

**Extended Abstract**  
**Please do not add your name or affiliation**

<b>Paper/Poster Title</b>	<b>The Likely Impacts of the EU Deforestation Regulation</b>
---------------------------	--

**Abstract prepared for presentation at the 98th Annual Conference of The Agricultural Economics Society will be held at The University of Edinburgh, UK, 18th - 20th March 2024.**

<b>Abstract</b>	<i>200 words max</i>
<p>The EU Deforestation Regulation (EUDR) was motivated by the wish to limit the impact of European consumption of tropical products on deforestation. The regulation is explicitly extra-territorial. It will result in significant trade diversion as non-compliant product will not be saleable in the EU. The resulting disruption of trade patterns is likely to be associated with the emergence of a compliance premium. These effects are likely to be greatest in the cocoa and chocolate and the coffee sectors.</p> <p>The paper analyses these issues with particular reference to cocoa and coffee. The compliance premium will raise coffee, chocolate and confectionary prices in the EU and more generally throughout Europe. The impacts on developing country farmers will be mixed with some gainers and some losers. The regulation may result in supply chains becoming more concentrated with companies in producing countries losing out relative to transnational trading and processing companies. The impact on deforestation is unlikely to be substantial.</p>	
<b>Keywords</b>	Deforestation, tropical commodities, supply chains
<b>JEL Code</b>	e.g. Energy: Demand and Supply Q41 see: <a href="#">Q11</a> , <a href="#">Q17</a>
<b>Introduction</b>	<i>100 – 250 words</i>
<p>The EU Deforestation Regulation (EUDR) will come into full effect at the end of 2024. The regulation covers the import into the EU of seven commodities (beef, cocoa, coffee, oil palm, rubber, soya and timber) and derived products manufactured from these commodities. The paper analyses these impacts focusing on the cocoa, coffee and palm oil sectors, where the EUDR may have the greatest impact.</p> <p>Importers will be required to attach due diligence documentation with all such imports demonstrating that the products have not been produced on land subject to deforestation since the end of 2020. The regulation is explicitly extra-territorial in that it imposes obligations on producing countries and also because it will have implications for non-EU countries, such as Switzerland and the UK, which export derived products into the EU.</p>	

The paper addresses the likely impact of the regulation:

- a) on commodity producers, many of whom are smallholder farmers;
- b) on EU consumers of the commodities and of derived products;
- c) on the commodity price;
- d) on the commodity supply (value) chains; and
- e) on deforestation.

### **Methodology**

*100 – 250 words*

The regulation will segregate compliant from non-compliant supplies resulting in the trade diversion and the emergence of a compliance premium. The impacts of the EUDR will be determined by the size of the premium. Some product currently imported into the EU will not be EUDR-compliant, either because it has been produced on recently deforested land or because of the organizational complexity and cost of demonstrating compliance. A proportion of exports currently destined for the EU will be diverted to other importers and exports currently destined for these countries will be diverted to the EU. This will require a compliance premium with EUDR-compliant product trading at a premium to non-compliant product. The paper analyses the likely extent of diversion and hence the possible size of the premium.

EUDR impacts will depend largely on the size of the compliance premium which will in turn depend on the extent of compliance and of the importance of the EU, and of Europe more generally, in world imports of the commodity. Likely compliance is seen as dependent on sector size at origin, supply chain structure and the degree of product aggregation prior to export. Estimates of likely compliance, by product and country of production, will be based on trade interviews. Current assessments remain preliminary.

The compliance premium will generate incentives to limit deforestation. The analysis will integrate existing research on the determinants of deforestation.

### **Results**

*100 – 250 words*

The EU share of commodity imports is highest for cocoa (53%) and coffee (47%). These are the two commodities for which diversion and the compliance premium are likely to be highest. The current draft of the paper is based on a detailed analysis of likely impacts in the cocoa and chocolate sector. This will provide a model for extension to coffee and palm oil. Cocoa and coffee are relatively minor contributors to deforestation which has been more severe in relation to palm oil cultivation where, however, the EU has a lower import share.

The cocoa calculations show diversion amounting to around 45% of current EU imports of cocoa beans entailing a substantial compliance premium. Cocoa is complicated because producing countries also export substantial quantities of intermediate products (cocoa butter, powder and liquor), also subject to the EUDR for which compliance will be more difficult. It appears likely that the EU will experience a

large product deficit which will increase imports of beans. Based on current estimates, this will raise the diversion level to close to 80% of EU bean imports.

The EUDR has implications for supply chain structures. Compliance will require high levels of traceability. This is difficult in fragmented supply chains suggesting that there will be some consolidation of supply chains. Transnational commodity trading companies are likely to assume a larger role. Market concentration may increase with domestic intermediaries squeezed out. At the same time, niche (e.g. fair trade) exporters may find that the EUDR offers them some advantage.

**Discussion and Conclusion**

*100 – 250 words*

The EUDR is a well-intentioned but poorly thought out initiative. It introduces costly and disruptive compliance which will disadvantage supply chain intermediaries in the producing countries relative to larger transnational trading companies and is likely to lead to consolidation and increased concentration in supply chains, which may nevertheless result in modernization and greater efficiency. Some farmers may benefit while others may lose out depending on their formal contractual arrangements (or lack thereof). The EUDR is likely to raise chocolate and, to a lesser extent, coffee prices in Europe but these impacts will be transient and probably not large.

There is also a political economy dimension. Local supply chain intermediaries in producing countries will be less able than transnational companies in ensuring compliance. The extra-territorial character of the EUDR is resulting in its already being seen as neo-colonial by producing country governments.

Unless similar restrictions are introduced in other developed countries or blocs, the impact of the EUDR on deforestation will be small.