

European Commission's proposal for a regulation on deforestation-free products

Traceability along the supply chain towards the point of production

Introduction

On 17 November 2021, the European Commission presented a [proposal](#) for new legislation on “making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation”.

According to the current proposal, the law would require verification that the commodity or product is free of deforestation with a traceability requirement down to the place of production, which would call for operators to “collect the geographic coordinates (or geo-location via latitude and longitude) of all the plot(s) of land where the relevant commodities and products were produced”. The European Commission is proposing this traceability [obligation] as deforestation is linked to land-use change and monitoring of land use change “requires a precise link between the commodity or product placed on or exported from the EU market and the plot of land where it was grown or raised.”

WWF fully supports the Commission's proposal stipulating that all products must be traceable down to their place of origin, i.e. where they were produced or harvested. This is the only way to ensure concrete and full elimination of deforestation, conversion and human rights abuses from commodity supply chains.

Some concerns have been raised about the traceability requirement, it has been criticized as “difficult to implement” or being “too costly”. **From a WWF perspective, traceability along the supply chain and determining a geo-location is necessary and also feasible.**

Traceability is achievable and essential

Traceability is not a new concept in the EU: The European Commission already requires the traceability of agricultural commodities in the [general food law](#).

In the case of cocoa, for the past decades, [multiple company- or government-led traceability systems have emerged](#) in the cocoa sector, which also allow the registration of farmers. 25 out of 76 of the world's largest palm oil companies have achieved 100% traceability to plantations for their own mills (source: ZSL SPOTT assessments, for palm oil [here](#)). [According to their webpage](#), all Wilmar-owned palm oil mills are 100% traceable to plantation, and as at end 2020, approximately 14% of their third-party supplying mills within their global supply chain are traceable to plantation level (to note around 13% of palm oil globally is imported into EU, so traceability to plantation for this % is probably already there).

One of the reasons why traceability tools were not developed to include geo-location in the past is because there was no demand from the markets/operators, and relevant tools were not available. This has changed. There are advanced satellite systems available that offer robust platforms for

monitoring of deforestation and conversion, such as the [UN Biodiversity Lab](#) and [Copernicus](#). Local GIS systems in high risk biomes, such as [Prodes](#) in Brazil, [Mapbiomas](#) in all of South America, the [Plowprint Report](#) in the North American Great Plains and [Eye On The Forest](#) and [Mapbiomas](#) in Indonesia, provide potent monitoring tools for companies' due diligence on a on-going basis. Also, companies now commit to full deforestation- and conversion-free (DCF) traceability. Also, in the new [EU Forest Strategy for 2030](#) the European Commission announces a legislative proposal for a Forest Observation, Reporting and Data Collection framework - this would help to better coordinate the already existing forest monitoring in the different EU Member States.

A concrete example of affordable and efficient traceability and transparency at large scale is the [Amazon Soy Moratorium](#), successfully implemented since 2006. The Soy Moratorium in the Amazon allows for traceability of polygons with 25 ha [size](#), and verification to the farm level. Due to clear and strong market requirements, approaches and tools to ensure full DCF sourcing and transparency from the origin in remote and immense areas such as the Amazon were developed. The 16 years of experience with the Soy Moratorium also demonstrates that the overall costs of a precompetitive monitoring and verification system, even to the farm level for a continental region, is extremely reduced, and even negligible compared with the figures of the commodity trade itself.

Supply chain engagement and management

For WWF, companies that are operators and large traders must establish traceability systems and processes allowing them to control the origin (including geo-location) of commodities and products in their supply chains to a sufficient extent, ensuring they are not linked to deforestation, conversion, degradation or o human rights violations. Companies must engage with their suppliers to establish purchase control systems and incentives to ensure no deforestation, no conversion and full respect of human rights from of indirect suppliers, cascading these requirements to the origin. Support to companies and smallholders, especially in producer countries could be provided, as referred to in Article 28.3.

Transparency and disclosure

WWF supports full transparency concerning company reporting. Article 11 clearly states that companies which are not SMEs should “*publicly report as widely as possible*”. But it could be envisaged that, verifying traceability of supplies to an origin that is free of deforestation and conversion need not involve the public disclosure of any sensitive business information, or information that goes against data protection laws or other relevant legislation. However, relevant data for traceability should be shared unrestrictedly with competent authorities.

A clear lesson learnt from the EU Timber Regulation is the need of making the whole supply chain traceable to ensure that there are no loopholes. Not including [traders](#) or SMEs disregards the role they can play in deforestation, conversion and illegal activities. Both the European Commission's [impact assessment](#) and a [WWF](#) analysis confirm this.

Accountability for due diligence

Certification, due diligence or jurisdictional/landscape approaches can provide complementary information but cannot be the sole measure used for compliance. Companies must demonstrate detailed assessment and mitigation of supply chain risk that has taken place, that goes beyond the presence of a certification or a jurisdictional/landscape project. Companies are ultimately

accountable for due diligence on their supply chains and should not shift this responsibility to a third party.

Physically segregated and credible certification that ensures 3rd party verification of zero deforestation and conversion to the plot of origin may be used in the assessment procedure but the responsibility of the operator to ensure products placed on the EU market are deforestation-free, produced in accordance with laws of the country of production and coverage of those products by a due diligence statement remain.

Mass balance

Some companies and other stakeholders are proposing to allow the use of mass balance models, which they deem more feasible instead of requiring full traceability to the place a commodity or product was harvested or produced. WWF is greatly concerned about these suggestions as this may weaken the proposal to the point of losing all efficiency. The mass balance models, e.g. as [defined by ISEAL](#), aim at validating claims made about products, processes, business or services covered by some sustainability standards, in the absence of full supply chain traceability. It ensures that volumes of material sold with claims on certain sustainability standards (outputs), match or do not exceed volumes of material produced or bought in compliance with this requirement (inputs). Verified sustainable products may be mixed with products from [unverified origin](#) at any stage in the production and trade process, provided that the quantities are controlled. Mass balance systems may be percentage-based (physical mixing) or volume-based. This approach would allow materials possibly related to deforestation, conversion and human rights abuses in the physical supply chains. The mass balance approach lacks full physical traceability and transparency. **These systems would therefore not meet the requirements as laid out in the proposal of the European Commission.**

Other models are proposing to allow mixing of sustainability verified materials with verified deforestation and conversion-free materials - also sometimes referring to this as “mass balance” (or “zero conversion mass balance”). **Such a system would only be compliant with the requirements in the proposal of the European Commission, if the origin of all products can be transparently verified and traced, as well as the claim of the products to be deforestation and conversion-free before it is placed on the EU market.**

Costs

As the zero deforestation requirements will apply to all products placed on the EU market, any additional costs usually related to the logistics of segregation of a limited portion of the supply chain would reduce dramatically, or even disappear completely. Further, it also needs to be taken into account that binding requirements for the European Market will have a wider effect: costs will decrease as all companies will have to apply such systems, and might even do so for their operations beyond the EU.

Moreover, the European Commission's [impact assessment](#) shows that especially for the palm oil and timber sector, but also for the soy and beef sector, voluntary sustainability standards have already been adopted by companies¹ and that multinational companies do have smallholder engagement programmes in place or supply chain mapping². WWF has established clear [Guiding Principles and Asks](#) on deforestation and conversion-free (DCF) supply chains.

¹ Thomson, E. 2020. Time for change: delivering deforestation-free supply chains. Global Canopy, Oxford, UK.

² Bakhtary, H., Matson, E., Mikulcak, F., Streck, C. and Thomson, A. 2020. Company progress in engaging smallholders to implement zero-deforestation commitments in cocoa and palm oil.