

# Sustainability Focus

Can the EU cut deforestation from its agri-food sector?

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## Can the EU cut deforestation from its agri-food sector?

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*The European Commission wants to use the EU’s single market to fight deforestation around the world, but will its new policies address the legal blind spots in global agri-food supply chains? In this edition of Sustainability Focus, IHS Markit explores how the EU executive could raise the sustainability bar around the world and how businesses can already get a head start.*

The world’s forests are under threat. In 2019, the tropics alone lost a **football pitch** of primary rainforest every six seconds, totalling around 11.9 million hectares of destruction and, in the process, realising at least 1.8 gigatonnes of carbon dioxide emissions into the atmosphere – and that’s a big problem for the European Commission.

### Key forest-risk exports for EU agri-food sector



In its Green Deal, the bloc’s 2050 plan to be climate neutral, the EU executive has committed to net-zero emissions and halting biodiversity loss; it’s a noble cause, but the bloc’s food system already risks derailing these goals. EU agri-food supply chains have strong links to deforestation hotspots – researchers claim that a fifth of EU **soy imports** from Brazilian are alone “tainted by illegal deforestation”.

The Commission is aware of the problem and is working on a plan to curb its environmentally destructive imports by limiting products linked to deforestation on the EU single market. Environment Commissioner Virginijus Sinkevičius is fleshing out the details, but he said the EU executive could propose voluntary commitments from the industry, mandatory labelling, certification schemes and new due diligence regulations, among other elements. He’s expected to publish the Commission’s proposal sometime in the first half of 2021.

According to Clotilde Henriot, an environmental lawyer working at ClientEarth, a legal charity, the Commission must put forward something that address a huge regulatory gap or the EU executive risks failing the world’s forests.

Source: Stockholm Environment Institute (SEI) © 2020 IHS Markit

### Tropical primary forest loss (2002-2019)



“At the moment we don’t have anything that is imposing [agri-food] operators to ensure that there is no deforestation or human rights violation [associated] within their supply chains,” she said, adding that the industry’s voluntary commitments have failed to stop tree cover loss.

Henriot believes a robust due diligence regulation is one of the best engines to drive the Commission’s proposal forward because it would oblige agri-food businesses to finally respect certain social and environmental requirements when sourcing their raw materials.

The EU executive already has due diligence on its radar, thanks to its moderate success in fighting illegal logging through a similar system within the EU Timber Regulation. A recent Commission [study](#) on due diligence also found this type of regulation would have the most positive sustainability effect. Then there is [growing support](#) within the agri-food industry itself.

The bigger challenge the Commission faces is the definition battleground within due diligence regulations. Definitions that determine what counts as deforestation are a crucial element to create the market rule book as well as a traceability system that can effectively map, monitor, implement and enforce forest protection around the world.

Henriot believes a due diligence regulation must be anchored in robust definitions because it means a company clearly understands what it is legally allowed to source, increasing the chances their contribution to environmental destruction is effectively curbed.

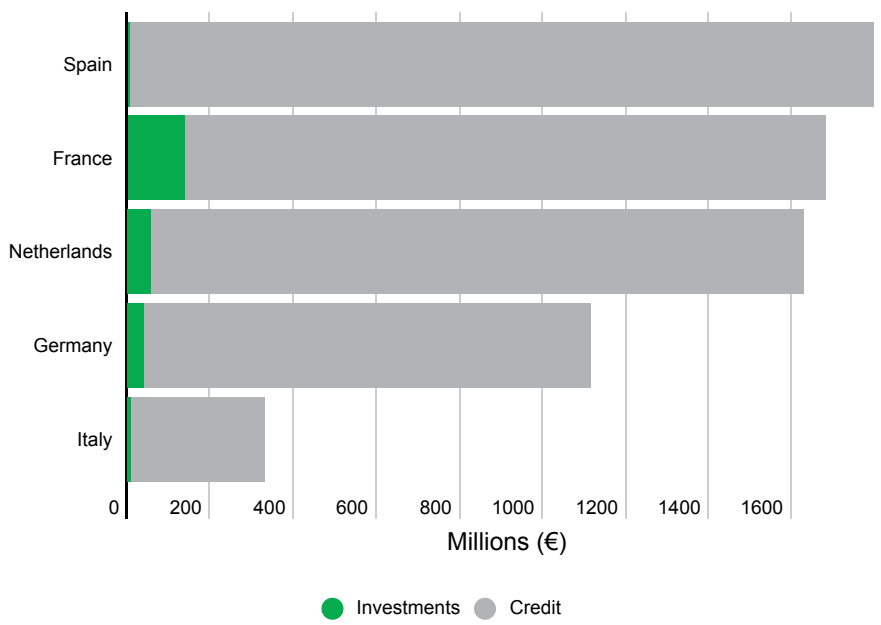
“Due diligence needs to be sufficiently described so that the company really understands the new responsibilities that it will have,” Henriot said, adding there cannot room for interpretation.

Defining what exactly counts as a forest and deforestation is not easy; the density, age and type of trees, are among a long list of factors that a due diligence legislation must take a stance on.

A huge effort has already been made by global stakeholders from industry, research and civil society to establish clear wording – through the so-called [Accountability Framework](#), including input from the British and German government along with the World Wildlife Fund. These definitions have also been supported by Members of the European Parliament in a [draft report](#) on what it expects from the EU executive’s proposal, which also recommends more legally binding measures for member states and business than what the EU executive has hinted at.

**Top 5 EU countries with financing linked to worldwide deforestation**

Global Witness researched how much EU banks and investors finance six global agribusinesses active in deforestation-hotspots between January 2013-March 2019 - namely JBS, Minerva, Marfrig, Olam International, Sinochem Group and Halcyon Agri.



Source: Global Witness

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Responsibility and risk

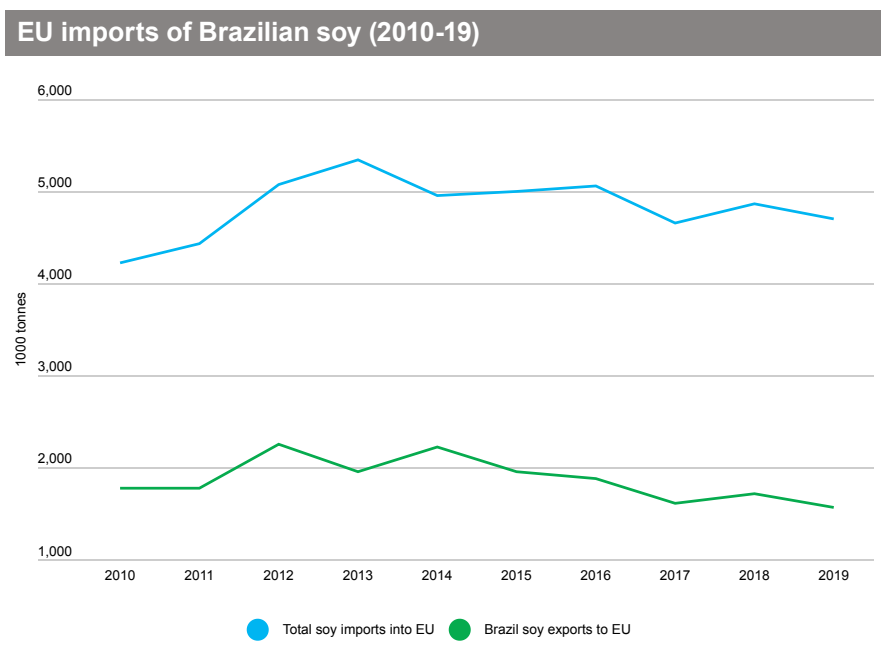
Once definitions are set, the next legal battleground is what to do if a product is found to be linked to deforestation or forest degradation and then where, and how hard, the hatchet should fall for non-compliance. Should it be dispersed along the supply chain or focused more on agri-food business?

“It should be the operator placing the product on the market,” said Henriot, adding that a business should conduct its due diligence throughout their entire supply.

Henriot also wants the financial sector to face similar rules when they fund agri-food businesses. ClientEarth’s thinking is to create a reinforcing momentum, one that incentivises agribusinesses to avoid putting deforested products on the single market, but also ensures those who finance the industry are not propping up companies that are linked to environmental destruction or human rights violations.

The degree of punishment will be the next sensitive spot for policymakers. Some NGOs, like Greenpeace, want outright bans for products found to be non-compliant, more moderate voices prefer hefty fines, while some businesses have called for greater pressure placed on third countries.

Either way, the Commission will have a tough balancing act trying to increase forest protection and the economic stability of different EU agri-food sectors dependent on high-risk imports, like soya feed for EU livestock.



EU rules may not go far enough for some, but the EU agri-food sector is increasingly aware that they may still face future financial, reputational and legal risks if they contribute to global deforestation. Some are already willing to get on board with due diligence, but even then, their sustainability ambition is undermined by an uneven playing field.

Companies that want to source more sustainably, or increase their level of action, often face extra costs compared to those that lack the same ambition. They can then backtrack over fears of being undercut by competitors that purchase unsustainable produce, which can be cheaper and sold at a lower price.

Source: Global Trade Tracker (GTT)

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FoodDrinkEurope, an EU trade association, [backs](#) a harmonised due

diligence report at an EU level. Lorenzo Ferrucci, Senior Manager of Sustainability says the food and drink sector is committed to eliminating deforestation at a global level, but it needs policymakers to set the rules and support the drivers outside their control.

“The challenges of deforestation vary, depending on the specific supply chain,” he said. “In this context, further actions to encourage supply chain traceability at EU level should be considered.”

Henriot agrees that “we can not only act at the market level”, adding the EU has a responsibility to provide technical support so producer countries pursue more sustainable production, but she would still like to see stricter measures for the EU private sector.

“We have been pushing for a very long time for a type of legislative proposal that would see much more accountability for the private sector,” she said. “And we see it coming.”

Whatever the Commission puts forward, a signal will certainly be sent to the agri-food sector that it is time get a serious picture of their supply chains, but a lot of work must still be done to make this happen.

## Supply chain solutions

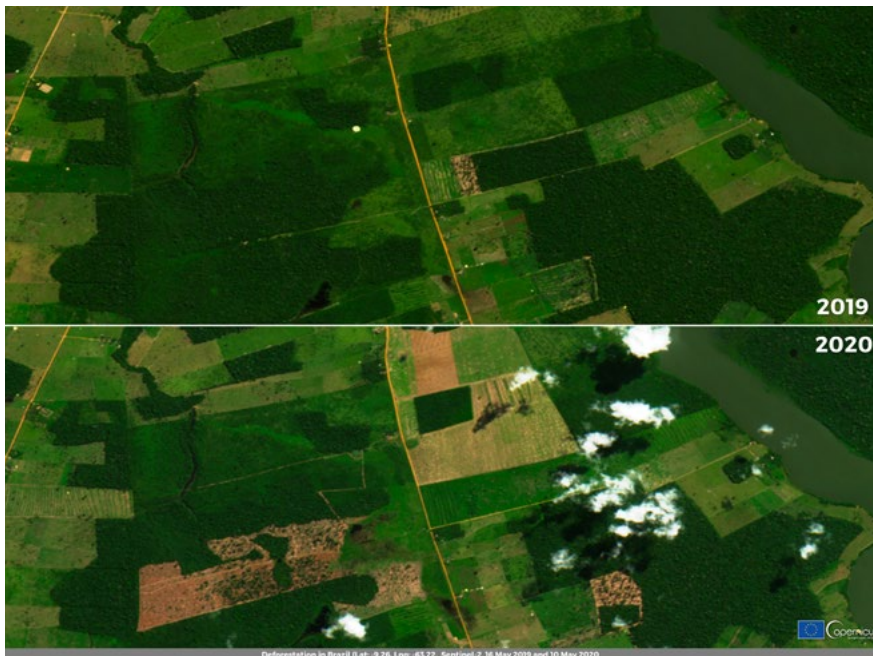
A recent [report](#) from CDP, a not-for-profit, found that nearly half of companies in soy and cattle supply chains do not report on how sustainable these commodities, with only 40% and 46% of respective manufacturers and retailers engaging beyond their first tier of suppliers.



But closing this gap is possible. The first step is mapping global agri-food supply chains, something that Henriot says a due diligence regulation would incentivise agri-food companies to pursue.

According to Matt Spannagle, a deforestation expert that works with governments and agri-food businesses, the technology already exists to do this effectively, although he adds an EU policy would need to hammer out how rigorous the details are, for elements like definitions and degree of monitoring required.

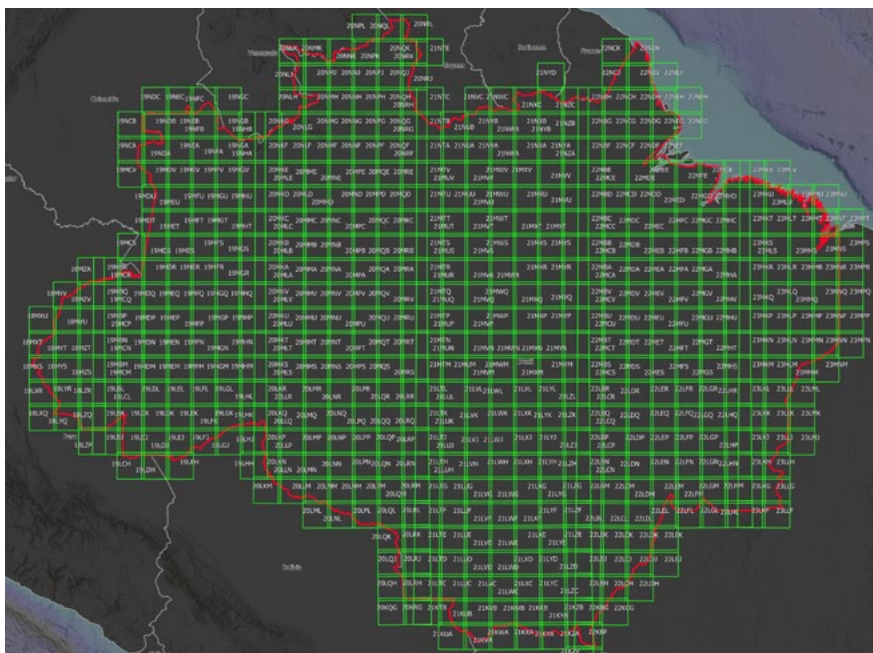
“The more traceability you have, the better,” he recommends, adding that this means the sector can uncover unsustainable blind spots further down supply chains.



“For any goods that are transportable, you can get good transparency and traceability on the scope one [direct suppliers], and reasonable transparency and traceability on the scope of the people that supply directly to them – but anything past that is really in the mystery zone,” he said.

Spannagle says this is where the EU’s [Copernicus satellites](#) can play a pivotal role. ‘Europe’s eyes on Earth’ offer open-source satellite imaging that businesses can use to track high resolution pictures of forests, down to five metres squared, along with historical data of farms all the way back to 2008.

Monitoring this information provides the foundation that EU agri-business can use to track high-risk commodities in their supply chain. Spannagle says several pioneering companies are already doing this by analysing the area around a supplier’s processing facilities in producing countries because they typically source most of their raw materials from nearby. Then a company can set up a radius around the site to determine how close its suppliers are to a deforested or vulnerable area.



Deforestation in Brazil - Sentinel-2 tiling grid (100 x 100 km<sup>2</sup>) over Northwest Brazil (Amazon Basin). Source: Copernicus

Procedures that deal with high-risk areas can then be set up between an operator selling on the EU single market and a factory in a producer country. If a factory is proven to be sourcing unsustainably, an EU agri-food business can try remedy the situation, although that generally translates into disruptions in supply – something that not all companies want to know about.

“There’s sometimes a willing blindness among agri-businesses,” he said. “It’s not really in their interest to find out when they don’t have an obligation to do anything about it.”

EU due diligence regulations would force more businesses to open their eyes, but that awakening paves the way towards another, and possibly the biggest, issue for both companies and policymakers – tackling deforestation drivers outside their direct control.

## Socioeconomic foundation

According to the [FAO](#), 1.6 billion people depend on forest resources. Spannagle adds that when farmers are cutting down trees it is often “out of desperation” based on their country’s socioeconomic situation, not because they want to. “If you do have deforestation who is responsible and what do you do about it,” he asks.

Established governance systems and clear land ownership could see the goals of EU policies ripple down and have greater success in delivering change at a farm level, but this structure is often missing in producing countries.

Less governance around who owns or leases land could make it almost impossible to implement rules effectively and even lead to conflict. In the last few years, indigenous people in Brazil’s Amazon have been [regularly killed](#) in defending their lands after illegal loggers were buoyed by their government’s push to utilise more of its natural resources.

The reality is that for any EU forest protection policy to succeed on the world stage it must be complimented by other measures that addresses socioeconomic challenges in producing countries – from a lack of governance and farmers poverty to low productivity and market access.

Some EU agri-food businesses have development projects in producing countries and work with national authorities to drive some of the needed social and economic change, but again, that is not happening at the scale needed, especially where governments are underfunded or uncaring.

Ferruci says that for effective Commission measures to fight deforestation in producing countries, the EU should “engage with its trading partners to step up the implementation and enforcement of Trade and Sustainable Development chapters”.

Henriot hopes the Commission’s work to fight global deforestation will help reinforce upcoming trade agreements while EU due diligence regulations are also in place to respect local communities in producing countries.

“There is the need to avoid deforestation, but that’s also the need to avoid lands taken away from local communities and indigenous people,” she said.

Spannagle says that where EU policies and businesses can’t help, international finance must step in. He recommends looking at areas where productivity improvements could be made and focus the funds there, adding that “the more of that kind of investment you have on farms, the more likely it is that there are viable towns and villages around them making for viable and more sustainable rural livelihoods”.

## Solutions Showcase

Each month, we feature different sustainable agri-food solutions that could help put the sector on a resilient path. This time we're looking at seeds, soil, and seawater.



**Deimos** developed automated low-cost drones that map biomass density in a given area which they use to determine carbon stocks for selling offsets.



**University of Cambridge** researchers have made semi-tinted solar panels that help farmers grow more nutritious crops while generating renewable energy.



**Flash Forest** is a reforestation company that uses autonomous drones and mapping software to plant trees and regenerate ecosystems.

Do you have a project that you'd like featured here? Send suggestions to: [steve.gillman@ihsmarkit.com](mailto:steve.gillman@ihsmarkit.com)

## SUSTAINABILITY SPOTLIGHT

- Blackrock's latest report **warns** investors to stop overlooking water stress and its financial risk for businesses
- Arrhaus researchers **examined** farming system resilience in a liberalised and volatile European dairy market
- World Wildlife Fund have **argued** for greater conditionality in the next Common Agricultural Policy (CAP)
- NASA has **launched** a new tool to track Amazon fires that includes agriculture's contribution
- The UK's Soil Association latest **report** says Nitrogen emissions should get more environmental focus than methane
- IFOAM Organic's Europe new **report** on combining EU food and farming policy highlights the need to treat food security in a more integrated way
- Rockefeller Foundation's new **report** "Reset the Table" says US food system has a fresh opportunity to become sustainable post-COVID
- New York University **analysis** on the gaps and opportunities in nitrogen pollution policies around the world

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