Analysing European public and private actions to tackle imported deforestation

A guide for European policymakers and companies
The consumption of commodities in Europe is driving deforestation abroad. Deforestation in countries that produce agricultural commodities is mainly driven by the expansion of agricultural land and cattle ranching, and a large share of the resulting products is exported to Europe for consumption.

What is embodied deforestation?

The concept of “embodied deforestation” refers to the deforestation embodied in a produced, traded, or consumed product, good, commodity or service that causes deforestation in the country of origin. In this policy brief, we will focus on the deforestation embodied in products imported to Europe that is driving deforestation in other regions, with a special focus on Latin America.

While there are regulations and commitments in Europe to halt illegal deforestation related to some specific commodities, such as timber, and general commitments for reducing deforestation in all sectors, little attention has been paid to deforestation embodied in soy and beef production, which are the main drivers of deforestation in Latin America.

In order to prevent deforestation from being embodied in European imports, policymakers and stakeholders need to work together to extend the scope of existing European regulation of consumption so that there are specific regulations and policies in place for all of the main commodities that drive deforestation. They can also work to help raise the ambition, and improve the regulatory framework and regulatory enforcement, of the producer countries.

Our recommendations for policy measures are:

1. European countries should create detailed sustainability criteria for commodity imports, and work with governments from producing countries to implement them;
2. European countries should adapt existing regulation on forest risk commodities such as the EU Timber regulation to other commodities such as soy and cattle;
3. EU and European countries’ public procurement should be used to enforce and scale up the use of sustainable standards;
4. The review of the EU Directive on the disclosure of Non-Financial Information (NFI) should strengthen disclosure requirements of companies;
5. European companies should work with governments from exporter countries to develop public-private partnerships for monitoring zero-deforestation commitments and to unlock sustainable finance for forests;
6. European companies should work with their suppliers to ensure that the supply chains associated with their purchases are aligned with sustainability criteria, including deforestation-free standards.

1. Cuypers et al., 2013
2. In this policy brief we will refer as European countries to all the EU 28, Norway, Switzerland, Iceland and Lichtenstein.
A study produced by the EU in 2013 concluded that 9 million hectares of tropical forests have been cleared between 1990 – 2008, mostly to provide crops for animal feed, for food and other uses, and livestock products consumed in the EU27. More specifically, it is estimated that the EU imports more than 30% of its soy, mostly for animal feed, from areas with high deforestation risks.

In 2015, European countries imported over 23.8 million tons of soy, mostly used for animal feeding in Europe, 195 thousand tons of beef and 120 thousand tons of leather from Brazil, Argentina and Paraguay. It is estimated that a little under 25% (by value) of all agricultural commodities from illegal deforestation in international trade are destined for import to the European Union. This includes 27% of all soy, 18% of all palm oil, 15% of all beef and 31% of all leather traded internationally, which was estimated to total EUR 6 billion in imports in 2012.

### Table 1: Volume (1000 tons) of soy, beef and leather exports to European countries in 2015

<table>
<thead>
<tr>
<th></th>
<th>Soy</th>
<th>Beef</th>
<th>Leather</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>12,428.5</td>
<td>117.2</td>
<td>80.5</td>
</tr>
<tr>
<td>Argentina</td>
<td>9,666.6</td>
<td>75.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Paraguay</td>
<td>1,709.0</td>
<td>2.9</td>
<td>33.4</td>
</tr>
<tr>
<td>Total</td>
<td>23,804.1</td>
<td>195.6</td>
<td>120.8</td>
</tr>
</tbody>
</table>

3. Cuypers et al., 2013
4. This study was produced before Croatia joined the European Union.
5. Godar et al., 2016, with data gathered from the critical deforestation list compiled by the Brazilian Ministry of the Environment in 2012.
6. Cuypers et al., 2013
7. Calculated with data from trase.earth and resourcetrade.earth.
8. FERN, 2015
9. Ibid.
EU legislation recognises the risk of deforestation from the production of products such as palm oil and timber, and relevant regulations are in place. However, to date there has been little regulatory action to reduce embodied deforestation from soy and cattle.

Collaboration between consumer and producer countries is crucial to promote successful action on reducing deforestation. European countries need to engage with producer countries to understand what the capabilities and challenges are in implementing such policies, and to create a common set of priorities that will allow for an effective reduction of deforestation.

In some instances, national rules allowing a degree of deforestation to take place can be a hindrance to the development of more effective preservation of forest areas. For example, 85% of conversion of native vegetation for soy in the Cerrado - the region where most of Brazilian soy is produced - is legal under existing regulation 10. In such cases, the private sector has a particularly important part to play in acknowledging, analysing and promoting engagements and initiatives to make sure that the products they supply and trade are not causing deforestation in the country of origin 11.


11. CDP and Global Canopy have recently launched the policy brief "Harnessing the power of global supply chains to halt deforestation driven by soy" that highlights the role of the private sector in securing the future of the Brazilian biome.
Action and engagement from the private sector

European companies are already taking action to address embodied deforestation through initiatives such as the Consumer Goods Forum\(^{12}\), which is working with member companies to achieve zero net deforestation by 2020.

Another example is the We Mean Business coalition\(^{13}\), through which 53 companies have committed to remove commodity-driven deforestation from their supply chains by 2020. In making this commitment, companies promise to incentivise agricultural expansion onto degraded lands rather than forest lands, commit to traceability in supply chains and work closely with suppliers.

Companies should also disclose their deforestation impact and collaborate with different stakeholders to implement innovative solutions for more transparency in supply chains. Companies that disclose to CDP's forests programme have access to a framework to report on their progress towards addressing exposure to deforestation risks. Companies can also apply this framework to better understand the challenges, risks and opportunities of transiting to a more sustainable business model. Currently, 294 European investors, with USD 45 trillion in assets, are signatories to CDP and ask the companies that they invest in to disclose to CDP about their forests risks and impacts.

In 2017, 73 European companies responded to CDP's forests questionnaire, including Danone, Nestlé and Tesco. 63 of those companies disclosed on timber, 33 on palm oil, 22 on soy, and 22 on cattle products.

Analysis of these European companies' disclosures in 2017 showed that:

- 90% are involved in partnerships or stakeholder initiatives related to the sustainability of these commodities\(^{14}\).
- 100% of companies disclosing on soy have a system in place to track and monitor the origin of raw materials for commodities. However only 60% of companies can trace more than 50% of their soy.
- 73% made a commitment to reduce or remove deforestation and forest degradation from their direct operations and/or supply chain, and 41% of these have committed to zero deforestation, or zero net deforestation and forest degradation, by 2020 or sooner.
- 72% of companies with links to soy production have identified sufficient sources of sustainable materials to meet their current operational needs; however only 20% of companies reporting on soy look more than 6 years into the future in their risk assessment of deforestation risks and opportunities.

Action and engagement from the private sector

14. Initiatives mentioned by companies are: Roundtable on Sustainable Soy (RTRS), The Consumer Goods Forum (CGF), Leather Working Group (LWG), Sustainable Apparel Coalition (SAC), UN Global Compact, We Mean Business, Tropical Forest Alliance (TFA), Global Roundtable for Sustainable Beef (GRSB), Brazilian Roundtable on Sustainable Livestock (GTPS), Sustainable Agriculture Initiative (SA), Proterra, Sustainable Luxury Working Group (BSF), WWF LiveWell, WRI Better Buying Lab, Retail Soy Group, Field to Market, RTRS Brazil Task Force, RTRS EU Task Force, Amazon Moratorium, and Retailers Soy Group.
European companies disclosing to CDP about activities linked to the risk of deforestation generally have a sound awareness of the problems caused by sourcing timber, palm oil, soy and cattle products from countries where deforestation occurs. The vast majority of them have put in place procurement standards against deforestation and are involved in multi-stakeholder initiatives to improve sustainability (see note 14 for some examples).

However, while companies are acting to monitor the origin of the soy they purchase and are committing to zero deforestation pledges, existing initiatives need to be expanded, commitments need to be more ambitious, and more companies need to have a long-term risk assessment regarding deforestation, if they are to achieve material impact.

It is important to note that only about half the European companies who were asked to make disclosures by their shareholders or major purchasers actually responded to the CDP forests questionnaire. Voluntary disclosure measures are clearly not being taken up across the board, despite clear demand. This suggests a considerable case for the improvement of the legal framework for disclosure, which is currently weak in Europe. A stronger set of requirements for European companies to disclose on their operations that impact on deforestation would help improve their engagement and action on ensuring that European companies are not are not importing embodied deforestation.

Tracing sustainable soy in Brazil

All soy suppliers for Carrefour in Brazil are registered through an identification number, which enables the retailer to avoid blacklisted suppliers. Additionally, suppliers for products from the Carrefour brand are required to monitor and disclose the origin of their soy.

Soy Moratorium in the Brazilian Amazon

Private sector commitments can help stop deforestation in producing countries. In 2006, soy traders committed to not purchase soy grown on deforested land in the Brazilian Amazon. After the Soy Moratorium was established in the region, the proportion of soybeans cropped on newly deforested land in the Amazon fell from about 30% to around 1%15.

European companies that do disclose demonstrate that proper corporate governance to monitor and reduce embodied deforestation is feasible and produces positive results. The importance of regulatory measures is supported by the fact that more companies disclose on their operations on timber than on other commodities. This suggests that existing regulations on timber imports to the EU have a positive effect on companies’ commitment and likelihood to disclose on their impacts.

15. Gibbs et al., 2015
In recent years, European governments have started addressing the issue of embodied deforestation and have committed to halt deforestation in some of the world's most endangered forests.

European countries are committed – both at EU level and through multilateral agreements – to halt deforestation and to cooperate with stakeholders such as governments from producing countries, the private sector and civil society.

**New York Declaration on Forests**

As a signatory of the New York Declaration on Forests, the European Union has committed to halve deforestation globally by 2020, and stop deforestation by 2030, while also helping the private sector to achieve the goal of “eliminating deforestation from the production of agricultural commodities such as palm oil, soy, paper and beef products by no later than 2020, recognizing that many companies have even more ambitious targets”.

**Amsterdam Declaration**

The governments of Denmark, France, Germany, Italy, the Netherlands, Norway and the United Kingdom signed a declaration “Towards Eliminating Deforestation from Agricultural Commodity Chains with European Countries”, in which they declare their support for public and private initiatives of halting deforestation by 2020.

The Declaration encourages the EU to include elimination of deforestation in their trade policies and agreements, reiterates the vision of engaging all stakeholders, and most specifically recognises the role of the private sector in eliminating deforestation from global supply chains.

**Paris Agreement**

In the Article 5 of the Paris Agreement, which has been ratified at EU level, Parties commit to conserve and enhance reservoirs of greenhouse gases, including forests. It emphasises alternative policy approaches, such as joint mitigation and adaptation approaches, while also stressing the non-carbon benefits associated with sustainable management of forests.

**Norway Zero-Deforestation Commitment**

In 2016, Norway became the first country in the world to pledge to a deforestation-free supply chain through the government’s public procurement policy. In practical terms, Norwegians will no longer grant government contracts to companies that take part in deforestation activities elsewhere.

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17. Ministry of Foreign Affairs of the Netherlands, 2017
As one of the most important markets for soy and cattle exported from Latin American countries, the EU can help to reduce deforestation in producing countries through the implementation of higher standards on the import of these commodities. European policymakers do not need to start with a blank page when creating such measures; several relevant regulations already exist for other commodities and these approaches may be able to be transferred. For example:

**Forest Law Enforcement, Governance and Trade (FLEGT)**

In 2003, the European Union established the EU’s Forest Law Enforcement, Governance and Trade (FLEGT), which ensures that no illegal timber or timber products are sold in the EU. The EU Timber Regulation requires that EU operators:

- Exercise due diligence and comply with national laws and regulations, and take steps to assess and minimise the risk of importing illegal timber.
- Traders who sell timber or timber products must keep a record of buyers and sellers.
- Develop their own due diligence system or use one developed by monitoring organisation authorised by the EU.

**European Resolution on Palm Oil**

Between 2013-2014 the share of palm oil under zero-deforestation commitments grew globally from 0 to 60%⁰¹, signalling that governments and companies are quickly recognising the importance of making such commitments.

The European Parliament resolution of 4 April 2017 on palm oil and deforestation of rainforests calls for the EU to introduce minimum sustainability criteria for palm oil and products containing palm oil entering the EU market⁰², to consider the introduction of non-discriminatory tariff barriers based on the carbon footprint of palm oil, and to define sanctions for non-compliance. The international reaction to this resolution – which did not always welcome a potential unilateral approach by the EU – demonstrates the importance of working with producer nations to find common ground.

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²⁰. [http://www.euflegt.efi.int/](http://www.euflegt.efi.int/)
²². European Parliament resolution on palm oil and deforestation of rainforests, 2017
Recommendations

Our recommendations for potential policy measures are as follows:

1. European countries should create detailed sustainability criteria for commodity imports, and work with governments from producing countries to implement them

European countries should develop detailed sustainability criteria in trade agreements with producing countries. Such criteria should guarantee that commodity production hasn’t led to ecosystem degradation and deforestation or other harmful environmental impacts and has a certification system that is accessible to producers.

The EU is currently negotiating a free trade agreement with the Mercosur, whose four founding members, Argentina, Brazil, Paraguay and Uruguay, are among the main countries where embodied deforestation comes from\(^2\). Current negotiations cover issues related to sustainable development and should also include specific commitments related to deforestation.

Reducing deforestation is a shared responsibility between producers and consumer countries, and requires that all stakeholders involved work closely together. European governments should work with governments from producing countries through technical cooperation for local capacity building, sharing of best practices such as intensification of production, land recovery, sustainable land use and land management, and technological aid to avoid further forest conversion.

2. European countries should adapt existing regulation on illegal commodities such as the EU Timber Regulation to other commodities such as soy and cattle

Policymakers should learn from the experiences of initiatives such as FLEGT and apply such requirements to all commodities produced in areas with deforestation risk. This would likely require collaboration with producer countries for better monitoring of sourcing of raw materials.

By creating guidelines and regulations for commodity imports, policymakers would drive change not only from the market leaders, but from all European companies working in the sector.

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23. Latest round reports and EU proposals for the trade agreement with Mercosur, European Commission
3 EU and European countries’ public procurement should be used to enforce and scale up the use of sustainable standards

With public procurement and the purchasing of services, works and supplies covering about 14% of European gross domestic product, governments can use supply chain disclosures to align their procurement decisions with the Paris Agreement and the SDGs. National, regional and local government agencies should leverage the power of public procurement to drive positive action on forests by encouraging their suppliers to manage deforestation. This would also bring with it benefits such as increased transparency in the value chain, and would enable to actively drive the objectives of safeguarding natural resources.

4 The review of the EU Directive on the disclosure of Non-Financial Information (NFI) should strengthen disclosure requirements of companies

The review of the NFI in 2019, which is going through a comprehensive policy evaluation in 2018, will be the opportunity to clarify and strengthen the disclosure requirements of large European companies in regard to their stakeholder business relationships and to ensure transparency throughout entire supply chains. This would directly support the European Commission’s objective to manage financial risks stemming from resource depletion and environmental degradation, as financial risks occurring from deforestation in supply chains would be transparent to public and private investors.

5 European companies should work with governments from producing countries to develop public private partnerships for monitoring zero-deforestation commitments and to unlock sustainable finance for forests

European companies can work with governments from producing countries to identify and certify deforestation-free producers. For example, through public-private partnerships using satellite monitoring systems, companies and governments can monitor and verify producers’ compliance with zero-deforestation policies.

Companies, financial institutions and investors can also work with governments to create financial mechanisms to reduce deforestation, such as the Tropical Landscapes Finance Facility, a partnership between the government of Indonesia and public and private organisations (including BPN Paribas), that promotes green growth and livelihood improvement in Indonesia.

24. Public procurement strategy, European Commission
25. The NFI Directive’s current requirement to disclose environmental impact in business relationships where relevant and proportionate is too unspecific to ensure full and comprehensive reporting throughout the supply chains of the large European corporates.
European companies should work with their suppliers to ensure that the supply chains associated with their purchases are aligned with sustainability criteria, including deforestation-free standards.

Companies should work closely with their suppliers and ensure that the commodities they purchase are following sustainability criteria and deforestation-free standards. Leading European companies such as L’Oréal and Marks & Spencer have already committed to remove deforestation from their supply chains by 202027.

Market leaders acknowledge that in certain areas, such as the Cerrado region in Brazil, there is already enough clear land for producing commodities for the existing demand28, and business should incentivise expansion onto these areas rather than convert more native vegetation. Companies should work closely with their suppliers to ensure that commodities purchased are coming from previously cleared land.

In a further step to strengthen their commitment to zero-deforestation in their supply chains, companies working in and sourcing from Latin America should commit to working towards expanding the Soy Moratorium beyond the Amazon and Brazil, and/or to affected areas in neighboring countries.

27. https://www.wemeanbusinesscoalition.org/
28. Statement of support for the objectives of the Cerrado Manifesto
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