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Implications of the European Union Deforestation Regulation

Many people have expressed concerns about global *deforestation* (the conversion of forest for non-forest uses) and *forest degradation* (the conversion of primary forests to other forest types). Forests store terrestrial carbon and are key components of the global carbon cycle. When forests are cleared, burned, or altered by weather events, they can release carbon dioxide into the atmosphere, which can exacerbate the effects of climate change. Deforestation can also reduce biodiversity, alter local weather patterns, and disrupt Indigenous peoples' cultures. Annual global deforestation is approximately 7.5 million hectares (28.9 thousand square miles, annual average from 2015 to 2020), with most deforestation occurring in tropical countries such as Brazil and Indonesia. The largest driver of global deforestation is agricultural expansion, which includes ranching. The European Union (EU) and China are the largest importers of agricultural goods that are grown in areas at risk of deforestation.

To try to minimize its contribution to global deforestation and forest degradation, the EU passed the EU Deforestation-Free Regulation (EUDR) in 2023. The regulation prohibits the import and export of certain agricultural commodities produced on land deforested after 2020. The regulation is scheduled to take effect on December 30, 2024. However, on October 1, 2024, the European Commission proposed a one-year delay in implementing the EUDR. Provided the EU's 27 member parties and Parliament agree, the EUDR would go into effect on December 30, 2025. Uncertainty about the EUDR's implementation, requirements, and effect on U.S. producers has generated concern from some in Congress.

Summary of the EUDR

The EUDR's primary stipulation is that listed commodities and products shall not be made available in the EU market, or exported from the EU, unless they are (1) derived from lands that were not deforested after 2020, (2) produced in accordance with legislation in the country of production, and (3) covered by a due diligence statement. The covered commodities and products are listed in **Table 1**, and selected regulatory definitions are listed in **Table 2.**

Table 1. Commodities and Products Under the EUDR

Commodities	Products
Cattle	Meat, offal, hides, and leather of cattle; live cattle
Cocoa	Cocoa beans, shells, butter, and powder; chocolate
Coffee	Coffee, whether or not roasted or decaffeinated
Palm Oil	Palm nuts and kernels; palm oil
Rubber	Natural, compounded, and vulcanized rubber; rubber tires
Soybeans	Soybean flour, meal, and oil; soybeans, whether or not broken
Wood	Fuel wood; plywood; densified wood; wood pulp; paper; and articles constructed of wood, such as tools, boxes, prefabricated buildings, and printed books

Table 2. Selected Definitions Under the EUDR

Term	Definition
Deforestation	The conversion of forest to agricultural use, whether human-induced or not
Forest Degradation	Structural changes to forest cover, taking the form of the conversion of primary forests into planted forests, plantation forests, or other wooded land
Operator	Any natural or legal person who, in the course of commercial activity, places relevant products on the market or exports them

Under the EUDR, an operator seeking to import a covered commodity into the EU market is required to prepare a due diligence statement to accompany the goods. Among other things, the statement is to include a description of the relevant products, the quantity of those products, the country of their harvest and production, and the geolocation of all plots of land where the commodities that the product contains were produced. The EU is planning to conduct a risk assessment of countries of production to determine the extent of due diligence needed for importing countries to comply with the regulation. Countries of production are to be classified into one of three tiers as follows:

- High Risk: Countries that have a high risk of producing commodities that do not comply with the regulation.
- Low Risk: Countries that provide significant assurances that the production of commodities that do not comply with the regulation will be rare.
- Standard Risk: Countries that do not fall into either of the other two categories.

All countries are to be initially assigned a standard level of risk until further assessed. The list of countries that are identified as high or low risk can be reviewed and updated as often as necessary in light of new evidence. Operators from countries labeled as low risk may follow simplified due diligence procedures, which exempt them from completing a risk assessment and risk mitigation that operators from high- and standard-risk countries will need to undertake before participating in EU markets. To date, the risk assessment has not been released.

Enforcement and Penalties

EU member states are responsible for enforcing the EUDR. They are to perform annual checks of the goods in their markets. They are to check at least 1% of goods from low-risk countries, 3% of goods from standard-risk countries, and 9% of goods from high-risk countries. Checks identifying EUDR noncompliance can lead to penalties on the operator. The EUDR includes guidelines for penalties to impose on noncompliant operators, but specific penalties are the responsibility of individual EU member states. Some possible penalties listed in the EUDR include imposing fines up to 4% of the operator's annual revenue earned from sales to the EU, confiscating relevant products or revenues, temporarily prohibiting the sale of products in the EU market, and requiring risk assessment and risk mitigation measures to ensure due diligence.

Implications for U.S. Producers

The EUDR could impact U.S. producers in various ways. U.S. producers that export listed commodities and products to the EU must comply with the EUDR's due diligence requirements once the EUDR takes effect. Since the country risk assessment has not yet occurred, it is uncertain what level of due diligence will be required. The EUDR could lead to higher compliance costs for U.S. producers, which may be passed on to consumers. Complying with the EUDR would give U.S. producers continued access to EU markets and may allow them to benefit from greater demand for and lower supply of compliant commodities.

In 2023, U.S. exports of the seven commodities under the EUDR accounted for approximately 3% of the value of U.S. exports to the EU, so overall the EUDR may not significantly affect U.S. trade. However, the EUDR may affect U.S. producers of specific covered commodities. In 2023, the highest value of covered commodities exported to the EU from the United States were wood and wood products ($4.5 billion), soybeans ($4.0 billion), rubber ($1.1 billion), and cattle (e.g., beef and related products, $409.0 million). Some contend that the EUDR's implications for U.S. wood products could be widespread because wood is used in several products exported to the EU, such as furniture, paper, and building materials. The EUDR also may affect some farming practices in the United States. For example, soybean farmers that want to increase their tillable acreage by clearing forest patches may not be able to export soybeans to the EU if they cut and converted their forest to agricultural use after 2020.

Stakeholder Perspectives

The Biden Administration and some EU and producer countries called for a delay in EUDR implementation, citing issues related to due diligence statements, unclear implementing guidelines, no designated authority for enforcing the EUDR, and no risk assessments for countries. Some countries contend that reporting requirements will burden small producers, which may lower their ability to export commodities to the EU and potentially could harm local economies. According to researchers, the EUDR will have its largest impact on smaller economies in the tropics, such as Honduras, Nicaragua, and Ivory Coast, that are dependent on the EU for trade in the covered commodities. The American Forest & Paper Association (AF&PA) has assessed that traceability requirements are difficult to implement within the United States for products such as pulp and paper, which are derived from multiple plots of land. The AF&PA also contends that the U.S. pulp and paper industry is not connected to deforestation in the United States.

Some environmental organizations support the regulation due to its aims to reduce deforestation and biodiversity loss and to shift global agricultural practices away from deforestation. Other organizations such as The Nature Conservancy call for changes to the EUDR to help companies comply, arguing that the positive benefits for the environment can occur only if the EU works with producers to end deforestation. Some stakeholders are calling for similar regulations in other countries to prevent *leakage* (i.e., goods produced from deforested lands being sent to countries without restrictions similar to the EUDR.)

Some stakeholders have raised the possibility of disputes regarding the EUDR being brought to the World Trade Organization (WTO). The WTO oversees and administers multilateral trade rules and serves as a forum for trade negotiations and trade disputes. New import and export regulations on commodities can generate trade disputes that may be brought to the WTO. For example, a WTO panel in 2024 ruled on a challenge by Malaysia to EU rules for biofuel imports derived from palm oil. The panel largely concluded that the EU rules were justified due to the effects palm oil production has on deforestation and greenhouse gas emissions. The panel also ruled that some technical aspects of how the EU accounted for these impacts and regulated the products were trade-restrictive and directed the EU to make adjustments.

Congress has a limited role in influencing the EUDR, but it could consider several responses to the regulation's implementation. Congress could petition the EU to delay implementation of the EUDR to allow U.S. producers to understand and adapt to its requirements. (Some in Congress sent a letter to the U.S. Trade Representative to request a delay in implementing the regulation.) Further, Congress may request a risk assessment for the United States so producers know what level of due diligence applies to them. Congress may consider directing the Biden Administration to work with other countries to petition for changes in the regulation before it takes effect or during the review period. After the EUDR is implemented, options for Congress could include providing assistance to U.S. producers that are affected by the EUDR and cannot afford to comply. Congress also might choose to take no action if it perceives the EUDR is not detrimental to U.S. interests and supports its aim to reduce global deforestation.

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