

CHINA AND EUROPE'S OPPORTUNITY TO COOPERATE TO HALT GLOBAL DEFORESTATION

This briefing is based on policy discussions at the CDP Europe Forests Summit 2021 (13-14 Jan 2021) and interviews with European policy makers.



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CHINA AND EUROPE'S ROLE IN HALTING AND REDUCING GLOBAL DEFORESTATION

Overview

For decades, deforestation has been an ongoing environmental concern globally. Yet it has only been recently, that deforestation has risen on the European and international agenda to clear urgency and evoked a fierce debate on the need for more stringent regulatory measures for companies as purchasers of forest risk commodity products and financial institutions for investing in forest risk commodity markets.

KEY RECOMMENDATIONS

- Policies need to address deforestation in a more holistic approach to ensure effectiveness, considering climate and environmental as well as geographic and socio-economic aspects.
- The speed of legislative processes does not live up to the challenge of halting deforestation, thus voluntary initiatives should be supported to bridge the gaps in and delay of effective legislation.
- Deforestation policy needs to be supplemented with local development programs to offer real alternatives to forest risk commodity producer countries.
- The financial sector plays a significant role in driving deforestation and subsequently needs to be taken into consideration more prominently in policy.
- International collaboration, especially between the EU and China as major importers of forest risk commodities, is needed to create a level playing field.

The EU's policy landscape to tackle deforestation has grown over the last year, pivoting in the European Parliament vote on adopting a decision to request the European Commission to draft a proposal on mandatory measures to halt global deforestation driven by the EU.¹ Hopes are, these approaches will not only reduce the impact of the EU on global forests, but also lead to knock-on effects in other regions as well.

Several key legislative processes are underway to address deforestation. In 2019, the Communication 'Stepping up action to protect and restore world's forests'² by the European Commission drew attention to the necessity to introduce regulatory and non-regulatory measures to address deforestation through forest-risk commodities in supply chains of European companies and was complemented by the European Green Deal's call for mandatory due diligence measures. This led to the European Parliament's vote on the request for a legislative proposal for an 'EU legal framework to halt and reverse EU-driven

¹ European Parliament, Press release: Legislation with binding measures needed to stop EU-driven global deforestation, 22/10/2020, <https://www.europarl.europa.eu/news/en/press-room/20201016IPR89560/legislation-with-binding-measures-needed-to-stop-eu-driven-global-deforestation#:~:text=Therefore%2C%20the%20European%20Parliament%20on,to%20come%20forward%20with%20legislation.>

² See [Commission's](#) Communication on "Stepping up EU Action to Protect and Restore the World's Forests", July 2019.

global deforestation'.³ This policy will be the key policy to address imported deforestation to the EU, and thus is prone to high expectations. An impact assessment publication is due in 2021.

The Action Plan for Sustainable Growth, with the EU taxonomy for sustainable activities, non-financial reporting directive (NFRD) and the EU Green Bonds Standards as key policies targeting the financial sector, could complement the efforts of the European Parliament.

Opportunities, challenges, gaps and barriers to the impact and effectiveness of current and planned legislation

There is a set of opportunities, challenges, gaps and barriers for forest policy to overcome to be effective in halting deforestation globally.

Deforestation through the lens of climate change in European regulation: Since the ratification of the Paris Agreement and despite the latest covid-19 global health crisis, climate change has remained high on the European policy agenda. The looming impacts of climate change have also dominated the policy discussion on deforestation. It has been the driving force of the European forest agenda in the latest years. However, a more holistic view of forest management and deforestation issues is needed to tackle it effectively. A clear and rising topic is the loss of biodiversity, which can bring new perspectives on how deforestation policy is approached. It is expected, the awaited impact assessment for the proposal for an “EU legal framework to halt and reverse EU-driven global deforestation” will shed more light on how deforestation can be addressed most effectively, taking into account more than the climate change lens. Based on a commodity approach, the current proposals framing allows to take specific aspects crucial to deforestation related to that commodity into account.

Speed of legislative processes in the EU: Over the last decade and especially since the Paris Agreement’s ratification, the EU has sped up policy proposals and their implementation. Yet, despite the fast tracking of some legislations, more generally, policy processes still take several years from their proposal stage through to the trilogues (of the European Commission, European Parliament and European Council) and final agreement and implementation. The measures set within the new due diligence policy proposal are expected to take at least a decade to take effect. Once implemented, results can only be observed after additional time passing. These lengthy processes are not suitable for addressing the urgent need to take action on global deforestation. Thus, it is critical to have a set of complementary policies and measures over time, with voluntary initiatives bridging the gap until legislation is effective. Expectations of immediate effectiveness of legislative processes is unlikely to be met.

Data availability: To ensure all actors can take action, data availability needs to be improved. The key component of the Action Plan for Sustainable Growth (taxonomy and NFRD) as well as the new due diligence proposal are set to drive information availability. Yet, the landscape of data for the time being remains scattered.

Financial policies: The financial sector is crucial to addressing deforestation. Whilst the latest policy developments are encouraging, it remains that financial flows in unsustainably sourced forest-risk commodities by far exceed financial flows supporting zero deforestation. As the EU and its Member States can only set incentives to redirect financial flows, financial policies should address this key issue. The EU taxonomy, whilst fast in its implementation, does not yet address deforestation adequately. While the delegated acts will shed more light on the technical criteria for deforestation, thorough environmental

³ See European Parliament [Legislative train](#) on “An EU legal framework to halt and reverse eu-driven global deforestation”, September 2020; See [study](#) on “An EU legal framework to halt and reverse EU-driven global deforestation: European added value assessment”, September 2020.

criteria for sustainable production of key forest-risk commodities are needed to meet the multifaceted drivers of deforestation. Further, clear incentive systems for financial institutions are missing from the current taxonomy proposals. Whilst of course, the EU can only introduce legislation for its jurisdiction, a global focus could be added to the taxonomy.

The EU budget could be an additional incentive system for international sustainable forestry and addressing forest risk commodities. Yet, at its current state, it does not oblige cooperation on international development projects.

Gaps in current policies and policy proposals: The impact assessment for the due diligence policy proposal will provide clarity on the process of the policy proposal and implementation. Yet it is already clear, that due to the lengthy process, intermediate steps are needed along the way to ensure action is taken.

Traceability will likely remain an important issue despite being considered in the due diligence proposal and thus is an area of work to be strengthened in the future.

Further, another component missing from current policies and policy proposals to address forest risk commodity products is development cooperation. More economic instruments are needed to address the causes of deforestation in the producing countries, such as higher financial returns and actual alternatives to secure livelihoods. Further, there is a strong need for knowledge exchange and education on sustainable forestry as well as on more efficient land use. Lastly, accessibility to certification should be addressed. While many EU Member States and the EU have programs in place to address the above issues, these are not connected to the policy proposals put forward.

Labels and standards: As a control mechanism and a solid foundation, standards and labels are an important aspect in reducing the import of forest risk commodities and should thus remain a complementary part of policy in addressing deforestation. Labels and standards could become a condition to access the EU market, yet there needs to be clear guidance. There is also a strong need for scientific analysis and comparison to ensure the quality of the label or standard, public authority can support on this matter. Lastly, labels and standards should be designed to place responsibility on the companies, not the consumers.

The role of private and public actors in the field

Voluntary initiatives and local support: Several voluntary initiatives are complementary to mandatory measures. One example is the Amsterdam Declaration⁴, a coalition of national states partnering on reducing deforestation for key forest risk commodities. In the area of agriculture, a key driver of deforestation, the Amsterdam Declaration partners are addressing deforestation on a smaller scale and more local level than EU policy. Bilateral relations, knowledge exchange and capacity building exercises are a key component of these partnerships. This preparatory, on the ground, work of the Amsterdam Declaration partners is paving the way for EU policy to prevail in a larger scale context. Further important initiatives are amongst others the Tropical Forest Alliance⁵. Additional partnerships and development support should be made available by the EU and Member States to forest risk commodity producer countries. As in the Amsterdam Declaration, commitments can be encouraged and facilitated by governments, especially in areas which are not yet or can not be addressed by policy.

Financial institutions: The role of financial institutions is crucial in addressing deforestation. A thorough assessment of forest-related risks should be implemented across the board. Financial institutions should make use of standards to assess their financial products and the supply chain of their funds. These institutions should make use of the new policies and tools available to reduce their impact on

⁴ See Amsterdam Declaration, <https://ad-partnership.org/about/>

⁵ See Tropical Forest Alliance, <https://www.tropicalforestalliance.org/en/about-tfa/about/>

deforestation. Public players, such as central banks and state pension funds can play a pivotal role in leading the change, yet private actors are of higher impact and thus needs to follow suit. Open communication and public commitment of zero deforestation goals is needed as well as direct engagement of financial institutions with companies in their portfolios. Further financial institutions can implement contingency clauses for their financial products as well as in the issuing of loans.

Other actors: Companies in the EU should be supported in preparing for the upcoming due diligence legislation. Further, monitoring of progress on commitments needs to be introduced.

Opportunity for collaboration and learnings

Creating a level playing field internationally is key to reduce leakage to other countries. Knock-on effect by EU policy to other countries is therefore needed, to ultimately lead to success on reducing and halting deforestation. However, international trade and the rule of the WTO must be kept, yet the EU can use trade as a vehicle for change. The border adjustment mechanism could become a key tool, yet also, future trade agreements could take deforestation into account.

The current efforts by the EU to advance sustainable finance are good steps towards shifting attention and responsibility to act towards financial institutions. Policies, such as the EU taxonomy, TCFD-aligned mandatory reporting under a revised NFRD and the EU Standards are key to driving this agenda. With more countries globally creating taxonomies, standards and labels, and advancing reporting regulation, there are great opportunities for collaborating and alignment. This could reduce the burden for international corporations to comply with different regulations in different geographies, as well as creating the more comparable and widely available data needed to enable a shift in the market towards more sustainable products.

China has significantly increased its efforts to restore the domestic deserted and deforested land over the last two decades, with noteworthy investments by the government. This has led to large areas of restoration of domestic forest areas and reduced deforestation and illegal logging. While domestic efforts have been ramping up, the imported deforestation footprint has not been a key priority so far. To reduce deforestation, imported deforestation from key geographies, such as in tropical rainforests regions, should become more of a focus. Major investments are made in crucial forest risk commodity producing countries, from the more well-known key regions such as Brazil and Indonesia, to regions in Africa. Deforestation in these countries needs to be monitored more closely and ascend on the international agenda. As one of the largest global importers of forest risk commodities such as soy, timber products, palm oil and beef, China will need to play an important role to remove its deforestation footprints from the global value chain of soft commodities.

Thus, to drive action on deforestation in China, international collaboration on the issue is of great importance. The EU and China, as the largest importer markets for forest risk commodities, are in a particularly significant position to take action, yet, all major importing economies of forest risk commodities should adopt policies and measures. Further, global collaboration of not only states, but also financial institutions, is needed to reduce deforestation.

Proper policy proposals are not yet on the table to systemically address deforestation in China, yet China is uniquely positioned to drive their private actors to more action. Increasing participating in international voluntary initiatives are a good step, yet medium term, policy solutions are needed.

Knowledge transfer and capacity building are a responsibility of the world community, thus should be addressed through multilateral collaboration and cooperation. Deforestation, as an issue detached from climate change mitigation and biodiversity, has not been prominent on the international agenda. More

attention to the complex relations of deforestation to climate change, biodiversity and geographies' socio-economic state are important to design policies. Currently, the approaches to deforestation are still to unilateral. This an area, policy in the EU and China need to take more widely into account in their approaches to reducing deforestation.

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