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EU Deforestation Regulation: Balancing Climate Action and Global Trade Challenges

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As the European Union tries to enhance its competitiveness on the global stage, balancing its trade ambitions with its sustainability goals has proven difficult. The recently delayed EU Deforestation Regulation, challenged by both internal political forces and the bloc's external partners, is a good example. While such laws are necessary in climate mitigation efforts, the EU's primary goal should be to reduce overconsumption and enhance self-sufficiency.

The European Union's ambitious European Deforestation Regulation (EUDR) has sparked significant international debates, especially over its effects on global trade. This regulation targets key commodities that contribute to global deforestation, including cattle, cocoa, and wood, along with products such as beef, chocolate, and furniture.

The EUDR requires these products to be sourced sustainably, to help achieve the aim of reducing the EU's role in global deforestation, protecting biodiversity, and upholding human rights. However, the regulation's implementation has been postponed to the end of 2025, raising concerns that deforestation driven by trade with the EU will continue unabated for another year.

The scale of the problem is substantial. Between 2019 and 2021, EU imports were responsible for around 15 per cent of global deforestation linked to direct trade. Countries like Côte d'Ivoire, Brazil, and Indonesia emerged as primary sources of these deforestation-linked products.

Globally, the EUDR-targeted commodities were responsible for 26 per cent of tree cover loss between 2001 and 2015 – an area more than twice the size of Germany. Tropical forests bore the most significant impact.

This widespread tree loss has extremely dire consequences. Estimates suggest that global deforestation is responsible for around 12-20 per cent of total greenhouse gas emissions, exacerbating climate change. Deforestation also disrupts local and global climates, as forests regulate temperature and rainfall. Their removal leads to higher temperatures and more frequent droughts and floods.

In addition, forests are home to about 80 per cent of terrestrial biodiversity. The Amazon rainforest alone hosts 3 million animal species and over 2500 types of trees. Deforestation has already caused a significant decline in the number of species, threatening ecosystems around the world.

To address these challenges, the EUDR imposes rigorous requirements on companies. Businesses will have to collect comprehensive product information, including geolocation data for commodity production and proof that products are deforestation-free and compliant with local laws. Before market entry, companies must submit a due diligence statement to relevant authorities confirming their adherence to EUDR standards.

Since its introduction, the regulation has encountered significant resistance. Producer nations, mainly in the Global South, have strongly criticised the policy, arguing that it is discriminatory and undermines their economic sovereignty. Countries like Brazil, Indonesia, and Malaysia have decried their lack of involvement in shaping the regulation, even though it has profound transnational implications.

The EUDR's implementation has been further complicated by internal EU political developments which have led to its postponement. While this extension gives businesses more time to adapt, environmental groups warn that it could result in another 2300 square kilometres of forest loss. This could generate emissions equivalent to the annual output of 18 million cars and damage the EU's credibility as a leader in climate action.

Recent amendments proposed by the European People's Party (EPP) and supported by far-right factions have further weakened the regulation's potential effectiveness. A controversial "no-risk" category has been introduced alongside existing classifications, namely "low", "standard", and "high" risk.

Countries labelled "no risk" will face far less stringent due diligence requirements, with oversight primarily limited to ensuring compliance with the production country's legislation. The European Commission is tasked with finalising the country benchmarking system by June 30, 2025.

Some are concerned that the changes to the EUDR could jeopardise its effectiveness. For instance, Green Member of the European Parliament Marie Toussaint has warned that the "no-risk" category could create loopholes enabling countries to bring deforestation-linked products – even from high-risk countries – into the EU market via countries classified as "no-risk."

Toussaint has also called the amendments' approval a "step backwards for Europe's commitments to protect global forests" and criticised the European Right for its willingness to ally itself with far-right parties to create "majorities against nature."

A unilateral decision

Producer countries have been vocal in their opposition to the EUDR. In 2023, Ambassadors from 17 countries, including Argentina, Brazil, Colombia, Ghana, and Nigeria, described the EUDR in a letter to the European Commission and Parliament as an "inherently discriminatory and punitive unilateral benchmarking system".

In a September 2024 letter, Brazil's ministers of Agriculture and Foreign Affairs asserted that the EUDR "ignores national laws on deforestation" and discriminates against countries with forest resources, while imposing unfair costs on producers and exporters. They also called for a delay in the implementation of the regulation and a reassessment of the EU's approach.

Indonesia also labelled the EUDR "regulatory imperialism", arguing that it disregards its national efforts to balance environmental protection with economic development. The Indonesian government warned that small farmers could struggle to comply with the legislation's strict requirements, which could hinder their participation in global markets.

Some countries even went a step further and outright rejected the EUDR.

China, for instance, declared that it would not share geolocation data that identifies where deforestation-linked commodities are sourced due to national security concerns. This stance could disrupt EU supply chains, as the bloc relies heavily on China for timber and paper products.

Displaced financial burdens

The concerns raised by producer countries about the EUDR are far from unfounded, as a lot of the financial burden is placed squarely on these nations under the terms of the legislation.

Prior to the postponement decision, Brazil estimated that nearly 30 per cent of its exports to the EU – worth around 15 billion dollars – were at risk if the EUDR were to take effect at the end of 2024. Similarly, Indonesia's Coordinating Minister for Economic Affairs, Airlangga Hartarto, warned in 2023 that potential losses could reach seven billion dollars and affect 15 to 17 million smallholder farmers.

Compliance costs pose another strain on the EU's trade partners. Since 2021, Ghana has invested 50 million euros to set up a Cocoa Management System, which will contain the details of Ghana's 1.5 million cocoa farmers and will also be used to pay for their cocoa beans and provide a pension scheme. Furthermore, this database includes a Cocoa Traceability System that links forest cover data with cocoa cultivation. Ghana is currently piloting the project with the goal of making it operational by the end of 2025.

The system's funding came through a 600-million-dollar loan backed by the African Development Bank and private investment banks without EU financial support. Only in 2023 did Ghana secure a 15-million-euro agreement with Brussels to aid sustainable agriculture that could also be used for EUDR compliance.

In Indonesia, enrolling a farmer in the EUDR traceability system would cost around seven or eight dollars. With around 4.5 million smallholders, this would amount to over 30 million dollars – another hefty price.

The EU is offering some financial and technical support to help countries comply with the EUDR, but at a level that falls significantly short of what is needed. In December 2023, the bloc launched the Team Europe Initiative to support producer countries in transitioning to deforestation-free supply chains. Brussels has also announced an initial commitment of 70 million euros, primarily directed towards helping smallholders meet EUDR requirements.

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Trade amid a climate crisis

Many countries impacted by the EUDR face the challenge of balancing climate action with socio-economic development. Destitution remains a significant issue, with around 30 per cent of the populations in Brazil and Indonesia either living in poverty or vulnerable to falling back into it, struggling to meet basic needs.

While the EUDR may eventually boost producers' market competitiveness, some countries are already pivoting towards markets with less stringent requirements.

In November 2024, Brazil signed a series of agreements with China for several of its commodities, which include beef, pork, and fruit – commodities that China is eager to absorb as the EU imposes tighter trade restrictions. Indonesia is also increasingly directing its palm oil exports toward Africa, securing a deal with Nigeria in August 2024 to expand its market.

As seen with China's refusal to comply with the EUDR, these shifts in the exports of producer countries away from the EU could disrupt the bloc's access to key commodities it relies on, especially given its current consumption patterns.

There is also an apparent tension between the EUDR and the EU's trade deal with Mercosur (a bloc comprising Brazil, Argentina, Paraguay, and Uruguay). EU Commission president Ursula von der Leyen recently approved the deal after 25 years of negotiations, but the accord still needs to be ratified by member states and the European Parliament.

> *Many countries are ill-equipped to handle the financial and administrative challenges of EUDR, and their socio-economic development could be adversely affected as a result of it.*

The EUDR aims to prevent deforestation-linked products from entering the EU market – including from countries in Latin America. Yet critics argue that the Mercosur deal could exacerbate the Amazon's deforestation by increasing demand for beef and other agricultural products which are often tied to environmental harm.

In reality, however, the EUDR itself fails to address the critical need to reduce the EU's demand for commodities. Even imports certified as deforestation-free could still contribute to higher emissions by driving overproduction and excessive consumption.

In light of this, the European Union should reconsider its approach. Rather than pursuing a trade- and growth-focused climate strategy that could ultimately encourage more imports, the EU should prioritise internal efforts to reduce the consumption of products like beef within its own borders. Improving import standards alone, as the EUDR currently does, is not enough.

Some steps have been taken in this direction. In January 2024, the European Parliament passed a resolution calling on the EU Commission and member states to take measures to help consumers adopt a healthier, plant-based diet and curb the overconsumption of meat.

However, much more remains to be done. In 2022 alone, the EU was thefourth largest beef consumer in the world, after the US, Brazil, and China.

A pattern of pushback

This is not the only piece of EU legislation with extraterritorial powers that developing countries have denounced as discriminatory. The Carbon Border Adjustment Mechanism (CBAM), which imposes tariffs on imported goods based on their carbon emissions, is another example.

Many countries view CBAM, which will apply in its definitive regime as of 2026, as a form of protectionism disguised as climate policy. They argue that it unfairly targets developing countries that may not have the same capacity to implement stringent carbon reduction measures as do wealthier nations. Critics assert that the law could create economic disadvantages for these countries in global trade.

Nations such as India and South Africa have raised concerns regarding CBAM's compliance with the rules of the World Trade Organization – similar to Indonesia's criticism of the EUDR. These countries argue that the legislation constitutes arbitrary discrimination against developing countries and undermines their right to develop using fossil fuels – needed for their economic growth and energy security.

Like the EUDR, CBAM is expected to impose significant financial and administrative burdens on developing countries. Many of these nations are ill-equipped to handle such challenges, and their socio-economic development could be adversely affected as a result of it.

In response to these concerns, there have been calls for more open dialogue between the EU and Global South countries to address CBAM's implications and explore possible mitigation measures to support these nations in shifting to greener economies without imposing undue economic strain.

What next?

The European Union must pay attention to the concerns raised by the countries impacted by its laws. With legislation like the EUDR and CBAM that have transnational implications, it is crucial to involve the nations directly affected in the drafting process. These countries have a vested interest in shaping policies that impact their economies and development.

This approach will not dilute the EU's climate objectives or undermine its position as a climate leader. On the contrary, it will strengthen its leadership by demonstrating a commitment to inclusive, collaborative action – one that seeks to bring others on board rather than impose Brussels' will and standards on the world.

The EU should avoid making decisions that bluntly serve its own interests at the expense of burdening other nations financially and hindering their growth. As EU trading partners have demonstrated with the EUDR, they are not resistant to improving standards, but they need time and financial assistance – support the EU should be prepared to offer.

Ultimately, these nations have alternative markets with less stringent standards, and some have already begun to redirect their exports, potentially limiting the EU's access to critical commodities.

In addition to engaging with producer countries, the EU must also encourage other major markets, such as the US and China, to adopt similar standards and provide support to producer countries. A more consistent global approach would benefit all parties and help ensure a level playing field in the global market.

Finally, the EU must align its external actions with internal efforts. A trade- and growth-focused climate and deforestation strategy, without prioritising sufficiency and reducing domestic consumption, will inevitably fall short. To be effective, climate policies must incorporate demand reduction as a core component.

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