



## **Response to Consultation on “Deforestation and forest degradation – reducing the impact of products placed on the EU market”**

With reference to the European Commission’s consultation documents, which can be accessed [here](#).

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The contributors to this response are listed in Annex A with a disclosure of their backgrounds and interests.

The Stockholm Environment Institute (SEI) is an international non-profit research and policy organization that tackles environment and development challenges. Headquartered in Sweden, the institute has centres in Estonia, Thailand, Kenya, UK, US, and Colombia. We connect science and decision-making to develop solutions for a sustainable future for all. Stakeholder involvement is at the heart of our efforts to build capacity, strengthen institutions and equip partners for long-term change. Our knowledge and findings are accessible: as our own open access material, in leading academic journals, and repackaged for effective decision support.

## Key recommendations

- Legislation is vital to level the playing field, to set an unambiguous sustainability agenda, motivate and enable leadership and to provide much-needed coherence between the actions and policies of public and private actors regarding their operations in the EU and abroad. Given the importance of the EU as a trading bloc, it is important that the agenda is set at the EU-wide level, rather than relying on member state level actions.
- Legislation should cover both illegal **and** legal conversion to have a greater impact, without significantly increasing costs (if at all). It will also ensure that more uniform sustainability criteria are applied across and between global supply chains.
- Legislation should cover all natural habitats and all companies to help limit the displacement of impacts to non-forest habitats or into the supply chains of other companies.
- We have enough data to start a process of effective policy design and implementation and allow companies to undertake effective risk assessment.
- The EU has a critical role to play in supporting coordinated curation of data, identifying gaps, and ensuring that they are accessible.
- Negotiations of free trade agreements offer the opportunity to work with producer countries to establish the necessary supporting environment for companies to operate more sustainably. We highlight the important role of:
  - coherence between EU-focused policies and those that interact with the legislative environments of producing or processing regions linked to EU supply chains;
  - Sustainability Impact Assessments in providing guidance to trade agreement negotiations; and
  - mainstreaming environmental safeguards in Free Trade Agreements, alongside conflict resolution and effective sanction mechanisms.
- The EU should heed calls for closer alignment between the Sustainable Development Goals and the policies and principles of trade and investment, thereby setting international norms and standards.

## The European Commission setting a progressive sustainability agenda

We are pleased to see the European Commission (EC) setting a progressive agenda for the removal of environmental harms that Europe causes beyond its own borders. The current framing of the consultation points towards this being more ambitious in scope than the UK government proposals on [due diligence for forest risk commodities](#), on which we have also provided a [comprehensive response](#). With the enormous political and purchasing power of the European Union (EU), this proposal to extend sustainability criteria to international supply chains is a natural extension of an environmental policy agenda that aims to drive improvements in sustainability within Europe. However, there are some important considerations required in the development and implementation of any legislation or demand-side measures.

### Legislation should have a broad scope

We emphasise **three key messages** from [Persson et al. \(2020\)](#) on policy scope:

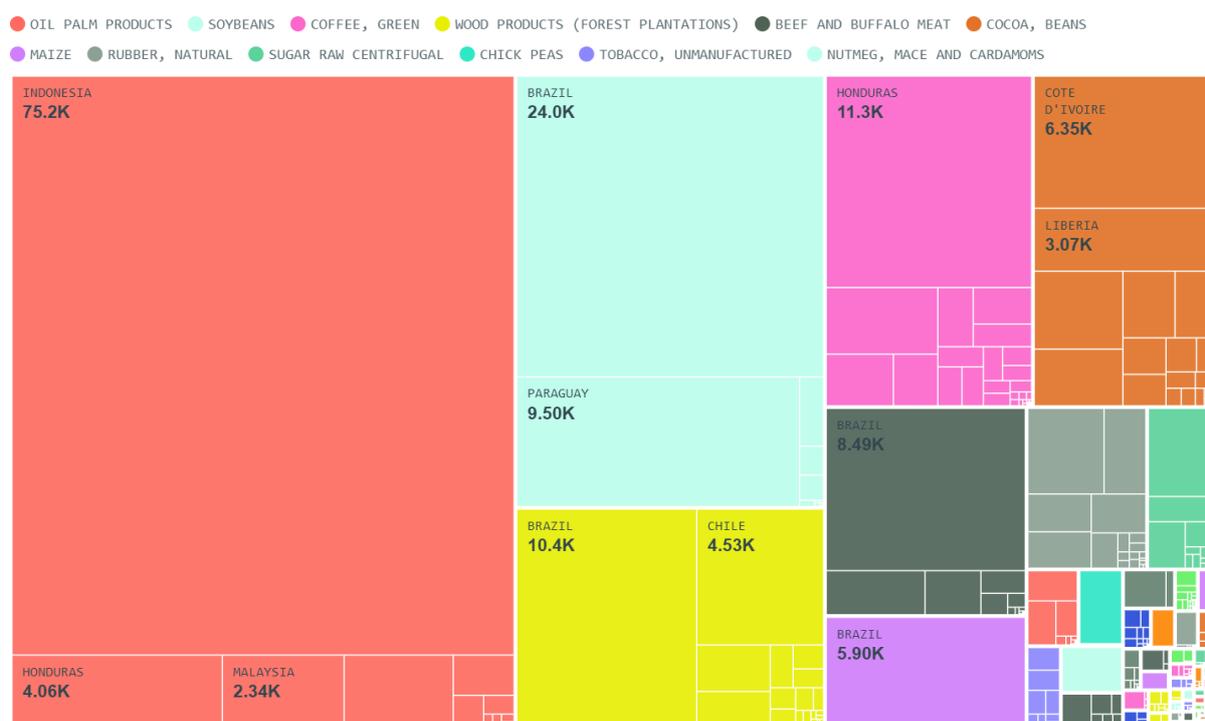
1. **Assessment and disclosure of both legal and illegal conversion.** Focusing on local laws around the legality of deforestation and degradation is not only insufficient to promote *sustainability*, as required by law in EU trade agreements ([EC 2020](#)), but rather, it risks the very opposite: a 'race to the bottom'. Without mitigation, this approach could perversely incentivise a weakening of environmental protections in producer countries. Moreover, assessing the legality of conversion is notoriously difficult and, potentially, more burdensome than assessing all conversion ([SEI 2020](#)).
2. **Legislation should cover loss of all natural habitat, rather than just forest.** This will help avoid environmental impacts being displaced onto other ecologically important yet vulnerable non-forest ecosystems, such as highly biodiverse savannahs or wetlands. It also avoids ambiguity, given varying legal and practical definitions of 'forest'.
3. **Legislation should apply to companies across the value chain.** This can be achieved by extending legislation to cover not just the raw material, but all products linked to natural habitat loss via their supply chains. This would include products that contain 'embodied deforestation', such as meat from livestock fed on crops grown on converted land. Similarly, obligations should be imposed upon the financial institutions and investors that provide underpinning capital.

This broad scope helps ensure that impacts are not displaced elsewhere. It also helps spread the cost burden of implementation across all those deriving value from deforestation risk commodities, whether they interact with those commodities directly, are a small part of a long value chain - for example deriving value from processing a commodity that is both produced and consumed outside of the EU - or just provide underpinning financial capital.

### Data availability and limitations

Too often, supply chain actors and policy makers can point to a lack of data, lack of transparency, or uncertain sourcing regimes both as barriers to understanding the true impacts of supply chains and, more importantly, as barriers to taking steps to mitigate potential environmental harms. This points to the critical role of data, and we welcome the recognition of the EU's critical role in supporting coordinated curation of data, identifying gaps, and ensuring that it is accessible. An important dimension of this is improved

harmonization and transparency around company and financial institution reporting. Legislation requiring greater transparency by businesses can drive this. **Yet we also have tools and data that allow us to start acting now** and therefore the development of harmonised reporting systems to support this legislation, whilst important, should not prevent immediate action. We know the commodities driving tropical deforestation, and the country-level consumption driving it (Figure 1; Pendrill et al. [2019a](#), [2019b](#), [2020](#)). For specific deforestation-risk commodities, we also have the ability to map sourcing locations - and associated environmental risks - at high spatial resolution, as well as the actors and consumers governing and driving this demand ([trase.earth](#); [trase.finance](#)). Such data and tools can help empower a transition towards more sustainable commodity production, trade and consumption by both: 1) enabling market actors – including commodity buying companies as well as investors and lenders - to better manage their supply chain risks, and 2) strengthening accountability around sustainability goals, by the companies themselves and by governments in producer and consumer countries.



**Figure 1.** Tropical deforestation associated with imports into the EU28 for 2017 (203,000 ha), split by commodity and origin (from [Persson et al. 2020](#), data from [Pendrill et al. 2020](#))

### The EU needs legislative acts to drive coherence between policy agendas

An ability to assess and expose the EU’s supply chain dependencies on deforestation, however, will only get us so far. Awareness of the impacts of commodity production and consumption has not driven sufficient voluntary action to date. We need legislative acts, formalized into EU law, to drive coherence between policy agendas and actions and to set a level playing field between EU companies and between member states. In this, we emphasise the points made by [Persson et al. \(2020\)](#) that removing natural habitat conversion from EU supply chains needs both policy mixing - recognising that no single policy is sufficient to eliminate unsustainable consumption and production - and close actor engagement - critical to successful policy implementation. The latter recognises that supply

chain actors include motivated and willing participants as well as companies who are already taking a lead to develop environmental monitoring and reporting capacity for their supply chains and can share experience and best practice.

Policy sequencing to gradually extend the scope of legislation over time will provide for a more immediate impact, by allowing the impacts of companies and commodities most exposed to deforestation risks to be addressed early. A tiered approach can be used to set differing levels of expectation and punitive measures for companies based on their size and position in the value chain. This provides for the eventual inclusion of all companies that derive value from commodities that originate from converted natural habitat, thereby minimising the potential for impacts to be displaced into other regions, or into the supply chains of other companies.

### **Free trade agreements could be used to far greater effect to promote more sustainable supply chains**

Legislation to minimise the EU's international environmental impacts must not only target the supply chain actors that derive value from the supply chain; it must also place a burden of responsibility upon governments to provide the necessary supporting environment for actors in the supply chain - from producers and traders, through to manufacturers and retailers. In addition to policy directed towards due diligence and reporting obligations of companies, the insertion of environmental safeguards in the development and implementation of free trade agreements (FTAs) has a crucial role to play in securing more sustainable supply chains. Through the [Green Deal](#), the EU has confirmed its commitment to promoting trade as a tool to foster sustainability, yet evidence to date suggests that EU trade is a long way from achieving net positive outcomes for sustainable development ([Kettunen et al 2020](#)). We therefore propose three interlinked measures that can be taken to strengthen the existing instruments and set an unambiguous sustainability agenda:

- **Greater policy coherence is critical.** Given the extension of focus from environmental impacts of EU-produced commodities to those entering EU supply chains from abroad, policy coherence is vital to set a clear direction for companies and policy makers. This coherence must extend to policies that influence agricultural production and consumption in the EU, international commitments to the climate and sustainable development, and to the framework for establishing FTAs ([Think Sustainable Europe 2020](#)). Cross-cutting approval boards and advisory panels representing the diversity of Directorates-General are suggested to ensure oversight of policies applying to production within the EU ([Think Sustainable Europe 2020](#)), but could also ensure a more level playing field with those sourcing from outside the EU.
- **Invest in standardised Sustainability Impact Assessments.** Sustainability Impact Assessments (SIAs) should be the starting point, underpinning the negotiating position of the European Commission as it establishes FTAs. However, SIAs currently vary widely in their depth and focus and, worse, there are no clear guidelines stipulating how recommendations should be integrated into the FTA ([Kettunen et al 2020](#)). Given the value of FTAs to the nations involved, greater standardisation and investment in SIAs is encouraged, and greater clarity on their relative importance to the agreement and how recommendations should underpin negotiations.
- **Environmental safeguards need to be better integrated into FTAs.** Currently, sustainability considerations appear in the 'Trade and Sustainable Development

(TSD) Chapters'. There, they are poorly integrated into the provisions of the agreement and have been recently identified as "insufficient" to address the increased risks that are associated with the EU-Mercosur FTA ([Imazon 2020](#)). Critically, for the TSD chapters, non-compliance is not enforceable with dispute settlement procedures or financial penalties ([Kettunen et al 2020](#)). Such a lack of accountability sends a weak signal to supply chain actors in both producing and consuming countries regarding the direction of travel and long-term sustainability agendas, which then limits investment in the procedures and tools to better monitor their impacts. Every FTA must set clear environmental safeguards that include conflict resolution and effective sanction mechanisms.

### **Opportunities for international leadership**

Policy makers can be reluctant to explore measures that discriminate traded products based on features of their production, such as whether they were grown on recently cleared land ([Forest Trends 2019](#)). Despite successful examples of sustainability concerns being used to impose trade restrictions ([Forest Trends 2019](#), [WEF 2020](#)), the prevailing view is that such measures create undesirable barriers to trade that would - or could - contravene World Trade Organization (WTO) rules ([Forest Trends 2019](#)). However, EU member states were among the 49 countries recently calling for WTO members to join together in efforts to "enhance environmental sustainability in international trade" ([Communication on trade and environmental sustainability 2020](#)).

The World Economic Forum too has called for better alignment between the policies and principles of trade and investment and the Sustainable Development Goals ([WEF 2020](#)). There are clear opportunities to leverage overseas development aid in support of the overlapping agendas around climate change, zero-deforestation and poverty alleviation. Coordination and coherence across political offices responsible for disbursement of such funds are vital. They can ensure that a push towards cleaning up EU supply chains takes place via the provision of support to producing regions and development assistance - and expertise - can play a role in that transition.

## Annex A. Background and disclosure of interests

This response includes contributions from:

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**Toby Gardner**, Senior Research Fellow, Stockholm Environment Institute, Headquarters  
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**Robert Watt**, Communications Director and Head of Strategic Policy Engagement, Stockholm Environment Institute, Headquarters  
**Chris West**, Senior Research Fellow, Stockholm Environment Institute York, University of York

Most of the contributors listed above work on a number of projects within roles at SEI, including the Trase initiative ([www.trase.earth](http://www.trase.earth)), the Global Challenges Research Fund (GCRF) Trade, Development and the Environment (TRADE) Hub ([www.tradehub.earth](http://www.tradehub.earth)) and the UK Global Food Security (GFS) IKnowFood project ([www.iknowfood.org](http://www.iknowfood.org)). Mairon Bastos Lima is a collaborator of the Trase initiative and is based at Chalmers University of Technology, Sweden.

As part of our work, over the past several years, SEI has actively engaged with UK and European-based organisations and activities seeking to respond to global deforestation and biodiversity loss. This includes the UK/EU's role in these impacts via consumption and international trade. SEI's activities include:

- Engagement in the UK's Global Resource Initiative (GRI), including supporting inputs into the 'monitoring and reporting' [recommendations of the GRI](#);
- Engagement with, and provision of data to, the UK Roundtable on Sustainable Soya, and [associated reports](#);
- Discussion with, and support of, the UK's Joint Nature Conservation Committee on the development of a consumption-based indicator for the UK's overseas environmental impacts linked to the 25 Year Environment Plan;
- Discussion with teams within Defra and BEIS on the role of the Trase initiative and data in supporting monitoring of agri-commodity-linked deforestation and supply chain risk;
- Support for the French Ministry of Environment data platform for embedded deforestation, the Belgian Government on the development of their deforestation-linked imports strategy, and support to the European Parliamentary Research Service on their value-added assessments of EU proposals on due diligence;
- Extensive academic research on quantifying the spatial and temporal linkages between commodity production, trade and consumption, including development of environmental impact and risk metrics (linked to land use change, biodiversity and climate), and research into the governance mechanisms which interact with sustainability commitments acting within, or on, these supply chains.