

EU ban on imports from deforestation: which countries are most at risk?

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Confidential

Executive summary

On April 19, the European Parliament adopted legislation to ban imports of deforestation products into the EU. Between 1990 and 2020, 420 million hectares of forest have disappeared in the world, a decline of about 10%. It is particularly marked in Latin America and Africa. Agriculture, both commercial and subsistence, and, to a lesser extent, the construction of infrastructure and mining are the main causes.

The products affected by this measure to prohibit the marketing of products that have involved deforestation on its territory are palm oil, beef, coffee, cocoa, soy, wood and rubber. If the objective is to have only "zero deforestation" products on the European market in the long term, companies will have between 18 and 24 months to comply with the regulation. In case of non-compliance, the maximum fine imposed will be at least 4% of the supplier's total annual EU turnover.

West Africa, Latin America and Southeast Asia are the regions most affected by this reform. The countries in the world most at risk from this reform are Côte d'Ivoire, followed by Ghana, Uganda, Burundi, Ethiopia, Honduras, Guatemala, Brazil, Russia, Ukraine, Malaysia, Indonesia and Thailand. They have the highest share of exports of reformed products to the EU in their total exports.

For these exporting countries, the implementation of policies to combat deforestation will both protect primary forests and the rich biodiversity they harbor and promote trade integration with the EU by meeting the requirements of the reform. In Asia (Indonesia, Malaysia) and Africa (Ivory Coast), political and entrepreneurial initiatives are already proving successful.

1. A new and progressive measure to reduce deforestation in the world

1.1 Deforestation differs in its causes and intensity depending on the region

Between 1990 and 2020, 420 million hectares of forests have disappeared worldwide, which represents a decline of about 10% and an area larger than that of the EU¹. Deforestation contributes to about 11% of greenhouse gas emissions. Forests are **precious allies in the fight against climate change, particularly for filtering **water**, retaining **soil** and providing a home for a **rich biodiversity**: on a global scale, forests are home to 75% of living species.**

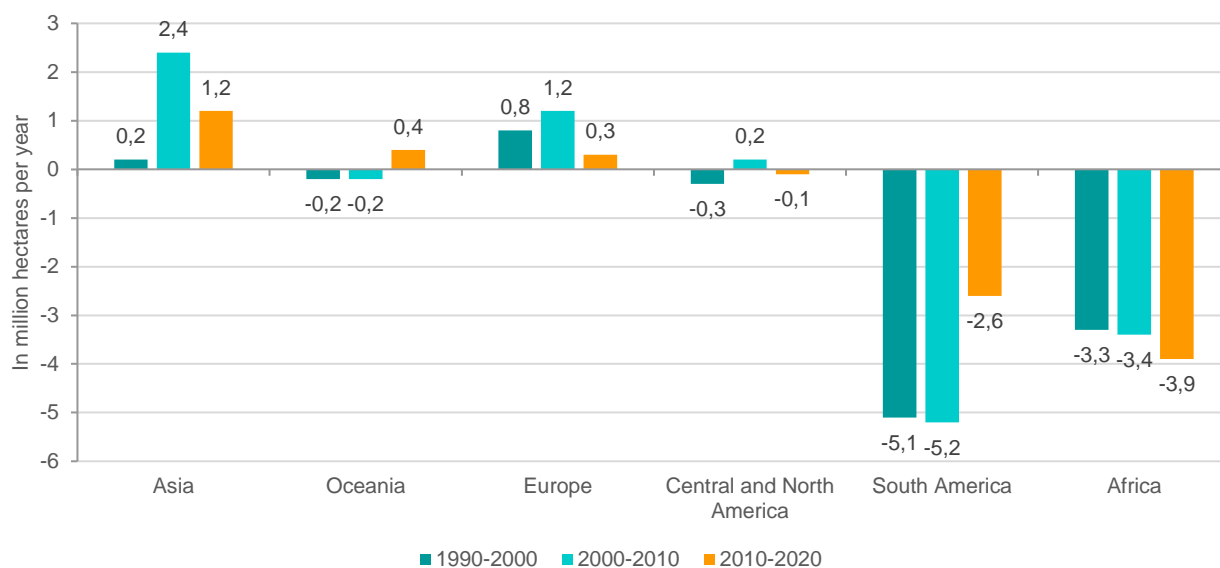
An analysis of data from 46 tropical and subtropical countries found that **agriculture alone accounts for 73% of deforestation** (with commercial agriculture accounting for 40% of deforestation, followed by local or

¹ Source: FAO, 2021

subsistence agriculture, which is linked to 33% of deforestation)². **Infrastructure accounts for 10%, urban expansion for 10% and mining for 7%**³. The same analysis cites logging for timber marketing as one of the drivers of forest degradation.

The main drivers of deforestation vary from region to region. Expansion of agricultural land for **palm oil plantations** is a major cause of deforestation in **Southeast Asia**, while **forest clearing for livestock grazing and soy plantations** and land speculation (land grabbing, often associated with forced displacement of local communities) are the main reasons for deforestation in **South America**. **The expansion of cocoa plantations** has had a significant impact on deforestation in **Central and West Africa**.

Graph 1: Evolution of deforestation on a continental scale between 1990 and 2020 (in millions of hectares per year)



Source: FAO

While almost all global deforestation emanates from **South America** and **Africa**, the dynamics vary greatly from one country to another. In the case of South America, if **Brazil** concentrates a large part of the deforestation on a continental scale, other countries such as **Costa Rica** promote effective anti-deforestation policies (between 1987 and 2022, the area covered by tropical rainforests has increased by 50% in the country⁴). In absolute terms, **Brazil** and **India** are the two countries with the highest deforestation in 2022. In relative terms (relative to national forest cover), **Cambodia lost 32% of its forest cover between 2002 and 2021**, **Côte d'Ivoire and Honduras nearly 20%**. In Asia, Thailand and Vietnam have embarked on large-scale reforestation policies and have experienced net increases in forest cover since the 2000s.

1.2 The products targeted are palm oil, beef, coffee, cocoa, soy, wood and rubber

Aware of the responsibility of its domestic consumption as a driver of this deforestation, the EU has very recently decided to introduce a measure to prohibit the marketing of products that have involved deforestation on its territory. The products targeted are **palm oil, beef, coffee, cocoa, soy, wood and rubber**. It is **not excluded that commodities such as rubber, cotton, bananas and other fruits will be included later in the list of products targeted by the EU** for the pressure that their production exerts on

² Source: Hosonuma *et al.* 2012. An assessment of deforestation and forest degradation drivers in developing countries.

³ Source: *Ibid.*

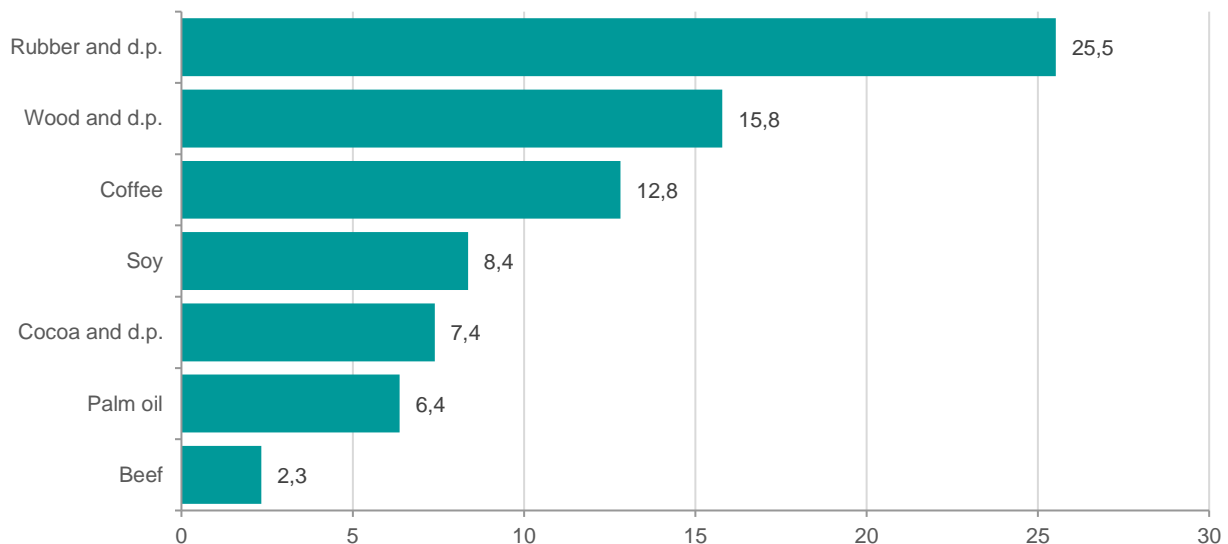
⁴ Source: World Bank, 2022

local forests. **Leather, chocolate and furniture** are also included in the measure as they contain or have been fed by these goods⁵. **The implementation of this measure is however progressive.** If the objective is to have only "zero deforestation" products on the European market in the long term, **companies will have between 18 and 24 months to comply with the new regulation** (18 months for large and medium-sized companies and 24 months for small and micro companies).

The regulation will mean that companies (European and non-European) will only be allowed to sell their products in the EU if **suppliers publish a declaration confirming that they do not come from deforested land and have not caused forest degradation after December 31, 2020.** The European Commission will classify countries (or some of their sub-regions) within 18 months of the law's entry into force, and this will determine how **much monitoring** the EU will do to ensure compliance by its partners: **9% for high-risk countries, 3% for medium-risk countries and 1% for low-risk countries.** Based on the central **due diligence** system, which relies on an innovative plot tracking system **using GPS coordinates**, in case of non-compliance, **the maximum fine imposed will represent at least 4% of the supplier's total annual turnover in the EU⁶.** Aware of the difficulty of *tracking* and the administrative burden of inspections, the European Parliament's chief negotiator Christophe Hansen believes that it is however "not impossible" to introduce.

The issue of **storage capacity for these commodities** may also be **favorable to some economies:** since **wood and rubber have** a much longer potential shelf life than foodstuffs, they would allow some economies to continue exporting these products for longer periods of time, giving them additional time to **adjust to the restrictions imposed by the reform.**

Figure 2: EU imports (from outside the EU) of products affected by the reform in 2022 (in billion euros)



Source: Eurostat

Note: "p.d." means derived products.

In its 2008 communication on deforestation, the European Commission set the goal of **halting the loss of global forest cover by 2030** at the latest and reducing gross tropical deforestation by at least 50% by 2020.

⁵ Source: *Ibid.*

⁶ Source: European Parliament, April 2023

While the latter goal seems difficult to achieve, the validation by the European Parliament of the package of laws on April 19, 2023 ("**Green Deal**" package) marks an important step in the international fight against deforestation.

Three review clauses for this reform are already foreseen, **one year, two years and five years** respectively after its implementation. The first will concern the extension of the scope of the reform to other woodlands. The second will assess the possibility of **extending the scope of the reform to additional amenities and other natural ecosystems** (peatlands, grasslands) as well as the **regulation of European financial institutions** so that they do not contribute to the destruction of forests through their activities. The details of the third one have not yet been communicated.

1.3 The reform will mainly affect Africa, Central America and Southeast Asia

The adoption of this reform by the European Parliament generated contrasting reactions: while a large majority of European political representatives (and environmental protection associations) praised the **pioneering dimension** of this measure, the producing regions and their farmers judged it to be **protectionist and too radical** for suppliers. In the first instance, more than a **dozen Asian countries** (including **Indonesia, Malaysia and Thailand**) have severely criticized the EU's measure at the WTO, accusing it of adopting "inherently punitive" protectionist measures against developing countries. Concerns have also been expressed within the EU, notably by the most forested countries such as **Finland** (75% covered by forests), who fear that this law will slow down their agricultural development.

At the macroeconomic level, price increases for imported products could result from reforms if certain exporting countries were no longer able to offer their products to the European market (see section 2.2), but their **intensity remains difficult to estimate** because of their unprecedented dimension. Their magnitude will also depend on whether other importing countries adopt similar measures in the future.

However, two areas of reflection are an integral part of the implementation of this reform: on the one hand, producer countries and their farmers will have to be supported as best as possible to **minimize the costs of a trade exclusion with the EU**, in particular through a **system of financial and technical assistance to small farmers**. France has co-organized with **Gabon the One Forest Summit in March 2023** to set in motion local adaptation measures. In 2021, the European Commission has also pledged **1 billion euros for the protection, restoration and sustainable management of forests in partner countries**.

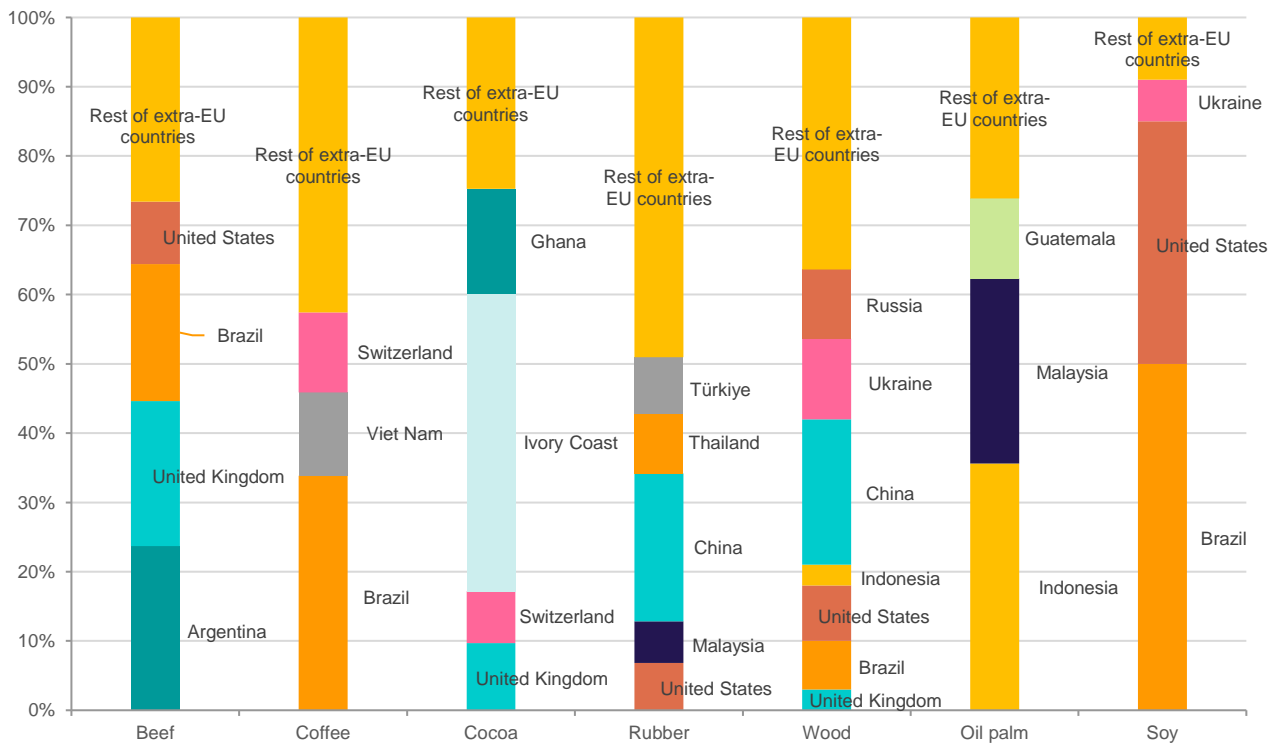
2. The extent to which trade routes are changed as a result of this reform will depend on the effectiveness of national policies to combat deforestation

2.1 West Africa, Latin America and Southeast Asia are the most affected regions

While the exporting countries of the products affected by the reform differ by commodity, three regions stand out as being more exposed than others: **Latin America, Southeast Asia and West Africa**. From the European perspective, the large market share of a limited number of countries (notably in the cases of **soybeans and cocoa**) may raise doubts about the **EU's ability to meet its domestic demand in the event of a drastic reduction in imports from the first traditional partners**. In some cases, however, important partners turn out to be **countries where deforestation is not a problem**: this is the case of the United States for soybeans, for example.



Figure 3: Market shares of the EU's main partners (extra-EU trade) in the products affected by the reform in 2022



Source: Eurostat, Global Sovereign Advisory

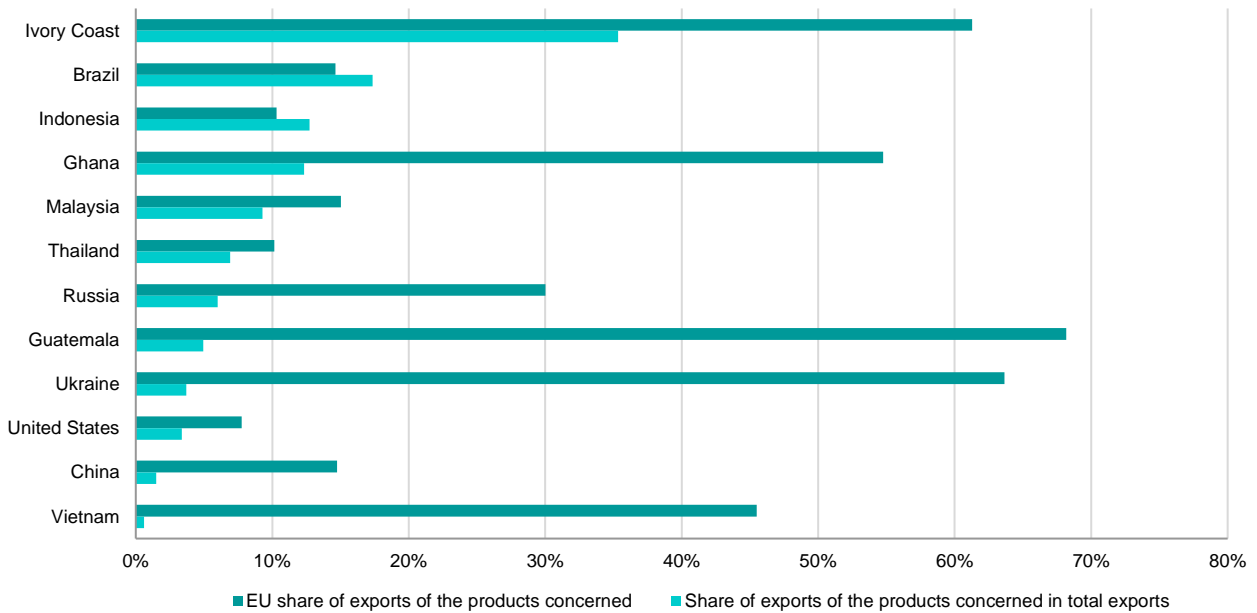
2.2 The level of diversification of the economy and the importance of the EU as a partner are the two factors of an avoidance strategy for exporting countries

The exposure of exporting countries to the EU to this regulatory change depends mainly on **two factors** (see Figure 4):

- **The share of the product targeted by the reform in the country's total exports is a measure of the importance of the product in the country's export capacity:** an economy with a diversified export base will presumably be less weakened by the reform.
- **The share of the EU as a partner in the total exports of the product will determine the ability of the exporting country to find alternative markets.**

The analysis of these two factors thus reveals several types of vulnerability. Some countries export a large proportion of the products affected by the reform to the EU, but these products represent a small share of their total exports: **Vietnam, Ukraine, Guatemala and Russia**. For them, the sectors concerned are at risk, but the expected macroeconomic impact is relatively low. Others are in the opposite situation: the share of concerned products exported to the EU is lower, but these products have a greater weight in the country's total exports: **Brazil, Indonesia, Malaysia, Thailand**. Finally, some countries have both risks. These include **Côte d'Ivoire** and, to a lesser extent, **Ghana**.

Figure 4: EU share of exports of products affected by the reform and share of exports of these products in the total exports of the EU's main partner countries in 2021

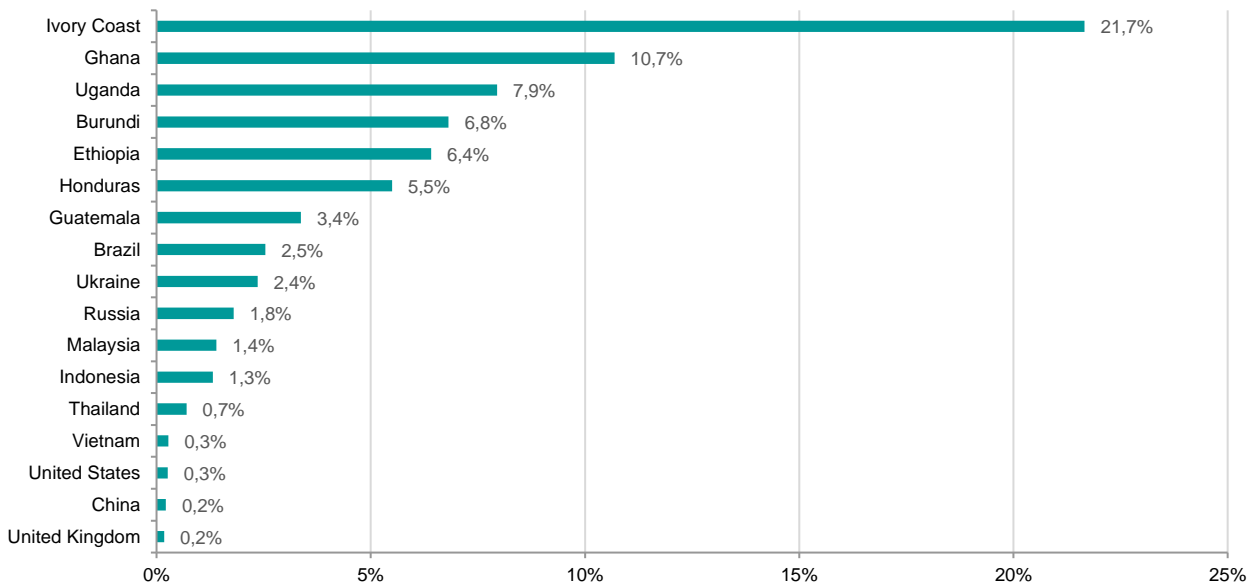


Source: UN Comtrade, Global Sovereign Advisory

Note: The countries included in the sample are the main partner countries shown in Figure 3.

To summarize these two risk factors, we then calculate the product of these two indicators, i.e., the share of exports to the EU of products affected by the reform in the country's total exports. The countries in the world most at risk from this reform are **Côte d'Ivoire, followed by Ghana, Uganda, Burundi, Ethiopia, Honduras and Guatemala** (see graph 5 below).

Figure 5: Top 17 countries most exposed to this reform - Share of exports to the EU of products affected by the reform in the country's total exports



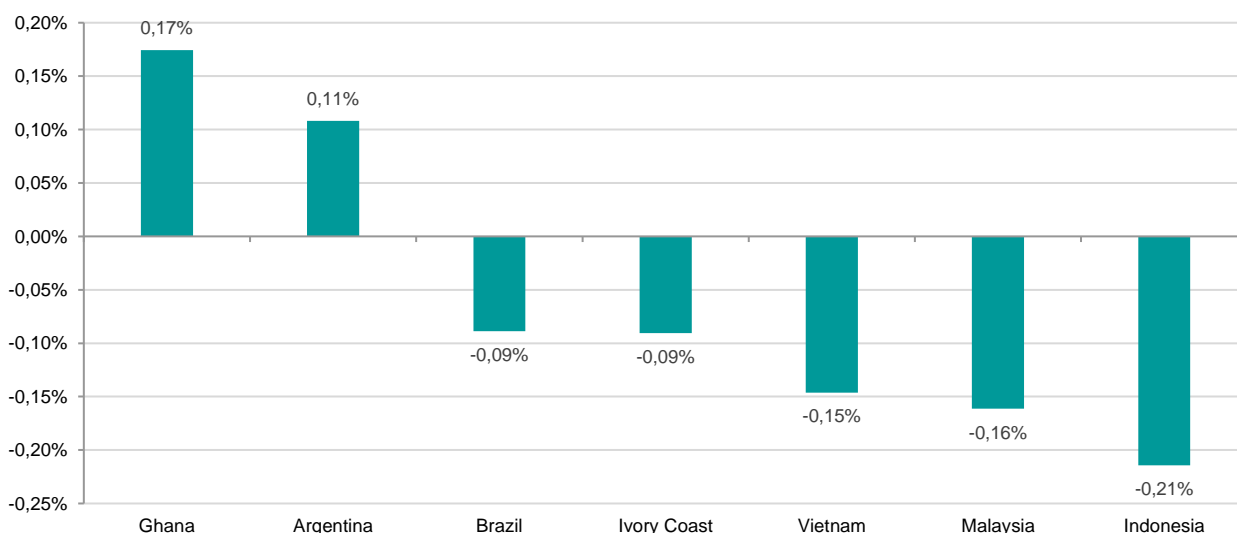
Source: UN Comtrade, Global Sovereign Advisory

Note: Only the 6 products most affected by the reform are shown in this graph.

2.3 Policies to combat deforestation are accelerating on three continents and are facilitating the restoration of trade

In Latin America, and particularly in Brazil, **Lula's** arrival at the **presidency** may, however, mark a step forward towards policies to reduce deforestation: opposed to **Bolsonaro's policies marked by a rollback of environmental protections**, Lula has, for example, reinstated the authority of the government's environmental protection agency **Ibama** to fight **illegal deforestation**, which had been diluted by his predecessor. Lula also released the **\$1 billion Amazon fund** financed by **Norway and Germany** to support sustainable development projects, reinforcing his commitment to ending deforestation in the Amazon. In the case of **soy**, deforestation is the consequence of a growing global demand for meat: **as animals need protein feed to grow**, Brazil has greatly increased its production to meet this excess demand. In 2019, a European consumed an average of 61 kg per year of indirect soy (i.e. linked to his consumption of meat, eggs or dairy products)⁷.

Figure 6: Average changes in deforestation in the main extra-EU partners between 2016 and 2021



Source: Global Forest Watch

Reading: On average between 2016 and 2021, deforestation in Ghana increased by 0.17% and decreased by 0.21% in Indonesia.

Note: In this graph, deforestation is defined as the loss of forest cover on primary forests.

Farmers in **Côte d'Ivoire**, **Ghana** and the entire forest region are involved in at least three of the products on the list of targeted products (coffee, cocoa, palm oil). In **Côte d'Ivoire**, agricultural development has focused on **cocoa** (1^{er} world producer in 2021), **palm oil** (9^e world producer in 2021) and **coffee** (3^e world producer in 2021). The 234 classified forests in the country have lost more than 70% of their forest cover in 50 years⁸. The Ministry of Water and Forests has put in place the **Strategy for the Preservation, Rehabilitation and Extension of the Forests of Côte d'Ivoire (SPREF)** in September 2021, reflecting this desire to restore these forests. Between 2002 and 2021, while **Côte d'Ivoire and Ghana lost 25% and 10% of their primary forest respectively**, the **DR Congo** (whose Congo Basin forest is the second largest tropical forest area on the planet) lost **5%**. In Côte d'Ivoire, however, a significant downward trend in deforestation has been noted over the last five years, whereas **it is still increasing in Ghana** (Tanzania, Mozambique and Paraguay are

⁷ Source: Institute for Sustainable Development and International Relations (IDDRI), 2020

⁸ Source: Reforestation, 2022

experiencing the same difficulties as Ghana). By mobilizing political and entrepreneurial means, the government aims to **maximize the chances of farmers to re-enter**, for those affected by the reform, **trade partnerships with the EU as soon as possible**.

Companies like **MORFO**, present in **Gabon, French Guiana and Brazil**, are also developing large-scale reforestation projects in **Côte d'Ivoire and Ghana** using **drones**. They map areas, spread seeds and monitor the progress of the forests: the advantages in terms of **speed of execution**, access to isolated areas and **reduced financial costs** have quickly made the company grow, and it **wishes to actively expand its missions in West Africa**.

The Asian region appears to be the most successful in its policies to combat deforestation. **Indonesia is one of the most biodiverse countries in the world and is home to about 23% of the world's mangrove forests**⁹. However, over the past 50 years, Indonesia has lost more than 40% of its mangrove forests. In Asia, the Indonesian Palm Oil Producers' Association (SPKS) said that **the EU regulation would actually benefit, rather than harm, smallholders**. For them, once in force, smallholders who produce palm oil in a sustainable and legal manner could have access to the European market, and, thanks to the collaboration with the EU, competitors who do not respect the same production constraints would be pushed out of the market. Since President Widodo signed the **National Sustainable Palm Oil Plan** in 2019, Indonesia wants to increase its credibility by focusing on **increasing the productivity of current plantations without expanding to new areas**.

⁹ Source: *Ibid.*