



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

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### key messages

✓ The bills of law of the European Union and the United Kingdom may become important mechanisms in reducing deforestation in Brazil by underpinning already existing public policies. However, the way in which they will be implemented, and the extent of their efficiency, is still very uncertain.

✓ The main challenges facing the beef chain are the availability of public data to increase the transparency and qualify the traceability but also the need to monitor indirect suppliers and, above all, reintegrate those who want to meet market requirements.

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

The evolution of production and deforestation dynamics over the last three decades has caused the creation and implementation of protocols and agreements aimed at curbing the further conversion of native vegetation areas. In the early 2000s, after the change in the federal government and the greater involvement of civil society organisations, a series of public and private actions were put in place to reduce deforestation in the Amazon. In the public sphere, the Amazon Region Protected Areas Program (ARPA) was launched in 2002. It created several Protected Areas and Indigenous Land, totalling 487,000 km<sup>2</sup> (12% of the total area of the biome) that became protected zones between 2003 and 2006. In 2004, the government also created the Action Plan for Prevention and Control of Deforestation in the Legal Amazon (PPCDAm), which combined a series of measures aimed at expanding monitoring, enforcement and control in the Amazon region (Piatto & Inakake, 2016).



Within this context, the processing industry, retail chains and investors have committed to eliminating deforestation from their supply chains. The conversion of native vegetation related to commodity consumption in the European Union (EU) accounted for 16% of total deforestation in tropical regions with forest risk (about 203,000 hectares) in 2017, while in the UK this association exceeded 31,000 hectares (Pendrell et al., 2020; WWF 2021). As a result, both have begun drafting bills for regulations aimed at increasing transparency in the supply chains of a range of commodities - such as beef, soybeans, coffee, cocoa, timber, among others - and reducing the risk of deforestation associated with these imports.

## **BILLS OF LAW OF THE EUROPEAN UNION AND THE UNITED KINGDOM**

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

In order to ensure that products (cocoa, coffee, beef, timber, palm oil, soybeans and a list of by-products) traded or exported to the EU are deforestation-free and produced in accordance with conventions that ensure human rights, the regulation contemplates a mandatory due diligence mechanism for the supply chain based on the full traceability of the chain. Due diligence laws are important for commodity exporters, such as Brazil, and set the standard to monitor global supply chains based on an obligation to detect any potential impact on human rights and the environment and find ways to prevent and mitigate these impacts.

Since then, several consultations have been held to assess the limitations, weaknesses and inconsistencies of the new law and, on September 12, 2022, the European Parliament voted on a proposal requesting important changes such as: change the cut-off date for deforestation from 2020 to 2019; include other products such as pork, sheep, goat and poultry meat, corn, rubber, charcoal, paper; include human rights and those of indigenous people.

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

Similar to the consultations made by the EU, the UK government also held a number of rounds of public consultations about: which commodities would be considered within the scope of the regulations; which businesses would need to undergo due diligence; how the law would be enforced. The outcome was disclosed on June 6, 2022 and included requests such as the inclusion of coffee and corn, in addition to previously selected commodities (beef and leather, cocoa, rubber, palm oil and soybeans). Timber, on the other hand, which was part of the first proposal, was removed from the scope because it falls under UK Timber Regulations. The UK government, however, has yet to clarify when the second version of the law will be published.

## **IMPACT OF REGULATIONS ON BRAZILIAN BEEF CHAIN**

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



In interviews with representatives of different cattle ranching sectors in Brazil, what was observed was that both laws may lead to positive results by dissociating commodities trade from deforestation. However, the scope and degree of efficiency of these regulations is still uncertain, as neither the EU nor the UK is Brazil's main trading partner for most of the traded commodities. The country produced in 2021 about 9.5 million tons of beef (USDA, 2021), and the forecast for 2022 is higher. Despite being the world's largest beef producer, breaking its export record which exceeded 26%, much of the produce is consumed domestically - almost 74% was consumed domestically in 2021 (Abiec, 2021). In the same year, the market share of Brazilian beef in the EU stood at only 8.26%, while 44% of the exports (in US\$) went to China (SisComex, 2021).

In the beef value chain, the pressure to monitor and trace is far greater on producers, processors and retailers, particularly those operating in the Amazon. Similar to what happens with soybeans, private sector players claim that there are no public policies and incentives to encourage the conservation of native vegetation. As such, there is a concern in the Brazilian productive sector about the requirements that will be made in regard to the chain traceability and the potential collateral effects of these laws. For example, compliance with them will certainly imply an increase in demand for investments - potentially private - with no assurance of financial returns for the sector, especially if considering the backtracking of incentives and public policies, mostly by the federal government, to destabilize the strategies for conservation of native vegetation. In addition, there is also a gap in the availability of reliable and up-to-date data by the government, which could help in the traceability and transparency of the chain.

On the other hand, despite the uncertainties about how these regulations will be implemented and the investments required by the sector to adapt to the demands of the European market, Brazil has mechanisms that can address, to some extent, the problem of conversion of native vegetation in its chains. The Beef TAC is an example of this type of mechanism that has been helping to fight deforestation in the Amazon since 2009. For over a decade, it has been an important tool for tracking direct suppliers of cattle within the biome but it needs to monitor indirect suppliers as well to avoid laundering and triangulation in the chain.

As such, civil society organisations have raised the alarm that without the implementation of very clear rules by the EU and the United Kingdom, the cases of illegal conduct in the chain may continue to increase, adding fuel to the fire of the current scenario. This underpins the need and urgency to increase the monitoring of indirect suppliers while seeking to regularise the situation of the suppliers who have an interest in meeting the market requirements so they can be reintegrated into the chain. Lastly, there is a concern that both regulations will end up inducing European importers to boycott Brazilian products, particularly those deriving from the Amazon. This, in turn, may lead to an increase in informality in the sector or even the creation of a specific market for products that are not sourced in the Amazon, which will have a significant impact on the economy of the region.



## **BEEF ON TRACK**

### **Beef on Track: The transparency platform of the beef value chain.**

The Beef on Track platform is a hub that offers access to systems, tools, data and technical information for a deforestation-free beef chain. Behind the scenes, a team of experts works with national and international strategic partners to develop solutions. There are two main objectives - to support and expand the implementation of socio-environmental commitments. As such, producers, meatpackers of all sizes, tanneries, supermarket chains and also investors can find in this environment the materials that will help them implement their commitments. As well as, of course, civil society, which now has a source of data and resources to track the performance of the agreements undertaken by the chain.

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Imaflora is a Brazilian non-governmental organization created in 1995 to promote the conservation and sustainable use of natural resources by generating social benefits in the forestry and agricultural sector.

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