must also take a broad definition of “deforestation” and not limit the requirements to “illegal deforestation” (as proposed by the UK government). Many vulnerable ecosystems lack sufficient legal protection, or protection is fragile. For example, in Brazil some [88 million hectares](#) of forest could be legally cleared under current laws and there have been repeated efforts to weaken Brazil’s Forest Code, potentially putting more forest at risk. Indonesia has recently weakened requirements for timber exporters, increasing the risks of deforestation there. Indeed, a requirement linked to legality could create perverse incentives to further weaken existing laws in producer countries.

Assessing illegality creates an additional burden for companies, and is difficult in some regions, where data gaps and complicated legislation make it impossible to identify where deforestation is illegal. An [analysis](#) of illegal deforestation in Mato Grosso, Brazil, conducted by Global Canopy’s Trase initiative, cannot be repeated for other states in Brazil for example, due to a lack of data.

Current gaps in supply chain data must not become a barrier to action, or a reason for delay, but rather companies must act on the basis of the best available data, taking a pragmatic approach in identifying key areas of risk.

Companies have asked for a level playing field, with all companies required to meet the same requirements on deforestation-free supply chains. Many companies operating in the EU are seeking to eliminate all deforestation from their supply chains - our Forest 500 assessment found that 187 of the 350 most influential companies in forest-risk supply chains operate in the EU, and that 151 of these companies had a deforestation policy for sourcing that went beyond legal deforestation.

The definitions laid out in the consultation should also include broader issues around environmental and social justice, which are closely linked with issues of deforestation. Agricultural expansion for forest-risk commodities often has harmful impacts upon local populations, and indigenous and local communities around the world face land invasions, violence and – in some cases – assassinations for defending their territory against deforestation. Tackling deforestation without considering social and other environmental issues could result in unintended negative impacts. Addressing social

issues with deforestation is aligned with the approach of the Accountability Framework and other leading initiatives.

A role for due diligence

Global Canopy supports the proposal to introduce mandatory due diligence requirements for companies and financial institutions to ensure that the commodities in their supply chains are not linked to deforestation, and our inputs mainly focus on the need to ensure that such legislation achieves the intended aims.

In order to be effective, due diligence systems must be tailored to the specific context (i.e. region and commodity) as impacts are affected by location, production system, forest type, and socio-economic and cultural context-dependent factors. Careful guidance on how to implement a policy can be just as important as the policy instrument chosen.

Legislative measures also need to be backed up with an enforcement mechanism. If the proposed measures have no teeth, they are unlikely to drive the desired level of change.

Other demand-side measures

While the Commission also proposes other measures, such as labelling, certification or consumer information campaigns to support consumer choice, evidence suggests that such measures cannot deliver the scale of change needed in the timeframe required,

Policy mix critical

Other policies can be potentially effective in supporting a shift to more sustainable production. For example, EU and national government action to promote legal and sustainable production in trade and investment agreements can be effective in helping to encourage a more sustainable approach in producer countries. Development assistance and green diplomacy can also be valuable, helping to build policy legitimacy and support.

It is important that the EU continues to support producer countries, and particularly small farmers, in the transition to a more sustainable farming system, while sending a clear message to producer country governments that there is no market for produce linked to deforestation.

The high concentration of deforestation in a handful of localities can support much more targeted and effective responses in achieving the goal of reducing EU impacts on forests. Half of the tropical deforestation for soybeans, beef and palm oil takes place in less than 1% of the production regions (Trase maps supply chains to the municipality level in Brazil, to the district in Indonesia, and to department level in Paraguay and Argentina). For example, proposed development and cooperation assistance to producer regions could be targeted in these frontier regions to support and strengthen conditions for sustainable production including governance, technical capacity, investment in intensification and restoring degraded land, and compensation. Similarly, risk assessments by companies in any due diligence measure would be expected to be focused in such regions and supporting investments in systems for monitoring, reporting and verification, such as through the proposed EU Observatory could focus on these regions.

Equally, it is crucial that the EU ensures a joined-up approach across its own policies - supporting action to address deforestation in other trade and economic policies, such as the Mercosur trade agreement and the review of the Renewable Energy Directive.

Concluding remarks

In conclusion, we urge the European Commission to bring forward due diligence legislation that applies to all forest-risk commodities and all types of carbon- and biodiversity-rich habitat. This is crucial to prevent spillover issues.

Evidence shows that a voluntary approach to addressing deforestation has not worked and that regulatory measures are required and specifically mandatory due diligence has the potential to effectively address imported deforestation.

We believe that to be effective, due diligence measures must apply to large and small companies, and must include the financial sector, whose role in funding deforestation is often overlooked.

Due diligence measures must also cover human rights issues, recognising the risks for communities in forest areas, and for workers in forest-risk commodity supply chains.

To ensure that these measures drive the scale of change needed, companies and financial institutions must be required to report on their actions, and to face serious sanctions if they do not comply. Clear guidance, following existing frameworks, as for example provided by the Accountability Framework, must be given on the information to be disclosed.

Due diligence measures alone will not be enough, and a mix of policy measures and support will be needed, including financial support for a transition to sustainable production in producer regions, investments in data and guidance to support implementation.

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