PolicyPaper

Mitigating Burdens: Addressing the Impact of EU Sustainable Development Regulations on Neighbouring Countries

This policy paper explores the extraterritorial implications of the European Union's (EU) provisions concerning indirect land use change (ILUC), as embedded in various sustainability regulations designed to reduce greenhouse gas emissions, safeguard biodiversity, and promote responsible land management.

These regulations enforce stringent compliance and traceability standards in the production and trade of biofuels, timber, and other commodities linked to deforestation. They demonstrate the EU's commitment to combating climate change and promoting sustainable land use both domestically and globally. We analyse how the ILUC concept has been applied across these regulations, highlighting its impact on production and trade in neighbouring countries. We also examine the role of ILUC in the EU's Free Trade Agreements (FTAs) with the region.

Our analysis shows that the regulatory framework increases costs for neighbouring countries and exposes their trade flows to risks under the new deforestation regulation. If not addressed through mitigating measures, this regulation could impose significant burdens in the future. To prevent such outcomes, we propose policy recommendations aimed at reducing complexity, clarifying implementation, building capacity, strengthening regulatory cooperation and information exchange, and enhancing sustainable development provisions and preferential market access in the EU's trade agreements with neighbouring countries.

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1. How ILUC works

The Regulation on Deforestation-Free Products (EUDR)[1] will apply from December 30th, 2024. Its objective is to reduce global deforestation associated with EU consumption of commodities such as cattle, coffee, oil palm, rubber, soya, and wood. The regulation prohibits the import and export of commodities that contribute to deforestation, whether directly or indirectly. Products must be certified as deforestation-free – meaning they were not produced on land deforested after December 2020.

To ensure compliance, operators are required to conduct due diligence assessments to confirm that products meet these criteria and present a negligible risk of deforestation. For example, due diligence obligations include the collection of geolocation data. Countries classified as low- risk for deforestation will benefit from simplified procedures, and small and medium sized enterprises (SMEs) will face reduced information requirements.

The EUDR will repeal and replace the EU Timber Regulation (EUTR),[2] which entered into force in 2013. The EUTR aimed to prevent illegally harvested timber and timber products – such as raw wood, plywood, pulp and paper – from entering the EU market. It required operators and secondary traders to carry out due diligence to assess the risk of illegal logging, including information gathering and risk mitigating measures to determine whether a product should be barred from the EU market. While the EUTR focused specifically on legality, the EUDR broadens the scope to include a wider range of commodities linked to deforestation, irrespective of their legal status in the country of origin.

The EU Renewable Energy Directive (Red II)[3] sets a binding target for at least 42.5% of the EU's total EU energy consumption to come from renewable sources by 2030, in-cluding a minimum of 14% for the transport sector. As biofuels are a key component of the EU's renewable energy mix, the increasing demand for these fuels creates two important shifts in incentives – both within the EU and in third countries.

Firstly, there is a risk that agricultural production may shift from food to biofuel crops. Secondly, this shift might lead to indirect land use change (ILUC), where biofuel production expands into non-crop land or areas with high-carbon storage capacity, such as rainforests and wetlands. ILUC is a critical concept embedded in these regulations, as the EU's push for biofuels to achieve its renewable energy targets may alter production patterns and economic incentives in third countries.

ILUC occurs when agricultural land or pasture previously used for food production is repurposed for biofuel cultivation due to rising global demand. This can lead to the destruction of natural habitats and significant CO_2 emissions, thereby undermining efforts to reduce greenhouse gas emissions. RED II distinguishes between high- and low-ILUC risk feedstocks based on the carbon stock of the land. It sets national limits for high-ILUC-risk fuels at their 2019 levels for 2021-2023, with these limits gradually reduced to zero by 2030.

1 European Commission. 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 (Text with EEA relevance). Brussels, 2023. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1115&qid=1687867231461

2 European Commission. Regulation (EU) 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market. Text with EEA Relevance, 295 OJ L (2010). Brussels, 2010. http://data.europa.eu/eli/reg/2010/995/oj/eng

3 European Commission. Directive (EU) 2023/2413 of the European Parliament and of the Council of 18 October 2023 amending Directive (EU) 2018/2001, Regulation (EU) 2018/1999 and Directive 98/70/EC as regards the promotion of energy from renewable sources, and repealing Council Directive (EU) 2015/652. Brussels, 2023. https://eur-lex.europa.eu/eli/dir/2023/2413/oj

2. How ILUC impacts trade

The EUDR, the recast RED II, and the former EUTR affect trade in several ways. Firstly, they exert extraterritorial and potentially discriminatory effects on third-country operators by unilaterally constraining land use and production choices, thereby limiting access to the European market. The classification of high-ILUC-risk areas is central to this dynamic. Secondly, the technical requirements placed on third-country producers introduce costly trade barriers, often falling under the category of Technical Barriers to Trade (TBTs). These barriers can disrupt existing supply chains, particularly for smallholders or intermediaries in developing countries who may struggle to comply with the standards or provide the required documentation. In contrast, larger and more technologically equipped operators are better positioned to adapt, potentially marginalising smaller producers.

Extraterritorial effect of ILUC provisions

The EUDR and the ILUC-related provisions for biofuels under RED II can be regarded as imposing extraterritorial and potentially discriminatory measures on third countries. For instance, Article 29(6)(a) of RED II sets a high threshold for forest biomass imports by requiring exporting countries to maintain robust legal and institutional frameworks that ensure not only the legality of harvesting but also sustainable forest management. These requirements extend beyond definition of sustainable harvesting practices and may directly affect the regulatory autonomy of national and local authorities in the exporting countries.

The EUDR's impact extends well beyond Europe, with the potential to reshape global agricultural trade and the economic conditions of affected commodity-producing countries. In 2022, a coalition of 17 countries[4] – many of them major exporters of commodities frequently linked to deforestation, such as soya, palm oil, and beef – voiced concerns about the regulation. They argued that the EUDR could severely restrict their access to the EU market, damage their economies, place disproportionate compliance burdens on smaller producers, and infringe on national sovereignty by unilaterally applying EU standards to their land use practices.[5]

Furthermore, stakeholders have criticised the EU's classification of biofuels into high- and low-ILUC risk categories as problematic. ILUC emissions are not directly observable; they are instead estimated through models that lack clear links to greenhouse gas (GHG) emissions. This makes it difficult to determine whether emissions arise from the biofuel life cycle itself or from displaced agricultural activity.[6] In addition, there is no scientific consensus on assigning definitive ILUC emission values to specific types of biofuels, which complicates their categorisation.[7]

The EU's restriction on imports of products linked to deforestation may also shift environmental pressures to other ecosystems. As access to the EU market may become more constraint, agribusinesses may relocate operations to areas not classified as forests, thereby putting other ecologically sensitive landscapes at risk. This is due to the requirement that all countries exporting certain commodities to the EU must provide due diligence statements confirming that products were not sourced from deforested land or associated with forest degradation – regardless of national deforestation rates or forest management practices.[8] This "leakage" effect suggests that producers may instead turn to products not currently covered by the regulation.

While the regulatory approach is well-intentioned, it does not fully account for the complexities of the relationship between biofuel production and deforestation. Companies will need to adapt either by complying with the new rules or by adopting alternative strategies – such as relocating operations to non-forested areas, reconfiguring supply chains, or shifting towards markets with less stringent requirements. However, such adaptations risk redistributing rather than reducing environmental pressures on ecosystems. As a result, although the EUDR seeks to protect forests, it may inadvertently contribute to the degradation of other ecologically valuable areas.

4 The coalition includes Argentina, Brazil, Bolivia, Colombia, Dominican Republic, Ecuador, Ghana, Guatemala, Honduras, Indonesia, Ivory Coast, Malaysia, Mexico, Nigeria, Paraguay, Peru, and Thailand.
5 WTO. Joint Letter European Union Proposal for a regulation on deforestation-free products. G/AG/GEN/213. Geneva, 2022. https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/G/AG/GEN213.pdf&Open=True
6 CPOPC. CPOPC Files Objection to EU Targeting Palm Oil in RED II Delegated Act Determining High ILUC-Risk Feedstock. Center for Sustainable Palm Oil, London, 2021. https://thecspo.org/cpopc-files-objection-to-eu-targeting-palm-oil-in-red-ii-delegated-act-determining-high-iluc-risk-feedstock/
7 Ros, J., Koen Overmars, and Jos Notenboom. How to deal with indirect land-use change in the EU Renewable Energy Directive? Netherlands Environmental Assessment Agency (PBL), The Hague/Bilthoven, 2010. https://www.pbl.nl/uploads/default/downloads/500143008_0.pdf
8 European Parliament. Parliament adopts new law to fight global deforestation. Press release. Brussels, 2023. https://www.europarl.europa.eu/news/en/press-room/20230414IPR80129/parliament-adopts-new-law-to-fight-global-deforestation

Establishing new agricultural areas requires investment in land, infrastructure, and farming practices adapted to local environmental conditions. These additional costs can reduce the competitiveness of affected products. The EUDR's narrow focus on forests and its strict traceability requirements may therefore result in unintended consequences. One significant risk it overlooks is market diversion: farmers, producers, and traders unable to meet EU standards may redirect their supply chains to regions outside Europe, enabling the EU to import compliant goods from non-deforested areas while original business practices persists elsewhere.[9] This risk is particularly acute in the EU's neighbourhood, where exporters may seek alternative destinations for non-compliant products while continuing their existing operations.

Technical barriers to trade and market exclusion

The EUDR and the biofuel provisions under RED II impose significant due diligence requirements on operators in affected countries. These obligations are often costly and burdensome – particularly for financially constrained operators – which may lead to their exclusion from the EU. Such exclusion could reduce trade volumes and increase unemployment in countries that are heavily reliant on smallholder producers.

The European Commission's impact assessment of the deforestation regulation estimates that establishing due diligence systems could cost operators between €5,000–90,000 each.[10] These additional costs may lead to higher export prices and, consequently, reduced trade volumes if third-country operators remain in the market but pass on the costs to customers. This would result in increased prices for EU consumers on products such as timbre, coffee, palm oil, cocoa, and other derived goods, as compliance costs are passed down the supply chain.[11] Furthermore, operators unable to bear these costs – particularly financially constrained smallholders – may face exclusion from the EU market. They could be forced to redirect their supply chains away from the EU, which may prove costly and potentially counterproductive for the EU if sustainability is not prioritised by the new trading partners.

Article 16 of the EUDR introduces a country benchmarking system that classifies countries or regions as low, standard, or high risk based on their rates of deforestation and forest degradation rates, as well as their production of relevant commodities. While the article does not explicitly discriminate against imported goods – since it requires due diligence for all products regardless of origin[12] – producing countries argue that it introduces a de facto bias. EU buyers may avoid sourcing from high-risk countries to reduce paperwork and scrutiny, even when individual producers within those countries adhere to sustainable practices. As a result, a country's risk rating can overshadow the specific attributes of its goods, effectively amounting to de-facto discrimination.[13]

Moreover, being labelled "high-risk" not only affects regulatory treatment but also shapes market perception. EU importers, concerned about reputational damage or the potential for non-compliance, may choose to avoid products high-risk regions altogether – even when those products are demonstrably deforestation-free.

The concern is that these new rules may ban businesses from selling goods linked to illegal deforestation, placing unnecessary burdens on vulnerable supply chains. Market access could be lost due to barriers such as lack of electricity or internet, certification fees, and compliance costs. Smallholders also face domestic challenges, such as falling product prices and rising production and certification costs. Small-scale producers, particularly those with limited resources, are at risk of exclusion from the supply chain due to the complexities and costs complying with the regulation. Although not always directly required to comply, they must coordinate information, such as geolocation, with other supply chain actors if they wish to export to the EU. This regulatory burden may disproportionately hinder their participation in international markets.[14]

9 Sielski, Matthew. The EU's New Deforestation Law Needs to Engage Producers from the Get-Go. The Nature Conservancy, 2024. https://www.nature.org/en-us/what-we-do/our-insights/perspectives/eu-deforestation-law-engaging-producers/

10 European Commission. Commission staff working document. Impact assessment minimising the risk of deforestation and forest degradation associated with products placed on the EU market. Accompanying the document Proposal for a Regulation of the European Parliament and of the Council on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010. Brussels, 2021. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021SC0326

11 Zhunusova, Eliza, Vianny Ahimbisibwe, Le Thi Hoa Sen, Azin Sadeghi, Talin Toledo-Aceves, Gillian Kabwe, and Sven Günter. Potential impacts of the proposed EU regulation on deforestation-free supply chains on smallholders, indigenous peoples, and local communities in producer countries outside the EU. Forest Policy and Economics, 143, Oct 2022, 102817. https://doi.org/10.1016/j.forpol.2022.102817

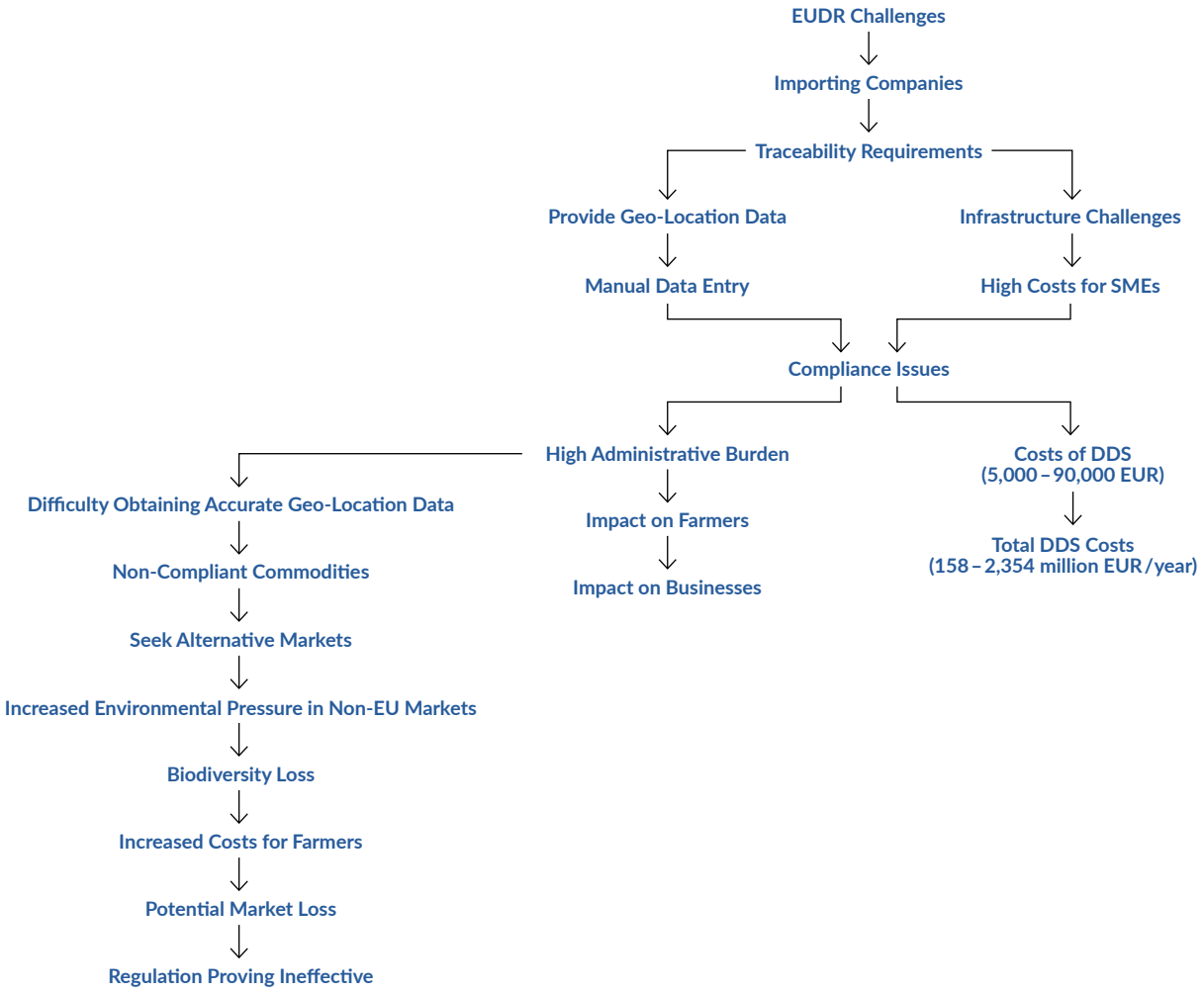
12 Capuzzi, Bruno. Is the European Union Deforestation Regulation WTO-Proof? The Context of EU's Green Agenda and an Exercise of WTO Compatibility. Social Science Research Network, Elsevier, New York, 2023 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4443139

13 Ibid.

14 Ana Sandres. European Union Deforestation Regulation (EUDR): Navigating implementation Challenges. SLR Consulting Ltd., 2024. https://www.slrconsulting.com/eur/insights/european-union-deforestation-regulation-eudr-navigating-implementation-challenges/

The impact assessments of the EUDR evaluate the regulation's effects in two ways: substantial one-time costs and recurring costs. The impact assessments of the EUDR evaluate the regulation's effects in two main categories: substantial one-time costs and recurring costs. These include expenses related to adopting compliant practices, meeting environmental requirements, and paying certification fees to demonstrate compliance with the due diligence system (DDS). Even within low-risk supply chains, ensuring sufficient traceability and transparency can be difficult for SMEs, particularly those with limited resources and little leverage over their suppliers.

FIGURE 1: **Challenges of EUDR traceability requirements and potential bottlenecks for EU and neighbouring countries**



Source: Authors' own work

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3. How ILUC impacts trade with the EU's neighbouring countries

This chapter begins by analysing the varying levels of commitment to sustainable development (SD) provisions in the EU's trade relationships with its neighbouring countries, exploring the political, economic, and trade relationships. It also highlights environmental clauses in EU trade agreements with other global partners as examples of best practice, offering suggestions for improving trade agreements with the neighbourhood. The second section examines the economic impact of ILUC-related provisions on individual neighbouring countries, while the final section evaluates key trade flows affected by ILUC under the EUDR and the EU Renewable Energy Directive.

Commitments of sustainable development provisions between the EU and its neighbouring countries

Each trade relationship between the EU and its neighbouring countries is unique, shaped largely by the economic complexity and nature of the countries' trade flows. The framework tends to be more comprehensive and robust for countries that have been granted the prospect of EU membership.

The integration of sustainable development (SD) provisions in EU agreements with neighbouring countries has evolved over time, reflecting the growing global recognition of the link between economic growth and environmental protection, as well as the important role of international trade in promoting higher environmental standards. While earlier FTAs focused primarily on reducing trade barriers and increasing market access, a new generation of agreements has emerged that incorporates social and environmental considerations.

However, even the provisions in the newer FTAs signed with neighbouring countries fall short of the depth negotiated in more recent agreements, such as those between the EU and the Mercosur, New Zealand or Vietnam, which reflect the latest developments in environmental policy.[15] A report by the Institute for European Environmental Policy concluded that, while sustainability is increasingly becoming a key objective of FTAs, "none of the agreements of the EU contains explicit provisions or safeguards to combat deforestation; they only rely on national frameworks and do not reference to international frameworks."[16] Among neighbouring countries, only the Association Agreement with Ukraine includes a provision in which the parties agree to continue mutual cooperation on biofuel production – a matter closely tied to land use patterns.

Irrespective of their stage in the accession process, candidate and potential candidate countries are expected to comply with various legal instruments for the progressive adoption of the *acquis communautaire,* binding them to the commitment of establishing a functioning common market.

Western Balkans

The Western Balkan countries recognise the importance of aligning their national legislation with EU environmental standards. As all of these countries – except Kosovo – are on the path towards EU membership, they are expected to gradually adopt the *acquis communautaire* in this sector. A common feature of the FTAs in this region is a shared commitment to environmental cooperation and development. However, none of the agreements provide detailed guidance on how this cooperation should be implemented.

In the Balkan countries – such as Albania, Bosnia and Herzegovina (BiH), Serbia, and Montenegro – environmental protection provisions are largely similar across agreements, suggesting a standardised approach that does not fully reflect each country's specific circumstances. This highlights the need to modernise these agreements to better align trade dynamics with the unique conditions and requirements of each partner country.

Eastern Partnership

In the Eastern Partnership countries, there is significant variation in both the presence and complexity of sustainable development provisions across different agreements. For instance, the EU's trade agreement with Belarus from the mid-1990s contains only vague references to promoting environmentally sound policies and is currently suspended. By contrast, the Partnership and Cooperation Agreement with Azerbaijan, signed in the late 1990s, specifies cooperation in areas such as agricultural impact, soil erosion, forest protection and renewal, and land-use planning. The most detailed is the Comprehensive and Enhanced Partnership Agreement with Armenia, signed in 2017, which devotes an entire chapter to environmental provisions – including nature protection, forestry, and biodiversity conservation. It also outlines detailed measures for environmental governance, strategic planning, impact assessment and monitoring, and the alignment of Armenian environmental legislation with EU standards, particularly in the forestry sector.

15 Note that EU-Mercosur negotiations have not been finalised as the agreement has faced significant criticism, largely due to its ambitious environmental and deforestation provisions. See: Tähtinen, Lauri. EU-Mercosur: So Much More Than a Dead Deal. Center for Strategic Studies, Washington, D.C., 2024. https://www.csis.org/analysis/eu-mercosur-so-much-more-dead-deal

16 Blot, E. and Kettunen, M. Environmental credentials of EU trade policy – A comparative analysis of EU free trade agreements. Institute for European Environmental Policy, Brussels and London, 2021. https://ieep.eu/wp-content/uploads/2022/12/Environmental-credentials-of-EU-trade-policy-IEEP-2021.pdf

The Association Agreements (AAs) with Georgia, Moldova, and Ukraine are comprehensive treaties that lay the foundation for the accession process, establishing a broad framework for political, trade and economic cooperation. These agreements contain extensive clauses on environmental protection, sustainable development, and alignment with EU standards. They emphasise the integration of SD principles into trade relationships and broader cooperation, with a focus on nature protection, biodiversity conservation, forest management, and combating illegal logging. Additionally, the AAs address renewable energy, sustainable biofuel production and alternative fuels.

Implementation involves detailed timetables, administrative responsibilities, and financing strategies, alongside the development or enhancement of environmental governance, strategic planning, and impact assessment systems. Finally, all three countries commit to aligning their laws, regulations, and administrative practices with relevant EU legislation and international standards.

Southern Neighbourhood

Compared to agreements with the Western Balkans and Eastern Neighbourhood, sustainable development and environmental protection play a minimal role in the Association Agreements (Aas) with Mediterranean countries. Drafted and signed between the late 1990s and early 2000s, the AAs with Algeria, Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia contain outdated andrudimentary environmental clauses. These agreements make broad commitments to preventing environmental degradation and promoting cooperation on issues such as the impact of agriculture on soil and water quality, but lack concrete measures and specificity.

In 2021, the EU sought to revitalise its partnership with Southern Neighbourhood countries through a new Agenda for the Mediterranean, which places greater emphasis on climate resilience, renewable energy and the environment protection.[17] However, this agenda has yet to be reflected in new treaties.

Among these countries, the FTA with Israel demonstrates the strongest environmental commitment. Both parties agree to cooperate on the use of advanced environmental management tools. It is also the only agreement in this group that explicitly mandates an environmental impact assessment.

BOX 1: **Comparative analysis of environmental provisions in other EU trade agreements**

The environmental provisions of the EU trade agreements with Mercosur, New Zealand, and Vietnam emphasise the EU's commitment to sustainable development.[18]

The EU and the Mercosur, comprising Argentina, Brazil, Paraguay, and Uruguay, concluded their negotiations after 20 years in June 2019 and reached an agreement in principle. This agreement includes a chapter on SD, addressing issues such as the establishment of labour standards, due diligence in supply chains, and forest preservation. While the agreement allows each party to set its own SD policy priorities according to domestic legislation, it also enforces existing multilateral commitments consistent with the global approach to sustainable SD. Regarding forest preservation, the agreement encourages the parties "to trade in products from sustainably managed forests harvested in accordance with the law of the country of harvest." However, forest preservation remains a contentious issue, leading to stalled negotiations as discussions continue updating the agreement to address current environmental concerns.

After nearly six years of negotiations, the EU-New Zealand Free Trade Agreement entered into force in May 2024, marking it the EU's most recent FTA.[19] This agreement devotes an entire chapter to trade and sustainable development, where both parties commit to collaborating and exchanging best practices to ensure that their trade and investment activities support SD. Regarding ILUC, the FTA recognises the importance of forest conservation and sustainable management, aiming to encourage the trade and consumption of wood-based products while minimising deforestation, illegal logging and related activities.

The EU-Vietnam Free Trade Agreement, effective since 2020, includes an extensive chapter on SD. In this agreement, both parties commit to promoting SD through trade and investment. The agreement's ILUC provisions underscore the conservation and sustainable management of forest resources. It advocates for trading and using timber and other forest products from sustainably managed forests, while also promoting forest conservation and addressing illegal logging on both regional and global scales.

17 European Commission. Joint communication to the Europan Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Renewed partnership with the Southern Neighbourhood – A new agenda for the Mediterranean. Brussels, 2021. https://www.eeas.europa.eu/sites/default/files/joint_communication_renewed_partnership_southern_neighbourhood.pdf

18 Further details on these agreements are provided in annex 3.

19 European Commission. The EU-New Zealand Trade Agreement. Brussels, 2024. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/new-zealand/eu-new-zealand-agreement_en

How exposed are the neighbouring countries to the deforestation and renewable energy regulations?

This section assesses the key trade flows affected by ILUC provisions under EU regulations. The analysis focuses on commodities covered by the EUDR – which expands the range of products included in the earlier EUTR – and on goods classified under ILUC risk categories as identified in RED II.

The EUDR lists specific commodities subject to its rules, as detailed in its annex. In contrast, RED II identifies commodities considered to pose a high risk of ILUC, though it does not provide an explicit list. Palm oil and soya oil are included in the EUDR's annex, making them subject to strict regulations aimed at preventing deforestation. As of December 2024, the EUDR will replace the EUTR, expanding its scope to cover a broader range of products, including coffee beans, leather, paper, rubber, and cattle.
A detailed list of 74 products affected by ILUC-related provisions is provided in Annex 1.

To assess the impact of ILUC provisions on the EU's neighbouring countries, we analysed the importance of the EU as an export destination at both the product and country level, as well as the economic significance of the affected products. Our analysis reveals divergent trends: Jordan and Palestine have maintained steady exports to the EU, while Albania, Armenia, Bosnia and Herzegovina (BiH), Georgia, Israel, Montenegro, and Türkiye have experienced a decline.[20] In contrast, Algeria, Azerbaijan, Belarus, Egypt, Lebanon, Moldova, Morocco, North Macedonia, Serbia, Tunisia, and Ukraine have been increasing their share of exports to the EU.

TABLE 1: **Top 15 products with potential exports affected, based on EU exposure in total exports in 2022 (million USD)**

Product Code	Product Description	Export to Non-EU Countries	Export to EU-27	Share of Exports to EU
4405	Wood wool, wood flour	0.1	5.4	97%
4415	Packing cases, boxes, crates, drums	40.9	326.3	88%
4401	Fuel wood, in logs, in billets	49.1	305.1	86%
4416	Casks, barrels, vats, tubs and other	1.0	5.7	85%
4404	Hoopwood, split poles, piles	1.5	9.1	85%
120810	Soya beans	5.0	24.1	83%
4413	Densified wood, in blocks, plates	4.2	19.8	82%
4408	Sheets for veneering	77.9	341.4	81%
4412	Plywood, veneered panels and similar	49.6	209.2	80%
4421	Other articles of wood	55.0	162.4	75%
4013	Inner tubes, of rubber	4.2	12.5	74%
4107	Leather further prepared after tanning	63.7	163.5	72%
4016	Other articles of vulcanised rubber	345.6	696.1	67%
9401	Seats (other than those of heading)	1182.1	2301.0	66%
4101	Raw hides and skins of bovine	17.1	34.5	64%

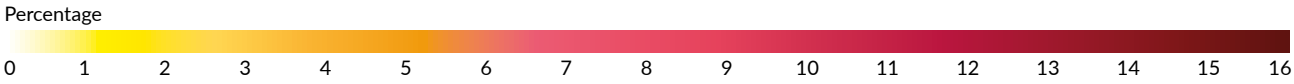
Source: UN COMTRADE and author's calculations

20 In this analysis, we compare the share of the EU in each country's exports by examining data from both the earliest and latest available years.

TABLE 1 highlights the top 15 products with the highest export exposure to the EU, demonstrating their significant share in the total exports of the countries analysed. As expected, wood materials and furniture dominate the ranking, reflecting their widespread production across the sample countries. In addition, soybean flour and meal, raw hides, and a specific rubber product are identified as major exports primarily destined for the EU market.

FIGURE 2: **Heatmap of average share in overall exports by country and category, 2020–2022**

Country	Cattle	Cocoa	Coffee	Oil palm	Rubber	Soya	Wood
ALB	0.10	0.01	0.02	0.00	0.11	0.00	2.57
ARM	0.29	0.51	0.32	0.00	0.25	0.00	0.28
AZE	0.04	0.03	0.00	0.00	0.00	0.00	0.04
BIH	0.48	0.16	0.10	0.05	0.06	0.15	15.63
BLR	1.79	0.28	0.01	0.18	0.57	0.48	8.40
EGY	0.14	0.40	0.00	0.49	0.33	0.07	2.00
GEO	1.32	0.05	0.02	0.00	0.02	0.04	1.25
ISR	0.01	0.04	0.00	0.05	0.24	0.00	0.61
JOR	0.72	0.23	0.12	0.00	0.00	0.00	1.88
LBN	0.22	0.91	0.63	0.04	0.07	0.07	6.18
MAR	0.05	0.01	0.01	0.16	0.24	0.00	1.14
MDA	0.43	0.35	0.02	0.15	0.02	0.20	6.62
MKD	0.05	0.22	0.03	0.01	0.04	0.00	3.94
MNT	0.64	0.46	0.00	0.00	0.02	0.00	9.23
PSE	0.09	1.17	0.34	0.07	0.51	0.00	12.50
SER	0.50	0.36	0.05	0.34	3.93	0.37	6.36
TUN	0.02	0.13	0.00	0.05	0.08	0.00	2.22
TUR	0.08	0.37	0.02	0.29	1.23	0.19	3.12
UKR	0.37	0.36	0.00	0.56	0.14	1.80	5.05



Source: UN COMTRADE and author's calculations

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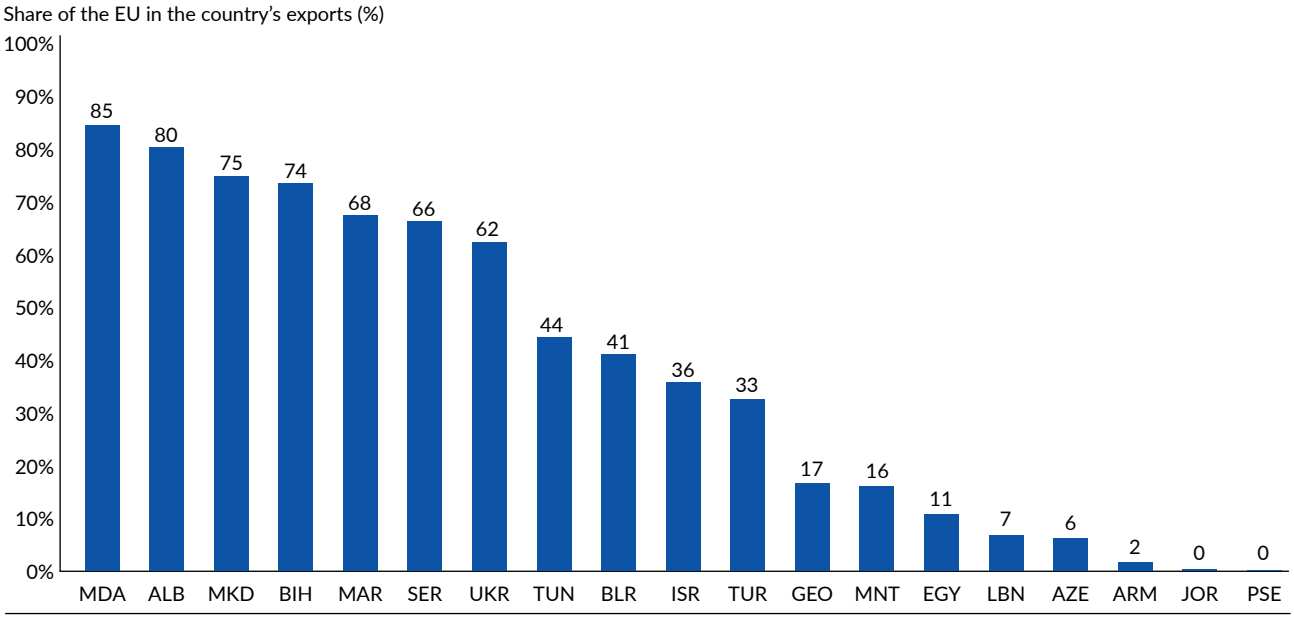
FIGURE 2 illustrates the contribution of various industries to overall exports in each neighbouring country. Notably, the goods with the highest exposure to the EU – such as wood and, to a lesser extent, rubber and cattle – are also among the most significant contributors to these countries' total exports.

FIGURE 3: **Exposure to EU: 3-year average, 2020–2022**



Source: UN COMTRADE and author's calculations

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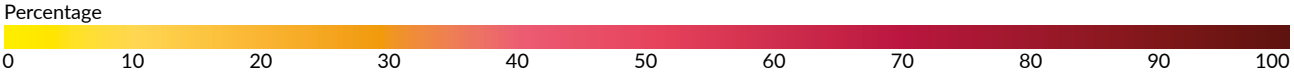
The EU is an important export destination for the selected products, although export dependency varies significantly between countries (FIGURE 3). Countries such as Albania, Moldova, and North Macedonia export a high proportion of these goods to the EU, whereas Jordan and Palestine send comparatively little to the EU market.

FIGURE 4: **Heatmap of average EU share by country and key category, 2020–2022**

Country	Cattle	Rubber	Soya	Wood
ALB	96	93	0	81
ARM	0	0	0	5
AZE	2	29	0	13
BIH	64	52	28	75
BLR	2	24	10	55
EGY	46	42	7	7
GEO	0	22	0	32
ISR	50	56	52	29
JOR	0	6	0	0
LBN	2	12	15	7
MAR	96	91	0	70
MDA	5	79	69	91
MKD	20	63	0	78
MNT	2	34	0	17
PSE	0	0	0	0
SER	50	63	80	69
TUN	7	42	0	47
TUR	40	58	4	29
UKR	34	36	44	73



Source: UN COMTRADE and author's calculations

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Combining data at both the country and product levels is essential due to the diverse economic profiles of the countries analysed. Depending on their industry specialisations and trade partners these countries exhibit varying degrees of exposure to the EU market. To strengthen the analysis, we categorise the products into seven key groups: cattle, cocoa, coffee, oil palm, rubber, soya and wood. FIGURE 4 presents the heatmap showing the average EU share for each country and category from 2020 to 2022. Darker shades indicate higher export shares to the EU. Wood and rubber – two significant export contributors – frequently appear in darker shades, underscoring their exposure to the EU market and its regulations.

Building on the overview provided in FIGURE 4, this more detailed breakdown highlights the exposure of neighbouring countries to the EU across specific key products – namely cattle, rubber, soya, and wood. A first observation is that several countries, including Albania, Bosnia and Herzegovina (BiH), Moldova, North Macedonia, and Ukraine, are highly reliant on the EU for their wood exports. Serbia also shows considerable dependence, with nearly two-thirds of its rubber exports directed to the EU. In the case of soya, almost half of Ukraine's exports go to the EU market. Finally, while Belarus and Georgia record noteworthy levels of cattle exports overall, FIGURE 4 shows that these exports are not primarily destined for the EU.

BOX 2: **Ukraine's forestry trade**

Ukraine holds a special position among neighbouring countries analysed in our report, being the largest exporter of forestry products to the EU among them.[21] However, the situation has become more complex due to Russia's military aggression. The invasion severely disrupted timber production in Ukraine, causing over €1.4 billion in damage to the forestry sector.[22] Simultaneously, the EU's ban on wood imports from Russia and Belarus, in pre-war times two of the biggest timber trade partners, allowed Ukraine to expand its share in Europe.[23] While Ukraine's most important industrial regions are located in war-torn territories, the bulk of the country's forest cover is in safer western areas. This shift has increased the relative importance of the forestry sector within the national economy, making exports of timber and wood-related products to the EU increasingly vital for sustaining Ukraine's economy during the ongoing war.[24]

Environmental organisations, such as the WWF[25] and Greenpeace,[26] have raised concerns that, to boost timber revenues for reconstruction, the Ukrainian government has enacted legislation permitting more extensive logging. This could increase the logging of natural old-growth forests, potentially conflicting with EU sustainability standards, particularly those in the EUDR. The high demand for forest products in the post-war reconstruction poses risks for EU-Ukraine trade relations. There is also concern about unsustainable wood commodities entering the EU market via indirect trade routes. However, the EU and Ukraine have established institutional channels, such as the Ukraine Green Recovery Conference, to monitor and ensure that environmental sustainability remains central to all reconstruction strategies.

21 World Integrated Trade Solution (WITS).
22 European Commission. Directorate-General for Neighbourhood and Enlargement Negotiations. EU and Ukraine outline plans for sustainable reconstruction in a high-level conference. News article. Brussels, 2023. https://neighbourhood-enlargement.ec.europa.eu/news/eu-and-ukraine-outline-plans-sustainable-reconstruction-high-level-conference-2023-11-27_en
23 UkraineInvest. Russia's war against Ukraine impacts world timber market. Kyiv, 2024. https://ukraineinvest.gov.ua/en/news/24-06-22-5/
24 Ross, Jason, WWF Warns: Ukraine's New Timber Rules Now Risk EUDR!. Wood Central, Brisbane, 2024. https://woodcentral.com.au/wwf-warns-ukraines-new-timber-rules-jeopardise-eudr/
25 Ibid.
26 Greenpeace. Ukrainian old-growth forests destroyed for EU market. Vienna, 2023. https://greenpeace.at/cee-press-hub/ukrainian-old-growth-forests-destroyed-for-eu/

4. Which mitigation measures could the EU pursue to alleviate the negative effects of EU sustainable development regulations?

EU policymakers need to carefully consider the burdens that ILUC provisions in sustainable development regulations place on neighbouring countries. These provisions risk undermining the export performance of affected countries, potentially prompting them to shift towards alternative markets. Addressing these concerns is essential to strengthen economic ties and prevent neighbouring countries from drifting further away from the EU.

POLICY OPTION 1

Reduce complexity and clarify implementation

Importing companies are required to provide geolocation data to verify that products have not been sourced from deforested areas. However, this requirement poses significant challenges – particularly for large shipments comprising goods from multiple sources. The current manual data entry process is both resource-intensive and inefficient, while inadequate infrastructure and IT systems within companies and public administrations further hinder compliance with the EUDR. These challenges are especially burdensome for smallholders, who may lack the knowledge, technology, and financial capacity to meet the requirements, placing them at a clear competitive disadvantage.

An impact assessment by the European Commission on minimising the risk of deforestation and forest degradation associated with products placed on the EU market highlights the challenges of monitoring compliance with these standards – particularly in tracing the origins of certain commodities. The broad scope of products covered by the regulation may raise operational costs for economic actors, thereby increasing the risk of implementation failures.[27]

Moreover, the EU's capacity to implement and enforce the EUDR remains limited. This includes constraints related to the cost and complexity of traceability requirements, the frequency of checks, the degree of oversight, and disagreements over what constitutes fair practice. A review of the EUTR revealed that less than 1% of imported shipments were inspected, and these checks primarily confirmed the presence of due diligence systems – without assessing their quality or effectiveness. Simplifying the regulatory framework and clarifying its implementation will be essential to increasing the scope and depth of enforcement.[28]

The definitions of deforestation and forest degradation should be aligned with the Accountability Framework, which outlines the elements companies should include in their commitments and policies to protect forests and other ecosystems.[29]

POLICY OPTION 2

Increase capacity building, regulatory cooperation and information exchange

Many farmers in neighbouring countries – particularly smallholders – struggle to meet traceability requirements due to fragmented supply chains involving multiple actors. In some cases, they may find it easier to shift operations to areas not classified as "deforested."

The EU's neighbouring countries differ widely in terms of governance capacity, regulatory frameworks, and environmental protections. Some lack the resources – or the political will – to effectively monitor and regulate the flow of potentially non-compliant products. This increases the risk of trade diversion away from the EU.

There is also a need for greater policy coherence and integration. Effective implementation of the EUDR in neighbouring countries requires bridging information gaps and providing practical support to producers – particularly in low-income regions – to help them meet the new market requirements.

Without meaningful assistance and tailored solutions, the EUDR risks reinforcing a top-down dynamic in which buyers dictate terms to more vulnerable producers, rather than fostering a collaborative and sustainable transition. The key challenge is to ensure that the EUDR's ambitious requirements are not only enforced and monitored effectively, but also backed by capacity-building efforts involving producers, regulatory authorities, and other relevant stakeholders.

27 European Commission. Commission staff working document: Impact assessment report on minimising the risk of deforestation and forest degradation associated with products placed on the EU market. Brussels, 2021. https://environment.ec.europa.eu/system/files/2021-11/SWD_2021_326_1_EN_impact_assessment_part2_v2.pdf

28 Fisher, Micah R., Krystof Bidzinski, Ariel Mota Alves, and Andini Desita Ekaputri, Commodities and Global Climate Governance: Early Evidence From The EU Deforestation-Free Regulation (EUDR). Asia-Pacific Issues, 27, 2024. East-West Center, Honolulu, 2024. https://www.eastwestcenter.org/sites/default/files/2024-04/API%20no.%20165%20EUDR.pdf

29 Forest Stewardship Council. FSC's Position And 10 Suggestions on The New Proposed EU Rules For Deforestation-Free Products. FSC International Center, Bonn, 2023. https://fsc.org/sites/default/files/2022-09/FSC%20POSITION%20AND%2010%20SUGGESTIONS%20ON%20THE%20NEW%20PROPOSED%20EU%20RULES%20FOR%20DEFORESTATION-FREE%20PRODUCTS%20%281%29.pdf

POLICY OPTION 3

Deepening sustainable development provisions and preferential market access in free trade agreements

A comparison of the EU's trade agreements with neighbouring countries and those negotiated with Mercosur, New Zealand, or Vietnam reveals that even the most recent agreements with neighbouring countries lack the depth of sustainable development (SD) provisions found in the agreement with Vietnam or in the ongoing negotiations with Mercosur.

We recommend raising the level of ambition and reassessing priorities in the EU's trade negotiations with neighbouring countries. Sustainable development – particularly in relation to ILUC – should be central to these discussions. This approach aims to close existing gaps and foster a more robust economic partnership between the EU and its neighbours.

Additionally, the EU should consider offering preferential market access or reduced tariffs for countries that adhere to deforestation-free practices. Such incentives could encourage compliance without unfairly penalising non-compliant actors.

5. Concluding remarks

Our assessment examines the concept of ILUC and its application by the EU through the EU Timber Regulation, the EU Deforestation Regulation, and the EU Renewable Energy Directive. We find that the ILUC provisions in these regulations place substantial burdens on the EU's neighbouring countries. Furthermore, our comparison shows that even the newer generation of EU FTAs with these countries has not kept pace with recent advancements in sustainable development provisions seen in agreements with Mercosur, New Zealand, and Vietnam. These FTAs lack the more advanced environmental measures that have become standard in the EU's latest trade agreements.

In addition, our trade analysis highlights the exposure of neighbouring countries' trade flows to the EU Renewable Energy Directive and the new Deforestation Regulation. Without mitigating measures, these regulations are likely to continue placing significant pressure on affected economies in the future.

To address and prevent these negative consequences, we propose a set of policy recommendations for EU policymakers:

- Reduce complexity and clarify implementation
- Increase capacity building, regulatory cooperation, and information exchange
- Deepen sustainable development provisions and expand preferential market access in EU free trade agreements with neighbouring countries

At present, the heavy-handed enforcement of ILUC provisions in EU regulations limits neighbouring countries' ability to maximise their export potential, pushing them to diversify trade towards alternative markets. Implementing these policy recommendations is essential – not only for promoting sustainable development, but also for strengthening the EU's economic ties with its neighbours and preventing further geopolitical drift from the EU.

Epilogue

This paper is the fifth and final contribution in a series exploring the broader implications of EU internal market regulations on neighbouring countries. It follows earlier studies including *"The Carbon Border Adjustment Mechanism (CBAM) and Its Border Effects: How Can Europe Become a Better Neighbour?"*, *"The Extraterritorial Impact of EU Digital Regulations: How Can the EU Minimise Adverse Effects for the Neighbourhood?"*, *"Beyond Barriers: Rethinking CAP to Enable Agricultural Export Diversity in the EU Neighbourhood"*, and *"Overcoming Barriers: How the EU Can Improve Trade Finance Access for Neighbouring Countries"*.

The paper examines the indirect land use change (ILUC) provisions embedded in the EU Deforestation Regulation (EUDR), Renewable Energy Directive (RED II), and earlier frameworks such as the EU Timber Regulation (EUTR). It assesses the consequences of these measures for the EU's neighbouring countries – economically, institutionally, and geopolitically. As with earlier studies in this series, the analysis is grounded in the belief that well-intentioned EU regulation can have disproportionate external effects if it lacks coordination, clarity, or adequate support mechanisms.

Neighbouring regions examined include the Western Balkans (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia, Kosovo), Türkiye, the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine), and the Southern Neighbourhood (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia). A central objective is to propose actionable solutions that reduce regulatory burdens while reinforcing cooperation and sustainable development.

The series was part of the Bertelsmann Stiftung's *"Sovereign Europe: Strategic Management of Global Interdependence"* project. It focused on the practical consequences of the "Brussels Effect" for the EU's neighbourhood, particularly during a period of heightened geopolitical competition and shifting global alliances.

This research was conducted in partnership with the European Centre for International Political Economy (ECIPE), reflecting a shared interest in providing practical, policy-relevant insights to inform the EU's external economic engagement.

ANNEX 1

TABLE 2: **Products affected by ILUC provisions, HS2012.**[30, 31]

HS Code	Product Description
10221	Pure-bred breeding animals
10229	Other
201	Meat of bovine animals, fresh or chilled
202	Meat of bovine animals, frozen
20610	Of bovine animals, fresh or chilled
20622	Livers
20629	Other
901	Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion
1201	Soya beans, whether or not broken
120710	Palm nuts and kernels
120810	Of soya beans
1507	Soya-bean oil and its fractions, whether or not refined, but not chemically modified
1511	Palm oil and its fractions, whether or not refined, but not chemically modified
151321	Crude oil
151329	Other
160250	Of bovine animals
1801	Cocoa beans, whole or broken, raw or roasted
1802	Cocoa shells, husks, skins and other cocoa waste
1803	Cocoa paste, whether or not defatted
1804	Cocoa butter, fat and oil
1805	Cocoa powder, not containing added sugar or other sweetening matter
1806	Chocolate and other food preparations containing cocoa
2304	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya bean oil
230660	Of palm nuts or kernels
290545	Glycerol
291570	Palmitic acid, stearic acid, their salts and esters
291590	Other
382311	Stearic acid
382312	Oleic acid
382319	Other
382370	Industrial fatty alcohols
4001	Natural rubber, balata, gutta-percha, guayule, chicle and similar natural gums, in primary forms or in plates, sheets or strip
4005	Compounded rubber, unvulcanised, in primary forms or in plates, sheets or strip
4006	Other forms (for example, rods, tubes and profile shapes) and articles (for example, discs and rings), of unvulcanised rubber
4007	Vulcanised rubber thread and cord
4008	Plates, sheets, strip, rods and profile shapes, of vulcanised rubber other than hard rubber
4010	Conveyor or transmission belts or belting, of vulcanised rubber
4011	New pneumatic tyres, of rubber
4012	Retreaded or used pneumatic tyres of rubber; solid or cushion tyres, tyre treads and tyre flaps, of rubber
4013	Inner tubes, of rubber

30 European Commission. 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 (Text with EEA relevance). Brussels, 2023. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1115&qid=1687867231461

31 We do not include 940391 (Furniture; parts, of wood) and 940610 (Prefabricated buildings of wood). Even though they are listed in the deforestation regulation they are not part of previous vintage of HS-codes. However, they are available for analysis starting in 2022.

4015	Articles of apparel and clothing accessories (including gloves, mittens and mitts), for all purposes, of vulcanised rubber other than hard rubber
4016	Other articles of vulcanised rubber other than hard rubber
4017	Hard rubber (for example, ebonite) in all forms, including waste and scrap; articles of hard rubber
4101	Raw hides and skins of bovine (including buffalo) or equine animals (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared), whether or not dehaired or split
4104	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared
4107	Leather further prepared after tanning or crusting, including parchment-dressed leather, of bovine (including buffalo) or equine animals, without hair on, whether or not split, other than leather of heading 41.14
4401	Fuel wood, in logs, in billets, in twigs, in faggots or in similar forms; wood in chips or particles; sawdust and wood waste and scrap, whether or not agglomerated in logs, briquettes, pellets or similar forms
4403	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared
4404	Hoopwood; split poles; piles, pickets and stakes of wood, pointed but not sawn lengthwise; wooden sticks, roughly trimmed but not turned, bent or otherwise worked, suitable for the manufacture of walking-sticks, umbrellas, tool handles or the like
4405	Wood wool; wood flour
4406	Railway or tramway sleepers (cross-ties) of wood
4407	Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm
4408	Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness not exceeding 6 mm
4409	Wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated, chamfered, V-jointed, beaded, moulded, rounded or the like) along any of its edges, ends or faces, whether or not planed, sanded or end-jointed
4410	Particle board, oriented strand board (OSB) and similar board (for example, waferboard) of wood or other ligneous materials, whether or not agglomerated with resins or other organic binding substances
4411	Fibreboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances
4412	Plywood, veneered panels and similar laminated wood
4413	Densified wood, in blocks, plates, strips or profile shapes
4414	Wooden frames for paintings, photographs, mirrors or similar objects
4415	Packing cases, boxes, crates, drums and similar packings, of wood; cable-drums of wood; pallets, box pallets and other load boards, of wood; pallet collars of wood
4416	Casks, barrels, vats, tubs and other coopers' products and parts thereof, of wood, including staves
4417	Tools, tool bodies, tool handles, broom or brush bodies and handles, of wood; boot or shoe lasts and trees, of wood
4418	Builders' joinery and carpentry of wood, including cellular wood panels, assembled flooring panels, shingles and shakes
4419	Tableware and kitchenware, of wood
4420	Wood marquetry and inlaid wood; caskets and cases for jewellery or cutlery, and similar articles, of wood; statuettes and other ornaments, of wood; wooden articles of furniture not falling in Chapter 94
4421	Other articles of wood
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans
9401	Seats (other than those of heading 94.02), whether or not convertible into beds, and parts thereof
940330	Wooden furniture of a kind used in offices
940340	Wooden furniture of a kind used in the kitchen
940350	Wooden furniture of a kind used in the bedroom
940360	Other wooden furniture

ANNEX 2

TABLE 3: **Overall complexity of the supply chain for products originating from supposed deforested areas**[32]

Soya	Complex with many actors and end-markets. Many public and private governance initiatives exist and influence the soya supply chain. However, a small group of large companies control significant volumes at key supply chain points. Some of these large companies are vertically integrated, meaning they operate across multiple stages of the supply chain, from sourcing and trading to processing and distribution. Ensuring traceability and transparency throughout the complex supply chain, from farm to consumer, is difficult. This makes it challenging to verify sustainability claims, monitor labour practices, and maintain food safety standards.
Wood	Wood can come from various sources, including natural forests, plantations, and agroforestry systems. Each source has different characteristics, management practices, and sustainability considerations. The wood supply chain involves a complex network of actors, including forest owners/managers, loggers, sawmills, manufacturers, traders, transporters, certification bodies, retailers, consumers, NGOs, and regulatory agencies. These actors operate across various stages, from forest sourcing to processing, manufacturing, distribution, and end-use, each with their own interests and priorities. Coordinating and aligning these diverse stakeholders towards sustainable practices while navigating environmental, social, and regulatory challenges adds significant complexity to wood supply chain management.
Beef/Cattle	The cattle production system involves thousands of individual ranchers and farmers operating at different scales. It is complex and fragmented, with thousands of traders and middlemen involved in buying and selling cattle from these producers, all of which is associated with numerous operational steps. However, a few large meatpacking companies dominate processing and distribution. There is a dichotomy, where a complex and fragmented upstream supply chain feeds into a concentrated downstream processing and distribution system, which presents unique challenges in addressing deforestation linked to cattle ranching.
Rubber	Geographic dispersion adds logistical challenges in terms of transportation and coordination among different producing regions. A significant portion of natural rubber production comes from smallholder farmers, who often have limited resources, access to technology, and bargaining power. It further becomes complex and fragmented, involving multiple levels of raw material dealers, processing plants, traders, and manufacturers.[33]

32 Bougas, Kastalie, Victoria Cherrier, Leonie Constantine, Maria Paola Calasso, Keir McAndrew, Jenny Gilbert, Andreea Beznea, Kym Whiteoak, Rob Williams, Giannelos Giannis, Helen Finney, James Dyson, Eric Aerts, Jolanda van den Berg, Markku Kanninen, Liz Womack. Study on EU forest policy. Task 3 - Impact assessment on demand-side measures to address deforestation. Final report. Wood E&IS GmbH, Trinomics, Ricardo Energy and Environment, Wageningen University and Research, Tyrsky, UNEP-WCMC, 2021. https://www.researchgate.net/publication/365823324_Study_on_EU_forest_policy_Task_3_-_Impact_assessment_on_demand-side_measures_to_address_deforestation_Final_report_revised

33 European Tyre & Rubber Manufacturers' Association. Natural Rubber Supply Chain. ETRMA, Brussels, 2019. Available at: https://www.etrma.org/natural-rubber-supply-chain/

ANNEX 3

Additional detail on comparative analysis of environmental provisions in other EU trade agreements

Due to the recent nature of the agreement and the economic and cultural like-mindedness of the two parties, the EU and New Zealand have achieved a level of detail and ambition in their sustainable development provisions that is so far unparalleled for FTAs.

It is no surprise that the European Commission sees the agreement as the epitome of "sustainable trade" and a model for future agreements.[34] From New Zealand's perspective, ExportNZ, the trade division to the country's largest business-advocacy group, has recently released a report on the effects of the EU-New Zealand FTA.[35] The study highlights that in order to reap the benefits of the potential €1.63 billion annual export increase as a result of the agreement, New Zealand firms will need to familiarise themselves and comply with EU regulations, notably the EU Deforestation Regulation (EUDR).[36] Fully aware that the new EU anti-deforestation regulation has generated concern among local beef farmers[37] and the wood processing sector,[38] the report indeed warns that the EUDR could entail additional administrative burdens and costs, particularly for small and medium-sized enterprises. It also points to the fact that, especially for forestry sector firms, compliance with New Zealand upcoming timber legislation, set to commence in 2026, will also ensure compliance with the EUDR.[39]

Regarding the EU-Vietnam Free Trade Agreement which entered into force in 2020, Vietnam immediately set out an ambitious course of policy. In late 2022 the Southeast Asian country signed a Just Energy Transition Partnership (JETP) with the EU and several other advanced economies that will channel financial resources and technical assistance into its domestic sustainable development plans.[40] Nevertheless, concerns have been raised, domestically and abroad, on the actual implementation of these plans.[41] In addition, local producers, especially in the coffee industry, for which the EU represents the top importer consuming 40% of Vietnamese exports in this sector, have expressed distress regarding the accessibility of technology and the rising costs connected with complying with the EUDR.[42] The Vietnamese government sent a delegation to Brussels in September 2023 to reassure the EU that the country is on the right track to its sustainable development goals and complying with EU environmental laws, first and foremost the EUDR.[43] As a result of the visit, Director-General for Environment, Florika Fink-Hooijer, described Vietnam "as a global model for adapting to the EUDR and sustainable development."[44]

34 Sanchez Manzanaro, Sofia. EU struggles to secure another New Zealand-style trade deal. Euractiv, Brussels, 2024. https://www.euractiv.com/section/agriculture-food/news/eu-struggles-to-secure-another-new-zealand-style-trade-deal/
35 Salmond, Sarah and Joshua Tan. EU/NZ FTA: Seizing opportunities through compliance. ExportNZ and MinterEllisonRuddWatts, Auckland, 2024. https://exportnz.org.nz/wp-content/uploads/2024/05/EU-NZ-FTA-Seizing-Opportunities-Through-Compliance-2024-ExportNZ-Minters-Paper.pdf
36 Ibid.
37 Hartwich, Oliver. More beef with the European Union. Newsroom, Auckland, 2024. https://newsroom.co.nz/2024/04/02/more-beef-with-the-eu/
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39 Salmond and Tan. ibd.
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41 Lee, Sasha. Vietnam's renewable surge shouldn't distract from chronic environmental policy failures. East Asia Forum, 2024. https://eastasiaforum.org/2024/05/24/vietnams-renewable-surge-shouldnt-distract-from-chronic-environmental-policy-failures/
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43 IDH. Vietnam: Leading the Way in EU Deforestation Regulation Alignment. Utrecht, 2023. https://www.idhsustainabletrade.com/news/vietnam-leading-the-way-in-eu-deforestation-regulation-alignment/
44 Ibid.

TABLE 4: **Overview of environmental provisions in other EU trade agreements**

EU Trade Relationship	Year	Chapter on Sustainable Development
EU-Mercosur[45]	2000/2016	The Mercosur Agreement includes a chapter on sustainable development, which comprises a wide set of provisions ranging from labour standards to biodiversity, fisheries, and responsible management of supply chains. The parties "recognise that the economic, social and environmental dimensions are interdependent" and reaffirm their commitment to promoting the development of international trade in such a way as to contribute to the objective of sustainable development, for the welfare of present and future generations. Likewise, parties "agree to promote sustainable development through trade and economic relations in a manner that contributes to the objective of achieving the Sustainable Development Goals, and supports their respective labour and environmental standards and objectives in a context of trade relations that are free, open, transparent and respectful of multilateral agreements" (Art. 1). The parties recognise the right of each Party to "determine its sustainable development policies and priorities, to establish the levels of domestic environmental and labour protection it deems appropriate and to adopt or modify its law and policies" (Art. 2). The EU-Mercosur agreement also binds parties to multilateral conventions such as the United Nations Framework Convention on Climate Change, as parties recognize the importance of pursuing the objective of climate change goals. In this light, the EU and Mercosur Countries agree to "promote the positive contribution of trade to a pathway towards low greenhouse gas emissions and climate-resilient development and to increasing the ability to adapt to the adverse impacts of climate change in a manner that does not threaten food production" (Art. 6). In addition, the EU-Mercosur agreement oversees the sustainable management of forests. Parties are encouraged to "trade in products from sustainably managed forests harvested in accordance with the law of the country of harvest" and to "promote, as appropriate and with their prior informed consent, the inclusion of forest-based local communities and indigenous peoples in sustainable supply chains of timber and non-timber forest products, as a means of enhancing their livelihoods and of promoting the conservation and sustainable use of forests". Some actions include the implementation of measures to "combat illegal logging and related trade" (Art. 8).
EU-New Zealand[46]	2018/2024	The agreement has a chapter on trade and sustainable development, in which parties "affirm their commitment to promote the development of international trade and investment in a way that contributes to the objective of sustainable development" (Art. 19.1). The agreement recognises "the importance of the conservation and sustainable management of forests for providing environmental functions and economic and social opportunities for present and future generations". The Parties shall "exchange knowledge and experience on ways to encourage the consumption and trade in products from deforestation-free supply chains, to minimise the risk that goods associated with deforestation or forest degradation are placed on the market" (Art. 19.9) "The parties shall work together to strengthen their cooperation on trade-related aspects of sustainable forest management, minimising deforestation and forest degradation, forest conservation, illegal logging, and the role of forests and wood-based products in climate change mitigation" (Art 19.9)
EU-Vietnam[47]	2020/2023	The agreement contains an entire chapter (Chapter 13) devoted to trade and sustainable development, where the parties "affirm their commitment to pursue sustainable development" by fostering trade and investment having labour and environmental issues at heart (Art. 13.1). Moreover, the agreement recognises the importance of "conservation and sustainable management of forest resources" by encouraging trade and consumption of forest and timber products coming from "sustainably managed forests" and promoting "conservation of forest resources" and combating illegal logging even at regional and global levels (Art. 13.8).

45 European Commission. EU-Mercosur agreement. Chapter Trade and Sustainable Development. Draft. European Commission, Brussels, 2022. https://circabc.europa.eu/ui/group/09242a36-a438-40fd-a7af-fe32e36cbd0e/library/63854154-7f3f-45d6-bfe6-53e330818fd0/details

46 Council of the European Union. Free Trade Agreement between the European Union and New Zealand. Chapter 19. Official Journal of the European Union, Luxemburg, 2024. Pp. 397ff. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202400866#page=397

47 Council of the European Union. Free Trade Agreement between the European Union and the Socialist Republic of Viet Nam. Chapter 13. Official Journal of the European Union, Luxemburg, 2020. Pp. L 186/130ff. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2020:186:FULL&from=EN#page=132

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