



EUROPEAN REGULATIONS AND THE POLICY OF IMPORTING DEFORESTATION-FREE PRODUCTS: OPPORTUNITIES AND CHALLENGES IN THE BRAZILIAN SOY CHAIN

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MENSAGENS-CHAVE

- The bills of law of the European Union and the United Kingdom may become important mechanisms in reducing deforestation in Brazil by underpinning already existing public policies. However, the way in which they will be implemented, and the extent of their efficiency, is still very uncertain.
- One of the biggest challenges of the soybean chain is the need to improve governance and engage the sectors that make up the chain, especially, but not exclusively, in the Cerrado biome. This causes an impact on the availability of information and consequently on the transparency and traceability of the whole chain.

Within a few decades, Brazil went from being a food deficit country to becoming one of the largest exporters in the world. It is currently a major player in the production as well as export of agricultural commodities. However, the development of this agro-food system has led to the expansion of the agricultural frontiers into huge areas of native vegetation, causing not only deforestation but other impacts, such as water shortages and the silting up of rivers, erosion of biodiversity, carbon stock depletion and high concentration of financial and land resources which, in turn, impact on the territorial development of biomes, such as the Amazon and the Cerrado region.

To counter this scenario, a series of public and private actions were created in the early 2000s, with greater civil society involvement, that helped reduce deforestation in the Amazon. In the public sphere, the Amazon Region Protected Areas Program (ARPA) was launched in 2002. It created Protected Areas and Indigenous Land, totalling 487,000 km² (12% of the total area of the biome) that became protected zones from 2003 to 2006. In 2004, the federal government also created the Action Plan for Prevention and Control of Deforestation in the Legal Amazon (PPCDAm), which combined a set of measures aimed at expanding monitoring, enforcement and control in the Amazon region (Piatto & Inakake, 2016).

As such, the dynamics of production and deforestation in Brazil have also evolved and in the last twenty years have led to the drafting and implementation of protocols and agreements, such as the Soy Moratorium in the Amazon that has been in place for 16 years since 2002, aimed at tackling the expansion of conversion of native vegetation areas. In recent years, the processing industry, retail chains and investors have increasingly committed to eliminating deforestation from their supply chains in an effort to make their activities and actions in field more transparent.

Bills of law of the european union and the united kingdom

In 2017, the conversion of native vegetation related to commodity consumption in the European Union (EU) accounted for 16% of total deforestation in tropical regions with forest risk (about 203,000 hectares), while in the UK this association exceeded 31,000 hectares (Pendrill et al., 2020; WWF 2021).



The EU Commission, faced with increasing climate changes and pressure to ensure the production and marketing of commodities free of deforestation or the conversion of native vegetation, announced in 2019 a bill of law aimed at increasing transparency and minimising the risk of deforestation linked to imports into the economic bloc. Soon after, the European Green Deal - a strategy to reduce net carbon emissions by 55% by 2030 in the EU and which considered the emissions of 1990 as the baseline - emerged, as well as the Farm to Fork strategy, which underlined the need to put in place regulatory measures to mitigate the consumption impact of EU countries. It was, however, in November 2021 that the Commission published the bill of law which is considered a major, urgent and necessary global environmental governance initiative.

The regulations provide for a mandatory due diligence mechanism for the supply chain, anchored on total traceability of the chain, with the purpose of ensuring that the products (cocoa, coffee, beef, timber, palm oil, soybeans and a list of by-products) traded or exported to the EU are deforestation-free and produced in accordance with conventions that ensure human rights. Due diligence laws are important for commodity exporters, such as Brazil, and set the standard to monitor global supply chains based on an obligation to detect any potential impact on human rights and the environment and find ways to prevent and mitigate these impacts. Since then, several consultations have been held to assess the limitations, weaknesses and inconsistencies of the new law and, on September 12, 2022, the European Parliament voted on a proposal requesting important changes such as: change the cut-off date for deforestation from 2020 to 2019; include other products such as pork, sheep, goat and poultry meat, corn, rubber, charcoal, paper; include human rights and those of indigenous people.

Concurrently, after Brexit and the resulting withdrawal from the EU, the UK introduced Annex 17 into its environmental law to prohibit the use of commodities that are not in compliance with the local laws of the producing country, and to provide for due diligence systems that must properly identify the commodity, and assess, as well as mitigate, the risks of non-compliance with local regulations

Similar to the EU, the UK government also held a number of rounds of public consultations about: which commodities would be considered within the scope of the regulations; which businesses

would need to undergo due diligence; how the law would be enforced. The result of these consultations was disclosed on June 6, 2022 and included requests such as the inclusion of coffee and corn, in addition to previously selected commodities (beef and leather, cocoa, rubber, palm oil and soybeans). Timber, on the other hand, which was part of the initial proposal, was removed from the scope because it falls under UK Timber Regulations. The UK government, however, has yet to clarify when the second version of the law will be published.

Impact of regulations on brazilian soy chain

Although the EU and UK bills apply on a national scale, they have the potential to cause cross-border impacts because they influence the policies of exporting countries and the practices of multinational companies. If, on the one hand, there is an expectation for these laws to drive the development of more restrictive policies, on the other, there is a concern about rising production costs or even a trade boycott. As such, several discussions have taken place, internationally and nationally but also at a subnational level, to understand to what extent these proposals will affect the Brazilian production chains.

Much has been said about the opportunities that both laws could generate in Brazil by dissociating commodities trade from deforestation. However, the scope and degree of efficiency of these regulations is still uncertain, as neither the EU nor the UK is Brazil's main trading partner for most of the traded products. Soybeans are the most relevant cash crop for the Brazilian export economy, accounting for approximately 13.5% of exports in 2020 (Abiove, 2022). In 2020, Brazil surpassed the US as the top soybean producer with 126 million tons (USDA, 2020). During this period, almost 36 million hectares of soy were planted in Brazil, occupying 4.3% of Brazilian territory (Mapbiomas, 2021), and total grain exports exceeded US\$ 40 billion (Agrostat, 2020), with almost 122 million tons.

The planted area has grown by over 200% in 30 years and production has increased by almost 500% (Embrapa, 2019) with most of the expansion occurring in the Brazilian Cerrado region and on the border with the Amazon. For comparison purposes, only 14% of soybean production was harvested in the Amazon in 2015, while 48% came from the Cerrado region (PAM/IBGE, 2019). China accounted for 58% of total grain exports in 2021, while the EU's market share in total grain exports stood at a little over 15%.



In the soy value chain, the pressure to monitor and trace is far greater on producers, processors and traders, particularly those operating in the Amazon, however, the pressure is now increasing in the Cerrado region as well. Similar to what happens with beef, private sector players claim that there are no public policies and incentives to encourage the conservation of native vegetation. The expectation of the Brazilian soy producing sector is for the European laws to help improve its international image and, as such, make the sector more appealing to investors and buyers.

Despite the uncertainties about how these regulations will be implemented and the investments required by the sector to adapt to the demands of the European market, Brazil has mechanisms that can address, to some extent, the problem of conversion of native vegetation in its chains. The Soy Moratorium in the Amazon is an example that has been providing a temporary solution to fight deforestation in the biome, but it still lacks transparency and is vulnerable to changes in the political scenario, besides being limited to the polygon deforested with soybean, i.e., it does not consider other commodities when monitoring deforestation, even in farms within the scope of the agreement.

As such, civil society organisations have raised the alarm that without the implementation of very clear rules by the EU and the United Kingdom, the cases of triangulation and soybean laundering will increase, adding fuel to the fire of the current scenario. Similarly to the beef situation, it is crucial to increase the monitoring of indirect suppliers, improve the transparency of information and the traceability of the chain, but most importantly of the sector's governance, by encouraging producers to become more involved and engaged. Without a concerted and coordinated effort of the sector, it will become more difficult to comply with both regulations. This may not only cause an image risk for companies in Brazil and adversely affect trade agreements with European countries, but also any negotiations with other international buyers.



SOY ON TRACK

THE TRANSPARENCY PLATFORM IN THE SOY VALUE CHAIN.

The Soy on Track Program is a set of actions aimed at underpinning social and environmental commitments and corporate policies in the soy value chain in the Amazon and the Cerrado region.

Its main goals are to support the implementation of the Soy Moratorium in the Amazon, the Green Grain Protocol of Pará state and the sector and corporate chain of deforestation-free soybeans in the Cerrado region.

The Soy on Track platform is a hub that offers access to systems, tools, data and technical information for a deforestation-free soybean chain.

A team of experts, supported by local and international strategic partners, works to find solutions for a deforestation-free and transparent chain.

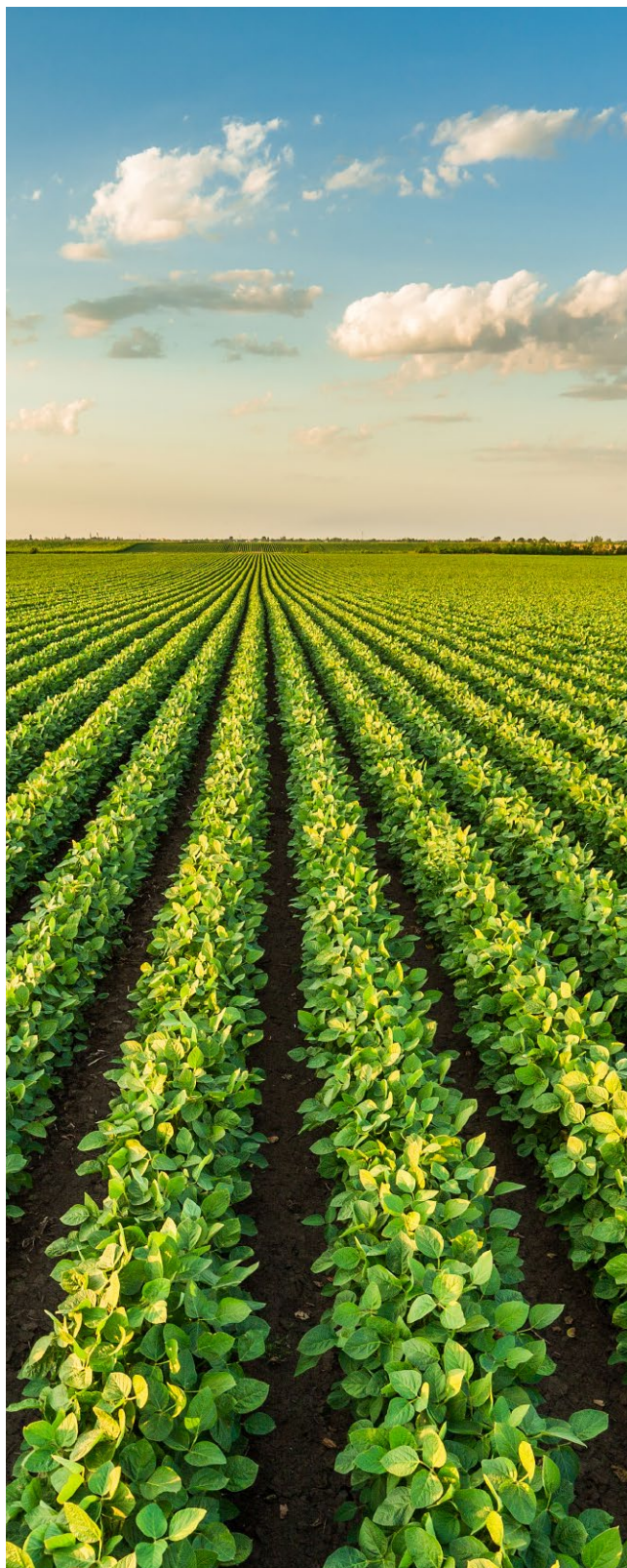
So producers, soy processors of all sizes, traders and also investors, can use this environment to find the material they need to improve and implement their commitments and policies.

The general public can also use it as a source of data and resources to track the progress of the agreements signed by the network.

See more and join us!

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O Imaflora é uma organização não governamental brasileira, criada em 1995, para promover a conservação e o uso sustentável dos recursos naturais, gerando benefícios sociais no setor florestal e agrícola.

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