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COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT minimising the risk of deforestation and forest degradation associated with products placed on the EU market Accompanying the document Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010

Delegations will find attached document SWD(2021) 327 final.

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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

**minimising the risk of deforestation and forest degradation associated with products
placed on the EU market**

Accompanying the document

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**on the making available on the Union market as well as export from the Union of certain
commodities and products associated with deforestation and forest degradation and
repealing Regulation (EU) No 995/2010**

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Executive Summary
Impact assessment : “Minimising the risk of deforestation and forest degradation associated with products placed on the EU market”
A. Need for action
What is the problem and why is it a problem at EU level?
<p><i>Deforestation and forest degradation are occurring at an alarming rate, aggravating climate change and the loss of biodiversity. The main driver of deforestation and forest degradation is the expansion of agricultural land to produce commodities such as cattle, wood, palm oil, soy, cocoa or coffee. A growing world population is expected to increase demand for agricultural land and put additional pressure on forests, while changing climate patterns will affect food production.</i></p> <p><i>The EU is a relevant consumer of commodities associated with deforestation and forest degradation and it lacks specific and effective rules to reduce its contribution to these phenomena. The current legislative framework based on the EU Forest Law Enforcement Governance and Trade (FLEGT) Action Plan tackles illegal logging and contributes to strengthening forest governance, but it does not address deforestation caused by agricultural expansion. This Impact Assessment builds on the key findings from the Fitness Check of the EU Timber Regulation (EUTR) and the FLEGT Regulation.</i></p>
What should be achieved?
<p><i>The objective of this initiative is to curb deforestation and forest degradation that is provoked by EU consumption and production. This, in turn, is expected to reduce EU-driven GHG emissions and biodiversity loss. The initiative aims to minimise consumption of products coming from supply chains associated with deforestation or forest degradation – and increase EU demand for and trade in legal and ‘deforestation free’ commodities and products.</i></p>
What is the value added of action at the EU level (subsidiarity)?
<p><i>The main drivers of deforestation and forest degradation are linked to both the EU and international trade. Action at EU level is essential to enable international trade issues to be addressed in a coordinated and harmonised way, and to ensure a level playing field for companies, both in terms of requirements to be met before placing products on the EU internal market, and in terms of the information supplied to customers. Action at EU level would also benefit from previous EU experience in dealing with complex supply chains (e.g. stemming from the legislation related to illegal logging for example.)</i></p>
B. Solutions
What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?
<p><i>The five policy options considered were: 1) An improved mandatory due diligence system; 2) a benchmarking system and a list of contravening operators combined with tiered improved mandatory due diligence system; 3) a mandatory public certification combined with an improved due diligence requirement; 4) mandatory labelling combined with an improved due diligence requirement; 5) a deforestation-free requirement for placing on the EU market supported by benchmarking and country card systems.</i></p> <p><i>The preferred option is number 2. It includes a country benchmarking system that will categorise countries according to deforestation patterns linked to the relevant commodities in the scope. There will</i></p>

be three categories of countries — low, standard and high risk. The obligations for operators and member states authorities will be vary according to the level of risk of the country of production, with simplified due diligence duties for low risk and enhanced scrutiny for high risk countries.

All policy options considered build on common elements: 1) A deforestation-free definition, based on the FAO definition, which products need to comply with; and an additional requirement for products to be legal according to the laws of the country of production; 2) A progressive product scope, which is regularly reviewed and updated, focusing on commodities with the highest EU embodied deforestation (beef, palm oil, soy, wood, cocoa, and coffee) and related derived products.

What are different stakeholders' views? Who supports which option?

The Open Public Consultation carried out by the Commission in 2020 received nearly 1.2 million contributions and showed that a majority of stakeholders agreed on the need of an EU-level intervention to reduce the EU's contribution to global deforestation and forest degradation. Most stakeholders also agreed on setting out an EU deforestation-free definition as a requirement of the policy intervention.

In terms of policy measures, the OPC showed stronger support for legally binding options (deforestation-free requirement, mandatory due diligence, mandatory public certification, etc.) than for soft, voluntary measures like voluntary due diligence, voluntary labelling or voluntary private certification. The overwhelming majority of qualified stakeholders — businesses associations and NGOs — supported a mandatory due diligence regime, although the details of this system vary from one organization to another.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise of main ones)?

It is expected that the preferred option would prevent deforestation driven by EU consumption and production of the six commodities included in the scope, with projected benefits well above 71,920 hectares of forest less affected by EU-driven deforestation and forest degradation annually by 2030. This would also mean a reduction of at least 31.9 million metric tons of carbon emissions to the atmosphere every year due to EU consumption and production of the relevant commodities, which could be translated into economic savings of at least 3.2 billion EUR annually. In addition, this option is expected to decisively contribute to protecting biodiversity.

This option should also contribute to achieving the specific objectives of the EU intervention, namely creating a level playing field for companies operating in the EU market; minimising the consumption of products coming from supply chains associated with deforestation or forest degradation; and increasing EU demand for and trade in legal and 'deforestation-free' commodities and products.

What are the costs of the preferred option (if any, otherwise of main ones)?

One-off costs of between EUR 5,000 and 90,000 per operator for establishing the due diligence system depending on the complexity and risk associated with deforestation of the supply chains of the company. Recurrent: A range of between EUR 158 million to 2,354 million per year.

Member States authorities: Around EUR 18 million per year for all member states combined.

European Commission: Setting up and operating the benchmarking will result in a one-off cost of EUR

337,000 and thereafter EUR 168,000 per year.

What are the impacts on SMEs and competitiveness?

This option is expected to create a level playing field for companies operating in the EU market. Producers implementing more sustainable production practices expected to gain share in the EU market and see increased competitiveness compared to operators sourcing from 'high-risk' countries.

The main driver for costs of due diligence obligations is the complexity of supply chains and the risks associated with the sourcing country. The due diligence system combined with benchmarking would allow SMEs operators and traders to benefit from lower costs of the simplified due diligence by placing products derived from low-risk supply chains.

Will there be significant impacts on national budgets and administrations?

No. The costs are described above.

Will there be other significant impacts?

There might be potential shifts in EU trade towards 'low risk' producer countries from 'high risk' producer countries. Smallholders producing the relevant commodities may face adaptation challenges. All these factors are expected to be mitigated by the proposed cut-off date of 2020, as most products currently in trade would be sourced from land put into production prior to 2020.

Proportionality?

The preferred option would ensure that the EU puts in place a regulatory framework that is both very ambitious and implementable, while incentivising the sustainability transition in all producing countries, within or beyond the EU, making the EU a credible global standard-setter. The minimum monetised benefits clearly offset the costs. The initiative It is also in line with the gravity of the problem it aims to tackle, as well as with the priorities of the European Green Deal.

D. Follow up

When will the policy be reviewed?

The system should be reviewed after five years of full operation to identify any issues and potential improvements.