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ESTS A E ESSENTIAL to regulating the climate, absorbing greenhouse gases and providing fresh water and habitats for biodiversity and indigenous peoples. If deforestation continues at current rates, large parts of the planet will become uninhabitable. The European Union has only 5.5 percent of the world's population, but its demand drives 15 percent of the global forest destruction linked to trade. Therefore, the EU has introduced a law – the regulation on deforestation-free products, or deforestation regulation – to outlaw from its

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can absorb because of record warming in 2023 (Ke *et al*, 2024).

Beyond absorbing carbon emissions, forests also provide essential ecosystem services that

Figure 1: EU deforestation exposure from EUDR commodities

Source: Titley (2024). Notes: the data only includes deforestation happening in forest habitats. The data is not fully aligned with the EUDR since deforestation estimates for more processed commodities are not all included. This is particularly likely to underestimate the footprint from rubber and wood products. A panel for rubber is not shown because values are very low.

3 The EU needs to help its more vulnerable trade partners to adjust

The EUDR affects a non-trivial portion of global trade. Total exports to the EU of goods that will be subject to the EUDR (henceforth EUDR exports) accounted for over 1 percent of the total exports of 57 countries from 2015 to 2023 (Figure 2). This reaches as high as 81.7 percent for São Tomé and Príncipe, one of the 20 African countries where EUDR exports are over 1 percent of total exports.

The EUDR also affects a non-trivial proportion of exporting countries' GDP. In 31 countries, EUDR exports were over 0.5 percent of GDP during the 2015 to 2023 period. This reached as high as 6.4 percent for Côte d'Ivoire, but also affects several countries that are candidates for EU membership, including Bosnia and Herzegovina (4.8 percent), North Macedonia (1.9 percent) and Ukraine (1.6 percent).

Many developing countries rely on commodity exports as a source of government revenue and foreign exchange earnings. If the EUDR disrupts exports from poorer trading partners, then it may affect their revenue-collecting ability.

The Commission and several EU countries have announced a 'Team Europe'[5] initiative worth €70 million to support partner governments to minimise deforestation and help smallholders and low-income countries adjust to the EUDR. Projects are already underway in Asia, Africa and Latin America. Yet there is little published research on how an EUDR import ban on products linked to deforestation would reverberate throughout the supply chains of each of the seven commodities.

Countries that export commodities for which the EU has large global market share would likely face the most disruption from a ban. Although the EU is a relatively minor importer of soya, wood and oil palm, it is a major importer of coffee and cocoa, for which the EU's shares of global net imports are 40.7 percent and 35.5 percent respectively (Table 1). This means that exporters of cocoa and coffee that face disruption linked to the EUDR may find it harder to find other markets that will absorb the goods banned by the EUDR. However, for commodities including soya and oil palm, there are likely to be ample trade-diversion opportunities. In some sectors, it is possible that the EUDR will lead to a two-tier export market in which, for example, EUDR palm oil is sold to the EU at a premium, while palm oil from crops grown on deforested land is exported to other markets.

Table 1: EU imports of EUDR products as a % of global net imports of those products, 2015 – 2022 average

Product	EU market share (%)
Coffee	

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Figure 2: AverPgure 2: SöRMExportP and t

The countries particularly at risk are those that have a high dependence on selling one commodity that is covered by the EUDR , meaning the EUDR could affect a significant share of their trade and/or GDP. Furthermore, the EU is a large market for that commodity so they cannot sell it elsewhere. Examples include Burundi, for which 99.6 percent of its EUDR exports are coffee, and Ghana and Côte d'Ivoire, for which cocoa constitutes 94.7 percent and 86.5 percent of their EUDR exports respectively.

Even if there are other opportunities to export, disruption for countries that face high GDP or trade exposure, and for which EUDR exports are concentrated in one commodity, might face high costs in the short term. For example, 98.8 percent of the Central African Republic's EUDR exports are wood, as are 94 percent of Bosnia and Herzegovina's, both of which have high trade and GDP exposure to the EU, and may have few alternative established trade routes.

Another consideration is those at the top of the supply chain. Ninety percent of cocoa production relies on five million to six million smallholders in developing countries (European Commission, 2021), while up to 73 percent of the global coffee market is supplied by smallholders (Panhuysen and Pierrot, 2020), as is about 40 percent of the world's palm oil. Smallholders often depend on the crop for their livelihood, making them particularly vulnerable to disruption and making it hard for them to adapt.

Back-of-the-envelope calculations like the above are useful for getting a broad picture, but much more work is needed to identify which countries and populations are most exposed to potential disruption. There are very few detailed quantitative assessments of the impact of the EUDR, which makes it harder to target support and protect those on low incomes who depend most on EU markets.

Several technical obstacles to full implementation of the EUDR also remain. For example, the sharing of geolocation data with EU competent authorities clashes with Indonesian privacy laws[6], so it is unclear how the EUDR can be implemented in that country. This needs urgent attention and bilateral diplomacy.

4 How the Commission should improve implementation

The EUDR implementation complications have prompted an influx of questions about how to comply[7]. The European Commission's current approach to clarification is periodic update of its frequently asked questions[8]. This blanket approach comes at the cost of industry-specific guidance, even though the seven sectors targeted by the EUDR (cattle, cocoa, coffee, palm oil, rubber, soya and wood) vary widely in terms of supply-chain complexity, source countries and experience with administrative compliance. Sector-tailored guidance will be important for filling this gap, as the Commission is providing in the preparations for implementation of the EU carbon border adjustment mechanism (to equalise the carbon price applied to domestically produced and imported goods).

To prepare for harvest seasons in 2025, the Commission should provide sector-specific

6 Nicole Verbeeck, 'Indonesia concerned EU's new deforestation rules will hurt millions of smallholders', , 1 October 2024, https://www.euractiv.com/section/eet/interview/indonesia-concerned-eus-new-deforestation-rules-will-hurt-millions-of-smallholders/.

7 EU cross-commodity coalition on EUDR implementation letter of 28 March 2024, 'Joint cross-commodity call to EU Commission and Member States to provide urgent clari cations and workable solutions for EUDR implementation', https://www.etrma.org/wp-content/uploads/2024/03/Joint-cross-sector-coalition-letter-on-EUDR-implementation.pdf.

8 Available at https://circabc.europa.eu/ui/group/34861680-e799-4d7c-bbad-da83c45da458/library/e126f816-844b-41a9-89ef-cb2a33b6aa56/details?download=true.

Tailor regulation to sectors

The seven sectors covered by the EUDR have in common that they contribute to deforestation. Beyond this, the sectors have different characteristics when it comes to cultivation, supply chain, trading partners and product use. Yet the EUDR is a blanket regulation that takes little account of these differences. For example, re-treaded rubber tyres are also subject to the EUDR, which will impede the re-use of tyre carcasses that were on the EU market before the EUDR deadline, inhibiting the circular economy[12].

Design the information system taking into account the needs of users

Compliance systems need to be ready to receive more data and should take account of the legal and technical limitations on geo-location in supplier countries.

Design an adaptation period for transformative regulation

The EUDR requires major adaptation of production and marketing practices, yet it was fore-seen to apply overnight. Such transformative regulation would benefit from a grace period or tm o erniance sg t, 7- (lo)-2 o-l72 (che3)-229lt 9 1ices d producer countries to develop their own national traceability systems, as trade facilitation tools, and reward those with better national forest protection. In the longer run, policies that aim to give more agency to the countries managing the forests to build their own capacity will be more effective. Ultimately, pricing products according to their environmental impact would incentivise forest-friendly production better than a ban.

The experience of the introduction of the EUDR offers important lessons for future regulation, yet the rationale for the regulation is valid (and its substance should not be re-opened, for example by introducing a 'no-risk' category of exporting countries; see section 1), both to protect forests and to give economic actors the certainty they need.

Crucially for its global green reach in future, the EU must communicate with trading partners and reduce the impact on them by providing targeted assistance to the most vulnerable smallholders and countries that are struggling to comply in time. Stakeholders have sought in good faith to reduce deforestation and they emphasise the need for a consistent regulation. The EU should now stay the course because forest protection is too important to become a point of controversy in global cooperation on climate and nature.

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Annex: Countries with largest shares of EUDR exports to GDP and total exports, 2015 – 2023

Country	% of GDP	% of total exports
Côte d'Ivoire	6.41	23.01
Bosnia and Herzegovina	4.79	14.24
Honduras	3.79	21.26
São Tomé and Príncipe	2.62	81.68
Liberia	2.42	12.02
Cameroon	2.21	23.06
Uruguay	2.16	16.63
Ghana	2.07	8.92
Papua New Guinea	1.99	5.74
North Macedonia	1.91	3.48
Belarus	1.76	3.42
Ukraine	1.64	5.24
Paraguay	1.58	6.93
Gabon	1.47	2.84
Moldova	1.43	5.8
Sierra Leone	1.25	13.43
Malaysia	1.23	1.73
Solomon Islands	1.09	3.94
Uganda	1.06	11.61
Nicaragua	1.05	4.67
Burundi	0.92	20.12
Congo	0.83	2.26
Togo	0.82	5.61
Vietnam	0.82	0.98
Albania	0.72	3.75
Brazil	0.71	5.33
Guatemala	0.68	4.42
Argentina	0.64	5.4
Central Africa	0.6	14.26
Indonesia	0.58	3.31

Source: Bruegel.