MAKING THE EU WORK FOR PEOPLE & FORESTS

AN EU STRATEGIC FRAMEWORK

FOR WORKING WITH COUNTRIES TO ACHIEVE DEFORESTATION-FREE PRODUCTION

WHY IT IS NEEDED, AND WHAT IT COULD LOOK LIKE.

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Front cover: Photo: Vietnamese ethnic minority coffee farmers. By Sustainable Rural Development (SRD), Vietnam.
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Ministerie van Buitenlandse Zaken

Contents

Introduction

In December 2022 the European Union (EU) agreed on the text of a new regulation which would require all products coming into the EU to be deforestation-free.[1] The regulation was developed following a 2019 European Commission (EC) Communication, that outlined five priorities for stepping up EU action to protect and restore the world's forests.[2]

The Regulation (see Box 1 for an overview) has the clear objective to "*minimis[e] the Union's contribution to deforestation, forest degradation worldwide, and thereby contribut[e] to a reduction in global deforestation.*"

The Regulation anticipates changes in the systems of production and supply that meet EU consumption demands. This means that the key to curbing deforestation linked to EU consumption of the commodities targeted by the Regulation lies ultimately with the farmers and labourers who produce them, the companies that buy from those producers, and with the governments and states of the countries where those commodities are grown.[3]

Fortunately, the final text of the Regulation says that the European Commission will develop a Strategic Framework to guide its engagement with producer countries in supporting the implementation of the Regulation and tackling the root causes of deforestation. This commitment is strongly welcomed by Non-governmental Organisations (NGOs), and this paper provides guidance as to what such a Framework could look like.

This is a discussion document that has been co-developed by the Association Camerounaise pour la Promotion de l'Education et du Développement (Cameroon), Civic Response (Ghana), the Environmental Investigation Agency (UK), Fair Trade Advocacy Office (Belgium), Fern (Belgium), Foder (Cameroon), Green Development Advocates (Cameroon), Initiatives pour le Développement communautaire et la conservation de la Forêt (Cote d'Ivoire), the Institute for Economic, Cultural & Social Rights (Indonesia), Milieudefensie (Netherlands), Rainforest Alliance (Netherlands), Solidaridad (Netherlands), Synaparcam (Cameroon), Tropenbos International (Netherlands) and Verdens Skove (Denmark). It aims to outline the options that the EU should consider when looking at how to partner with forested countries.

1 - 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, draft compromise text available at https://data.consilium.europa.eu/doc/document/ST-16298-2022-INIT/en/pdf

2 - https://ec.europa.eu/info/publications/eu-communication-2019-stepping-eu-action-protect-and-restore-worlds-forests_en

3 - Although it is not covered in the Regulation, consumption patterns in the EU also need to be challenged. It is increasingly clear that Europeans need to eat less meat and dairy and consume more regionally produced vegetable oils.

Box 1: The proposed EU Regulation on deforestation-free products in brief

In December 2022, the European Parliament and Council reached a compromise agreement on a new EU Regulation on deforestation-free products. NGOs have broadly welcomed it, while warning of omissions and loopholes that could undermine its effectiveness and cause unintended consequences for smallholder farmers, communities, and forests. They hope these will be addressed in the implementation phase and upcoming reviews of the legislation.[10] The Regulation lays out rules that will apply to **coffee, cocoa, oil palm, soy, beef, wood, rubber** and some specific products made from these raw materials. The door is left open to extending the scope to additional commodities in the future.

The Regulation's core elements are:

- ✗ **Companies must not place specific products on the EU market** if they have been produced on recently deforested or degraded forest land. Products grown or raised in violation of national laws are also prohibited.

- ✓ **Companies must conduct due diligence** to minimise the risk that they violate the prohibition. This includes collecting the geographic coordinates of the location of production, conducting a risk assessment, and taking risk mitigation measures. If they can't reduce the risk to 'negligible', they cannot place the product on the EU market.

- ✓ **EU Member States must perform checks** to make sure that companies placing products in their territory comply with the due diligence requirements. These checks must be strategically targeted, and informed by risk assessments and information received.

- ✓ **EU Member States must introduce 'effective, proportionate and dissuasive' penalties** for companies that do not comply.

- ✓ **The European Commission will assess the risk that production from a particular country or parts thereof may be linked to deforestation, and publicly classify the country or region accordingly.** The draft Regulation proposes three tiers of classification; low, standard, and high. Companies sourcing from countries assessed as low risk would be permitted to conduct a 'simplified' form of due diligence, while products coming from countries assessed as high-risk would be subject to more intensive checks by EU Member States. The Commission will engage in a specific dialogue with all countries that are classified as high risk or are at risk of being so, with the objective of reducing their level of risk.

- ✓ **The European Commission will develop a Strategic Framework for engaging with producer countries** to address the root causes of deforestation.

The Regulation will be formally enacted by mid-2023, with **companies required to start complying with its obligations at the end of 2024**, following an 18-month transition period.

10 - See for example a press release from Fern, calling attention to the failure to include international protections for land rights in the regulation, as well as the absence of adequate support measures for smallholders: https://www.fern.org/publications-insight/eu-anti-deforestation-law-disappointment-as-policymakers-prioritise-trees-over-people-2606/

Supply-side partnerships are needed to realise the goals of the EU Regulation on deforestation-free products

The EU Regulation on deforestation-free products is a ground-breaking step forward on the path to ending global forest loss and the land rights violations that come with it. However, as with all policy tools it has its limitations, and therefore creates a set of new risks.

RISKS THAT SUPPLY-SIDE PARTNERSHIPS COULD HELP MITIGATE

Supply-side partnerships with producer countries would help to mitigate the following risks linked to the enforcement of the new Regulation.

RISK OF 'LEAKAGE'

In order to comply with the new Regulation, companies are likely to try to source products to sell in EU markets from areas with an already low risk of deforestation or illegal production. The danger is that these companies will continue or increase sourcing from areas with a high deforestation-risk but only sell them in markets that do not require goods to be deforestation-free. The result could be 'clean' EU supply chains but no overall reduction in deforestation. This is because those areas of production that are most in need of reform would be insulated against any pressure to improve standards. In some sectors, the EU consumes a limited amount of global production, so the risk of such an effect is high.

For instance EU demand for Brazilian soy could likely be entirely satisfied with soy grown in areas with low deforestation risk (i.e. deforested long ago), as the EU receives only around 13 per cent of Brazil's soy exports.[4] If buyers supplying the EU source only from the low risk areas, this will increase the share of high deforestation-risk soy heading to other markets. This danger could be mitigated by measures to support Brazil to reform governance and production practices across the board, and especially in high-risk areas, it could help to mitigate this danger. In the medium term, the EU could also look at ways to engage companies to make positive changes.

RISK THAT SMALLHOLDERS BEAR THE BRUNT OF THE REGULATION

If European buyers shift to only dealing with producers operating in low-risk areas (i.e. far from current forest frontiers), smallholders operating in high-risk forest zones could be de facto prevented from supplying EU markets. Losing market access for smallholders operating in high deforestation-risk areas will do nothing to enable them to escape the conditions that force them to encroach on forests (insufficient income, insecure tenure, poor governance and restricted access to alternative livelihoods, finance or information).[5] Research on recent deforestation trends demonstrates that smallholder farmers seeking to sustain their livelihoods is an increasingly significant driver of incremental tropical deforestation in some regions.[6]

This risk is particularly pronounced when considering commodities whose production is dominated by small-scale family and smallholder farms: cocoa, coffee, rubber and sometimes oil palm. Landgrabs from multinationals or elites can also push community-based farms further into the forest area.

In the absence of additional support measures, therefore, the challenges of meeting the requirements of the new Regulation are likely to pose a direct threat to smallholder livelihoods. Companies seeking to minimise their exposure to deforestation-risk will likely source commodities from larger operators, better placed to meet the Regulation's market access requirements. Without special support for smallholder farmers to understand and adapt to the requirements, as well as to have a say in how implementation is managed, the Regulation could exacerbate the existing power asymmetries within Forest and Ecosystem Risk Commodity (FERC) value chains that marginalise small farmers and make it harder for them to earn a decent living from sustainable production.

4 - Based on Trase data and analysis, available https://insights.trase.earth/yearbook/contexts/brazil-soy/
5 - See for instance, FairTrade Avocacy Office, 2021.
6 - https://c532f75abb9c1c021b8c-e46e473f8aadb72cf2a8ea564b4e6a76.ssl.cf5.rackcdn.com/2021/02/25/6nmq9dgybx_WildLifeConservativeSociety__V12_24_02_2021.pdf

Supporting smallholder farmers to sell their products locally and to comply with the Regulation requirements could help to reorient supply chains closer to something that resembles sustainable agriculture. In a letter published in February 2022,[7] organisations representing over 34,000 cocoa smallholder farmers in Côte d'Ivoire welcomed the new Regulation, and in particular the requirements for supply chain traceability and plot geolocation data, because these measures could "reduce the complexity of the supply chain and ensure an improvement of [farmers'] living conditions." The letter also asked the EC to ensure "greater inclusion and better participation [for smallholder farmers] in the dialogue process between Côte d'Ivoire and the European Union on sustainable cocoa."

RISK OF DRIVING UP UNSUSTAINABLE PRODUCTION THAT IS OUTSIDE THE REGULATION'S SCOPE

The Regulation could lead production to shift to commodities not covered under its scope. Cameroon has national targets to double palm oil and cocoa production by 2035, but bananas are also a prominent commodity crop grown in the major agricultural south-west region.[8] Without joined up thinking, government policy and/or independent farmer action could drive a shift towards growing crops that are not subject to restricted EU market access. The result would be no reduction in overall deforestation.

Farmers could also shift to growing FERCs in ecologically vulnerable ecosystems that are not considered forests within the scope of the Regulation, or on land that is currently used by local farmers and communities, posing food security concerns. The Regulation will not, for example, cover soy cultivation in Brazil's Cerrado landscape, the protection of which is just as important as protecting rainforests. NGOs will push for such ecosystems and land to be included in the Regulation's first review, but for now they remain unprotected, leaving them vulnerable to leakage.

Besides these risks, the EU Regulation on deforestation-free products also presents a number of opportunities. A well-designed Strategic Framework on supply-side partnerships would help to maximise the Regulation's impact in reducing deforestation and land rights violations on the ground, as well as building goodwill towards the EU internationally.

OPPORTUNITIES SUPPLY-SIDE PARTNERSHIPS COULD MAXIMISE

Supply-side partnerships would also help maximise the effectiveness of the new Regulation in reducing deforestation on the ground.

OPPORTUNITY TO ENABLE CHANGES THAT GO BEYOND EU SUPPLY CHAINS

The Regulation will be most successful if its impacts are felt beyond specific EU-destined supply chains. Achieving the ambitions of reduced global deforestation, lowered carbon emissions and a transition to sustainable agriculture requires broad sector-wide transformations and changes to the underlying conditions that enable agriculture-linked deforestation. These include poor land and forest governance, systemic poverty, shrinking civic space, corruption, lack of access to finance and insecure tenure.

Achieving such changes is not straightforward and requires action from different groups of people. The EU experience with Forest Law Enforcement Governance and Trade (FLEGT) Voluntary Partnership Agreements (VPAs) clearly demonstrated the value of multi-stakeholder, participatory processes in instigating governance reforms in the forest sector, when combined with trade incentives.[9] The Regulation on deforestation-free products also presents an opportunity to leverage the power of EU markets as an incentive to bring stakeholders together to tackle underlying drivers of deforestation linked to agriculture.

7 - https://ongidef.org/wp-content/uploads/2022/02/Lettre-aux-membres-du-conseil-et-du-parlement-europeen_Finale.pdf
8 - Ordway et al, 2017
9 - This was recognised even in the EC's flawed Fitness Check on the EU Timber Regulation and FLEGT Action Plan.

OPPORTUNITY TO AFFIRM EU SUPPORT FOR MULTILATERAL COLLABORATION AND BUILD TRUST

Using EU market leverage to bolster participatory processes, as mentioned above, relies on global perceptions of the EU as a reliable and 'good' partner. The new Regulation, though broadly welcome, has not been developed collaboratively and sets out a top-down, punitive framework. It lays significant responsibility for sector reform on the countries producing the target agri-commodities with only vague commitments to supporting them in this work, while retaining all of the assessment and decision-making power in EU hands. In this respect, the new Regulation represents a significant step backward compared to the EU Timber Regulation and the FLEGT Action Plan, which encompassed both a demand-side regulation and a strategy for bilateral agreements with producer countries.

The relationship between the EU and countries such as Indonesia and Ghana which produce multiple commodities covered by the Regulation has been damaged by the uncertainty in which FLEGT-VPAs have been cast, and a perception that the EU has not been promoting access to EU markets for FLEGT-licensed products as had been agreed. The EU will need to rebuild its reputation as a credible partner if it is to be able to work with producer countries on other commodities.

The EU's reputation as a champion of multilateralism is therefore at stake. Working with countries to comply with the new Regulation and achieve broader reforms will help to counteract some of the damage caused by the top-down process so far. This could prove important when it enters into force. A jointly developed partnership approach where parties are equal and seek to discover solutions together, could help to rebuild trust in the EU and the Regulation's overall goals.

OPPORTUNITY TO OVERCOME REGULATORY IMPLEMENTATION HURDLES ESPECIALLY RE: TRANSPARENCY AND TRACEABILITY.

A multi-pronged approach is needed to deal with complex problems like deforestation and land rights violations. There would need to be a joint assessment between the EU and the producer country of the root causes of deforestation, so as to ensure any solutions are tackling the right problem. Joint assessments could build on existing drivers of deforestation analyses, done for example in the context of REDD+, so long as these analyses are conducted with relevant stakeholders such as IPLCs. Once such steps have been taken, strategic collaborations could help with implementation and enforcement of the new Regulation, by contributing to increased transparency in FERC sectors. This could include support and endorsement of independent monitoring activities and of national commodity traceability systems; collective practical steps to enhance supply chain transparency; greater clarity and consensus around legal and procedural frameworks relevant to complying with the Regulation; and supporting smallholders to comply.

Photo: Indonesia is the world's largest producer of palm oil / Shutterstock.

Supply-side partnerships need to be guided by an EU-level Strategic Framework

Priority two of the 2019 European Commission Communication on stepping up action to protect and restore the world's forests is to "work in partnership with producing countries",[11] to, among other things, "promote sustainable and transparent agricultural value chains on the basis of a robust methodology which is shared by partner countries. This enables the Commission to support action to transform commodity value chains such as coffee, cocoa, palm oil, and livestock."

Article 28 of the new Regulation commits the European Commission to "engage in a coordinated approach with producer countries and parts thereof, concerned by this Regulation, in particular those identified as high-risk in the context of Article 27, via the use of existing and future partnerships, and other relevant cooperation mechanisms to jointly address the root causes of deforestation and forest degradation. The Commission shall develop a comprehensive EU strategic framework for such engagement".

Article 28 presents a smorgasbord of options[12] for working with producer countries, which can go well beyond the scope of tackling issues with FERC value chains and deforestation linked to agriculture. To date there is no guidance about how to choose between them, criteria for engagement from both sides, what precisely these partnerships should seek to achieve, or how. Without a clear, and time-bound vision of what such partnerships are trying to achieve and, crucially, how those aims would be met, it is likely that cooperation will be ill-suited to mitigate the risks and maximise the positive impact of the Regulation.

The requirement in article 28 for the European Commission to develop a Strategic Framework – which was added at the final stages of negotiations in December 2022—is therefore very welcome. This paper intends to provide some guidance as to what such a Strategic Framework could look like.

Broadly, a Strategic Framework should specifically target processes that seek to avoid and mitigate the dangers embedded in the Regulation, overcome the Regulation's limitations, and support forested countries to transition towards human-rights compatible and deforestation-free FERC production and value chains. Ensuring that smallholder farmers and labourers are able to make a decent living when supplying EU markets will be an important element of achieving these broader goals.

This Strategic Framework should not guide all EU partnership work on forests, but it should lay a clear framework for assessing existing partnerships and establishing new processes as they relate to FERC value chains and the new Regulation.

11 - The 2019 European Commission Communication on stepping up action to restore the world's forests outlines five priorities. The first, 'Reduce the EU consumption footprint on land and encourage the consumption of products from deforestation-free supply chains in the EU', led to the 2021 regulatory proposal. The second principle, 'Work in partnership with producing countries to reduce pressures on forests and to 'deforest-proof' EU development cooperation' contains a number of threads for potential intervention. Not all of these are directly linked to FERCs. Commitments to 'help partner countries to implement sustainable forest-based value chains' and 'develop and implement incentive mechanisms for smallholder farmers to maintain and enhance ecosystem services' certainly are.

12 - The regulatory proposal (Article 28) expands that "Partnerships and cooperation mechanisms may include, but are not limited to, structured dialogues, administrative arrangements, and existing agreements or provisions thereof, as well as joint roadmaps that enable the transition to an agricultural production that facilitates the compliance with the requirements of this regulation, paying particular attention to the needs of indigenous peoples, local communities and smallholders and ensuring the participation of all interested actors."

Existing interventions are no substitute for a Strategic Framework for supply-side partnerships

The EU leads on and participates in numerous initiatives aimed at working with partner countries to tackle aspects of deforestation and poor land and forest governance. It will be important to find and capitalise on synergies with these initiatives, but they should not be considered substitutes for a dedicated Strategic Framework framing FERC cooperation. A Strategic Framework, indeed, could help clarify how existing initiatives fit together with initiatives on new commodities, and how all of these fit with the new Regulation-- thereby maximising impact and resources.

Some, like the European Commission's Directorate-General for International Partnerships' (DG INTPA) emerging Forest Partnerships, the Central Africa Forest Initiative (CAFI), and many Reduced Emissions from Deforestation and Degradation (REDD+) processes, do not focus on most of the value chains involved in FERC production, and thus cannot make use of the market leverage offered by the new Regulation (see box 2).

Others, like FLEGT VPAs and ongoing EU-Indonesia trade agreement discussions regarding sustainable palm oil, can leverage the Regulation for change on the ground, but they only cover certain commodities (timber and palm oil respectively) and geographies.

The Alliance for Sustainable Cocoa dialogue, which has been ongoing since 2020, is explicitly linked to the Regulation on deforestation-free products. Following multi-stakeholder discussions in Côte d'Ivoire, Ghana and Europe, the Alliance agreed on a roadmap of actions towards a sustainable cocoa sector, which was published in June 2022.[13] Here, there is potential to achieve real change in the cocoa sector if the roadmap is properly implemented: so far, there are no incentives or enforcement mechanisms attached to the roadmap, which may limit its impact (see elements for a successful approach, below).

Box 2: Forest Partnerships are welcome, but so far do not fill the gap in the new Regulation.

"Forest Partnerships" are new instruments[14] being developed within DG INTPA, with support from a new 'Forests for the Future: F4'[15] technical support facility.

These broad-ranging instruments are supposed to deliver on the European Green Deal priorities, the EU's development cooperation objectives, and contribute to meeting the EU's climate commitments under the United Nations Framework Convention on Climate Change (UNFCCC) and the UN Declaration on Forests, as well as supporting delivery of Priority Two of the 2019 Commission Communication on stepping up action to restore the world's forests.

The European Commission announced in November 2022 that it has signed Forest Partnerships with Republic of Congo, Gabon, Honduras, Mongolia, and Zambia.

Forest Partnerships may well prove to be valuable processes that drive positive changes in the countries where they are established. However, they cannot – and were not designed to – fulfil the need for accompanying measures to the new Regulation.

This is firstly because the European Commission does not appear to have plans for Forest Partnerships with any of the major producer countries of FERCs covered by the Regulation (for a list of those countries, see Table 1). Secondly, the Forest Partnerships announced so far do not focus on the main commodities driving deforestation: for example, the Forest Partnership with Republic of Congo has a focus on timber, but not on any other commodity covered by the Regulation.

Forest Partnerships could become a home for measures accompanying the new Regulation, if they are developed with the key producer countries of agro-commodities, if they contain a focus on agro-commodity-driven deforestation, and if they contain a clear link to the Regulation and a strategy to support implementation of the Regulation and use it to drive change on the ground.

Such developments are most likely to emerge if there is a clear Strategic Framework to guide and assess the extent to which supply-side partnerships support the new Regulation.

13 - https://policy.trade.ec.europa.eu/news/eu-cote-divoire-ghana-and-cocoa-sector-endorse-alliance-sustainable-cocoa-2022-06-28_en
14 - https://ec.europa.eu/international-partnerships/topics/sustainable-forestry_en#header-690
15 - https://www.switchtogreen.eu/forest-for-the-future-facility/

What should an EU Strategic Framework on supply-side partnerships cover?

An effective Strategic Framework would start with efforts to inform and raise awareness of the Regulation among key actors including government and civil society in producer countries and create a space for multi-stakeholder dialogue. It should then set out a broad framework to guide EU action regarding supply-side partnerships to help implement the new Regulation on deforestation-free products.

It should contain the following sections, setting out what should be in each partnership:

1. Minimum objectives
2. The core requirements
3. The negotiation process
4. A menu of incentives
5. Who should take part
6. Which countries should be prioritised
7. How work in national and subnational jurisdictions should intersect
8. How the partnership can help deliver other priorities in the 2019 communication
9. Responsibilities for implementation and funding

Each of these elements is explained below.

1. MINIMUM OBJECTIVES

The Strategic Framework should set out the objectives that, at a minimum, all supply-side partnerships should aim to achieve. These could be:

- **tackle underlying drivers** of deforestation and human rights violations, including poor governance and law enforcement, and systemic small farmer and forester poverty in supply chains.

- **assist producers to comply** with the Regulation on deforestation-free products without creating a two-tier production model.

- **support the transition to sustainable agriculture and forestry**, including sustainable and resilient livelihoods for the farmers and foresters involved.

A full set of objectives for a supply-side partnership would, however, need to be decided by the stakeholders in the producer country, according to the process described in the next section. The Regulation applies to seven commodities, each of which is characterised by different value chains, countries of production, and deforestation-risk factors. These differences will mean that national stakeholders will not necessarily have shared priorities. Supply-side partnerships will have to be sensitive to these differences, and may incorporate aims beyond the core objectives outlined above.

Partners will have to agree, at the outset, which FERC sectors will be targeted by the process. This will have implications for the stakeholders involved and the issues to be addressed. In some cases, a single commodity dominates relevant production in that country (i.e. cocoa in Côte d'Ivoire), and focussing on that industry is therefore likely to be a sensible approach. In other cases, countries are key producers of more than one of the target FERCs. Brazil is a major exporter of soy, beef and coffee, for instance (see Table 1). Partners in the process will have to assess the best approach; whether it is incorporating multiple commodities within a single process, or targeting a single FERC value chain. The approach should be guided by the national legislative framework, and whether there is overlap between zones of production of different FERCs, relevant stakeholder groups, and existing initiatives in the country.

2. THE CORE REQUIREMENTS

Analysis of eight different kinds of existing partnership approaches[16] revealed four core requirements for effective partnerships. The Strategic Framework should ensure new and existing supply-side partnerships meet the following criteria:

- **A clear Theory of Change.** Describing the aim of the partnership is insufficient. It should be clear who needs to act, and what they need to do in order to achieve change. The Strategic Framework should therefore guide EU engagement, and the in-country processes that emerge from it. An effective Theory of Change needs a robust analysis of the problems and gaps.

- **A multi-stakeholder and inclusive process** in which governments, private sectors (including small farmers and forest producers), local and international NGOs, and communities are all included in decision-making. But not all multi-stakeholder processes are the same. Truly inclusive processes take time and some stakeholders may require additional support to enable them to play a meaningful role. This includes pacing meetings so that representatives have time to consult with their constituencies. Failure here can damage outcomes overall.

- **Clear and direct incentives** to encourage actors to change. This is where financial incentives and disincentives, including market access measures, are important. Parties need to be sure that incentives are there in the medium to long term, and will not be dismantled immediately upon a new administration taking over. The Strategic Framework should contain a menu of different options for incentives, to be chosen according to the context. An exploration of different incentive options is provided on page 12.

- **Independent and robust monitoring and evaluation systems, linked to enforcement mechanisms.** This allows for the impact of the partnership to be tracked, and imposes accountability on the parties involved, both of which are needed to maintain engagement. Independent monitoring will only be possible if there is reasonable transparency and accessible information. Where this is lacking, improving transparency will have to be a key work area. It will also be necessary to agree in advance what happens to recommendations proposed by evaluations.

Some additional lessons from FLEGT VPAs, and the EU Cocoa Dialogue[17] should inform the design of particular supply-side partnerships. The following additional criteria should therefore be included in the Strategic Framework:

- **Some degree of political will.** While economic incentives are important for motivating action, there must also be genuine interest in and approval of the aims of the process (for instance improving land titling, supporting smallholders, or improving sector governance). Without this, progress is likely to stall at or before the point when real change appears imminent.

- **Some degree of trust among the stakeholders.** In contexts where there is not a foundation of trust, whether that is between the EU and the government, or across stakeholder groups, this will need to be built before a supply-side partnership can deliver. Demonstrating high-level political will (see above) will be important. Trust can be more easily built if commitments come from both EU and partner countries, and top-down or one-sided approaches are avoided. High-level diplomacy focussing on forests will be an important building block for trust.

16 - Ozinga, S, 2020. The eight partnership approaches examined were the FLEGT Action Plan, the Mato Grosso Produce, Conserve and Include (PCI) strategy, the Tropical Forest Alliance Africa Palm Oil Initiative (APOI), the Cocoa and Forests Initiative (CFI), the UN Development Programme Green Commodities' Programme (GCP), the Amazon Soy Moratoriu, Terpercaya, Indonesia's sustainable palm oil initiative, and the EU's Illegal Unreported and Unregulated (IUU) Fishing Regulation. For more details read the report at https://www.fern.org/publications-insight/getting-the-incentives-right-2236/

17 - Lessons here are based on research about the effectiveness and obstacles to success for FLEGT VPAs (see Fern's report FLEGT VPAs 2.0 available here: https://www.fern.org/publications-insight/flegt-voluntary-partnership-agreements-2-0-2444/), and the analysis and positions of NGO actors engaged in or monitoring the EU-Cocoa Dialogue (see for instance https://www.fern.org/publications-insight/eu-cote-divoire-ghana-dialogue-on-sustainable-cocoa-production-and-trade-2379/).

- **Participants should be able to benefit from meaningfully engaging, even before the long-term objectives are fully realised.** This could mean structuring a supply-side partnership to produce certain pre-agreed benefits once interim objectives are met. Even incomplete progress should be recognised. This helps to maintain interest in long-term processes and prevent backsliding. It may also help to mitigate any EU resistance at becoming engaged with partners whose ongoing political will is not guaranteed. A smart mix of process-based and results-based incentives could be useful. An example of a process-based incentive might be making access to benefits contingent on ongoing participation in the partnership. A results-based incentive could be releasing certain adaptation or capacity-building funds after a milestone is reached. See the next section for some examples.

- **Adequate long-term support (financial, human and political) to stay the course.** This applies equally to the partner country administration, stakeholders, and the EU.

- **Be sensitive to the legal, economic and political realities of the partner country.** This means each partnership may look different in terms of scope, Theory of Change and outcomes. Transforming a national cocoa sector to tackle farmer poverty is a different process from halting the expansion of monoculture agri-business plantations and moving industrial logging concessions onto communities' lands.

- **A rights-based approach to resolving issues.** This will help to build trust particularly among community, smallholder farmers and civil society participants, with particular attention to women's participation. This approach makes it more likely that solutions will be equitable and will not further marginalise already vulnerable groups.

3. THE NEGOTIATION PROCESS

A supply-side partnership should follow a six-step negotiation process:

1. Appoint a neutral facilitator
2. **Establish the scope and structures of the partnership** including objectives for the partnership, and the structure of the multi-stakeholder negotiating body (including how local civil society, smallholder farmers and communities will be represented)
3. **A needs assessment and gap analysis** by the multi-stakeholder negotiating body: the needs assessment should mutually agree minimum issues for the partnership to address, such as how to ensure transparency and strengthen land tenure, and the gap analysis should identify what is already happening in-country and where additional support is needed.
4. Negotiate a **roadmap** for change, including timebound milestones
5. **Implement the roadmap**
6. **Monitor and evaluate implementation**, ensuring that there are incentives attached to meeting milestones (see below).

Photo: Cocoa producers in Ghana / Shutterstock.

4. A MENU OF INCENTIVES

The Strategic Framework should require supply-side partnerships to contain benefits or incentives for the stakeholders taking part, in order to reward positive change. Experience from existing partnerships shows that an effective partnership requires parties to change their behaviour in ways that they are not currently motivated to do.

Overcoming inertia will be difficult. This is where incentives come in; incentives to come to the discussion table, and incentives to make the required changes. Different stakeholders will have different reasons for engaging, and so may need targeted incentives. For a multistakeholder supply-side partnership to succeed, each stakeholder group needs a reason to show up, and a reason to deliver on their commitments. A Strategic Framework should therefore require that supply-side partnerships include incentives, mutually-agreed by stakeholders in the third country

The below options are offered to start discussions only; they are broad suggestions and each would require further thinking—and there may be other options we have not considered. Some (least-favoured) ideas have been considered but rejected even at this early stage. It is also to be noted that these incentives focus mostly on the government level; additional incentives should be explored for the producer level (for example Payments for Ecosystem Services).

These options are not intended to be mutually exclusive. In various contexts it is likely that a combination of incentives could work well together. A Strategic Framework for a supply-side partnerships should be flexible enough to allow parties to consider and select incentives most relevant to their context.

A. Link progress to deforestation-risk benchmarking

The Regulation on deforestation-free products states in Article 27 that the deforestation-risk benchmark assessments (see Box 1) should take into account (inter alia) *"agreements and other instruments between the country concerned and the Union and/or its Member States that address deforestation and forest degradation and facilitates compliance of relevant commodities and products with the requirements of this Regulation and their effective implementation."*

Article 27 also says that *"the Commission shall engage in a specific dialogue with all countries that are or risk to be classified as high risk, with the objective to reduce their level of risk."*
One option for an incentive could therefore be to give a country a better rating in the benchmarking if it has embarked upon a supply-side partnership and is keeping to the milestones and timelines agreed in the partnership. The specific dialogue mentioned in Article 27 could result in a roadmap towards improving the risk rating of the country, following the process set out in this paper.

Who is incentivised?	Positives
National governments, concerned about their international reputation **Private sector actors,** concerned about the reputation of their product, and the administrative burdens of accessing the EU market.	Makes full use of the leverage included in the draft Regulation. Provides incentives for both private sector and government engagement. Benchmarking assessments are iterative so they provide ongoing incentives to make progress and resist backsliding. Could help to set a global standard and bring other consumer markets on board.
Preferred option?	**Negatives**
✓	Benchmarking doesn't include human rights, legality, smallholder equity or tenure issues in its mandatory assessment criteria, so parties may not be motivated to work on underlying governance issues. "Low-risk" benchmarks may provide a loophole, as they reduce companies' due diligence obligations.

B. Work towards recognition of national traceability systems in benchmarking

This would involve giving a significant weighting in the benchmarking to the presence of a credible, robust national traceability system that has been approved by a local multi-stakeholder process. Benchmarking could be commodity-specific, such that a country could have a high risk benchmark, but have a low risk benchmarking for specific commodities that have an approved national traceability system in place.

The EU could develop governance criteria that a national traceability system must meet in order to be recognised in the benchmarking. These criteria could include, for example: transparency of information; has been approved by a local multi-stakeholder process; is subject to ongoing independent monitoring by local NGOs and/or community groups; traceability system covers all the Regulation's requirements: and includes land tenure registration data. The "approved" status could be revised every two years, as part of the benchmarking, to ensure the traceability system still meets those criteria.

Who is incentivised?	Positives
National governments would be motivated by reputational benefits of having their national traceability system officially recognised by the EU and possibly other consumer countries. **Private sector,** as it is more cost-effective for traceability to be done via a national system than within individual company supply chains. **Smallholder farmers** as it is more efficient to provide data once to a national traceability system than various times to different buyers.	Provides leverage for in-country efforts to raise the bar in national licencing systems. Would support EU competent authorities checking on the implementation of the Regulation. Reduces burden on small farmers, as they only have to provide data once (to the national system) rather than many times to different buyers. Also means they could own the data, rather than large companies owning data about them. Could create (and help finance) an independent monitoring role for local NGOs and communities. This would allow local civil society and communities to hold governments and companies to account, and to monitor aspects of compliance with the EU Regulation that cannot be picked up by satellite data (such as compliance with producer country laws, or forest degradation). Information generated by such independent monitoring would also help EU enforcement authorities. Improves market reputation of producer country regarding deforestation-free exports. Could combine with option E, below, with the aim of getting national traceability systems recognised by other important consumer markets like China.

Preferred option?	Negatives
✓	Uncertainty about who will pay for setting up national traceability systems: is it justified to use government budgets for setting up systems facilitating the private sector to meet due diligence obligations? Will a promise of easier EU market access be enough? This option is unlikely to be of interest to countries that did not invest in negotiating VPAs, unless the economics are significantly different, i.e. the EU is a major buyer of the commodity—unless other consumer markets can be mobilised. A national traceability system may take years to develop; offering a "low-risk benchmark" would therefore only offer a benefit at the end of the process. Experience from VPAs shows it is important that incentives appear throughout the process and not only at the end. A focus on developing or revising complex traceability and monitoring systems could distract attention away from the underlying drivers of deforestation, leading to a technical rather than a political process. It is not clear if this option could trigger fundamental governance reforms, particularly if the focus remains on perfecting traceability systems rather than making needed policy changes. "Low-risk" benchmark may provide a loophole.

C. Establish a sustainable FERC transition fund.

Establish a financing mechanism to transfer a proportion of the value of relevant imported FERCs into a national or jurisdiction-level multi-stakeholder managed fund (escrow or similar), with payment tranches pegged to achievement milestones in a partnership roadmap. To be an effective incentive and to protect against misappropriation at least part of the funds would have to be managed by communities and farmers' cooperatives, rather than simply becoming a new funding stream for government. Clear, agreed and fair governance of such funds would be key and also a condition for continued transfer of funds.

Potential sources of funding could come from one or a mix of: private sector corporate social responsibility (CSR) payments or taxes on companies; collecting a proportion of any financial penalties imposed by EU Member State Competent Authorities on operators violating the deforestation-free products Regulation; sharing the revenues of the EU Carbon Border Adjustment Mechanism (CBAM); and/or introducing a consumer tax (or a proportion of Value Added Tax (VAT)) on imported commodities.

It could also be worth considering how to work with private financial institutions to develop lending options that support the transition to sustainable agriculture, linked to the achievement of milestones in the partnership roadmap.

Who is incentivised?	Positives
Communities and smallholder farmers would be motivated to access and control successive tranches of finance **National governments** interested in ensuring their farmers can earn a decent living.	Would be a first step towards rebalancing the producer/consumer inequity in global supply chains. If the mechanism is enshrined in Member State laws, it could be a more sustainable/long-term funding approach than traditional company CSR or development aid projects. Could help address poverty in agricultural supply chains, and contribute to providing smallholders with a living income without having to expand cultivation areas. Funds, or lending options tied to the funds, could be made available to smallholder farmers with insecure land titles, which is a major limiting factor to adaptation in some contexts. Could be implemented at the landscape level, which aligns with the direction of travel in private sector initiatives. Makes good use of the due diligence and traceability requirements of the Regulation on deforestation-free products.

Preferred option?	Negatives
Yes, if structures can protect against fund misappropriation, and control rests in the hands of communities and smallholder farmers.	It would be politically difficult to source funds from within European public revenues (e.g. consumer tax, portion of CBAM, or portion of fines levied from enforcement of the Regulation). Member States will be reluctant to transfer tax revenue to a fund over which they have no accountability. An alternative would be to look at mobilising private finance. If funded by private sector, they may wish to have a (high?) degree of control over how funds are disbursed. Any fund transfer mechanism and criteria for assessing when and how much to release could become extremely technical, time consuming and ultimately a distraction from tackling the underlying drivers of deforestation, unless thoughtfully designed. This risk would be heightened if the mechanism were financed through CBAM or linked to a Payments for Ecosystems Services (PES) system. Complex financial arrangements are full of risks around poor governance and transparency. The fund could also incentivise increased corruption if not very well managed, and therefore fail to arrive at the level of the smallholders and communities that protect forests and land. If funds were diverted to initiatives not relevant to the FERC-producing regions, this might increase frustration with the entire process.

D. Reduce or remove EU and Member State policy barriers preventing smallholders from receiving a living income.

This would require jointly identifying (with the partner country) policy barriers at the EU and Member State level that are blocking producer countries' transition to sustainable agriculture and a living income for smallholders, and incorporating measures to address these barriers within the partnership roadmap.

Central among these would be adjusting European policies to ensure smallholders receive a living income from growing the commodities placed on the EU market. Actions the EU could undertake in a partnership with producer countries include: reforms to EU finance policy to support lower interest rates in pre-season finance to producer governments; working with financial institutions to develop lending options accessible to smallholder farmers with insecure land titles; requiring by EU law that companies pay a price that guarantees a living income to farmers (a strong EU Corporate Due Diligence Directive could help here); requiring EU companies to source a certain percentage from smallholders; prohibiting companies from engaging in purchasing practices that drive prices down; encouraging and approving an industry agreement on minimum price; regulating the financial sector to prevent speculation on commodity prices; incorporating minimum farm gate pricing into negotiated trade agreements between the EU and the producer country; and/or preventing EU companies from "dumping" agri-commodities in external markets.

Who is incentivised?	Positives
National governments with an interest in transitioning to sustainable FERC production. **National governments** that have been disappointed by the EU's top-down approach and now lack trust, as these measures would demonstrate real EU will to 'do its part' in achieving the transition. **Smallholder farmers and IPLCs** interested in identifying and addressing extra-national factors that make it harder for them to earn a decent living or transition to sustainable agriculture.	It would result in an equitable roadmap, moving away from the producer/consumer dichotomy. Some countries may be more willing to engage on this basis, if they are convinced the changes might be two-way. It would generate leverage for achieving necessary changes in consumer countries. It offers countries the potential to identify and address some of the drivers of deforestation and poverty that lie outside their own borders. It would keep the focus driving policy, law and governance changes, rather than becoming overly occupied with developing technical systems.

Preferred option?	Negatives
✓	Some of the above may be politically difficult. Failing to deliver on promises can damage trust in the process and reduce motivation to proceed.

E. Establishing joint dialogues with multiple importing countries.

Several other major consuming countries are also developing systems to regulate deforestation-risk commodities, including the United States of America (USA) and the United Kingdom (UK). These could be streamlined with the EU Regulation to avoid duplication and conflicting processes. Inviting major importer countries not currently regulating FERC imports, such as China or India, to participate/observe in a partnership with a specific producer country could strengthen the long-term relevance of the process and ensure changes are recognised by other consumer markets. This option could be combined with option B on recognising national traceability systems: a producer country with an EU-recognised national traceability system might then be able to "market" the traceability system to other consumer markets, particularly if that other consumer country has been brought into the process from the beginning.

Who is incentivised?	Positives
National government eager to avoid duplicating processes and multiple conflicting production standards. **Private sector,** eager to avoid duplicating processes and multiple conflicting production standards. **Smallholder farmers,** keen to achieve a decent living from commodities supplied to all markets, and eager to reach other consumer markets.	It strengthens the relevance of the process even in cases where the EU is not the major international FERC buyer. It provides the producer country, as well as the private sector, farmers and civil society, with structured access to other important economic actors. It allows a forested producing country to streamline processes connected to international FERC markets.
Preferred option?	**Negatives**
✓	It is difficult to promise incentives that rely on cooperation from third parties.

F. Temporary commodity import ban

This is similar to the approach taken by the Illegal, Unreported and Unregulated (IUU) Fishing Regulation. Failure to progress along the roadmap, without justification, backed up with negative trends revealed by the planned Deforestation Observatory, could result in an import ban for the relevant FERC, until clear pre-defined improvements are made. It would require a change to the Regulation on deforestation-free products.

Such a ban would hopefully hardly ever be used, the primary objective being to motivate producer countries to stay engaged/re-engage before an import ban is imposed.

Who is incentivised?	Positives
National governments interested in protecting their economy and international reputation. **Private sector** keen to maintain EU market access.	The IUU Regulation is considered effective – it is a tried and tested mechanism with systems for complaints, resolution, and ways to work towards improvements already developed. It could provide a real incentive to producer countries, unlike benchmarking alone which mostly affects companies. In some cases, producer countries themselves might support a ban if they feel they cannot control the sector. A ban could help, for example, support moratoria they have put in place. They could potentially also be compensated whilst they put in place measures to solve the issues. The loss of market access offers strong motivation to bring actors back to the table after a period of inactivity/backsliding.

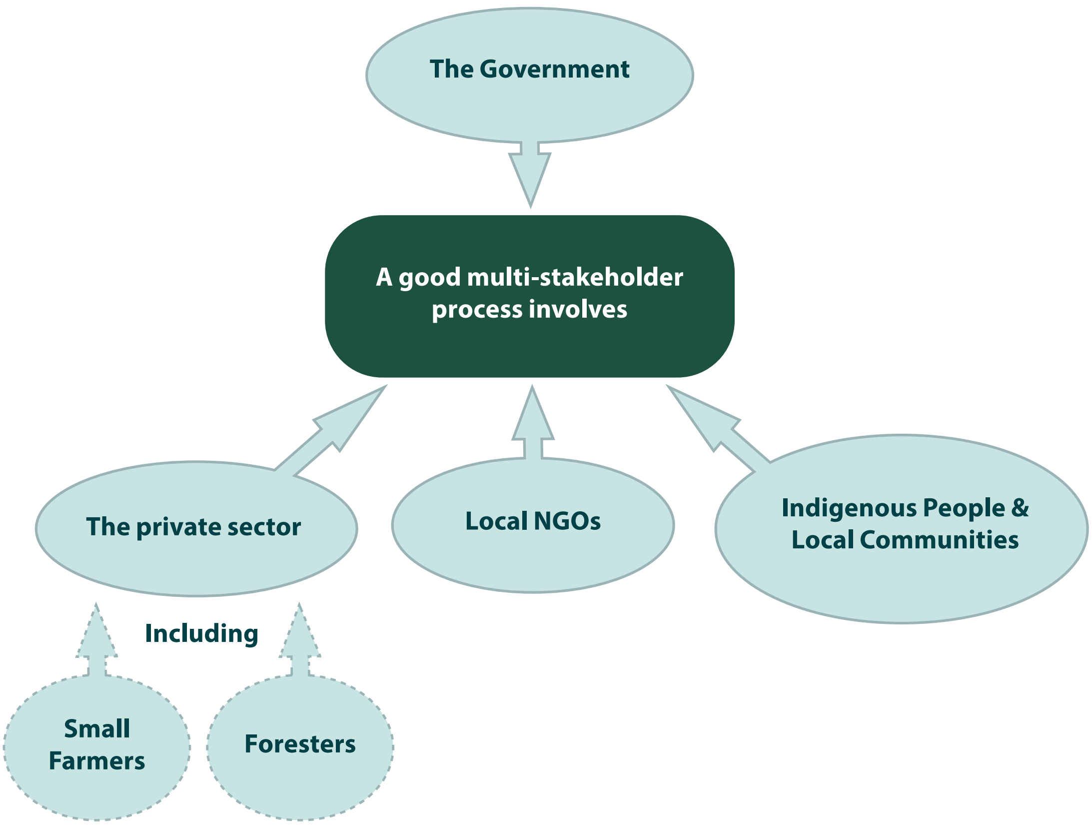
Preferred option?	Negatives
✗	The ban itself is a blunt instrument – punishing an entire country for lack of progress in (perhaps) a single process. A ban risks hitting smallholders and labourers hardest. For FERCs where production is concentrated in just a few areas, this measure could significantly disrupt supply chains. The Regulation on deforestation-free products does not contain such a ban mechanism, so it would need to be amended.

5. WHO SHOULD TAKE PART

The Strategic Framework should require that any supply-side partnership the EU undertakes incorporates participatory multistakeholder decision-making, and involves sufficient transparency to enable independent monitoring (see core lessons about effective processes above).

A good multi-stakeholder process involves representation from governments, private sectors (including small farmers and foresters), local NGOs, and IPLCs. These groups must be able to appoint their own representatives, rather than being chosen by (for example) a government. Groups must be given appropriate time to prepare for decision-making sessions and consult with their constituencies.

A Strategic Framework for supply-side partnerships should also include specific requirements to create space for women to make their voices heard, and include action on gender inequality. This could be achieved through, amongst other stipulations, a requirement for a gender-sensitive value chain analysis before any supply-side partnerships are established.[18]
In contexts where there is not yet sufficient trust among stakeholders or in the EU as a partner, such that an effective multistakeholder process cannot yet be established, the EC could work with national stakeholders to improve the 'pre-partnership' conditions. Building a minimal level of trust across parties will be vital, and this could be done through high level diplomacy with producer countries as well as initiatives like the European Forest Institute's (EFI) Transparency Pathway,[19] which works on a narrower set of issues (transparency and traceability) and can help to build relationships that could be the basis of future dialogue on broader issues.



18 - See Global Forest Coalition, *A gendered perspective of the proposed EU Regulation on Deforestation-Free Products* (2022), https://www.fern.org/fileadmin/uploads/fern/Documents/2022/EN_A_Gendered_Perspective_on_Deforestation_Regulation.pdf
19 - https://transparencypathway.org/

6. WHICH COUNTRIES SHOULD BE PRIORITISED

Although all countries that produce the targeted commodities will be affected by the Regulation, the vast majority of the EU's imported deforestation from the target FERCs originates from just a handful of countries (see Table 1). Working in partnership with any of these countries, if there is sufficient political will in the producer country to do so, should be a clear priority for the EU. For several countries, the national Gross Domestic Product (GDP) is particularly tied to exporting goods to the EU. Among these are some countries for whom FERCs constitute the largest share of overall exports destined to the EU. These countries may be those most directly impacted by the Regulation on deforestation-free products, even though the overall volume of exports is relatively low. The EU should actively scope out supply-side partnerships with the below countries. However if stakeholders in other countries express an interest in a supply-side partnership, the EU should be responsive.

Table 1 Three different ways to assess the relevance of the Regulation on deforestation-free products to FERC producing countries[20]

Forested countries that supply the bulk of the EU's imported FERCs.[21,22]	Forested countries whose GDP most heavily depends on exporting to the EU.[23]	Forested countries with highest proportion of FERCs as a percentage of total exports to the EU (between 25 and 47 per cent)[24]
Brazil (beef, soy, coffee)	Côte d'Ivoire (cocoa)	Burundi (coffee)
Argentina (soy, beef)	Honduras (coffee, soy, palm oil)	Sao Tome and Principe (cocoa)
Côte d'Ivoire (cocoa)	Uruguay (beef)	Paraguay (soy, beef)
Ghana (cocoa)	Ghana (cocoa)	Uruguay (beef)
Indonesia (palm oil, rubber)	Cameroon (cocoa, timber, rubber, coffee)	Honduras (coffee, soy, palm oil)
Malaysia (palm oil, rubber)	Paraguay (soy, beef)	Côte d'Ivoire (cocoa)
Vietnam (coffee, rubber)	Sao Tome and Principe (cocoa)	Uganda (coffee)
	Papua New Guinea (palm oil, coffee)	Papua New Guinea (palm oil, coffee)
	Liberia (cocoa)	Ghana (cocoa)

If a country shows no trust or willingness to engage whatsoever, then a partnership will not work—even if the level of trade flows makes the country a high priority.

20 - Countries whose major export is timber are not included in these lists. Commodities listed in brackets alongside countries represent the bulk of the FERC exports, but are non-exhaustive.
21 - Details in the table refer only to the agricultural FERCs which are considered in the draft deforestation-free regulation. Countries supplying more than 10 per cent of the total of a given commodity are included.
22 - Taken from https://ec.europa.eu/environment/forests/pdf/IA%20Deforestation%20-%20Final%20report.pdf
23 - Adapted from tables in Annexe 6 of commission staff working document impact assessment report minimising the risk of deforestation and forest degradation associated with products placed on the EU market.
24 - Ibid.

7. HOW WORK IN NATIONAL AND SUBNATIONAL JURISDICTIONS SHOULD INTERSECT

Data gathered by Trase and others has revealed that deforestation-risk in FERC value chains is often concentrated in a small area, or within just a few subnational jurisdictions. This knowledge presents an opportunity for a partnership to target efforts at particular high-risk jurisdictions, including through ensuring that relevant subnational administrations and local communities, farmers' organisations and NGOs are included in multistakeholder processes. Ensuring that local dynamics, issues, actors and deforestation drivers are considered and addressed will help to translate an international bilateral process into meaningful action at the local level.

It should be noted, however, that going beyond national governments and doing partnerships with individual regions could be disruptive to local political dynamics. In addition, a jurisdictional approach risks entrenching a bifurcated supply chain, where 'compliant' production zones enter into dialogue with and export to the EU, without generating any real pressure for change in the higher risk jurisdictions. This would lead to a real danger of laundering commodities from disengaged high-risk jurisdictions through lower-risk, compliant jurisdictions. Finally, if partnerships target issues that require national reform (land allocation policies for instance) and cannot be dealt with at a subnational level, they will require the involvement of the national government.

To avoid these dangers, partnerships for FERC production must clearly incorporate some national elements, as well as those subnational regions where reform is most urgently needed. The Strategic Framework should require supply-side partnerships to adopt a 'nested' approach, where issues are addressed at the most logical level, according to where the levers for change are located.

Structures for these multistakeholder processes will vary according to the administrative frameworks and stakeholder priorities of partner countries.

8. HOW THE PARTNERSHIP CAN HELP DELIVER OTHER PRIORITIES IN THE 2019 COMMUNICATION

The 2019 European Commission Communication on stepping up EU action to protect and restore the world's forests sets out five core priorities for action. Several processes and initiatives have been developed to help achieve these priorities, although some marked programmatic gaps remain (see Figure 1). A Strategic Framework would place work on FERCs in context, making it clear how it links to other priorities. These insights should also help assess and amend existing and new supply-side partnerships.

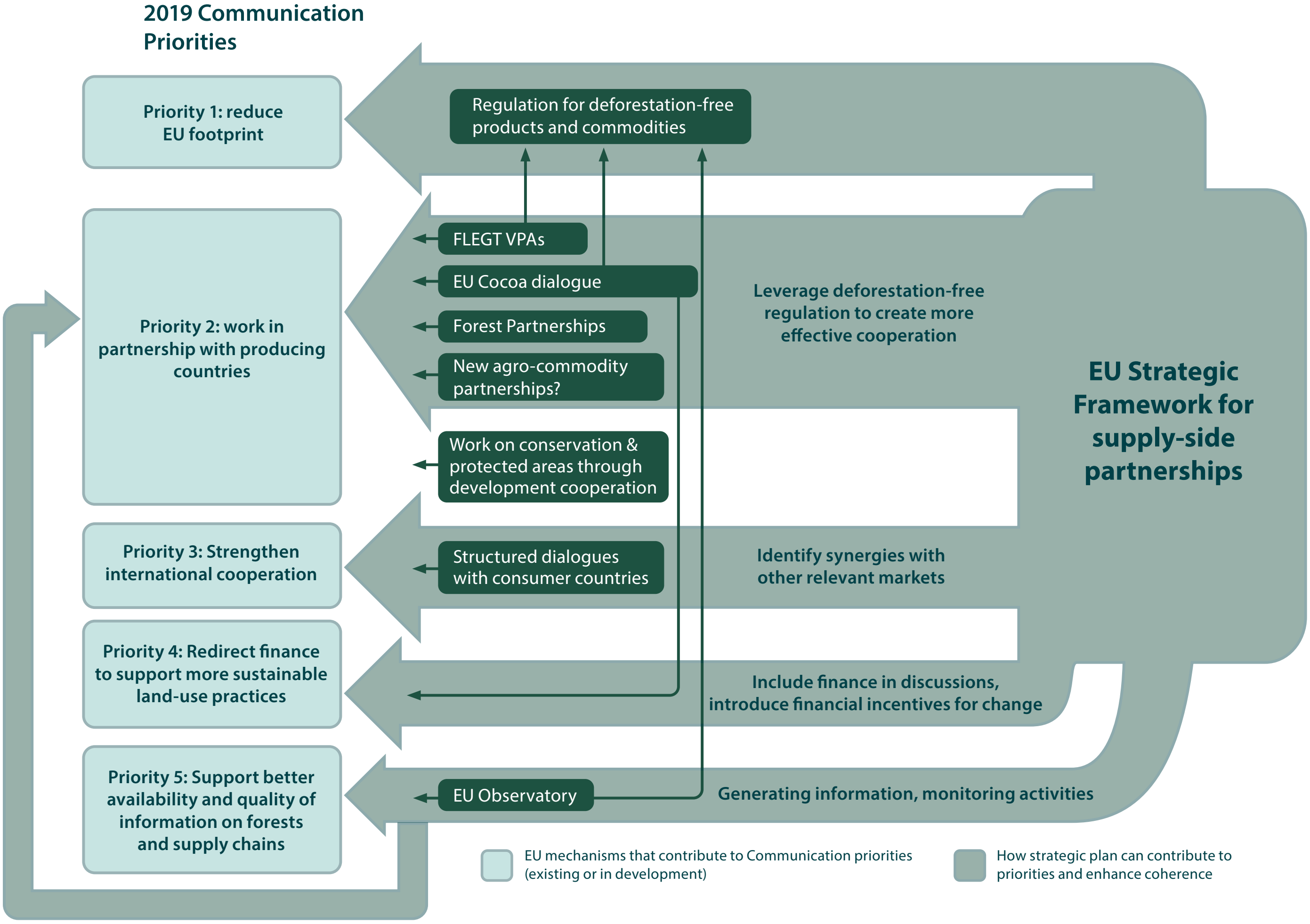


Figure 1. A FERC Strategic Framework should clarify the links between different priorities so as to maximise impact.

As well as joining up action under Priorities 1 and 2, a Strategic Framework on supply-side partnerships should contribute to achieving some aspects of Priorities 3 (strengthen international cooperation), 4 (redirect finance to support more sustainable land use practices), and 5 (support better availability and quality of information on forests and supply chains).

Strengthen international cooperation (priority 3)

A Strategic Framework might include efforts to work with other major FERC importing countries that are also seeking to remove deforestation from their supply chains. Legislation currently being proposed in the USA[25] to regulate FERCs, for instance, contains proposals for developing action plans with producer country governments to tackle deforestation in FERC supply chains, with elements including transparency and traceability, legal reform, capacity building, monitoring and grievance redress systems, and UNFCCC Nationally Determined Contributions (NDCs).

Establishing joint dialogues with forested countries that produce FERCs and multiple consuming markets (as per incentive option E, above) could multiply impact, particularly when objectives are aligned. Although the approach differs markedly, there may also be opportunities to work in tandem with the UK as it moves towards implementing and developing supporting measures for the deforestation-free due diligence requirements contained within the 2021 Environment Act.[26] Encouraging China, as a major FERC consumer and processor, to participate in such dialogues would also be helpful.

25 - Draft Forest Act of 2021, available at https://www.congress.gov/bill/117th-congress/senate-bill/2950/text?r=2&s=2
26 - https://www.gov.uk/government/news/government-sets-out-plans-to-clean-up-the-uks-supply-chains-to-help-protect-forests

Photo: Rainforest in Borneo, Malaysia, destroyed to make way for oil palm plantations / Shutterstock.

Redirect finance (priority 4)

A genuine transition away from unsustainable FERC production requires the financial sector to stop financing deforestation and human rights abuses in FERC value chains. Such a move goes beyond the Strategic Framework proposed in this paper. Nonetheless the Framework could draw some links, by seeking to work with financial institutions to mobilise finance and lending facilities for smallholder farmers engaged in sustainable practice in partner countries (see incentive option C, above)—as well as innovative financial mechanisms like Payments for Ecosystem Services. It will be important to ensure that this funding is able to reach the farm level.

When counter-productive financial practices are identified by national multistakeholder groups within a supply-side partnership process, this should prompt the European Commission to engage with the relevant financial institutions, and to begin searching for solutions.

National development plans in producer countries often rely on increasing agricultural production, including of relevant FERCs, both as an engine for economic growth in the country and to meet food demand. At the same time most UNFCCC NDCs reference adopting 'climate smart agriculture' as an important measure for meeting targets, although precisely what this means in practice is often not clear. A thoughtful FERC Strategic Framework should encourage stakeholders to ensure that national climate policies, and any development or climate finance associated with fulfilling these, are aligned with the principles of the Regulation on deforestation-free products.

Support better availability of information (priority 5)

The European Commission is currently working to develop the EU Deforestation Observatory, which is a major initiative to contribute to priority 5 of the 2019 Communication (support better availability of information). It is being developed hand-in-hand with the Regulation on deforestation-free products. Data generated by the Observatory could be usefully applied within structured dialogues with producing countries, to promote evidence-based discussions and policy reforms. Information generated through supply-side partnerships—such as national traceability systems, independent monitoring by local NGOs and communities, or monitoring and evaluation of the partnerships themselves - could generate vital data relevant to the Observatory's goals. This is particularly true regarding forest degradation and legality, which are less easily assessed using satellite data.

9. RESPONSIBILITIES FOR IMPLEMENTATION AND FUNDING

The European Commission has already committed, in the Regulation on deforestation-free products, to develop a strategic framework on working in partnership with FERC producing countries, and the importance of such partnerships is recognised in the 2019 Communication. A Strategic Framework of the kind discussed here does not imply additional commitments or work from the EU; it should provide a structure for fulfilling the EU's existing commitments in the most effective way.

The Commission's original draft of the Regulation foresaw five additional staff working within DG ENV, two additional staff focussing especially on cooperation and development in DG INTPA, and one additional staff working in the DG for Taxation and Customs Union (TAXUD). As this is a topic that requires knowledge of agricultural commodity supply chain functioning, it may be that DGs AGRI, TRADE and the European External Action Service (EEAS) will also need to be involved.

DG ENV is expected to manage the technical and diplomatic work related to benchmarking, the information system (Observatory), monitor EU Member State implementation, and continue "constant work with partner countries, both consumer and producing, crucial to avoid leakage", according to the Commission's proposal. The Regulation expects DG ENV staff to develop highly specialised expertise, with individuals focussing on a particular geography or commodity type.

DG INTPA is expected to focus on new cooperation programmes under the frame of Forest Partnerships, "which will be aimed, among other goals, at helping producing countries comply with the Regulation."

In practice, the EU Delegations in partner countries will also play an important role in any national multistakeholder, partnership-based initiatives, whether pre-existing or new. A Strategic Framework should help EU Delegations in key FERC producer countries make budgeting and diplomatic decisions that are consistent with what the European Commission is doing in Brussels. This is already happening with the work on sustainable cocoa, with budget and human resources jointly coming from both the European Commission in Brussels, and the EU Delegations in Ghana, Côte d'Ivoire and Cameroon, as well as close coordination on political and diplomatic outreach.

A Strategic Framework on supply-side partnerships could also help channel funds from Member States, via a Team Europe structure coordinated by the European Commission. This has been the approach taken so far by the European Commission's sustainable cocoa roadmaps, with the funding being supplemented by funds from Germany and the Netherlands. This approach should be explored for partnerships on other commodities as joint interventions maximise impact from the total available budget.

An effective Strategic Framework would be cross-cutting, guiding action and enjoying buy-in from each of these actors. Because a Strategic Framework is about making good on existing commitments, it could conceivably be created jointly by DG ENVI and DG INTPA in the execution of their annual planning cycles. While drafting might be led by DG INTPA in the first instance, the Framework would be highly relevant to the work of both DGs.

Effective supply-side partnerships require significant political will, and a plan guiding these processes. This implies high-level endorsement of the Strategic Framework, both from within the EC and potentially within the European Council and Parliament as well.

There is a trade-off to be made within a Strategic Framework; between a rapid process that remains a technical extrapolation of existing commitments, and a more political process creating a binding action plan that could take years to reach completion. There is some urgency; the period before the Regulation enters into force is especially important for generating enthusiasm for partnerships linked to the Regulation, as well as ensuring producers and producer countries are ready to comply.

One potential option, although unconventional, would be to incorporate the Strategic Framework into internal DG INTPA and DG ENV strategic planning, while also publishing that Strategic Framework as a White Paper. This could then be debated over time in order to reach political consensus.

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"A well-designed Strategic Framework on supply-side partnerships would help to maximise the Regulation's impact in reducing deforestation and land rights violations on the ground, as well as building goodwill towards the EU internationally."