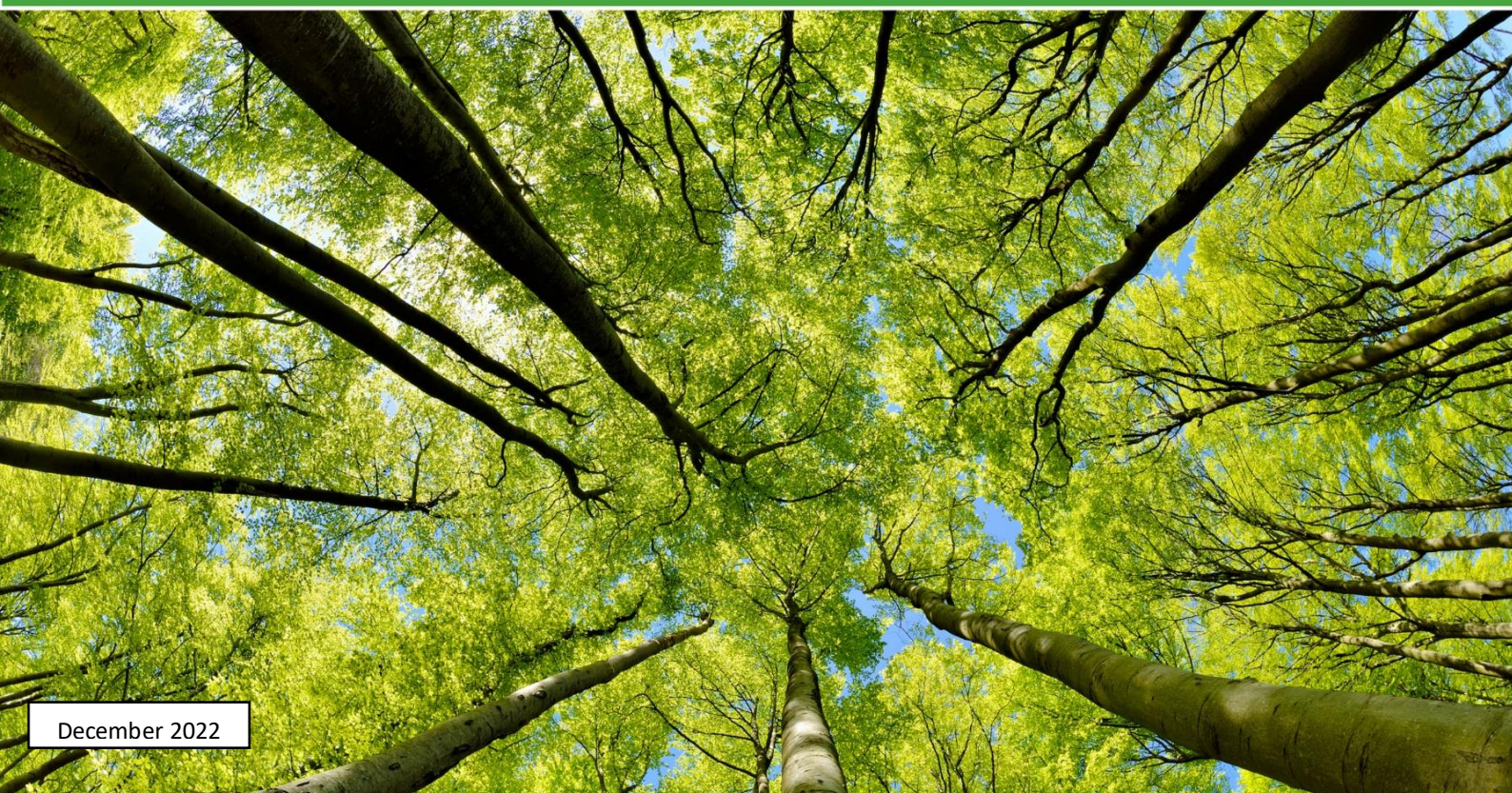
The Nature Conservancy
Europe

Implementing the EU Deforestation Legislation: The Critical Role of Incentives and Engagement with Producer Countries in Ensuring Success



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Summary

The Nature Conservancy fully supports the European Commission's Deforestation Regulation for its ground-breaking focus on curbing deforestation via commodity supply chains. It is imperative that this initiative succeeds with its goals and does so quickly. In implementing the Regulation, **the EU and its Member States have a historic opportunity to accelerate and ensure the long-lasting effectiveness of the Regulation's goals by also focusing on complementary incentive measures to address core drivers of deforestation in producer countries.** These measures, centred around shifting land use dynamics and making production more efficient, naturally discourage the need to expand agricultural expansion into forests and other natural ecosystems. The measures span public and private components, have proven political viability, and can attract strong backing of producer country governments – all of which we believe to be critical ingredients for the new law's success.

The Regulation introduces powerful new market signals, which The Nature Conservancy supports and will continue to promote across our global networks. The new Regulation should not only make major market segments of the EU consumption deforestation free, but also deliver a meaningful, international step-change to reduce deforestation in tropical countries. However, it should be recognised that mandatory due diligence requirements in one market alone may not achieve the overarching objective of curbing deforestation in its desired timeframe. Given the EU's 16% share of global commodity imports[i], this legislation is likely to have an impact on global trade patterns. However, if it is not also accompanied by a comprehensive range of complementary policy measures and actions, the Regulation alone may not be sufficient to fully eliminate risks that deforestation sourced products are diverted to other markets, enabling the continuation of damaging practices in key production areas. Without simultaneously pursuing complementary measures that deeply address the root causes of deforestation and exploring prevention opportunities, eliminating deforestation will take much longer to achieve.

5 Key Recommendations for Policy Makers

1. Fully utilise Article 28 in the legislation to deploy incentive measures centred around investment, technical expertise and institutional experience that will encourage sectorial shifts in producer countries, making commodity production more efficient and expanding it to already cleared lands to avoid further habitat conversion.
2. Ensure that the EU Observatory on Deforestation is at the centre of the implementation process, consults existing monitoring and verification platforms, and has the competency to harmonise definitions and develop methodologies to assess deforestation patterns.
3. Utilise and expand the EU Forest Partnerships as a key implementation tool for cooperation arrangements under this legislation to facilitate investment and information sharing arrangements with producer countries and promote sustainable commodity production alongside other forest conservation measures.
4. Strengthen cooperation frameworks with other major consumer markets in Asia and collaborate with UK and the US on their own initiatives to strengthen global efforts in promoting global deforestation-free supply chains.
5. Expand the scope of the legislation to include other Natural Ecosystems to fully transition the EU consumption from damaging production practices as soon as practical.

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This paper offers a range of complementary measures that incentivise producers to shift land use patterns. It illustrates why it is essential to secure such market shifts for ensuring full effectiveness and longevity of the new EU law – and offers examples as to how the EU can deploy such incentives through this innovative new legislation. It also offers options to strengthen the Regulation's monitoring and verification regime. Finally, it will focus on the need for proactive engagement with both producer and consumer countries to recognise the world-wide scale of the problem and be a catalyst for global change.

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About us

The Nature Conservancy (TNC) is a global environmental organization, dedicated to conserving the lands and waters upon which all life depends. Our policy work is informed by the over 600 scientists on our staff working on every inhabited continent. For over 20 years, TNC has been at the forefront of combatting deforestation around the world. In South America alone, we manage over 20 active projects on regenerative and conversion-free agriculture, focusing on three highly biodiverse and threatened biomes: the Brazilian Amazon, the Brazilian Cerrado, and the Gran Chaco of Argentina and Paraguay. Beyond South America, we have extensive research and conservation projects in Asia and Africa on greening supply chains and combatting deforestation. In Europe, with offices in Brussels, Berlin, and London, TNC seeks to work with the EU in rolling out its Green Deal agenda and support the implementation of its landmark legislation on deforestation.

Our approach is grounded in rigorous science as we seek to solve key deforestation challenges by developing breakthrough tools and ideas. We engage and advise companies that have direct relationships with producers, and the global platforms in which they participate. Similarly, TNC has close working relationships with local and state producer-country authorities implementing zero conversion commodities initiatives on the ground. We seek to use these relationships to build coalitions between governments, private sector, other environmental organisations, and local communities to explore mutually beneficial outcomes for the benefit of our forests.

Setting the scene: What does success look like?

The importance of the potential impact of this legislation cannot be understated. It sends a major signal to countries and industry that the world is moving on from damaging production practices and that the EU is serious about ending deforestation. If successfully implemented, this legislation will help tackle greenhouse emissions in tropical countries and in Europe, prevent further biodiversity destruction, promote sustainable agricultural benefits, help accomplish the EU's Green Deal goals, help EU member states fulfil their Paris agreement obligations, and set a precedent for other major economies to follow.

The Commission's initial impact assessment estimated that once implemented it will safeguard more than 71,920 hectares of forest and save at least 31.9 million metric tons of carbon emissions to the atmosphere annually by 2030[ii]. Although modest figures, these numbers can and likely will rise upon implementation of the Regulation. Additionally, these calculations do not capture the biodiversity benefits that successful implementation of this legislation would entail.

In 2019, the Commission adopted a communication on stepping up EU action to protect the world's forest, in which four out of five priority actions revolved around partnership and cooperation engagements with producer countries, financial and technical support, and better monitoring quality.[iii] Now, as the legislation enters its implementation phase, the EU can utilise those key actions to its full potential.

Article 28 of the legislation lays out the groundwork for future collaboration, including support and partnership with commodity producer stakeholders, multilateral organizations, and NGOs. It commits to establish a strategic framework for this engagement that will encompass cooperation mechanisms to address the deforestation at its core and transition into sustainable commodity production. The EU should use its existing EU Forest Partnership program to spearhead this process and develop productive relationship with producer countries and deploy measures that will make an impact on-the-ground. Additional initiatives coming out of the implementation of this legislation, such as the

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establishment of the EU Observatory on deforestation, further increases this potential to not only monitor its progress but set about a self-improvement process that will make the legislation accountable and therefore more effective.

Inclusion of other natural ecosystems is crucial for long term success of this legislation

A key enabling measure that will make this legislation immediately more impactful and alleviate its risks is the extension of scope of this Regulation to other natural ecosystems. The legislation will likely enter into force without covering crucial ecosystems such as grasslands, savannahs, and peatlands despite suffering significant conversion rates due to commodity demand. This means that some biologically rich biomes in which soy production has been on the rise over the years, full of carbon storage potential, such as the Cerrado or Gran Chaco, may not be fully protected by the scope of this legislation. Furthermore, by focusing solely on forests, there is a risk that production practices will migrate to other natural ecosystems once this legislation is implemented, increasing the already high conversion rates of non-forested conversion rates.

Although the Commission has indicated its willingness to revisit the scope of the legislation in the coming years, it is crucial and urgent that this expansion can occur **at the earliest opportunity**. By including these ecosystems, the EU can in short order decouple its consumption from these ecosystems and significantly contribute to its carbon emission and biodiversity goals.

Why incentives are essential: Benefits for the EU

Transforming agriculture and international supply chains for agricultural commodities will be critical for achieving global sustainability targets, including climate mitigation and adaptation, as well as biodiversity conservation. Whilst the core of the Regulation will act as a proverbial 'stick', pushing operators to ensure their supply chains are deforestation free, it is equally essential to focus on the 'carrots', or incentives for producers, promoting a long-lasting change in practices that destroy natural habitats. Incentives, even deployed independently of this Regulation, have the potential to reach the forest hectare protection and carbon emission targets included in the EU's initial impact assessment. These incentives integrate existing and emerging practices that focus on innovative opportunities that at their core change how agricultural commodities are sourced. Integrating incentives into the implementation of the legislation has a number of benefits for the proposed Regulation's overarching objectives.

Four key benefits of deploying incentive measures as part of this legislation

1. Investing in and supporting incentive-based structure introduces a set of additional measures to combat deforestation, accelerating progress to achieve the legislation's goals and contribute to the EU Green Deal objectives.

2. Incentive structures are some of the most direct ways to address the underlying causes of deforestation, ensuring long-lasting effectiveness on production methods.

3. Incentives have public and private components; value chains and global investors are increasingly evolving towards deforestation-free expectations and by focusing on incentive-based measures, the EU can help key private entities such as operators and traders directly affected by the due diligence rules to transition to zero conversion production.

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4. They are politically viable, enjoying widespread local and international support in producer and consumer countries, and can obtain backing from producing nations.

Shifting land-use dynamics: Incentives and innovative finance

The proposed legislation targets commodity supply chains, recognizing that agriculture production has an overwhelming impact on deforestation and other ecosystem degradation. The EU should consider opportunities that incentivize commodity producers to increase production through yield improvements and better use of already cleared or degraded lands in order to eliminate the need for ecosystem conversion. This may be the crucial piece of the puzzle. Whilst the EU's mandatory due diligence requirements will make its supply chains deforestation free, it is the shift in land use that will enact permanent change in production patterns, and – if introduced at scale – can be a viable pathway to end the need for deforestation in the tropics. Institutional, financial, and technical obstacles make this transition challenging, and as such the EU can use this legislation to accelerate the shift to more sustainable and efficient production, simultaneously helping it reach its goals.

For instance, **cattle production** in South American regions has currently very low productivity, and with already-demonstrated practices, cattle yields can be increased by three to five times current levels while maintaining a largely grass-fed, pasture-based system. We estimate that more than 36 million hectares in the Amazon are suitable for sustainable intensification[iv]. With the right investment in technology and efficient land management practices, cattle ranchers can improve animal stocking rates and pasture productivity with rotational grazing, regular soil fertility analysis, improved weed and pest control, and integrated crop livestock systems. In addition to avoiding the need to convert forest into pastures, adequate financing and technical assistance can lead to improved stocking rates on cattle production, leading to higher yields.

Soy production faces similar challenges and opportunities. TNC estimates that in the Cerrado there are approximately 18.5 million hectares of degraded pastureland suitable for soy production – more than double the amount needed for soy expansion by 2030.[v] This savannah-like biome registered a 20.9% net loss of its native vegetation from 1985 to 2021.[vi] Introduction of improved farming practices could also increase productivity on soy farms by up to 30%.[vii] The Gran Chaco has approximately 7 million hectares of existing pastureland that can be restored to profitable production levels.[viii] Shifting soy farmer production to economically restorable degraded pastureland, increasing productivity on soy farms, and restoring low-productivity pasture for soy production are excellent opportunities to shift farmers away from clearing native vegetation and forests. However, to capitalise on these opportunities, farmers looking to change their production methods are often deterred by the initial expenses, market prices that do not generate sufficient revenues to cover investments, and lack of access to emerging technologies.

EU is a significant importer of beef and soy from South America

According to a 2022 Chain Reactions Research report, in 2021 the EU imported 739,000 metric tons (MT) of beef and leather products, as well as about 32 million MT of soy and soy derivatives. South American countries are some of the largest contributors to these numbers, particularly when it comes to soy imports.

In 2016, 77 percent of the deforestation associated with soy imported into the EU originated from Brazil, namely from the Cerrado (70 percent) and the Amazon (7 percent) biomes. A similar pattern exists for beef: in 2017, 68 percent of the deforestation associated with EU imports came from the Cerrado (57 percent) and the Amazon (11 percent).

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Innovative Finance

While we can see that opportunities exist to shape land-use dynamics and incentivize producers to shift their production methods, there are number of institutional, financial, and technical obstacles to overcome to enable the transition away from land use conversion. This is why **innovative financial mechanisms** will play a crucial role to transform the sector, by generating capital to invest in innovative practices. These mechanisms should utilize public and private support to address the financing gap that prevents producers from changing productive systems and adopting conservation measures by exploring financial tools such as grants or long-term credit facilities. With global commitments to address deforestation and shifts in policy priorities (including the EU's legislative measures), there is a growing appetite from lenders and investors to explore opportunities to deploy incentive measures in key producer countries. While in recent years, we have seen the emergence of initiatives that support these mechanisms, multiple challenges remain. There is a need to scale-up the implementation of these practices to cover a greater area and number of crops, to reinforce technical assistance and ensure their effectiveness, and to strengthen institutional support for these efforts.

Innovative Finance for the Amazon, Cerrado and Chaco (IFACC)

In 2021, TNC in partnership with the Tropical Forest Alliance (TFA) and the United Nations Environment Programme (UNEP) launched IFACC. This initiative exemplifies a diversified and innovative financial mechanism that brings together leading banks, companies, investors, and asset managers to signal a collective commitment to lend and invest more in these areas. The initiative requires a commitment from each signatory detailing what they will contribute to expanding finance in key sectors. IFACC works with signatories to implement and scale-up new finance mechanisms, including support on environmental and social objectives, connections to concessional capital groups and other capital providers.

Since its launch, thirteen financial institutions and agribusiness companies have announced a commitment worth $3 billion – with more than $200 million in disbursements by 2022 – to soy and cattle production that is free of deforestation and land conversion in South America.

Another opportunity is to leverage growing interest in carbon impact to support sustainable production models. An obvious opportunity is the creation of innovative mechanisms to monetize the carbon value of native vegetation that is maintained on farm properties beyond the legal requirements. In the short term, however, these market and non-market mechanisms are increasing slowly and may not provide enough financial leverage to offer sufficient incentives for farmers. Even if they did, markets can often be too complicated for a producer to quickly implement carbon credit framework into its operation.

However, given the continually increasing rates of deforestation, there is an added sense of urgency to expedite this process. Emerging mechanisms such as a Price Floor Fund can fill the time lag between an expected mature and attractive carbon price in the future. A temporary fund would cover a given percentage of the opportunity cost of commodities like soy profits against the currently low (but projected to increase) carbon credit price in the voluntary market, with 30-year commitments. Based on recent assessments conducted by TNC in the Cerrado, there is a potential opportunity to safeguard 2.7 million hectares of legal reserve surplus or forest area that go beyond the legal requirements of the Brazilian Forest Code law.[ix] Whilst these types of mechanisms are still in its inception, they present

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an opportunity to introduce short-term measures to facilitate adoption that are already overdue and help expedite carbon emissions targets more broadly.

How the EU can help deploy land measure incentives

- Direct investment in sectors and through government or multi-stakeholder platforms to foster adoption of more efficient practices. This could be through Official Development Assistance (ODA) to governments through rural development banks, to build out extension and technical assistance services, or in alliance with private sector actors such as lead buyers in global value chains. Whilst there are already existing public and private financial platforms dedicated to shifting commodity production patterns, the advantage of an EU-centred initiative is that it could coordinate and strategically target countries and areas that are most relevant to legislation, such as those that have been categorised as a 'high-risk' category.
- De-risking investments and providing guarantee funds is another route that can generate significant resources for injection into key supply chains to support the development of enterprises and businesses essential to establishing and scaling more efficient agriculture practices, particularly where the investment is not currently covered by the returns in the market or where significant transaction costs restrict finance flowing to smaller producers and entities.
- Technical and institutional assistance - Supporting governments, multilaterals, and NGOs that provide technical assistance, extension services and infrastructure to adopt more efficient land-use practices and accompany farmers will be particularly helpful as this legislation is operationalized.
- Mobilization of European private investment institutions – Innovative finance at its core can come from both public and private sources. With increasing number of international deforestation commitments, and a shifting public perception, private lenders and investors are increasingly exploring opportunities associated with innovative financial mechanisms. The EU can use the implementation of its legislation to promote investment from private sources in Europe to contribute the emergence of innovative practices set to transform the sector in the future.
- Promotion of good governance via multistakeholder processes dialogues - Good governance practices are equally important for serving as an overarching structure for the transition to better farming practices. Ensuring strong legal frameworks that are transparent, accountable, and inclusive of SMEs and IPLCs, is going to be an essential part of any transition process. The EU can support this transition through multistakeholder dialogues that promote best practice fundamentals with relevant jurisdictional authorities.

Transparency and monitoring: The role of the EU Observatory on Deforestation

A crucial part of the legislation is the introduction of the EU Observatory on Deforestation (the Observatory) to act as a platform to monitor and generate the latest data on changes in global forest covers. **This is an essential implementation tool, and if executed to its full potential can strengthen the effectiveness of both the mandatory due diligence and incentive measures**.

To utilise the Observatory to its full potential, it should aim to harmonize definitions, develop methodologies to assess deforestation and the footprint of different commodities. One of the potential difficulties faced by relevant stakeholders along the commodity supply chain is that there are already numerous existing monitoring platforms, which may deploy different methodologies and approaches to measure deforestation and attribute causality. The Observatory can therefore become more than just a transparency platform – and extend its remit to become an arbiter to clarify and

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operationalize definitions. The Observatory should aim to create methodologies and guidelines on best practices to provide consistent standards for stakeholders looking to implement the due diligence process and its verification. In establishing monitoring standards to both direct and indirect suppliers, the EU should also utilize all of the instruments and institutions at its disposal; for example, utilizing the European Space Agency to provide satellite imagery could prove to be extremely useful in monitoring the patterns in commodity related deforestation. This would turn the legislation into a meaningful reference point for relevant stakeholders and seek to promote consistency along the supply chain.

It is important to note that the Observatory in this capacity should not seek to detract from existing resources. In fact, we would encourage the Observatory to engage with existing public or private monitoring products and platforms to generate wide-ranging perspectives and dialogue. Various platforms already exist and are used extensively in tropical deforestation hot spots, and include coalitions of farmers, exporters, civil society actors, and science and government agencies. For example, TRASE[x], a partnership between the Stockholm Environment Institute and Global Canopy, is a data-driven transparency initiative that maps out distinct, publicly available data to demonstrate deforestation patters and other impacts on the ground in real time. The Observatory can therefore use existing institutional frameworks to inform its own best practice recommendations while working with key stakeholders that are going to be affected by the legislation.

Since 2019, TNC has been instrumental in developing the Sectoral Vision for Argentina Gran Chaco (ViSeC), a monitoring and verification platform for soy supply chain which aims to mitigate environmental impacts with focus on deforestation and other land use changes in the Gran Chaco of Argentina. ViSeC is an example of a national platform that brings together all members of soybean value chain from farmers, inland grain elevators, exporters, crushing companies, civil society, banking system, science, and government agencies to promote sustainable Argentine soybean chain. Using real and up-to-date data, ViSeC is developing a transparent IT system to efficiently monitor the flow of soybeans at sub-national level, assuring deforestation/conversion-free origin and legal compliance, promote sectoral and industry-wide solutions, and generate periodic reports that serve as a local and international reference point on the Chaco biome.

In its implementation, the Observatory should also be capable of translating the spirit of the new law into practical terms. As a monitoring tool, the Observatory will have first-hand experience with the practical effects of the legislation and will be well positioned to identify any issues or risks that may arise. For instance, should a legal definition related to a forest be found not to reflect practical, on-the-ground experience, as part of its operational requirements the Observatory should have the ability to make recommendations to the Commission and propose actionable items for their consideration. Implemented in such a fashion, the Observatory can use its mechanisms to future-proof the legislation, identifying emerging issues and providing feedback based on best practice to the Commission to promote continual improvement of the legislation in the years to come.

Engagement with producer countries: The EU Forest Partnerships

One of the key features of this legislation is the EU's commitment to engage with producer countries affected by the new law. Good cooperation is crucial not only to ensure that producer countries can adjust their own domestic regulatory regimes to facilitate the needs of the Regulation, but also to help them transition to deforestation-free production. Good engagement also paves the way for the EU to genuinely integrate farmers and producers into this legislative framework. Establishment of a

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comprehensive EU strategic framework is going to be essential to facilitate effective engagement. That's because each major producer country will have differing jurisdictional arrangements, with varying policy implementation responsibilities. To be effective, the EU therefore needs to adopt a targeted approach that understands on-the-ground realities of each producer country, so that the engagement is fit for purpose. This should revolve around local and national efforts.

While the scope of national government's responsibilities may vary, we often see them deploy overarching national policies that set frameworks for deforestation regulation and compliance. Understanding these frameworks will be crucial for the EU to adequately position their legislation. National governments can also offer access to their intellectual resources and expertise, as well as academia and the private sector. Adding a local perspective to the implementation process can be crucial as the realities of implementation process manifest themselves, and their feedback will be important in ensuring ongoing success of the new law. The Commission should consider facilitating these engagements through formal agreements with national governments through measures like Memorandum of Understandings, joint technical workshops, or programs of work to create pathways for further implementation of this Regulation.

Prioritizing local and state jurisdictional engagement can deliver sustainable land management reforms, as well as improving land tenure rules and environmental regulations that cover commodities included in the legislation. For example, in the Brazilian state of Pará, local governing authorities are responsible for the registration and legalization of rural properties, and therefore are a crucial source of information for any future monitoring regime of deforestation activities. As the first point of contact with producers or local communities, local authorities are well placed to promote the value of standing forests as an economic asset in a way that does not exclude small farmers or worsen the economic conditions of local communities. They can do so by generating local incentives for the creation of sustainable production models from which value is generated from.

The Role of the EU Forest Partnerships

Whether engaging local or national authorities, the EU already has existing tools to facilitate joint collaborative actions to combat deforestation and conserve tropical forests via its EU Forest Partnership platform. Given the relevance to this legislation, the EU Forest Partnership, recently announced at COP 27[xi], should be at the centre of the implementation of the engagement commitments of the Article 28 of this legislation – applying measures to leverage mandatory due diligence requirements and encourage changing conversion practices in the long-haul. By tying Forest Partnerships to this legislation's goals, the EU can utilise this platform strategically; targeting producer countries that are deemed as 'high-risk' and providing necessary assistance to downgrade their level of risk.

As a related yet independent entity from the legislation, the Partnerships have the flexibility to provide support directly to the transition to sustainable commodity production, as well as focus on the conservation, restoration, and sustainable use of forests to help the EU reach this legislation's goals and the EU Green Deal ambition more broadly. There are numerous pathways for the Partnerships to compliment this ambition. Working in tandem with the land use incentives described earlier in this paper, Partnerships can promote **regenerative agriculture practices** to further assist industry and local producers in making a sustainable transition, while promoting innovative sustainable food production practices at a time when we are witnessing global food crises. These practices are based on principles that promote soil restoration, improve carbon storage, and secure other nature-based benefits as well as social and production outcomes. Importantly for the context of the EU legislation, the adoption of these practices can mitigate biodiversity loss associated with land conversion by incorporating native

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vegetation into production landscapes. Emerging evidence suggests that this can also be an opportunity for farmers to increase their profitability. For instance, in Argentina's Gran Chaco, incorporating mixed livestock-cropping systems could increase profits amongst cattle ranchers by an additional US $3,550 per year for an average farm of 700 ha.[xii]

The EU can also build capacity and invest in frameworks to safeguard the very ecosystems it is trying to protect by utilizing selected aspects on **Natural Climate Solutions (NCS**). NCS measures are widely recognized to hold benefits of carbon sequestration, mitigating carbon emissions while creating co-benefits for ecosystems and society, and also helping countries meet their international climate commitments. By investing in NCS measures, the EU can therefore help safeguard the integrity of forest ecosystems and add meaningful contributions to collective emission reduction and biodiversity conservation goals. Existing tools such as Project Finance for Permanence (PFPs), apply principles from private sector finance and are designed in a way to ensure long-term protection and management of forest conservation areas.[xiii] By designing a robust and transparent network of actors managing key areas at risk, PFPs can increase the likelihood of prolonged conservation and fulfilment of strategic outcomes.

Finally, studies have shown that forest managed by **Indigenous People and Local Communities (IPLCs)** significantly reduces deforestation rates in areas under their stewardship.[xiv] In the Amazon, indigenous and tribal peoples, and the forests in their territories, play vital roles in global and regional climate action and in fighting poverty, hunger and malnutrition. The territories under indigenous guardianship contain about one third of all the carbon stored in the forests of Latin America and the Caribbean and 14 percent of the carbon stored in tropical forests worldwide.[xv] The failure to secure the territorial rights of indigenous peoples would continue to subject their lands and livelihoods to the pressures of deforestation and conversion, undermining their human rights and contributing the loss of vital ecosystems and forests in the region. In its efforts to engage with IPLCs, the EU's legislation can prioritize building frameworks of support that focus on legal recognition and protection as well as technical assistance or training, to ensure their continued contribution to sustainability practices.

Looking beyond Europe: Influencing consumer countries

The EU legislation is an important milestone in the fight against deforestation and can serve as a blueprint for similar initiatives around the world to make global commodity trade deforestation-free. However, in its efforts, the EU should employ a holistic approach and look beyond its borders. The EU should utilize its legislative experience as it introduces its new regulatory measures to help influence consumption patterns in Asia, as well as collaborate with the US and the UK with their own respective legislative proposals.

It is clear that without addressing the rising demand for agricultural commodities in Asia, the transition to global conversion-free supply chains will be more difficult and take longer. Together with the EU, the two biggest Asian economies, China and India, form the top three largest importers of commodities associated with agriculture driven deforestation. China, with a growing middle class, is at the centre of global value chain trends. In 2019, it surpassed the United States as the world's largest importer of beef in quantity value, accounted for 60% of global soy imports, and was the world's second-largest palm oil importer.[xvi] The leading palm oil importer was India, and is currently the biggest consumer of Indonesia's palm oil production. Should the EU legislation have long lasting impact on global commodity supply chains, it must seek to influence the demand in Asia using the template it created.

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There is growing appetite amongst Chinese Policy makers to enable a policy shift in this area. However, questions remain around a larger shift in that direction. Concerns revolve around the impact of sustainable supply chains on trade, the effect on food security and affordability, the practicalities of deforestation free supply chain implementation, and effective cross-sector collaboration between agencies for trade, environment, forestry and agriculture.

The EU can use its experience with the implementation of the Regulation **to establish continuous high-level engagement to enhance the political importance of this policy and work towards a similar model in China**. There is a precedence for this to take place. In 2021, during the EU-China High-Level Environment and Climate Dialogue, the EU and China committed that "both sides agreed to engage collaboratively in support of reducing global deforestation and making supply chain more sustainable"[xvii]. Similarly, in the spirit of previously successful initiatives such as the 'common ground taxonomy', a collaborative effort between the People's Bank of China and the EU Commission to map out respective taxonomies with each other, the EU and China may want to consider cooperation to create mutually recognized standards on deforestation-free supply chains. Current ministerial engagements including the Environment Policy Dialogue and the Bilateral Coordination Mechanism, can further facilitate this dialogue.

Recognising the importance of the impact of the Chinese market on global commodity production, TNC has partnered up with key Chinese academic institutions to progress research on the patterns of commodity consumption in China. We work with the Institute of Finance and Sustainability on the research and promotion of innovative financing mechanisms to support the development of sustainable agriculture between China and Brazil. We also work with major think tanks affiliated to Chinese Ministry of Agriculture And Rural Affairs (MARA) to model China's import demands for soy and beef commodities from Brazil and the rest of the world by 2030 and 2035, and estimate Brazil's soy and beef yields under different scenarios of climate change and land use policies. Understanding consumption patterns will be essential in linking up producer and consumer policy priorities and address the problem of commodity driven deforestation on a global scale.

While the global challenge remains, the EU must utilize its partnerships with like-minded countries who are working on similar solutions. The United States through the proposed FOREST Act[xviii] and the United Kingdom through its secondary legislation due diligence provisions in the Environment Act[xix], are currently preparing legislative proposals to halt deforestation in their supply chains. Although differing in methodology and scope, the proposals share many similarities amongst themselves. We would encourage the EU to capitalize on this growing momentum and appetite, by setting up regular channels of communications between relevant government agencies. Through steering committees or technical workshops, relevant agencies could utilise lessons learned and their experiences to improve the quality of the respective legislations and work towards setting up an effective global standard for combatting deforestation.

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Acknowledgement and contacts

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