Much needed EU Deforestation Regulation encounters serious setback

The decision from the EU Commission to push for a delayed implementation of the EUDR did not come as a surprise. Pressure was building from a growing number of stakeholders. But more time alone will not address all the problems. Governments and companies have further work to do to make the EUDR an effective tool to curb climate change and biodiversity loss

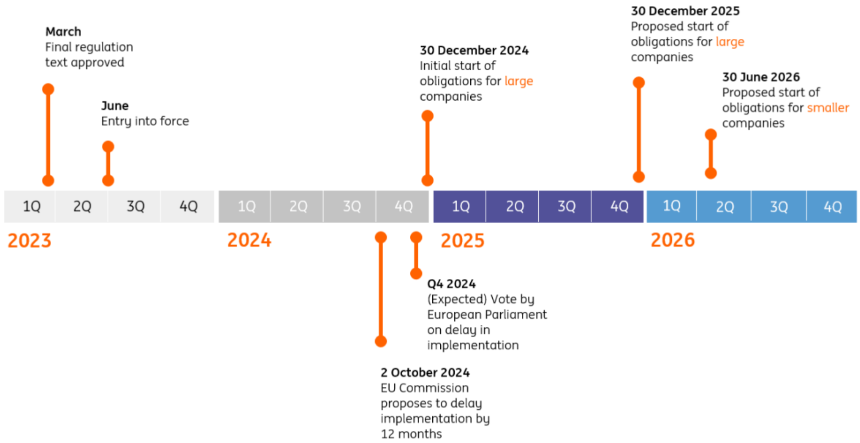
Everything becomes fluid under pressure

This Dutch proverb applies to the implementation date of the EU Deforestation Regulation, which was originally scheduled for the end of 2024. From that date onwards companies would have had to prove that certain commodities destined for the internal market are not connected to recent deforestation.

Over the past year, there have been repeated calls for a delay from a broad range of stakeholders including EU trade partners, industry organisations, and politicians in member states like Germany and Austria. The EU Commission's proposal to delay the implementation date to 30 December 2025 is the most tangible outcome of that pressure. While this proposal still needs to be approved by the EU Parliament, it is a disappointing outcome to many, including farmers and companies that were (almost) ready. For example, for companies that already contracted more expensive compliant commodities it remains to be seen whether they can still sell them at a premium.

Updated timeline for the implementation of the EU Deforestation Regulation*

Overview of key moments



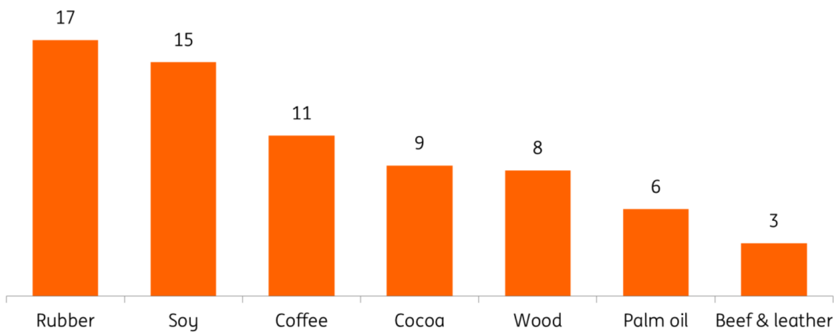
Source: European Commission, Reuters, ING Research, *regulation entered into force on 29 June 2023

Regulation affects €70 billion in imports

In the debate around the EUDR, it's clear that the stakes are high from both an environmental and an economic perspective. As we've highlighted before deforestation is a major driver of climate change and biodiversity loss. The EU's agricultural imports that are in scope of the regulation amount to 70 billion euros, but only a small part carries a risk of recent deforestation. The regulation also affects EU companies that process these commodities into consumer goods and export them to countries outside of the EU, and it affects EU producers of the raw materials that are in scope of the regulation (mainly the forestry sector).

EU imports of commodities and derived products in scope of EU deforestation regulation equal €70 billion

Value of EU imports, billion euro, 2023



Source: Eurostat, ING Research

The main concerns

Over the past year, different stakeholders have brought forward a range of concerns, which can be grouped as follows.

1. **Implementation challenges.** Companies have complained about limited guidance and documentation from the EU Commission and expressed concerns about the suitability of the IT system that they need to use to submit data on shipments.
2. **The position of smallholders.** NGOs and exporting countries stress that in the current set-up, there is a risk that larger companies will exclude smallholders from their supply chains.
3. **Legal and trade-related concerns.** The regulation requires geolocation data to be shared to ensure that commodities can be traced back to a specific plot of land, which can be problematic if that is not allowed under national regulation. Meanwhile, multiple countries, including Australia, Brazil, Indonesia and Malaysia consider the EUDR a technical barrier to trade.
4. **Administrative burden and costs**. It requires more paperwork to prove that products put on the EU market cannot be linked to (recent) deforestation.

Will buying more time resolve these concerns?

In our view, more time can certainly help to overcome the implementation challenges. The EU Commission did share additional guidance last week and the dedicated IT system will soon be available for companies. Given that preparation was in full swing, we expect that additional time will also ensure that companies' best practices become more widely known.
When it comes to the position of smallholder farmers, more time does give more opportunities to inform them about the requirements. But knowing what is required has limited value if you lack the means to become compliant. So besides time, financial and technical support to smallholders is just as important. While this is also acknowledged by the Commission, it takes time for funds to trickle down to farmers and cooperatives.

Concerns around trade barriers and legal issues are more fundamental and more difficult to resolve with just extra time. The EU has more influence when it is the main buyer of exports, such as cocoa from West Africa. However, for products like beef from Australia and Brazil or soy from the Americas, where the EU is not the primary trading partner, it is harder for the EU to set higher standards on its own. That also explains why the EU proposes to intensify the dialogue with the other countries concerned.

And finally, more time will not solve the issue of the administrative burden. It's simply the downside of steering markets in the desired direction. Still, as time passes, companies will also go through a learning curve in terms of how to comply with the regulation in an efficient way.

Some uncertainty remains

For now, a lot of the uncertainty in the market around the EUDR is gone. The proposal to start applying the law from 30 December 2025 onwards seems likely to be approved by the European Parliament before the end of the year. After all, there was very strong support in the EU parliament, as well as the European Council for the law back in 2023. Still, some politicians might see the vote as a way to make changes to the regulation. That may not be very likely at the moment, but we have seen some last-minute political turns in the EU's environmental legislation over the past few years so it cannot be completely ruled out either. This means all eyes will be on members of the European Parliament when they cast their vote on the proposal to extend the implementation date.

Meanwhile, deforestation continues. And with a delay in the EUDR implementation date, we fear that many crucial initiatives to reduce deforestation will be on hold at least until EU lawmakers shed more light on the final direction that the EU is taking.

Author

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com