

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/384583487>

# Implications of the EU Deforestation Regulation on Global Palm Oil Supply Chains

Technical Report · October 2024

DOI: 10.13140/RG.2.2.12451.67361

---

CITATIONS

0

READS

127

3 authors, including:



Sajad Fayezi

Adelaide University

64 PUBLICATIONS 924 CITATIONS

SEE PROFILE



THE UNIVERSITY  
*of* ADELAIDE

**WORKING PAPER 18**

FAYEZI, VARKKEY, BAYANCELA BRIONES.

# Implications of the EU Deforestation Regulation on global palm oil supply chains

Institute for International Trade

# Implications of the EUDR on global palm oil supply chains

## Contents

List of Abbreviations / 01

Executive Summary/ 02

1 Introduction / 04

1.1. Policy context: palm oil/ 04

1.2. EUDR overview/ 05

1.3. Policy environment/ 05

2 The key implementation challenges / 06

3 The opportunities / 07

4 EUDR and global markets / 08

5 EUDR and sustainability governance / 09

6 The key considerations moving forward / 10

References / 12

## About the authors

### Associate Professor Sajad Fayezi

Enterprise Fellow in Supply Chain Management  
at the University of South Australia

### Associate Professor Helena Varkkey

Associate Professor in Environmental  
Politics at the University of Malaya

### Stephanie Bayancela Briones

Doctoral Researcher in Circular Economy  
at the University of Adelaide

## List of abbreviations

<b>CPOPC</b>	The Council for Palm Oil Producing Countries
<b>EU</b>	European Union
<b>EUDR</b>	European Union's deforestation regulation
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>GFFA</b>	Grain Club Global Forum for Food and Agriculture
<b>ILUC</b>	Indirect land use change
<b>ISPO</b>	Indonesian Sustainable Palm Oil
<b>MSPO</b>	Malaysian Sustainable Palm Oil
<b>RED</b>	EU Renewable Energy Directive
<b>RSPO</b>	Roundtable on Sustainable Palm Oil
<b>SDGs</b>	Sustainable Development Goals
<b>WTO</b>	World Trade Organisation



Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or the European Education and Culture Executive Agency (EACEA). Neither the European Union nor EACEA can be held responsible for them.

# Executive Summary

The European Union Deforestation Regulation (EUDR) applies to a defined list of commodities, including cattle, cocoa, coffee, oil palm, rubber, soybeans, wood products, and their derivatives (Regulation 1115/2023). Coming into application in December 2024 for large and medium enterprise operators and traders, this legislation prohibits placing these products on the European Union (EU) market unless they meet two key criteria: they must be sourced from deforestation-free supply chains that comply with the producer nation's regulations and be accompanied by a comprehensive due diligence statement (Regulation 1115/2023).

The EUDR has a comprehensive due diligence framework to help mitigate deforestation risks in the supply chains of the imported commodities already noted. This framework mandates all relevant actors to submit detailed information through a dedicated EU information system, including the geospatial coordinates of production areas, which allows authorities to verify that there has been no (post-regulation) deforestation. Actors are also required to conduct risk assessments for each product, identifying and mitigating potential deforestation threats within their supply chains.

The EUDR poses a number of challenges for actors, in particular those supplying palm oil, which is already a controversial vegetable oil fraught with sustainability issues and political dilemmas. The EU Renewable Energy Directive (RED) II prompted vocal claims of protectionism and 'crop apartheid' from major palm oil-producing countries like Indonesia and Malaysia. Subsequently, both countries registered cases against the EU with the World Trade Organisation (WTO) (WTO 2024), arguing that the EU RED II is an attempt to protect domestic biofuels like rapeseed and sunflower oil. Coming into the tense environment caused by the EU RED II, palm oil-producing countries are understandably also wary of the EUDR.

This situation also sheds light on the problems of policy reconciliation. Producer countries wanting to export biofuels to the EU will face challenges in

reconciling both the EU RED II and EUDR. There are different cut-off dates for both rules (2020 for the EUDR, 2008 for RED II), different definitions of forest types, and different scopes (RED II also includes peatlands, wetlands, and biodiverse grasslands), different ways of proving compliance (a due diligence obligation for the EUDR versus voluntary certification schemes for EU RED II), and different traceability requirements (EU RED II can be based on mass balance, while the EUDR requires full traceability to the plot of land) (Chain Reaction Research 2022).

The due diligence requirements regarding geolocation coordinates may also potentially shut out smallholders from the EU market. Smallholders account for 35% to 40% of global palm oil production; however, only a small proportion of smallholder-produced palm oil currently goes into the EU market, due to market demand for traceable sustainable palm oil. Due to the nature of the upstream palm oil supply chain, smallholders, especially independent smallholders, may not be able to provide proof of the legality of their plot of land, and may lack the technical capabilities to provide their precise geolocations (Solidaridad, Council of Palm Oil Producing Countries & MVO 2023).

The challenges and opportunities introduced by the imminent implementation of the EUDR renew the core conversation about transforming supply chains for deforestation—and slavery-free—international trade. One of the requirements under the EUDR is that products are determined to 'have been produced in accordance with the relevant legislation of the country of production'. Producer countries like Malaysia and Indonesia already have well-established mandatory certification schemes based on existing national government legislation. The Malaysian Sustainable Palm Oil's (MSPO) scheme has already been recognised by the EU (Bernama 2023a), and should pave the way for other countries' schemes to be recognised and for other producer countries to adapt and adopt similar arrangements. The Roundtable on

Sustainable Palm Oil (RSPO) has declared its intention to facilitate its members' transition to the EUDR (RSPO 2023).

Under the EUDR, countries will be classified as low-, standard-, or high-risk (of deforestation). Operators who procure goods from low-risk countries will be subject to a simplified due diligence process. They will only need to gather information about their suppliers, and not provide a risk assessment and risk mitigation strategy (Chain Reaction Research 2022). All countries are currently classified as standard risk until the assessment process is over, but there is still opportunity for supplier countries to engage with the European Commission and provide information required for a fair risk assessment.

The Council for Palm Oil Producing Countries (CPOPC), an intergovernmental organisation facilitating mutual cooperation among palm oil producing countries (Council of Palm Oil Producing Countries n.d.), plays a noteworthy role in this process. Members currently include Indonesia, Malaysia, and Honduras, with several other producer countries as observers. The CPOPC has experience engaging with the EU and other importer countries on behalf of its members since at least 2017 and has played an important role in the negotiations surrounding EU RED II (Bernama 2023b). As more countries become members, this platform will be even more important in upholding the interests of producing countries as the EUDR comes into effect.

In the wake of the new regulatory landscape, several issues must be carefully considered by the respective parties. First, the timeframe needs to be expended. Stakeholders from both importing and exporting countries are demanding an extension on the implementation timeframe due to concerns about readiness, especially among countries and industries struggling with infrastructure limitations (Eastlake 2024; Neo 2024; Pardede 2024). Second, the impact on smallholders needs to be assessed. To ensure that the EUDR does not exclude smallholders from





Impacts of the EU Deforestation Regulation on global palm oil supply chains

European markets, the challenges faced by small-scale palm oil producers need to be examined (de Oliveira et al. 2024; Duffield 2023). New requirements, such as traceability, information disclosure, proof of land legality, and additional costs, may disproportionately burden smallholders who lack the resources and infrastructure to comply (de Oliveira et al. 2024; Smith 2023). The EU must assess these challenges and develop solutions promptly, to ensure a successful transition (Van der Bijl 2023).

Support mechanisms and capacity building are also crucial. Stakeholders affirm that successfully implementing the EUDR depends on establishing support mechanisms like financial funds and capacity-building actions, particularly

for smallholder producers (Cordon, 2023; Global Forum for Food and Agriculture [GFFA] n.d.; Pardede 2024; Smith 2023). There is also discussion on who should take responsibility—it is not only governments but companies too, that have a crucial opportunity to use training and skill development to advance their operations beyond EUDR compliance towards sustainability and zero deforestation (Van der Bijl 2023).

The effective application of the EUDR requires open dialogue and cooperation between the EU and producer countries (Cordon 2023; Van der Bijl 2023; Welsh 2024). Constructive dialogue can help identify and design adequate interventions—such as infrastructural, technical, and financial support—that

not only support but also engage actors in successfully implementing the framework (Delegation of the European Union to Indonesia and Brunei Darussalam 2024; Duffield 2023).

Last, leveraging local efforts is vital. The EUDR relies on collaboration with producer countries to achieve its objectives. The legislation acknowledges the need for partnership and mandates developing a comprehensive EU strategic framework for engagement with producer countries (Van der Bijl 2023). Optimally, EUDR should consider the unique circumstances of the producing regions, and existing local policies and initiatives should be leveraged (Cosimo et al. 2024; GFFA n.d.).

# 1. Introduction

The loss and decline of forests drives climate change and biodiversity loss, and poses a significant threat to communities who rely on these ecosystems (Food and Agriculture Organization 2022).

Agricultural expansion, particularly for crops like soy, palm oil, and livestock production, alongside timber extraction, has been recognised as the primary driver of forest decline (European Commission 2018). Over the past three decades, numerous international agreements, transnational non-state market governance mechanisms, and state-sanctioned trade regulations have been developed with the aim of mitigating deforestation and forest degradation (Begemann et al. 2021). However, the intricacies of global commodity supply chains often accentuate friction across the legal, normative, and cognitive institutions of both developed and developing countries, resulting in trade tensions. As such, stakeholders remain concerned about the enforcement, impact, and leverage of any regulatory mechanisms on a global scale. Equally important are the unintended consequences of punitive policy measures. Besides the potential adverse social impacts on the most vulnerable actors at the bottom of the supply chain, these measures may lead to a shift in environmentally harmful practices both temporally and spatially, or to the development of illegal and hidden supply chains that continue to benefit from land and forest clearing.

The EU's consumption patterns significantly contribute to global deforestation associated with international trade. Consequently, the EU has committed to safeguarding global forests through participating in various international agreements and initiatives such as the United Nation's (UN) Sustainable Development Goal 15, the New York Declaration on Forests, the Convention on Biological Diversity, the Paris Agreement, and the Glasgow Leaders' Declaration on Forests and Land Use.

Building on these existing efforts, the recently implemented 2023 EU Regulation on Deforestation-Free Products (Regulation 1115/2023) seeks to address regulatory gaps concerning the legality and sustainability of forest and agricultural commodity supply chains (Halleux 2023). The EUDR directly targets deforestation and forest degradation caused by the production, trade, and consumption of agricultural forest risk commodities, aiming to reduce the EU's contribution to greenhouse gas emissions and global biodiversity loss (Berning & Sotirov 2024).

This new EU trade regulation is implemented through a prohibition clause and enhanced due diligence requirements; it strengthens legal obligations by mandating more comprehensive due diligence, stricter monitoring protocols, and robust enforcement mechanisms (Halleux 2023). Through these actions, the EU intends to assert its position as a global leader in addressing the pressing ecological and social concerns associated with trade-driven tropical deforestation and forest degradation (European Commission 2018).

The EUDR promises significant changes for the global palm oil industry. This working paper explores the implications for palm oil supply chains, examining both the challenges and opportunities it presents for stakeholders. First, it identifies potential hurdles in implementing the EUDR within the palm oil sector. Second, it explores how the EUDR can be used to drive positive change within the industry. Third, it analyses the potential effects of the EUDR on palm oil markets and associated supply chains worldwide. Finally, it examines how the EUDR contributes to broader sustainability goals and addresses the growing environmental and social concerns of stakeholders. We

conclude by discussing key considerations for capitalising on the opportunities and navigating the challenges identified.

## 1.1. Policy context: palm oil

Palm oil, a versatile and widely used vegetable oil, serves as a key ingredient in numerous consumer products, including food, cosmetics, and biofuels. Its unique properties, such as high oxidative stability and solid fat content at room temperature, make it a preferred choice for food applications, including cooking oils, margarines, and bakery products (Gunstone 2011). Palm oil's neutral flavour profile allows it to blend well with various ingredients, enhancing the taste and texture of processed foods (Smith 2015). Palm oil is also used to produce personal care items like soaps, shampoos, and cosmetics, due to its moisturising and emollient properties.

The palm oil industry contributes to global food security by providing an affordable and accessible source of vegetable oil. Palm oil is grown in the tropical areas of the global south but is widely consumed in the global north. It is a direct competitor of other vegetable oils, some grown in developed countries, like soybean, rapeseed, and sunflower oil. However, palm oil is the most efficient crops per area of land and this, along with a combination of other factors, has made it one of the cheapest vegetable oils to produce. Partly in response to its ubiquity and large market share, palm oil has attracted much scrutiny, from its nutritional value in the 1990s and early 2000s to its sustainability, both environmental and social, in the current era. This scrutiny has largely originated from consumer groups, NGOs, and the economies of developed nations and has spread to the government level as well.



Political tensions have played a crucial role in shaping the sustainability of the palm oil industry. In some instances, political interests have clashed with social and environmental concerns, leading to policy uncertainties and regulatory inconsistencies. Conflicts over land rights, indigenous rights, and labour conditions have further complicated the sustainability landscape. However, political tensions have also prompted action and progress. Governments and international bodies have recognised the need for sustainability in the palm oil sector and initiated efforts to address environmental and social issues.

## 1.2. EUDR overview

In line with the EU's policy on combating deforestation and forest degradation (European Parliament 2023), the EUDR aims to block the import of products that contribute to deforestation, environmental degradation, and human rights abuses. The regulation will come into application in December 2024 for large and medium enterprises and June 2025 for micro and small businesses. It covers seven commodities determined to have the greatest impact on deforestation (coffee, cocoa, soy, palm oil, cattle, timber, and natural rubber) and some of their derivatives.

Under Article 3 of the EUDR, operators that place commodities and products on, or export them to, the EU market are required to ensure that they:

1. are deforestation-free
2. have been produced in accordance with the relevant legislation of the country of production, and
3. are covered by a due diligence statement which includes information gathering, risk assessment, and risk mitigation (Saswattecha 2023).

As part of the required information

gathering, operators' and non-SME traders<sup>2</sup> must provide geolocation coordinates, latitude, and longitude of all plots of land on which the commodities and products are produced, and the date or time range of production. This allows authorities to verify the absence of post-regulation deforestation. Actors are also required to conduct risk assessments for each product to identify and mitigate potential deforestation threats within their supply chains (de Oliveira et al. 2024).

The EUDR establishes a differentiated chain of responsibility. Operators and non-SME traders actively participate by submitting due diligence statements before market placement and retain ultimate responsibility, even if authorised representatives are appointed. Conversely, micro and small businesses have a less stringent due diligence process and an extended compliance period of 24 months, compared to the standard 18 months for operators and non-SME traders.

The legislation's effectiveness will be continuously evaluated. The first review, within a year of implementation, will assess the impact of including 'other wooded land' within the regulation's scope. A subsequent review, two years after implementation, will explore expanding the scope to encompass a broader range of ecosystems beyond forests and wooded land.

## 1.3. Policy environment

The EUDR comes in quick succession after another EU policy that directly impacts palm oil supply chains. The 2018 EU RED II sets rules for the EU to achieve its 32% renewable energy target by 2030. One of its rules is the gradual phaseout of high indirect land use change (ILUC) risk crop-based biofuels (Damm et al. 2024). Based on the EU RED II's technical calculations, palm oil almost

automatically falls into the high ILUC risk category (Chain Reaction Research 2022). While the EUDR provides blanket requirements for products placed on the EU market, the EURED II is energy-specific; however, the European Commission has declared that the EUDR is meant to be applied together with the EURED II for biofuel-linked commodities like palm oil (European Parliament 2023).

In Indonesia and Malaysia, many major palm oil producers are already certified by the RSPO, which is a private organisation that develops and implements voluntary global standards for sustainable palm oil (RSPO n.d.). Both countries also have their own government sustainability standards, known as the Indonesian Sustainable Palm Oil (ISPO) and MSPO, respectively. Both schemes are based on existing national government legislation, and certification is mandatory for all types of palm oil growers to continue to operate in the state. The voluntary RSPO requirements are generally stricter than the national schemes—a common comparative description is that 'RSPO is pushing the ceiling, while MSPO and ISPO are lifting the floor' (Efeca n.d.).

1. Article 2(15) of the EUDR defines an operator as a natural or legal person who allocates products on the market via imports or exports (Regulation 1115/2023).

2. Article 2(30) of the EUDR describes a non-SME trader as a trader which is not a small or medium-sized company nor an operator but commercialises on the market—for example, on retail chains or large supermarkets (Regulation 1115/2023).



# 2. The key implementation challenges

It will be challenging to smoothly align the EUDR with existing national regulations in palm oil producing countries. Many stakeholders, including governments, NGOs, and local communities from oil-producing countries, did not have a strong voice in the EUDR's development (Berning & Sotirov 2024).

Implications of the EU Deforestation Regulation on global palm oil supply chains

This lack of harmonisation raises concerns about potential economic losses and increased administrative burdens for producers who may already be complying with national sustainability standards. For instance, the Secretary of the CPOPC argues that the EU should recognise and reward Indonesia's and Malaysia's established national certification schemes and their efforts to meet sustainability goals (Delegation of the European Union to Indonesia and Brunei Darussalam 2024; Smith 2023). Established certification schemes like that of RSPO may also not fully comply with the EUDR's stricter requirements, forcing companies to establish additional internal monitoring systems (Krisanda 2024). The RSPO has supported the establishment of the EUDR from its inception because it believes that both certifications are complementary and aim to stop deforestation. Yet, it also recognises the potential negative side effects of implementation, such as the possible exclusion of independent smallholder farmers (RSPO 2024).

The effective implementation of the EUDR depends on addressing the challenges faced by small-scale palm oil producers. While the EUDR represents a significant step towards sustainability, its complexity may disproportionately burden smallholders who lack the resources and infrastructure to comply with regulations (de Oliveira et al. 2024; Duffield 2023). This burden stems from the EUDR's intricate traceability requirements, information disclosure needs, and proof of land legality, all

posing obstacles for smallholders operating within complex supply chains with multiple intermediaries (de Oliveira et al. 2024). Industry leaders like the CPOPC emphasise the potential negative impact on smallholders' livelihoods due to compliance costs (Smith 2023).

Concerns extend beyond deforestation to encompass potential human rights violations against indigenous communities and insecure land tenure rights for smallholders—issues not comprehensively addressed by the EUDR's focus on producer country legislation (Schilling-Vacaflor & Gustafsson 2024). Advocacy groups like the Fair Trade Advocacy Office (2021) highlight the risk of pushing smallholders, who are already facing environmental pressures, toward further deforestation due to restricted market access under EUDR. Similarly, industry representatives from Indonesia and Malaysia warn that the EUDR threatens the livelihoods of millions of smallholders and hinders progress in reducing poverty and addressing the UN's Sustainable Development Goals (SDGs) (MPOC 2023).

The effective monitoring and enforcement of the EUDR across diverse geographical contexts stands as a significant hurdle. While a recent analysis reveals that 66% of companies in relevant industries have implemented some form of deforestation program (Krisanda 2024), these programs often lack the comprehensiveness and robust traceability mechanisms demanded by the EUDR (Fripp et al. 2023). A mere 13% of companies can trace commodities back to their origin and provide the

required plantation-level geospatial data, with most relying solely on limited mill-level traceability (Krisanda 2024). The EUDR further necessitates mapping entire supply chains, encompassing often-elusive indirect suppliers, which adds another layer of complexity (Krisanda 2024).



# 3. The opportunities

The EUDR is a powerful incentive for sustainable palm oil production throughout the industry. By demanding deforestation-free products, the EUDR creates a 'level playing field' where unsustainable practices no longer undercut responsible businesses (Higgonet 2024).

This aligns with the growing international movement for legislation in developed countries aimed at curbing imported deforestation (Vasconcelos et al. 2024). However, stakeholders in the EU are advised to engage in constructive dialogue with the producing governments and businesses to understand their concerns and offer the necessary infrastructural, technical, and financial support to help, in particular, vulnerable actors to upgrade their practices and develop trust and faith in frameworks such as the EUDR.

The legislation also presents a unique market opportunity for companies that can demonstrate compliance. By meeting the EUDR's strict standards, companies can differentiate themselves as leaders in sustainable palm oil production, attracting environmentally-conscious consumers within the EU market. This shift aligns with growing investor support for zero-deforestation initiatives, because they recognise the financial risks associated with deforestation and climate change (Higgonet 2024). However, developing this market opportunity comes at a

cost; hence, the EUDR must also cater for mechanisms to persuade European consumers to pay extra for protecting global forests. It is unrealistic to demand that companies produce sustainable and EUDR-compliant palm oil at existing costs. If this is not captured, it could lead suppliers to adopt cost-cutting measures which is the opposite of the EUDR's intention; it could even escalate the risks of labour exploitation.

The EUDR has the potential to foster greater collaboration among supply chain stakeholders to develop and implement sustainable palm oil production methods. While there are concerns that deforestation could simply shift to non-EU markets and overburden smallholders (Duffield 2023), the EUDR could also be a catalyst for collective action. As highlighted by FERN (2023), partnerships between the EU and producer countries can address these remaining challenges. The Malaysian Ministry of Investment, Trade and Industry echoes this sentiment, calling for collaborative efforts such as mutual recognition of national sustainability certifications (International Trade Centre 2023), and recognising existing traceability systems and geospatial data policies. For instance, at the 2nd EUDR Ad Hoc Joint Task Force meeting, Indonesia and Malaysia presented their national traceability initiatives and discussed collaboration on comprehensive deforestation maps (Delegation of the European Union to Indonesia and Brunei Darussalam 2024). This collaboration, when extended to the entire world and across various international institutions, and ideally across multiple commodities that might be cultivated in similar geographical areas, could help eliminate deforestation.





# 4. EUDR and global markets

The limitations of the EUDR include its compatibility with international trade rules established by the WTO. Concerns lie in the EUDR’s potentially discriminatory nature.

Capuzzi (2023) suggested that the EUDR might rank countries based on deforestation risk without considering appropriate contexts, potentially violating the WTO’s General Agreement on Tariffs and Trade (GATT) Article XX<sup>3</sup> exceptions clause. This resonates with past WTO dispute cases, where unilateral measures without transparency and cooperation with trading partners have been contested (Capuzzi 2023). Industry representatives from RSPO and Musim Mas have argued that the EUDR’s rigidity and lack of adaptation options create unnecessary restrictions (Welsh 2024).

There is also an unintended consequence on shifting trade patterns. Countries that rely heavily on palm oil exports, like Indonesia and Malaysia, are exploring alternative markets outside the EU’s strict regulations (GAPKI 2023; Goh 2023). This trend, fuelled by concerns over reduced EU market access, could lead to ‘leakage’—a situation in which deforestation-linked production simply bypasses the EU and continues elsewhere. Industry representatives in Indonesia view

China as a potential long-term alternative, and Malaysia aims to double its palm oil exports to that market (GAPKI 2023; Goh 2023). While this trade diversification may benefit producer countries in the short term and does raise concerns about the effectiveness of the EUDR in achieving its global deforestation reduction goals, it is worth noting that China’s interests appear to gradually align with the EUDR.

There are also concerns about the EUDR’s potential exclusionary effect on the global palm oil supply chain, particularly for small-scale producers. The complex nature of the EUDR, with its stringent traceability requirements

and potential administrative burdens, may disadvantage these producers who lack the resources and infrastructure for compliance. This could lead to their exclusion from the EU market—a risk echoed by NGOs like FERN (Duffield 2023) and in conflict with prevailing Diversity, Equity, and Inclusion commitments adopted by European institutions. RSPO and Musim Mas spokespeople emphasise the need for inclusive solutions and developing tools to facilitate a smooth transition for smallholders (Welsh 2024).

3. Article XX General exceptions: Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures. Clause (h) undertaken in pursuance of obligations under any intergovernmental commodity agreement which conforms to criteria submitted to the CONTRACTING PARTIES and not disapproved by them or which is itself so submitted and not so disapproved (WTO/GATT, 1994).





# 5. EUDR and sustainability governance

Regulatory mechanisms such as the EUDR can also impact sustainability governance efforts in global operations and contribute to sectorial transitions toward sustainability, including deforestation.



For example, the EUDR reflects the growing global demand on zero tolerance of deforestation. Responding to research that highlighted the limitations of forest restoration compared to preservation (Cosimo et al. 2024), the EUDR prioritises complete protection by prohibiting all produce resulting from deforestation and forest degradation after 31 December 2020 (Regulation 1115/2023). This stringent approach aligns with the increasing scrutiny that companies face on deforestation-linked activities, given the surge in deforestation-related incidents within supply chains, raising reputational and financial risks for associated businesses (Krisanda 2024). The EUDR intensifies these pressures by imposing potential fines, confiscating revenue, and restricting market access to non-compliant companies (Regulation 1115/2023), with a focus on high-risk regions like Brazil, Indonesia, and Malaysia (Weisse, Goldman & Carter 2024).

The transparency and traceability of agricultural products are crucial tools in the fight against deforestation and climate change (Fripp et al. 2023). Recognised certification schemes like the RSPO and Rainforest Alliance establish mechanisms to track production processes (Krisanda 2024). The EUDR further strengthens this approach by mandating tracking commodities back to their origin and providing precise

plantation-level location data (Krisanda 2024). Fripp et al. (2023) emphasised that decoupling deforestation from commodity consumption requires knowledge of 'where and how' these products are grown, since this level of detail allows for better monitoring of deforestation risk and more effective interventions.

The EUDR's influence may extend beyond the EU's borders, causing a spillover effect. While non-EU importers like India and China haven't implemented similar regulations yet, the growing global focus on sustainability suggests this might change (Hidayat 2024). India's establishment of the Sustainable Palm Oil Coalition and China's introduction of the Global Green Value Chain initiative hint at potential future alignment with the EUDR's criteria (Hidayat 2024). Other developed economies, like the UK and US, are also developing policies to combat deforestation in their import chains (Vasconcelos et al. 2024). China, a major palm oil importer, has expressed willingness to address deforestation but faces challenges related to food security and non-interference principles (Vasconcelos et al. 2024). However, food security concerns linked to climate change impacts and the potential benefits of deforestation-free production for China's own agricultural sector could drive the development of stricter regulations (Vasconcelos et al. 2024).



# 6. The key considerations moving forward

In light of the policy challenges and opportunities associated with implementing the EUDR and its implications for global markets and sustainability governance across palm oil's global supply chains, a series of key considerations are emerging that warrant further engagement between the EU and its trading partners.

For example, several stakeholders from importing and exporting countries are calling for an extension of the legislation's implementation timeframe. This request is driven by concerns about preparedness, particularly among countries and industries facing infrastructure limitations (Eastlake 2024; Neo 2024; Pardede 2024). Indonesia and Malaysia have officially requested a delay until 2026, while a significant portion of EU member states have supported this appeal, proposing a postponement followed by a potential revision of the regulation (Neo 2024; Pardede 2024). The rationale behind these requests lies in the need for additional time to prepare for the EUDR's stringent requirements. Stakeholders suggest using this extended period to allow companies within the EU to review and strengthen their due diligence systems, ensuring that they can effectively identify and address any gaps to comply with the regulation (GFFA n.d.).

As noted earlier, there is concern that the implementation of the EUDR could negatively impact smallholders and potentially exclude them from certain markets. While the regulation mandates an evaluation within five years, this intervention might come too late (Van der Bijl 2023). Considering the mounting pressure from NGOs and other stakeholders, it is vital for the European Commission to immediately assess the potential challenges that smallholders might face and develop solutions to support their transition to sustainable practices and compliance with the EUDR

(Solidaridad 2022). Ideally, this should happen before the regulation comes into effect (Van der Bijl, 2023) and in consultation with salient stakeholders such as the RSPO, Malaysia Palm Oil Board and Indonesia Palm Oil Association.

RSPO has said it is actively working to identify the gaps and ease the transition to EUDR for its members. For example, they are developing a traceability platform that allows authorities to manage EUDR-compliant traceable data. This action also reasserts the importance of the RSPO certification because it promotes a sustainability scope beyond the 'no deforestation' and 'legality' approach of the EUDR (RSPO 2023).

The successful implementation of the EUDR hinges on robust support mechanisms, particularly for smallholder producers. Stakeholders at various forums, like the GFFA Expert Panel 2024 (GFFA n.d.), the Global Challenges Research Fund's Trade Hub High-Level Policy Dialogue 2023 (Smith 2023), and the second meeting of the Ad Hoc Joint Task Force on EUDR 2024 (Pardede 2024), have emphasised this need, calling for the establishment of financial funds and capacity-building initiatives. It's crucial for the EU and relevant NGOs to provide training on the EUDR's requirements and compliance strategies to suppliers in producing countries (Cordon 2023; GFFA n.d.). Industry players acknowledge the positive impact this support can have, provided that exporters invest in training and provide financial assistance to smallholders (Smith 2023). The focus

should not solely be on government initiatives—companies also have a responsibility to go beyond the EUDR's recommendations and actively invest in supplier capacity building, ensuring a successful transition for smallholders and overall EUDR effectiveness. Concerned stakeholders must seize this crucial opportunity to use training and development as an important tool to upgrade producers and advance their innovation capacity so that they can transform operations and produce deforestation-free, sustainable, and EUDR-compliant palm oil (Van der Bijl 2023).

The effective application of the EUDR requires open dialogue and cooperation between the EU and producer countries (Cordon 2023; Duffield 2023; Welsh 2024). Stakeholders in producing countries, while potentially impacted, often lack awareness or understanding of the EUDR's intricacies (Van der Bijl 2023). As highlighted at the Global Forum for Food and Agriculture, this knowledge gap can hinder successful implementation. Therefore, there needs to be better alignment between the EUDR and existing national strategies to combat deforestation (GFFA n.d.). This aligns with Article 28 of the EUDR which mandates a coordinated approach with producer countries to address deforestation's root causes and facilitate a smooth transition for producers (Van der Bijl 2023).

Concerns regarding privacy protection were raised by Indonesia and Malaysia during the 2nd EUDR Ad Hoc Joint Task Force meeting. These centred on sharing





Implications of the EU Deforestation Regulation on global palm oil supply chains

geolocation data and land ownership information. EU representatives have since clarified that geolocation is not linked to personal data and have agreed to address any remaining concerns (Pardede 2024).

Although the EUDR attempts to address deforestation indirectly through trade restrictions, the critical governance mechanisms within East Asia lie at the national and local levels, where powerful stakeholders often advocate for continued

industry expansion (Hamilton-Hart 2017). Proponents of palm oil production argue that it uplifts millions of smallholder livelihoods, reduces poverty, and contributes to achieving the UN's SDGs. They frame the issue as a difficult choice between environmental protection and human wellbeing. However, this argument overlooks a key point: Indonesian government policies often favour large plantation companies, making it difficult for smallholders to access the land

and resources they need to truly thrive (Li 2024). Leveraging existing local policies and solutions can contribute to a more effective approach (Cosimo et al. 2024; GFFA n.d.), which appears to be built into the spirit of the EUDR. The regulation itself acknowledges this need for partnership, mandating the development of a comprehensive EU strategic framework for engagement with producer countries (Van der Bijl 2023).

# References

- Begemann, A, Giessen, L, Roitsch, D, Roux, JL, Lovrić, M, Azevedo-Ramos, C, Boerner, J, Beeko, C, Cashore, B, Cerutti, PO, de Jong, W, Fosse, LJ, Hinrichs, A, Humphreys, D, Pülzl, H, Santamaria, C, Sotirov, M, Wunder, S & Winkel, G 2021, 'Quo vadis global forest governance? A transdisciplinary delphi study', *Environmental Science & Policy*, vol. 123, pp. 131–141.
- Bernama 2023a, 'Malaysia should not be used as compliance benchmark for EU deforestation law: Fadillah', *New Straights Times*, 8 August, viewed <https://www.nst.com.my/news/government-public-policy/2023/08/940420/malaysia-should-not-be-used-compliance-benchmark-eu>
- Bernama 2023b, 'CPOPC urges palm oil producing countries facing EUDR to remain calm, stay optimistic next year', *New Straights Times*, 13 December, viewed <https://www.nst.com.my/news/nation/2023/12/989916/cpopc-urges-palm-oil-producing-countries-facing-eudr-remain-calm-stay>
- Berning, L & Sotirov, M 2024, 'The coalitional politics of the European Union Regulation on deforestation-free products', *Forest Policy and Economics*, vol. 158, p. 103102.
- Capuzzi, B 2023, 'Is the European Union Deforestation Regulation WTO-proof? The context of EU's green agenda and an exercise of WTO compatibility', *SSRN*, 9 May, viewed <https://dx.doi.org/10.2139/ssrn.4443139>
- Chain Reaction Research 2022, 'EU deforestation regulation: implications for the palm oil industry and its financiers', *Chain Reaction Research*, viewed [https://chainreactionresearch.com/report/eu-deforestation-regulation-implications-for-the-palm-oil-industry-and-its-financiers/#:~:text=RED%20II%20sets%20rules%20for,use%20change%20\(ILUC\)%20risk](https://chainreactionresearch.com/report/eu-deforestation-regulation-implications-for-the-palm-oil-industry-and-its-financiers/#:~:text=RED%20II%20sets%20rules%20for,use%20change%20(ILUC)%20risk)
- Cordon, S 2023, 'Palm oil stakeholders say more details needed on planned EUDR regulation, implications', *CIFOR-ICRAF*, 14 July, viewed [Palm oil stakeholders say more details needed on planned EUDR regulation, implications - CIFOR-ICRAF](https://www.cifor.org/news/palm-oil-stakeholders-say-more-details-needed-on-planned-eudr-regulation-implications) *Forests News*
- Cosimo, LHE, Masiero, M, Mammadova, A & Pettenella, D 2024, 'Voluntary sustainability standards to cope with the new European Union regulation on deforestation-free products: a gap analysis', *Forest Policy and Economics*, vol. 164, p. 103235.
- Council of Palm Oil Producing Countries n.d., *Our mission*, Council of Palm Oil Producing Countries, viewed <https://cpopc.net/our-mission>
- Damm, Y., Cisneros, E., & Börner, J. (2024). 'Beyond deforestation reductions: Public disclosure, land-use change and commodity sourcing', *World Development*, vol. 175, p. 106481.
- de Oliveira, SEC, Nakagawa, L, Lopes, GR, Visentin, JC, Couto, M, Silva, DE, d'Albertas, DE, Pavani, F, Loyola, R & West, C 2024, 'The European Union and United Kingdom's deforestation-free supply chains regulations: implications for Brazil', *Ecological Economics*, vol. 217, p. 108053.
- Delegation of the European Union to Indonesia and Brunei Darussalam 2024, Joint Press Release: The 2nd Meeting of the Ad Hoc Joint Task Force on the EUDR, *European Union External Action*, viewed [https://www.eeas.europa.eu/delegations/indonesia/joint-press-release-2nd-meeting-ad-hoc-joint-task-force-eudr\\_en?s=168](https://www.eeas.europa.eu/delegations/indonesia/joint-press-release-2nd-meeting-ad-hoc-joint-task-force-eudr_en?s=168)
- Duffield, L 2023, 'An EU strategic framework for working with countries to achieve deforestation-free production', *Fern*, viewed [Fern - Partnerships - EU strategic framework for working with countries.pdf](https://www.fern.org/partnerships/eu-strategic-framework-for-working-with-countries.pdf)
- Eastlake, D 2024, 'Will EU delay EUDR deadline?' *Feed Navigator*, <https://www.feednavigator.com/Article/2024/03/19/will-eu-delay-eudr-deadline>
- Efeca n.d., 'Comparison of the ISPO, MSPO and RSPO Standards', *Efeca*, viewed [https://www.sustainablepalmoil.org/wp-content/uploads/sites/2/2015/09/Efeca\\_PO-Standards-Comparison.pdf](https://www.sustainablepalmoil.org/wp-content/uploads/sites/2/2015/09/Efeca_PO-Standards-Comparison.pdf)
- European Commission, Directorate-General for Environment 2018, 'Feasibility study on options to step up EU action against deforestation: PART I, background analysis, scale and trends of global deforestation and assessment of EU contribution and PART II, a potential EU initiative on deforestation, possible interventions', *Publications Office of the European Union*, viewed <https://data.europa.eu/doi/10.2779/97793>
- European Parliament 2023, Debates, P-002310/2023, viewed [https://www.europarl.europa.eu/doceo/document/P-9-2023-002310-ASW\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/P-9-2023-002310-ASW_EN.pdf)
- Fair Trade Advocacy Office 2021, 'EU Deforestation proposal released: a landmark legislation for EU supply chains, but will it deliver on the ground?', Fair Trade Advocacy Office, viewed <https://fairtrade-advocacy.org/wp-content/uploads/2021/11/Fair-Trade-movement-statement-EU-Deforestation-legislative-proposal.pdf>
- FERN 2023, What is the EU Regulation on deforestation-free products?, *FERN making the EU work for people & forests*, viewed <https://www.fern.org/issues/eu-regulation-on-deforestation-free-products/>
- Fripp, E, Gorman, J, Schneider, T, Smith, S, Paul, J, Neeff, T, Marietti, F, Vary, L & Zosel-Harper, A 2023, 'Traceability and transparency in supply chains for agricultural and forest commodities: a review of success factors and enabling conditions to improve resource use and reduce forest loss', *World Resources Institute*, viewed <https://files.wri.org/d8/s3fs-public/2023-10/traceability-transparency-supply-chains-pdf?VersionId=3HZoYFHW6eQ7CZ7DEDurlJoeJRzg9gsK>
- Food and Agriculture Organization 2022, 'The state of the world's forests 2022. Forest pathways for green recovery and building inclusive, resilient and sustainable economies', *Food and Agriculture Organization*, viewed <https://openknowledge.fao.org/handle/20.500.14283/cb9360en>
- GATT 1994: General Agreement on Tariffs and Trade 1994, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1867 U.N.T.S. 187, 33 I.L.M. 1153 (1994), [https://www.wto.org/english/res\\_e/booksp\\_e/gatt\\_ai\\_e/art20\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/gatt_ai_e/art20_e.pdf)
- GAPKI 2023, 'Seeking new markets to tackle EU restrictions', *GAPKI*, 13 June, viewed <https://gapki.id/en/news/2023/06/13/gapki-seeking-new-markets-to-tackle-eu-restrictions/>
- Goh, N 2023, 'Malaysia to double palm oil exports to China, dodge EU restrictions',



- Nikkei ASIA, 18 September, viewed <https://asia.nikkei.com/Economy/Trade/Malaysia-to-double-palm-oil-exports-to-China-dodge-EU-restrictions>
- Global Forum for Food and Agriculture n.d., 'Ready, steady, go! Towards a successful implementation of the EU Regulation on deforestation-free supply chains (EUDR) together', *Federal Ministry of Food and Agriculture*, viewed <https://www.gffa-berlin.de/en/agenda/ready-steady-go-towards-a-successful-implementation-of-the-eu-regulation-on-deforestation-free-supply-chains-eudr-together/>
- Gunstone, FD 2011, 'Production and trade of vegetable oils', in FD Gunstone (ed), *Vegetable Oils in Food Technology*, Wiley, viewed <https://doi.org/10.1002/9781444339925.ch1>
- Halleux, V 2023, 'Towards deforestation-free commodities and products in the EU', *Briefing EU: Legislation in Progress*, viewed [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/698925/EPRS\\_BRI\(2022\)698925\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/698925/EPRS_BRI(2022)698925_EN.pdf)
- Hamilton-Hart, N 2017, 'Multilevel (mis) governance of palm oil production', in *The Contested Rescaling of Economic Governance in East Asia* (pp. 60–80), Routledge.
- Hidayat, F 2024, 'Indonesia and Malaysia: palm oil under pressure from substitutes and EU Deforestation Regulation', *Fulcrum*, viewed <https://fulcrum.sg/indonesia-and-malaysia-palm-oil-under-pressure-from-substitutes-and-eu-deforestation-regulation/>
- Higgonet, E 2024, 'Law to reduce deforestation is on a knife's edge, will leaders act?' *Mongabay*, 25 July, viewed <https://news.mongabay.com/2024/04/eu-law-to-reduce-deforestation-is-on-a-knifes-edge-will-leaders-act-commentary/>
- International Trade Centre 2023, 'Efforts underway to identify opportunities for sustainable trade in Malaysia' *International Trade Centre*, 18 August, viewed <https://intracen.org/news-and-events/news/efforts-underway-to-identify-opportunities-for-sustainable-trade-in-malaysia>
- Krisanda, S 2024, Navigating the EU Regulation on Deforestation-free products: 5 Key EUDR questions answered about company readiness and investor risk, 2 April, *Sustainalytics*, viewed <https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/navigating-the-eu-regulation-on-deforestation-free-products--5-key-eudr-questions-answered-about-company-readiness-and-investor-risk>
- Li, TM 2024, 'Securing oil palm smallholder livelihoods without more deforestation in Indonesia', *Nature Sustainability*, vol. 7, pp. 387–393.
- Malaysian Palm Oil Council 2023, 'Malaysian associations strongly urge review of EUDR implementation, recognition of oil palm smallholders – MPOC', *Malaysian Palm Oil Council*, viewed <https://www.malaysianpalmoilcouncil.com/urges-review-of-eudr-implementation>
- Neo, P 2024, 'EUDR facing mounting challenges from within Europe. EU deforestation policy implementation hangs in the balance after industry pushback', *Food Navigator Asia*, 9 April, viewed <https://www.foodnavigator-asia.com/Article/2024/04/10/eu-deforestation-policy-implementation-hangs-in-the-balance-after-industry-pushback>
- Pardede, T 2024, 'Indonesia Usulkan Pemberlakuan EUDR Ditunda Hingga 2026' [RI, Malaysia ask EU to delay EUDR until 2026], *Sawitku*, viewed <https://www.sawitku.id/internasional/81411998665/indonesia-usulkan-pemberlakuan-eudr-ditunda-hingga-2026>
- Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010. European Commission, Official Journal of the European Union, viewed <http://data.europa.eu/eli/reg/2023/1115/oj>
- Roundtable on Sustainable Palm Oil n.d., *Who we are*, Roundtable on Sustainable Palm Oil, viewed <https://rspo.org/who-we-are/>
- Roundtable on Sustainable Palm Oil 2023, 'RSPO and EUDR implementation: better prepared, more sustainable', *Roundtable on Sustainable Palm Oil*, viewed <http://www.rspo.org/wp-content/uploads/RSPO-and-the-EUDR-Implementation.pdf>
- Roundtable on Sustainable Palm Oil 2024, 'RSPO and legislation: EUDR background', *Roundtable on Sustainable Palm Oil*, 15 May, viewed <https://rspo.org/why-sustainable-palm-oil/legislation/>
- Saswattecha, K 2023, 'EUDR: A trade barrier or an opportunity for the Thai palm oil industry?', *Deutsche Gesellschaft für Internationale Zusammenarbeit*, viewed [https://www.thai-german-cooperation.info/en\\_US/eudr-a-trade-barrier-or-an-opportunity-for-the-thai-palm-oil-industry/](https://www.thai-german-cooperation.info/en_US/eudr-a-trade-barrier-or-an-opportunity-for-the-thai-palm-oil-industry/)
- Schilling-Vacaflor, A & Gustafsson, MT 2024, 'Integrating human rights in the sustainability governance of global supply chains: exploring the deforestation-land tenure nexus', *Environmental Science & Policy*, vol. 154, p. 103690.
- Smith, KW 2015, 'Specialty oils and fats in ice cream', in *Specialty oils and fats in food and nutrition* (pp. 271-284), Woodhead Publishing.
- Smith, G 2023, 'Deforestation-free palm oil is not an automatic win-win', CIFOR-ICRAF, 23 July, viewed <https://forestsnews.cifor.org/83646/deforestation-free-palm-oil-is-not-an-automatic-win-win?fnl=en>
- Solidaridad 2022, 'EU must urgently assess smallholder needs for deforestation regulation success', *Solidaridad*, 22 July, viewed <https://www.solidaridadnetwork.org/news/eu-must-urgently-assess-smallholder-needs-for-deforestation-regulation-success/>
- Solidaridad, Council of Palm Oil Producing Countries & MVO 2023, *Briefing paper: implications of the EU Deforestation Regulation (EUDR) for oil palm smallholders*, Solidaridad Network, viewed <https://www.solidaridadnetwork.org/wp-content/uploads/2023/04/Briefing-paper-EUDR-and-palm-oil-smallholders.pdf>
- Van der Bijl, G 2023, 'Five urgent steps to make the EU's deforestation regulation work', *Solidaridad*, 13 February, viewed <https://www.solidaridadnetwork.org/news/five-urgent-steps-make-eu-deforestation-regulation-work/>
- Vasconcelos, AA, Lima, MGB, Gardner, TA & McDermott, CL 2024, 'Prospects and challenges for policy convergence between the EU and China to address imported deforestation', *Forest Policy and Economics*, vol. 162, p. 103183.
- Weisse, M, Goldman, E & Carter, S 2024, 'Forest pulse: the latest on the world's forests', *World Resources Institute*, viewed 5 May 2024, <https://research.wri.org/gfr/latest-analysis-deforestation-trends>
- Welsh, I 2024, 'Growing awareness of EUDR's implications for palm oil', *Innovation Forum Podcast*, 18 April, podcast, viewed <https://www.innovationforum.co.uk/articles/growing-awareness-of-eudr-s-implications-for-palm-oil>
- World Trade Organisation 2024, DS600: European Union and certain member states: certain measures concerning palm oil and oil palm crop-based biofuels, *World Trade Organisation*, viewed 1 May 2024,

## Further enquiries

The University of Adelaide SA 5005 Australia

**enquiries** [future.ask.adelaide.edu.au](mailto:future.ask.adelaide.edu.au)

**phone** +61 8 8313 7335

**free-call** 1800 407 527

**web** [adelaide.edu.au](http://adelaide.edu.au)

**facebook** [facebook.com/uniofadelaid](https://facebook.com/uniofadelaid)

**X (twitter)** [twitter.com/uniofadelaid](https://twitter.com/uniofadelaid)

**tiktok** [tiktok.com/@uniofadelaid](https://tiktok.com/@uniofadelaid)

**instagram** [instagram.com/uniofadelaid](https://instagram.com/uniofadelaid)

**wechat** [UniversityOfAdelaide](https://UniversityOfAdelaide)

**weibo** [weibo.com/uniadelaid](https://weibo.com/uniadelaid)

**Disclaimer** The information in this publication is current as at the date of printing and is subject to change. You can find updated information on our website at [adelaide.edu.au](http://adelaide.edu.au). The University of Adelaide assumes no responsibility for the accuracy of information provided by third parties.

Australian University Provider Number PRV12105  
CRICOS Provider Number 00123M

© The University of Adelaide  
September 2024. Job no. UA31385

### **Kurna acknowledgement**

We acknowledge and pay our respects to the Kurna people, the original custodians of the Adelaide Plains and the land on which the University of Adelaide's campuses at North Terrace, Waite, and Roseworthy are built. We acknowledge the deep feelings of attachment and relationship of the Kurna people to country and we respect and value their past, present and ongoing connection to the land and cultural beliefs. The University continues to develop respectful and reciprocal relationships with all Indigenous peoples in Australia, and with other Indigenous peoples throughout the world.