IGUAZÚ
SUMMIT

Implementation of the EU Deforestation Regulation in Mercosur Countries: Achievements and Further Challenges

Reflections on the IGUAZU SUMMIT, held in Puerto Iguazú, Argentina, from March 14-15, 2024

PROF. DR. THOMAS DIETZ
PAULO MORTARA BATISTIC

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Uruguayan-German Dialogue on Agriculture

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ABOUT THIS STUDY

This study is used as a reference document for the German - Argentine Dialogue on Sustainable Agricultural Innovations, Agricultural Policy Dialogue Brazil - Germany and Uruguayan - German Dialogue on Agriculture. The content of this study is the sole responsibility of the authors, and any opinions expressed herein are not necessarily representative or endorsed by the Dialogues.

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Preface

The world faces multiple challenges, including feeding the world with sustainable production systems that are challenged by the changing climate. The United Nations´ Sustainable Development Goal 15 includes a specific goal regarding deforestation: *"By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally."* Nevertheless, deforestation has continued, often with the argument that new agricultural areas are needed to feed the world. To give an impulse to create truly more sustainable supply chains free of deforestation, the European Union adopted the Regulation on Deforestation-Free Supply Chains (EUDR) in May 2023. It will come into force on December 30, 2024, for several agricultural commodities, including soya and meat.

This new regulation will oblige European importers to source deforestation-free products, directly impacting the commodities' producers. In the case of the Mercosur countries, not the objective of the regulation itself but the way of its development and implementation has caused distress. To improve communication and to create an effective dialogue with the Mercosur countries about the implementation of the regulation, the German Federal Ministry of Food and Agriculture financed various dialogue activities in Brazil and Argentina in 2023 and this year's IGUAZU SUMMIT, which brought together the key stakeholders from the Mercosur countries and Germany. The Summit allowed a high-level technical exchange, which is presented in this report. The Summit showed the importance of a broad dialogue before and during the implementation of new policies, especially those affecting stakeholders from complex supply chains on different continents. The participants from the different countries showed technical solutions. However, they also expressed doubts about the lack of technological guidance to respond with systems adapted to the local context and responding to the EUDR requirements. As this document shows, there is work in progress, but many unresolved challenges remain.

I want to thank the colleagues of the German-Argentine Dialogue on Sustainable Agricultural Innovations, the Agricultural Policy Dialogue Brazil-Germany, and the Uruguayan-German Dialogue on Agriculture for their collaboration and support in

organising this event. A special thanks to Tomislav Ivancic (FAO) for moderating the event and Prof. Dr. Thomas Dietz and Paulo Mortara Batistic for capturing the essence of the dialogue in this report.

As bilateral dialogues, we hope this document will contribute to a better understanding and a more focused approach to the issues that must be resolved to implement EUDR.

Marnix Doorn
Team Leader of the German-Argentine Dialogue on Sustainable Agricultural Innovations

Buenos Aires, April 2024.

Introduction

Forests are essential ecosystems, offering a wide range of benefits to ecology, economy, and society. However, global deforestation and forest degradation pressures persistently threaten these vital resources. Key drivers of this destruction include the expansion of agriculture, particularly in industries such as soy, palm oil, rubber, cocoa, coffee, cattle farming, and timber extraction. In response, the European Union (EU) has taken steps to address its role in exacerbating forest loss. Initiatives such as the EU action plan on 'Forest Law Enforcement, Governance and Trade' (FLEGT) and the European Timber Regulation (EUTR) aimed to combat illegal logging and regulate timber trade. A fitness check conducted by the EU Commission revealed that while existing legislation such as the EUTR and FLEGT has enhanced forest governance, their core objectives of combating illegal logging and reducing the consumption of illegally harvested timber within the EU have not been met. The assessment highlighted that solely focusing on timber legality was inadequate to fulfil these objectives. The EU has recently extended its efforts to combat deforestation by adopting the EU Regulation on Deforestation-Free Supply Chains (EUDR) in May 2023.

In essence, the EUDR aims to prevent the entry of products linked to deforestation into the EU market. To achieve this goal, companies must conduct thorough due diligence to ensure their supply chains are deforestation-free. Compliance involves several key steps. Firstly, market participants within the EU must register themselves and all planned transactions. This registration system is integrated with customs authorities, allowing them to crosscheck declarations with entries in the registry. Customs authorities are empowered to halt import and export transactions if the necessary registration documents are absent.

A pivotal aspect of the EUDR's implementation strategy is the requirement for market participants to submit a due diligence statement to the central registry system before any foreign or domestic trade transactions take place. By doing so, they affirm their adherence to the EUDR's regulations and confirm a negligible risk of non-compliance in their commodities and products. Moreover, the EUDR introduces significant advancements in product traceability. While previous regulations only necessitated the identification of suppliers and customers, the EUDR goes further by mandating the

disclosure of the geographical origins of agricultural commodities, including specific plot locations. Furthermore, the EUDR expands provisions for conducting comprehensive risk assessments, particularly concerning human rights and the rights of indigenous peoples. A broad definition of legality drives this expansion.

The EUDR is set to come into effect on December 30, 2024. With this deadline rapidly approaching, it is now high time to look into the implementation of this complex set of new regulations. Importantly, the impact of the EUDR transcends EU market operators, extending worldwide and necessitating close collaboration among business entities throughout the global value chain, including agricultural commodity producers in distant countries. While EU market operators importing deforestation-prone agricultural commodities are directly addressed by the EUDR, they will transmit these requirements to upstream business actors in producer countries. These actors then face the challenge of furnishing the requisite information and documentation to access EU markets. Approaches in producer countries vary; some governments provide traceability as a public good accessible to all, while others rely on lead companies to privately organise traceability within their value chains. The readiness levels in producer countries are diverse. Some have made significant efforts in comprehending and aligning with the regulatory demands of the EUDR, while others may still be grappling with complexities associated with compliance.

The IGUAZU SUMMIT, held from March 14-15, 2024 in Puerto Iguazú, Argentina, provided a platform for stakeholders to explore this issue of the implementation of EUDR with a focused lens on the soybean and cattle sector in the MERCOSUR countries of Argentina, Brazil, Paraguay, and Uruguay. The summit was organised in the context of the dialogue in Argentina on the New Deforestation-free Regulation of the European Union, financed by the Innovation and Transformation Dialogue programme of the Federal Ministry of Food and Agriculture (BMEL). The Summit was organised in collaboration with three bi-national Dialogue projects; the German-Argentine Dialogue on Sustainable Agricultural Innovations, the German-Brazilian Agricultural Policy Dialogue, and the Uruguayan-German Agricultural Dialogue also funded by the BMEL.

The purpose of the IGUAZU SUMMIT was to convene stakeholders, including business representatives, experts, academics, civil society members, and political leaders from MERCOSUR countries and Germany. The objective was to explore achievements and further challenges in implementing the EUDR. Specifically, the Summit aimed to identify

significant gaps in the effective implementation of the EUDR and develop solutions to close these gaps. Special attention was given to smallholder farmers to ensure their continuity in business amidst the evolving regulatory requirements imposed by the EUDR.

During the two-day event, the authors of this report invited participants to participate in an online survey. The survey consisted of 15 distinct questions covering the main themes of the IGUAZU SUMMIT, focusing on the gaps and solutions regarding EUDR implementation in producing countries. The questions are provided in the Annex. Moreover, at the centre of the summit was a participatory workshop. Participants were first asked to divide into two parallel groups - one cattle and one soy group. Then, within each group, subgroups of up to 10 participants were formed, providing space for discussion of the following four structured questions.

1. What are the critical gaps in current traceability solutions?

2. What are the essential investments in filling these short/long-term gaps?

3. What are effective 'risk mitigating measures' to address remaining traceability gaps?

4. What safeguards are needed to keep smallholders/family farms in business?

These questions both intersect with and complement the survey questions. Each group documented and consolidated the subgroup discussions. Subsequently, these results were summarised and discussed during a joint plenary session. This report triangulates the survey data with the participatory workshop results. The main findings of this analysis will be presented in the subsequent section. The analysis will conclude with a set of policy recommendations on how to overcome the identified main challenges in the implementation of the EUDR.

Survey sample

Figure 1 provides insight into the distribution of respondents from different countries who participated in the survey on the implementation of the EUDR during the IGUAZU SUMMIT. In total, 44 out of 115 participants of the IGUAZU SUMMIT answered the survey. 17 respondents (38,64 %) were from Argentina, 7 (15,91 %) from Brazil, 9 (20,45 %) from Paraguay, 8 (18,18 %) from Uruguay, and 3 (6,82 %) from Germany. Out of the 44 respondents, 18 (40,91 %) indicated affiliation with the cattle sector, while 24 (54,55 %) respondents stated their involvement in the soy sector. Additionally, 12 (25 %) respondents mentioned their association with other alternative sectors. The sample included stakeholders from politics, business, civil society and academia. While the IGUAZU SUMMIT gathered a group of around 100 highly distinguished stakeholders and experts in the field of EUDR implementation, this survey sample appears to be highly representative of this group.

Figure 1 – Overview of the sample by Country

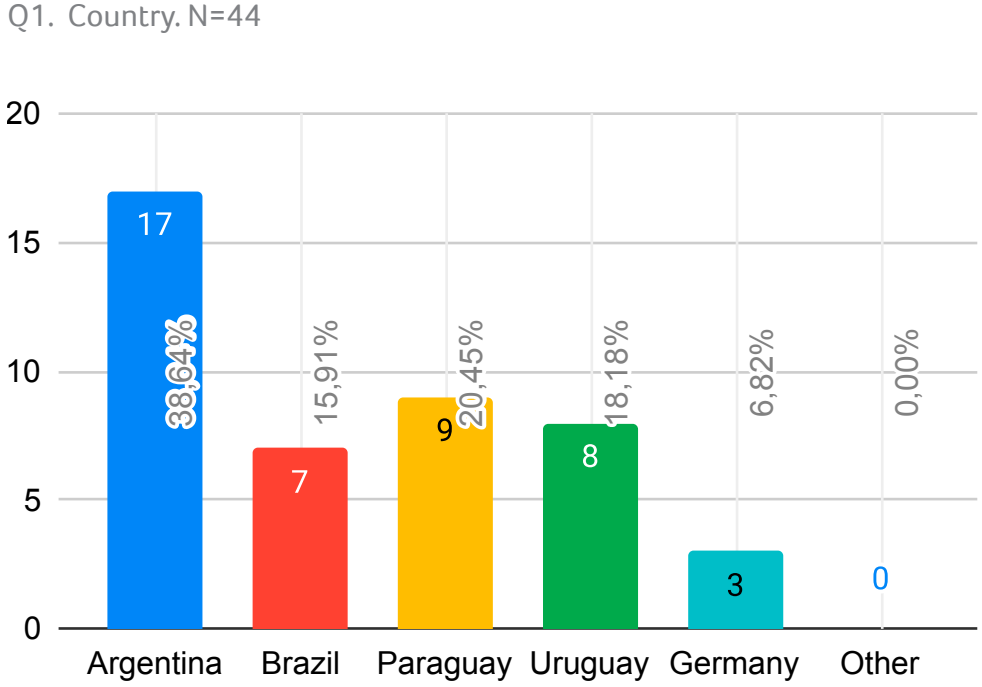


Figure 2 – Commodity sector of respondents

Q2. Commodity. N=44

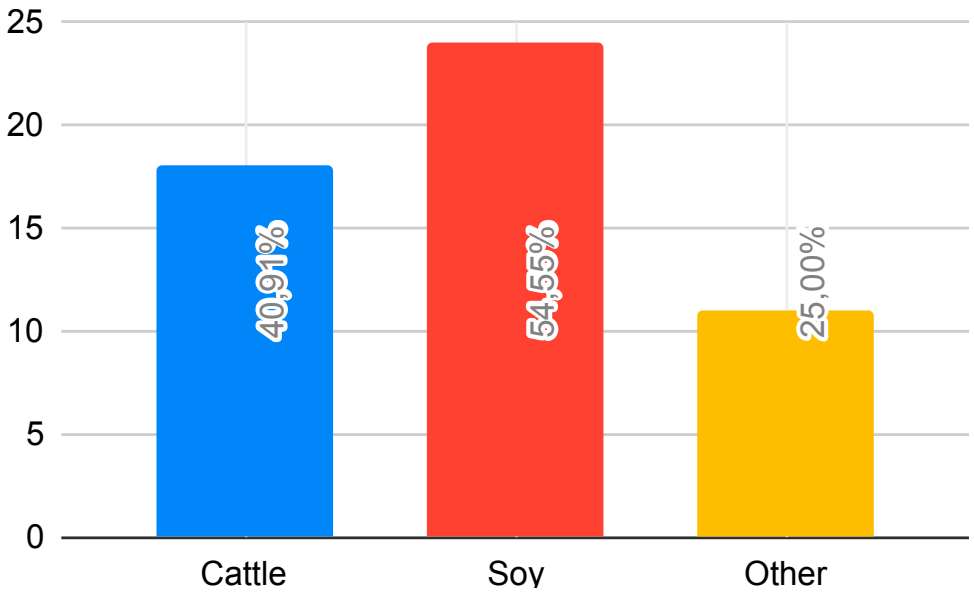
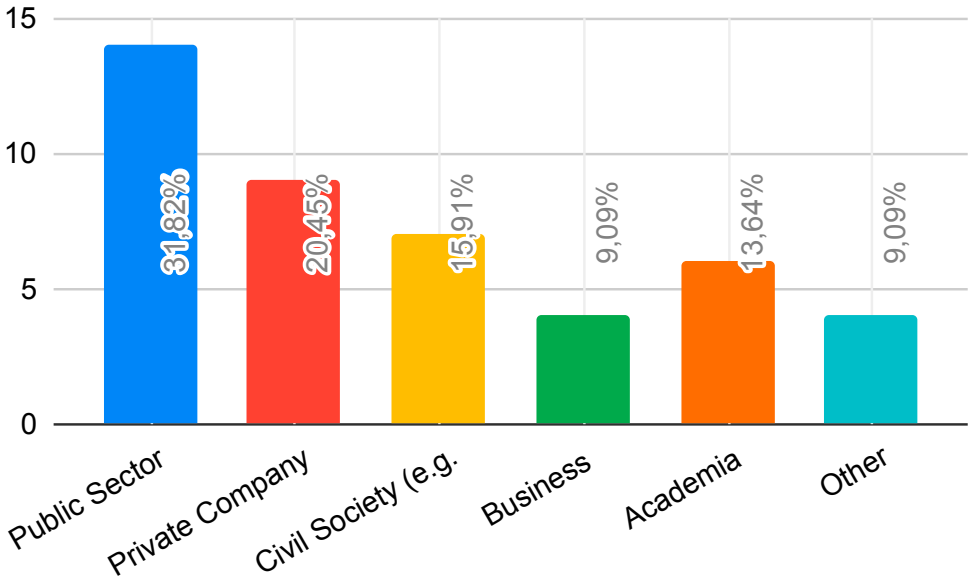


Figure 3 – Type of organisation

Q3. Type of Organization. N=44



EUDR: New opportunities for sustainable trade in cattle and soy?

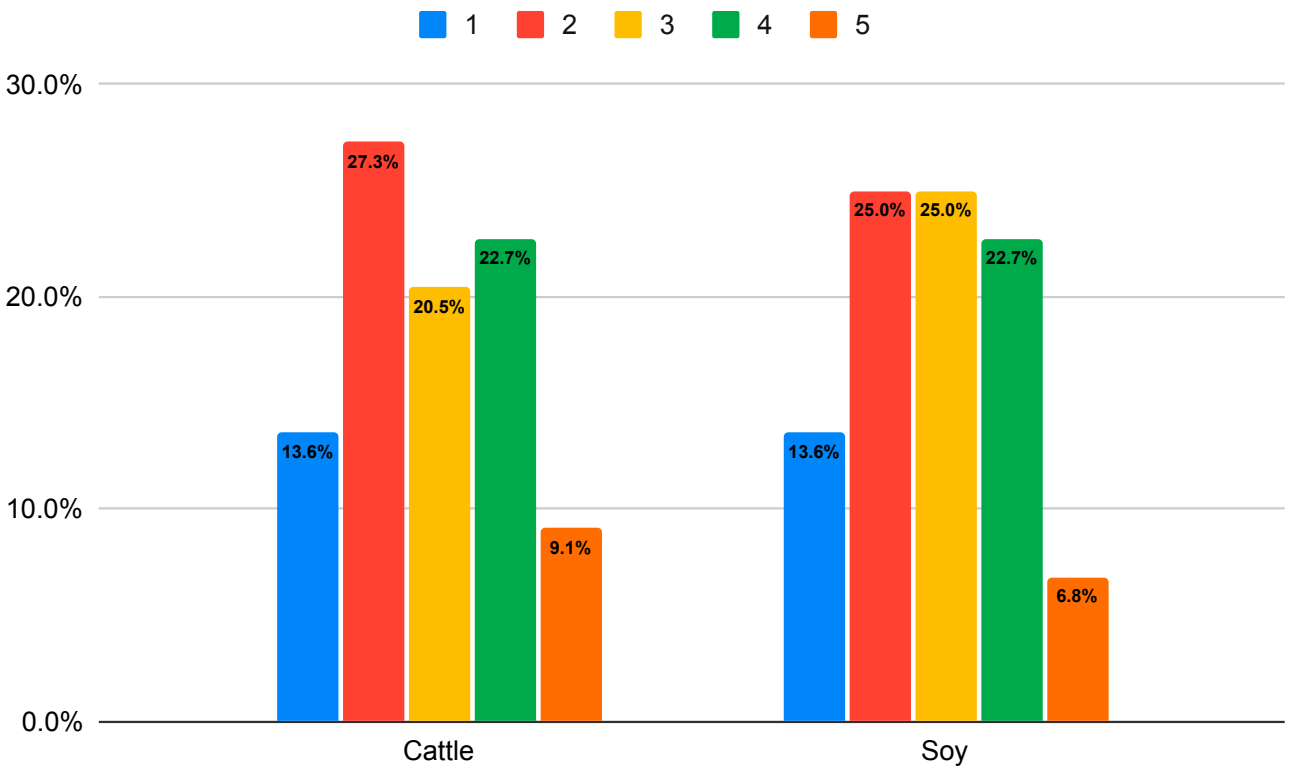
The first substantive question of the survey asked stakeholders to what extent they expect new opportunities for sustainable trade in soy and cattle to emerge with the implementation of the EUDR, using a scale of 1 to 5. As Figure 4 illustrates, responses to this question are mixed for both soy and cattle trade. In summary, roughly 40% of survey participants see no new opportunities for sustainable trade in either sector (scores of 1 and 2), while approximately 30% anticipate progress in both sectors (scores of 4 and 5). About a quarter of respondents cannot decide on a clear direction (score of 3).

These findings are closely aligned with a notable sense of uncertainty among stakeholders from the producing countries observed by the authors of this report during discussions on the implementation of the EUDR throughout the two-day event. On the one hand, there is a broad consensus that forest protection is a highly normative good. On the other hand, the complex rules of the EUDR and their implications for the organisation of global value chains are still difficult to grasp for the involved stakeholders. Observing these results, a central key to creating new viable sustainability trade options through the EUDR will be the intensification of communication and systematic exchange between the involved companies in the EU and the producing countries, including national enforcement authorities and representatives of the EU Commission.

As we will see in the next section, one central reason for the uncertainty felt by affected companies is that the IT-based traceability systems at both ends of the value chains - in the producer countries and the EU - are not yet entirely in place.

Figure 4 – New opportunities under the EUDR.

Q4. From your perspective, to what extent will the EUDR lead to new opportunities for sustainable soy and cattle trade? On a scale from 1 to 5 (1 meaning no new opportunities, 5 meaning many new opportunities). N=44



Gaps in the current implementation infrastructure

The successful implementation of the EUDR by affected companies largely depends on establishing a suitable technical infrastructure that enables high traceability of the traded goods from their origin to the EU market. At the Summit, stakeholders from Argentina and Brazil gave two impressive presentations about the traceability systems currently being developed in these countries, either by the public sector or through public-private initiatives. In addition, private companies leading global value chains are currently organising their traceability systems.

Are traceability systems implemented on time?

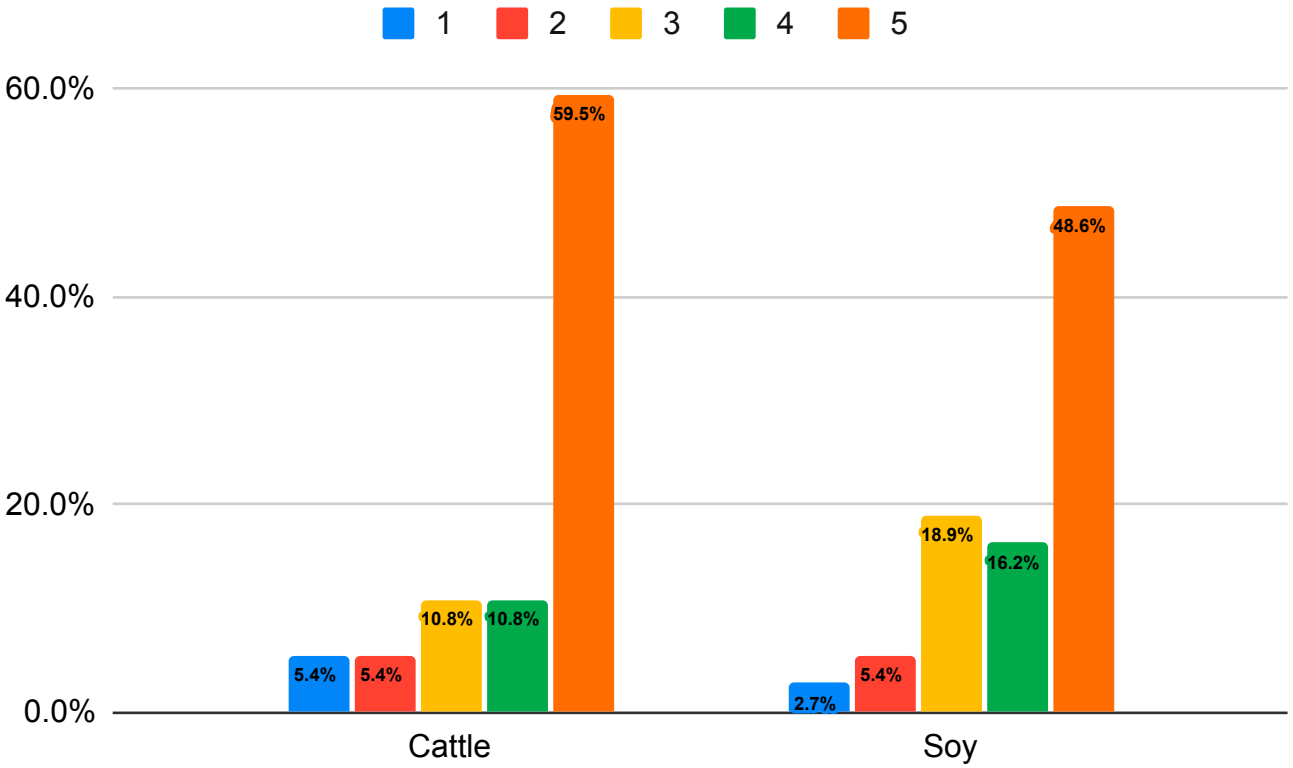
In the survey, participants were asked to what extent they were concerned that these traceability and information systems would not be in place by the end of 2024 when the EU law would become effective. The results reveal a clear pattern (see Figures 5 and 6).

Deforestation

First, the survey asked about the readiness of the traceability systems to verify that the traded commodities are free from deforestation. In cattle trade, nearly 60% (score of 5) responded that they are very concerned that these systems will not be ready in time, while only around 5% answered that they are not worried at all (scoring 1). In the soy sector, a similar pattern emerges, with more than 60% expressing concerns about the timeliness of these systems, with almost 50% stating that they are very worried, and only about 3% indicating that they are not worried at all.

Figure 5 – Risk perception of traceability systems not being in place by Dec. 2024.

Q7. To what extent are you worried that appropriate information traceability systems to prove that the exported commodity is deforestation-free will not be in place by the end of 2024 (the time the EU law will become effective)? On a scale from 1 to 5 (1 meaning not worried and 5 meaning extremely worried). N=37



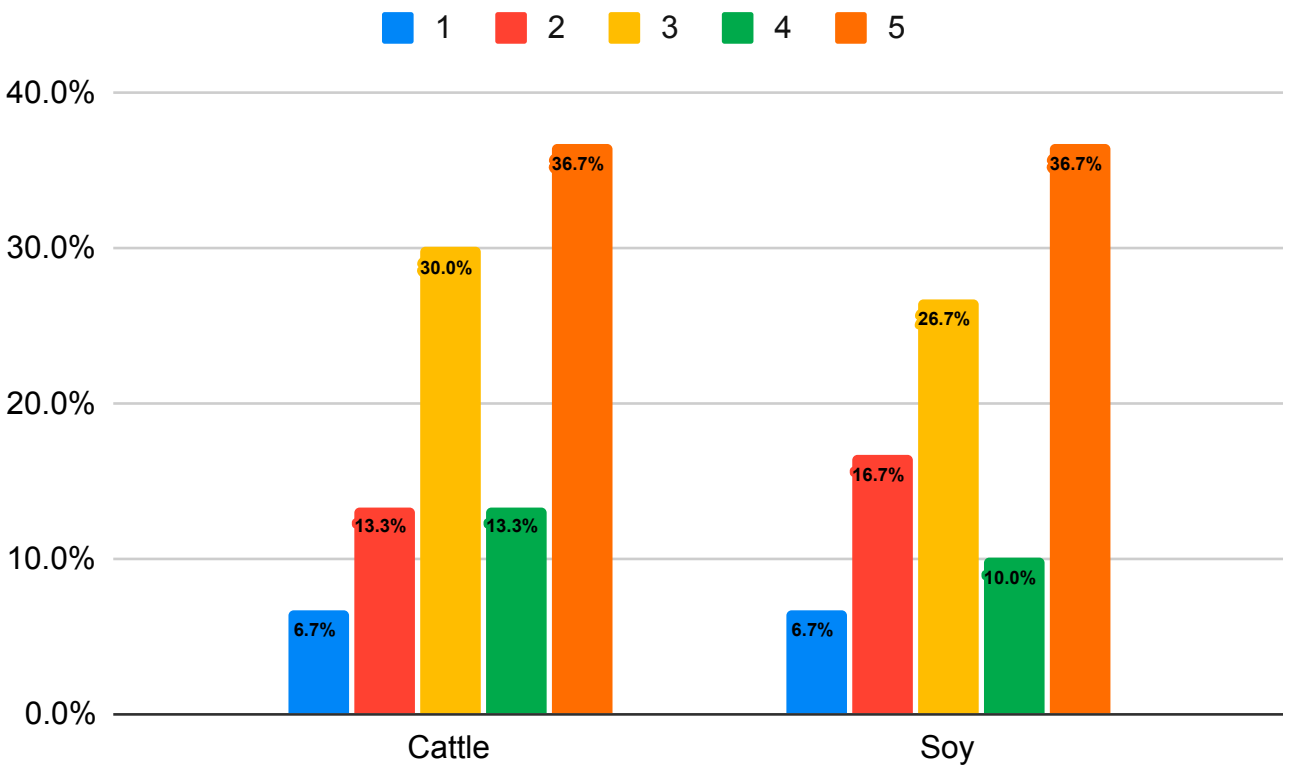
Legality

The survey continued by inquiring about the readiness of the traceability systems to verify the legality (e.g., compliance with national laws, indigenous peoples' rights, absence of corruption, etc.) of the traded commodities. Overall, the results point in the same direction, although they are not quite as clear-cut. Most respondents in both the cattle (50 %) and the soy sector (around 47%) are concerned that the traceability systems will not be available in time to facilitate smooth trade into the EU (Scores of 4 and 5). In contrast, only a small fraction (around 7% in both sectors) is not concerned at all

(Score of 1). A comparatively larger proportion of respondents in both sectors could not decisively choose a direction regarding the traceability systems' readiness to prove the legality of the traded commodities (Score of 3). This could be because the requirements that the due diligence process must fulfil in this area are generally perceived as significantly less clear than in deforestation-free trading, where at least the requirements are clearly specified through geolocation data.

Figure 6 – Risk perception of legality proving systems not being in place by Dec. 2024

Q11. To what extent are you worried that appropriate information systems to prove the legality (e.g. compliance with national laws, rights of indigenous peoples, absence of corruption, etc.) of the produced commodities will not be in place by the end of 2024 (the time the EU law will become effective)? On a scale from 1 to 5 (1 meaning not worried, 5 meaning extremely worried). N=30



Nevertheless, the prevailing message here is that approximately nine months before the EUDR comes into effect, significant concerns exist among affected stakeholders in producing countries regarding timely establishing the requisite traceability systems to enable compliance with the EUDR regulations.

Missing components for a timely provision of traceability systems

What are the missing components in implementing traceability systems for the EUDR to be completed on schedule? To address this question, survey participants were presented with five different answer options regarding the components they believe are still lacking from their perspective to complete the design of functional traceability systems for both the deforestation and legality aspects of the EUDR.

The results are remarkable: The component most mentioned was clear guidelines from the EU regarding the specific requirements that the traceability systems must meet for agricultural commodities to be imported into the EU market without further obstacles (Deforestation 70,45%; Legality 83,33 %). In line with this statement, the component of communication between stakeholders from the producing countries of agricultural goods and the EU Commission to agree on standard requirements for traceability systems was also largely criticised (Deforestation 52,27 %; Legality 66,67 %). Table A in the annex, which summarises the results of the participatory workshop for the first question discussed by the participants, confirms these findings (See Table A in Annex, statements 1,6,8,12,13,14, 15).

In addition, the surveyed experts at the summit mentioned the integration of different integrated data platforms (Deforestation 54,55 %; Legality 50 %) and financial capacities (Deforestation 50%, Legality 46,67) relatively frequently. These aspects were also clearly highlighted during the participatory workshop discussions (See Table A in Annex, statements 2, 9, 11, 16, 19).

The comparatively lowest number of answers related to the technical capabilities (technological readiness) that must be in place to implement these systems technically (36,6 %, Legality Deforestation 40 %). This finding is also reflected in the comprehensive presentations from Argentina and Brazil during the IGUAZU SUMMIT, where it became clear that the technical systems for traceability are already quite advanced. Indeed, many of the issues raised by affected stakeholders during the Summit, such as technological solutions for tracking the movement of cattle, integrating traceability systems with existing national data platforms to leverage synergies, or encrypting sensitive business data like contacts and trade relations, are already being addressed by the existing IT infrastructure. However, uncertainties persist in certain areas, particularly concerning technical interfaces with EU systems.

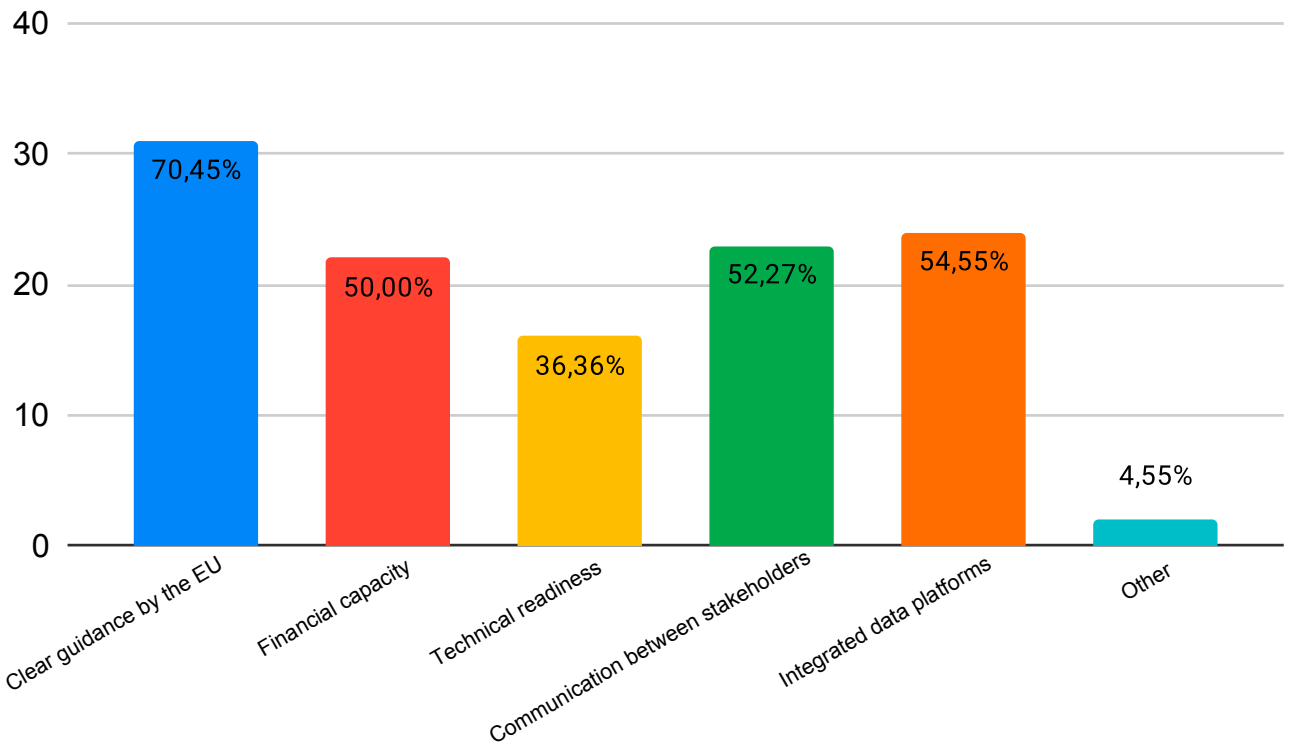
Regarding the lack of financial capacities, which was mentioned in approximately 50% of the responses for both soy and cattle, the discussions of the participatory workshop make clear that there is a particular need for additional finance to provide reliable and accurate satellite images of the myriad farms in MERCOSUR countries involved in trade with the EU (See Table A, statements 2, 18, 19, Table B, statements 1, 8, 10).

Another cost factor that participants raised from the producing countries during the IGUAZU SUMMIT was the set-up costs for creating the IT infrastructure of the traceability systems, along with the opportunity costs incurred on the producer side to collect and structure the corresponding information for the due diligence process for their customers in the EU (See Table B, statements 3, 4, 6, 7,14).

Deforestation

Figure 7 – Missing components of traceability systems.

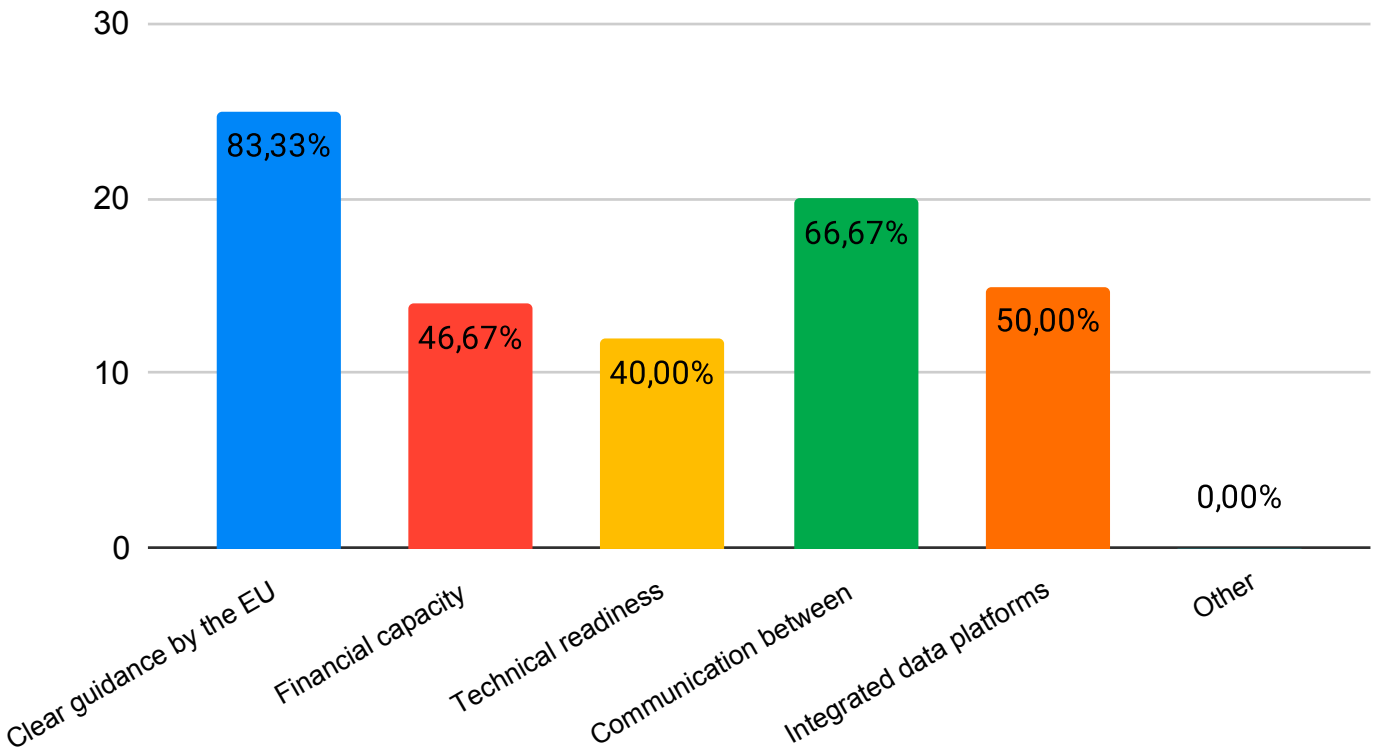
Q8. What are the key components of a workable traceability system that are still missing? N=37



Legality

Figure 8 – Missing components of appropriate systems to prove legality under the EUDR.

Q12. What are the key components of appropriate information systems to prove the legality of the produced commodities that are still missing? N=30



The third of the four guiding questions discussed at the participatory workshop addressed the issue of additional 'Risk mitigation measures' to tackle the remaining gaps (missing components) in the current traceability systems. As is evident in Table 1 below, the majority of responses from producer countries' workshop participants regarding this issue refer to improved communication mechanisms with the EU and national competent authorities responsible for enforcing the EUDR (statements 3,4,5,14). Other essential aspects relate to the potential reduction of bureaucratic efforts in providing the information required by the EUDR through more general approaches, such as defining deforestation-free zones or providing regional performance reports. Lastly, survey participants see a

significant responsibility on the part of their governments to enhance policy and data integration for the national data platforms intended to facilitate the national traceability systems (statements 1, 2, 10, 11, 15, 16).

Table 1 – Consolidated Responses from Soy and Cattle Workshop Participants for Question 3

Q3. What are effective 'risk mitigating measures' to address remaining traceability gaps?	
Soy	**Cattle**
1. Use government documents (platform)	8. Slaughterhouse level segregation
2. Establish deforestation-free zones	9. Difference Between Countries
3. Increase dialogue between supporters + producers + decision-makers	10. Public Info Available Verified/Verifiable
4. Platforms can be validated by the EU (competent authorities)	11. Data Privacy
5. Electronic systems to facilitate the digital migration of data	12. Funding Source
6. Regional performance report	13. Structured Learning Process
7. Cost distribution mechanism throughout the chain	14. Published Guidelines
	15. Equivalence of Public Information
	16. Use of integrated policies – example of Uruguay

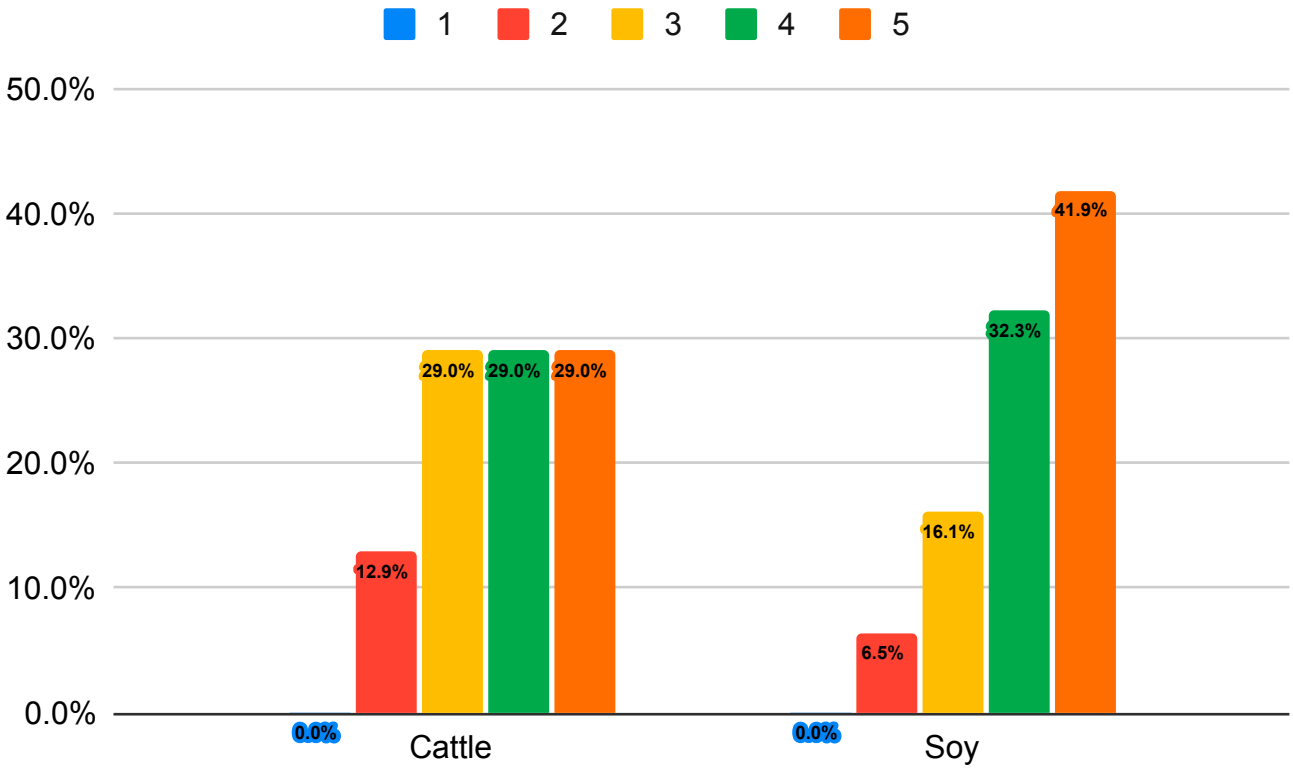
Physical segregation of value chains as a challenge in EUDR implementation

Establishing functional IT-based traceability systems is not the sole challenge in implementing the EUDR. Furthermore, the regulation requires producers and traders of agricultural commodities to physically segregate value chains, ensuring compliant products remain distinct from non-compliant ones. This may entail establishing new physical infrastructure customised to meet the demands of EU markets. The survey asked participants to estimate the potential cost of physically segregating value chains under the EUDR. Notably, as indicated by the results in Figure 9, the majority of respondents anticipate "high" or "very high" costs associated with the physical segregation of commodity chains in both the cattle and soy sectors (Scores of 4 and 5). For soy (around 74%), these numbers are even higher than for cattle (58 %). One possible reason for this could be that for cattle, simply using ear tags and reorganising cattle at the slaughterhouse into

EUDR-compliant and non-compliant batches might suffice. However, in the soy sector, the new EUDR regulations might necessitate the establishment of an entirely new chain of silos solely for the trade with EUDR-compliant soy. However, it is important to note that reorganising the soy and cattle trade to comply with the new regulations is expected to entail significant costs. Survey respondents particularly emphasised this concern and prominently discussed it during the participatory workshop. (For workshop results, see Table A, statements 3,17, 21, and 22; Table B, statements 12, 13; Table 1, statement 8)

Figure 9 – Cost perception of segregation under EUDR rules.

Q10. In your opinion, how costly will physical segregation of deforestation-free commodities become under the EUDR? On a scale from 1 to 5 (1 meaning not costly, 5 meaning extremely costly). N=31



EUDR and the risk of smallholder exclusion from EU markets

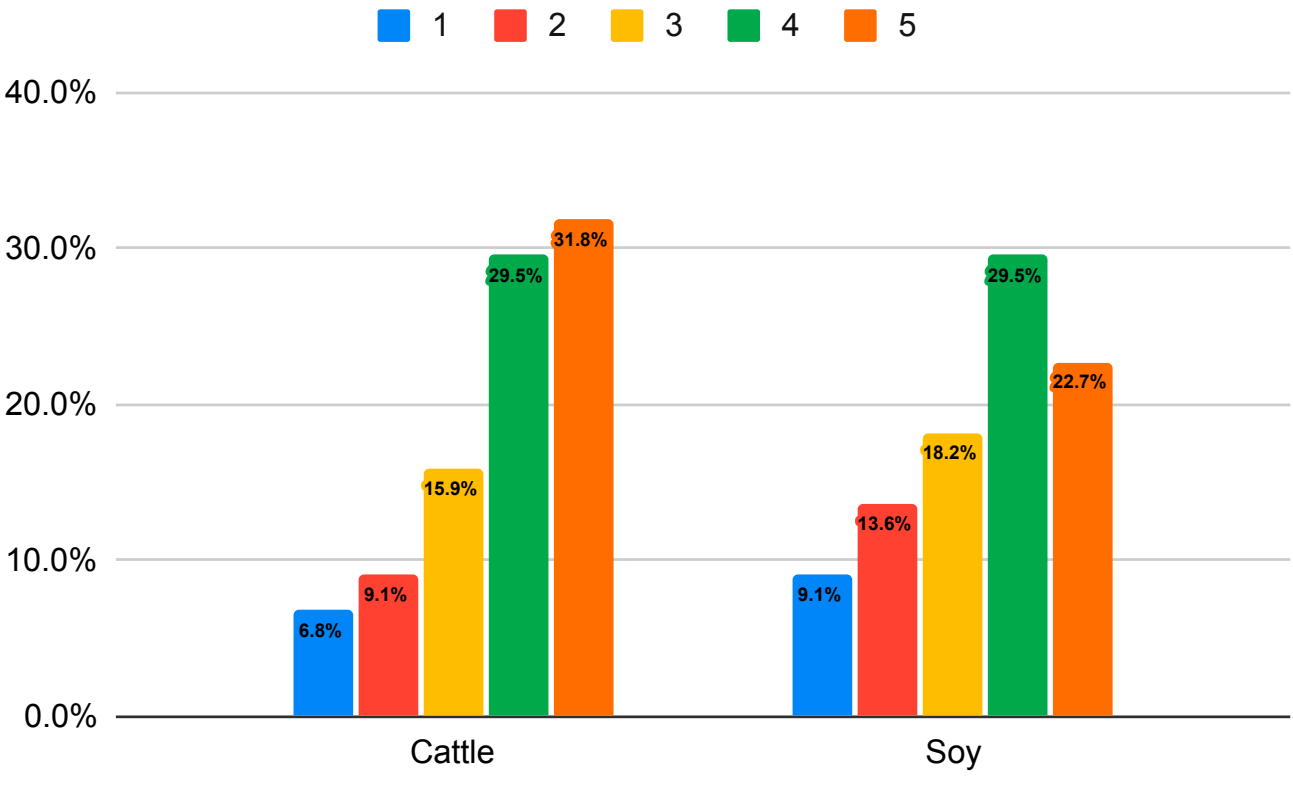
Failure to comply with the EUDR can lead to exclusion from lucrative EU markets. A question of great concern to the participants of the IGUAZU SUMMIT was whether this risk particularly applies to smallholder farmers. Smallholders often lack the financial

and technical resources to comply with complex regulations. They may also lack awareness of legal obligations and have limited access to information and support networks to help them comply. Implementing systems to trace the geolocations and legality of soy and cattle can be costly and require expertise that smallholders may not possess. Moreover, smallholders typically operate within fragmented supply chains, making tracking the origin of their products more expensive. For smallholders already operating on thin profit margins, these additional expenses can be prohibitive and may threaten their economic viability.

The survey results during the IGUAZU SUMMIT indicate that there is a high probability for smallholder farmers in the MERCOSUR countries to face exclusion from their trading activities with the EU due to the EUDR. Most respondents specify this risk as "high" (Score of 4) or "very high" (Score of 5) for both the cattle (high: 29,55 %, very high: 31,82 %) and the soy sector (high: 29,55 %, very high: 22,73 %) with slightly higher numbers for the cattle sector compared to the soy sector.

Figure 10 – Risk perception of smallholder exclusion under EUDR rules.

Q5. In your opinion, how big is the risk that smallholders are going to be excluded from exporting to the EU? On a scale from 1 to 5 (1 meaning no risk, 5 meaning extremely high risk). N=44



There was a strong consensus among participants of the IGUAZU SUMMIT that special support for smallholders is needed to prevent their exclusion from supply chains into the EU. Specific measures mentioned included targeted training and awareness-raising programs. Additionally, the emerging traceability systems must not be solely created by market participants but must be available as public goods, accessible free of charge to all market participants, including smallholders. Otherwise, there remains a high risk that smallholders will be pushed out of the market due to higher transaction costs in implementing the EUDR. A detailed account of the safeguards proposed by the workshop participants to support smallholders is presented in the following Table 2:

Table 2 – Consolidated Responses from Soy and Cattle Workshop Participants for Question 4

Q4. What safeguards are needed to keep smallholders/family farms in business?	
Soy	**Cattle**
1. Doubly differentiated treatment by size and by country	8. What are smallholders for the EU?
2. Support the Cooperatives	9. Financial support via Art. 30
3. Free platform	10. Transition time for smallholders outside of the EU
4. Training and awareness about the type of information needed	11. Formalisation of land tenure
5. EU (France and Germany) to subsidise satellite images + software + all implementation costs	
6. Double premium for family farmers	
7. Encourage Sustainable Management of production	

Potential trade distortions due to EUDR implementation

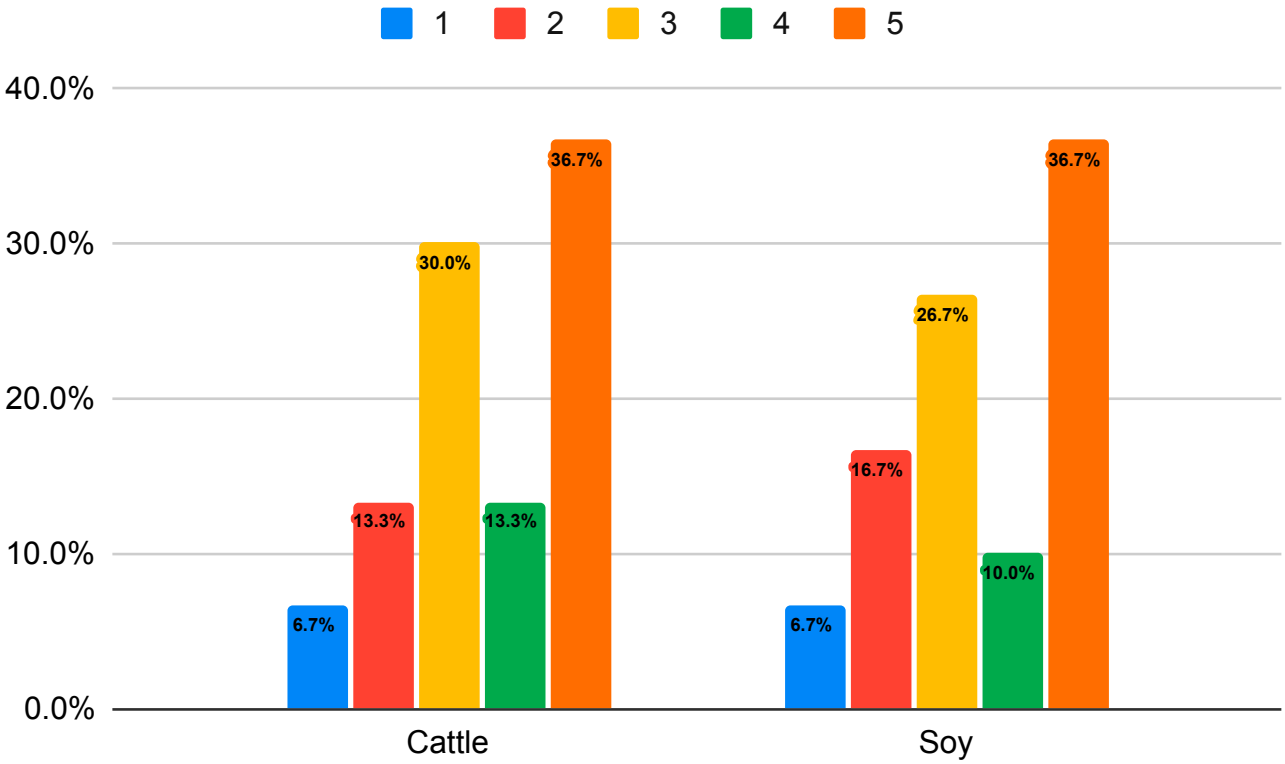
Additional trade distortions from implementing the EUDR could include redistributing export volumes among countries. Transaction costs for trading with countries having lower risk due to, for example, their minimal primary forest cover may decrease compared to countries with higher risks. Moreover, overall export volumes might shift as producers opt to export to regions other than the EU to evade the elevated costs linked with EUDR compliance.

However, the survey results on these issues are mixed. When respondents were asked to what extent they agreed with the following statement: "The EUDR puts my country

at a comparative advantage vis-à-vis other MERCOSUR countries," only a minority (cattle and soy: 13,33%) fully agreed (Score of 5). Indeed, the answers are relatively evenly distributed across the five different answer options.

Figure 11 – Competitive advantage perception under the EUDR.

Q11. To what extent are you worried that appropriate information systems to prove the legality (e.g. compliance with national laws, rights of indigenous peoples, absence of corruption, etc.) of the produced commodities will not be in place by the end of 2024 (the time the EU law will become effective)? On a scale from 1 to 5 (1 meaning not worried, 5 meaning extremely worried). N=30

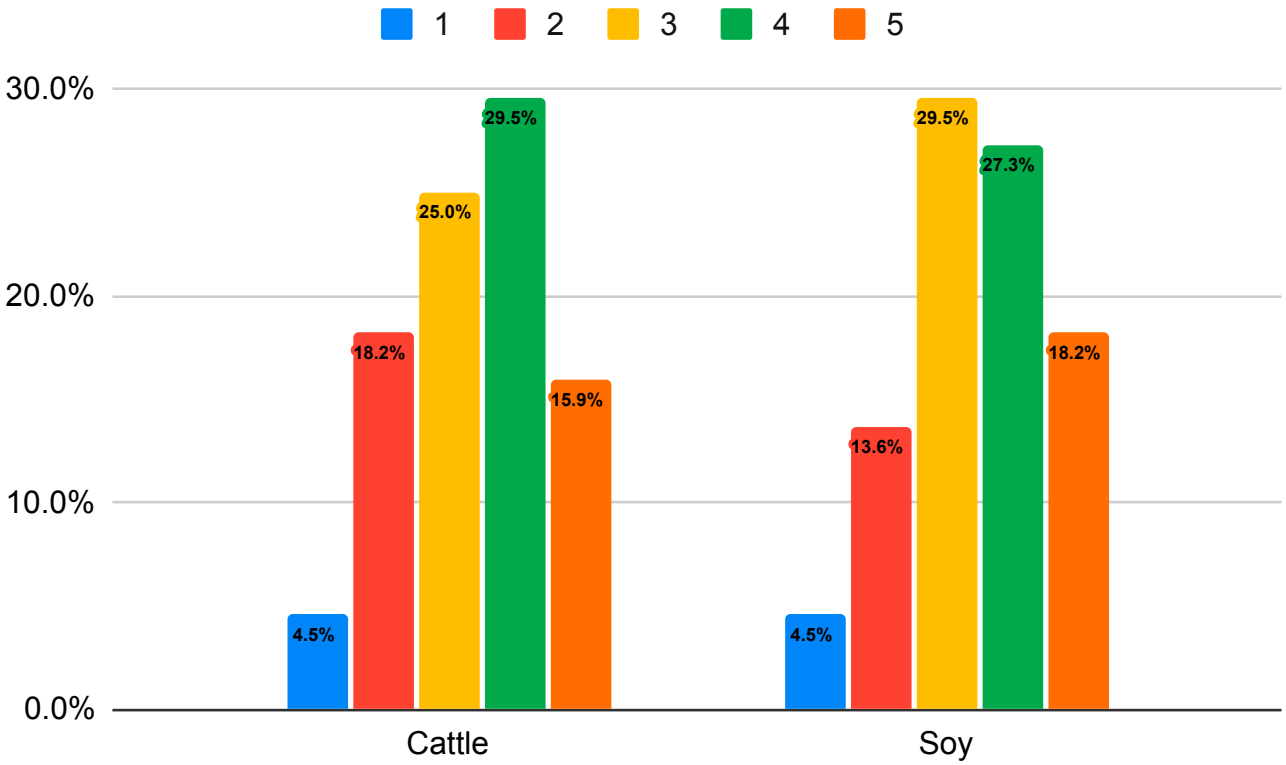


A different pattern emerges regarding whether the EUDR will divert trade in cattle and soy from the EU market to other markets. In both the cattle and soy sectors, most respondents expect significant (Score of 4: cattle 29.55%, soy 27.27%) and very significant (Score of 5: cattle 15.91%, soy 18.81%) market shifts. However, a significant portion of respondents appears undecided (Score of 3: cattle 25%, soy 29.55%), which can be

interpreted as a sign that actors from the producing countries are currently facing too much uncertainty to clearly project the consequences of EUDR implementation on future trade volumes.

Figure 12 – Perception of exports shifting away from the EU market.

Q6. In your opinion, to what extent do you expect that exports will shift from the EU to other markets? On a scale from 1 to 5 (1 meaning no shifts, 5 meaning very significant shifts). N=44



Incentive Gaps

Nonetheless, the EU should take these results seriously because the more the EUDR pushes producers from deforestation-prone regions out of the EU market, the less impactful this regulation will be in halting deforestation. Policymakers in the EU need to recognise the distinction between the internal governance logic of the EUDR and its external application. The EU can compel market operators to adhere to the EUDR within the

EU market. The national competent authorities oversee implementation and have the power to enforce these regulations as a last resort. Through the rule of law-principle of treating similar cases alike, the EUDR can ensure uniform application across all market operators falling under its jurisdiction, thereby fostering a level playing field within the EU. Operators face strong incentives to comply with the EUDR due to the imminent prospect of significant financial penalties if they fail to do so.

However, this logic of EUDR implementation changes when considering business actors outside the EU internal market, such as producers of soy and cattle in MERCOSUR countries. Given the territorial logic of state law, the national competent authorities responsible for enforcing the EUDR in the EU cannot directly exercise their authority to enforce this regulation on actors outside the EU. Therefore, implementing the EUDR in the production countries with large, important, biodiverse forest areas that the EU aims to protect is ultimately voluntary. Producers can choose to participate in these supply chains or opt-out. The implementation of the EUDR in the biodiverse regions crucial for deforestation-free supply chains does, therefore, not depend on the enforcement power of state authorities but rather on the market power of the EU.

Ultimately, this leads to a dilemma between stringency and inclusion, already known from the Voluntary Sustainability Standards (VSS) debate. Stricter rules and documentation requirements result in higher implementation costs. Businesses may seek alternative routes by reorganising their supply chains if these become prohibitive. To the extent this dynamic unfolds, the EUDR will face challenges in achieving its primary objective of making a substantial impact. From the EU's perspective, the aim should be to integrate as many actors as possible into these supply chains. To achieve this goal, the implementation of the EUDR should, wherever feasible, be bolstered by positive incentives within comprehensive partnership programmes. It is also important in this context to conclude the free trade agreement with the MERCOSUR countries.

The rules of the game would change if other economic powers, such as China or the USA, were to align their rules for importing agricultural goods with the EUDR. However, until this is not the case, there should be a business case for the successful implementation of the EUDR. Stakeholders from production countries clearly conveyed this message during the two days of the Summit. Gaps in implementing the EUDR are therefore not purely technical; it is also necessary to consider the design of favourable incentive structures that can integrate as many actors as possible, ideally in regions where

deforestation risks are particularly high, into EU supply chains. Ultimately, the impact of this regulation depends on participation. Several stakeholder points raised during the participant workshop also clearly underscored this insight. (See Table A, statements 11; 19; Table 1, statements 7, 12; Table 2, statements 1, 2, 6, 9)

Conclusion and Policy Recommendations

In May 2023, the EU adopted the Regulation on Deforestation-Free Supply Chains (EUDR). Effective December 30, 2024, the EUDR will come into force. From this date onward, customs will verify whether importers have registered their transactions before entering the EU market and can furnish the required due diligence documents. National competent authorities will conduct systematic sampling and inspections to ensure the accuracy of these due diligence statements. Compliance with the regulation is tied to a strict sanctioning regime. While the EUDR directly regulates EU market operators importing deforestation-prone agricultural commodities, they will subsequently pass on these requirements to upstream business actors in producer countries, who need to comply with the EUDR to continue exporting to the EU.

The IGUAZU SUMMIT, held in Puerto Iguazú, Argentina, from March 14-15, 2024, offered a timely and urgent platform to build bridges and discuss EUDR implementation through a collaborative dialogue between stakeholders from the EU and MERCOSUR countries. The Summit aimed to assess the achievements, establish a common understanding, and identify solutions for the challenges ahead. During the two-day event, the authors of this report conducted an online survey, inviting participants to share their insights addressing the key themes of the IGUAZU SUMMIT. To complete this report, the findings from the survey were complemented by expert knowledge and observations gathered by the authors during the summit preparation and the event itself. In this final section, the results of this analysis are synthesised into a set of conclusions and policy recommendations.

First, considering the complex and highly specific data required by the EUDR for due diligence statements - geolocations and legality of commodity production - the design, technological linkage, and integration of traceability systems with national databases and the EU is a pressing issue. This urgency is heightened by the deadline for these systems to be in place by year-end. A key insight from the presentations and discussions at the IGUAZU SUMMIT was that technologically feasible solutions for establishing functional traceability systems already exist and are well-developed, at least in some states. Since

agricultural production is already subject to partially pronounced monitoring systems, the focus is on utilising existing databases to capitalise on synergies in implementing the EUDR.

It is clear, however, that these systems are not yet fully operational. Paradoxically, one significant reason for this is seen as shortcomings on the part of the EU. While the EUDR is much more specific in the requirements that market participants must meet compared to similar predecessor laws, these rules are very complex, and as with any other law, specific uncertainties and gaps only become apparent during the implementation process. One question, for example, is how conflicts will be resolved if different systems for determining geolocation data yield different results regarding potential deforestation or what exactly constitutes a "negligible risk" that must be achieved to comply with the EUDR rules. Furthermore, the EU's information system, into which market operators are supposed to register and input their due diligence statements, is still in the pilot phase today. Therefore, it is not yet precisely known in what form the information needs to be provided.

It is not as if the EU is inactive in clarifying understandings and providing assistance. The extensive "Frequently Asked Questions" section on the Commission's websites shows evidence of this. However, the efforts could be more systematic. A central policy **recommendation** directed at the EU and its member states is, therefore, to initiate a collaborative communication and coordination process involving both the EU Commission and national Competent Authorities, as well as private and public representatives from the producing countries, to jointly coordinate and agree on standards and processes for implementing the EUDR. Only through this approach can legal certainty and trust be established in systems that will be of enormous importance in the future. The great success of the IGUAZU SUMMIT might well serve as a template for how such processes can be organised.

However, even if the EU and the national authorities in the producer countries have set themselves the goal of establishing generally available traceability systems, they still have a long way to go. As already outlined above, while these systems exist in their basic form, they are not yet fully functional and operational.

Second, the implementation of the EUDR will inevitably incur costs. The issue of financial constraints, identified in approximately 50% of responses, underscores the need for additional funding from public and private stakeholders in producing countries. This funding is necessary to obtain reliable satellite imagery of the numerous farms in MERCOSUR nations engaged in trade with the EU. Participants at the IGUAZU SUMMIT also highlighted the financial burdens associated with establishing IT infrastructure for traceability systems and the opportunity costs for producers in gathering and organising data essential for the due diligence process required by EU customer-nations engaged in trade with the EU. Participants at the IGUAZU SUMMIT further emphasised the expenses associated with establishing IT infrastructure for traceability systems, as well as the opportunity costs for producers in collecting and organising data for the due diligence process required by EU customers. The physical segregation of value chains, as demanded by the EUDR, will be another cost driver.

However, most of these costs are investments. Once the IT-based infrastructure is established, farms are registered with their geolocations and legality statements, and the physical infrastructure has been constructed to segregate EUDR-compliant from non-compliant commodities, regulatory costs can be expected to decrease significantly. For the EU and its Member States, this implies that, particularly in the initial phase of EUDR implementation, offering support through a partnership programme would be highly beneficial if funds in producing countries are lacking or insufficient. Such assistance could undoubtedly make a meaningful contribution to ensuring the reliable and timely implementation of the EUDR.

As previously discussed, businesses cannot be compelled to opt into the sustainable value chains associated with the EUDR. If costs become prohibitive, producers and traders may well opt out, posing challenges for the EU in leveraging its trading influence to combat deforestation. To effectively preserve forests, the **EU must** actively involve more stakeholders in supply chains and support EUDR implementation. The obstacles to swift EUDR implementation extend beyond technical aspects. Additionally, it is **recommended** that the EU and its Member States consider offering positive incentives and a business case for participation in EUDR-regulated value chains, mainly targeting regions at high risk of deforestation. The success of this regulation relies on widespread participation.

Third, survey results from the IGUAZU Summit show a significant likelihood of smallholder farmers in MERCOSUR facing exclusion from EU trading due to the EUDR. To further illustrate this point, consider the following statement from a workshop participant with a specific focus on Brazil:

"Smallholders in southern Brazil are by far the best organised in cooperatives that actually work. They may be about 3000 km away from the Amazon. Nevertheless, they represent an increased risk for compliance officers and lawyers of soy traders who want to make everything watertight. One thousand farmers, 1000 polygons, 1000 legality declarations. 1000 instead of one farm with 100,000 hectares, one polygon, and one legality declaration. The traders want a secure and closed corridor from the Fazenda to Rotterdam. Keeping the farmers and their cooperatives in business entails significant additional transaction costs and increases the risk by a factor of 1000, which could create a gap in the corridor. And risk always transforms into costs."

The summit consensus is for special support to prevent this exclusion, including targeted training and accessible traceability systems as public goods. The EU is strongly advised to closely monitor the effects of the EUDR in the coming years and actively support the inclusion of smallholders in EUDR-regulated commodity chains.

A closely coordinated implementation process is essential to encourage producers to opt into EUDR value chains. This includes post-implementation and establishing a structured learning process to optimise EUDR implementation. This could involve inclusive learning sessions, workshops, and knowledge-sharing platforms, fostering collaboration and best practice dissemination among stakeholders. In light of the complexity of these processes, it is understandable that market operators, whether in the EU or producing countries are currently calling for an extension of deadlines for the proper implementation of the EUDR.

Annex 1 - Survey

Iguazu Summit

1. Country

Other (please specify)

2. Commodity

- ☐ Cattle
- ☐ Soy
- ☐ Other (please specify)

3. Type of Organization

- ○ Public Sector
- ○ Private Company
- ○ Civil Society (e.g. NGO)
- ○ Business Association
- ○ Academia
- ○ Other (please specify)

4. From your perspective, to what extent will the EUDR lead to new opportunities for sustainable soy and cattle trade? On a scale from 1 to 5 (***1*** *meaning* ***no*** *new opportunities,* ***5*** *meaning* ***many*** *new opportunities*).

	1	2	3	4	5
Cattle	○	○	○	○	○
Soy	○	○	○	○	○

5. In your opinion, how big is the risk that smallholders are going to be excluded from exporting to the EU? On a scale from 1 to 5 (***1*** *meaning* ***no*** *risk, 5 meaning* ***extremely high*** *risk*).

	1	2	3	4	5
Cattle	○	○	○	○	○
Soy	○	○	○	○	○

6. In your opinion, to what extent do you expect that exports will shift from the EU to other markets? On a scale from 1 to 5 (***1*** *meaning* ***no*** *shifts,* ***5*** *meaning* ***very significant*** *shifts*).

	1	2	3	4	5
Cattle	○	○	○	○	○
Soy	○	○	○	○	○

7. To what extent are you worried that appropriate **information traceability systems** to prove that the exported commodity is deforestation-free **will not** be in place by the end of 2024 (the time the EU law will become effective)? On a scale from 1 to 5 (***1*** *meaning* ***not*** *worried and* ***five*** *meaning* ***extremely*** *worried*).

	1	2	3	4	5
Cattle	○	○	○	○	○
Soy	○	○	○	○	○

8. What are the key components of a workable traceability system that are still missing?
   - ☐ Clear guidance by the EU / Member States National Competent Authorities
   - ☐ Financial capacity to implement effective information traceability systems
   - ☐ Technical readiness of the information traceability systems
   - ☐ Communication between stakeholders in producer countries and the EU to agree on common information traceability procedures
   - ☐ Creation of integrated data platforms by producing countries Governments'
   - ☐ Other (please specify)

9. In your opinion, what needs to be done to overcome the challenges related to reliable **information traceability systems** you just mentioned? Please take a minute to answer this question carefully.

10. In your opinion, how **costly** will physical segregation of deforestation-free commodities become under the EUDR? On a scale from 1 to 5 (***1*** *meaning* ***not costly***, ***five*** *meaning extremely costly*).

	1	2	3	4	5
Cattle	○	○	○	○	○
Soy	○	○	○	○	○

11. To what extent are you worried that appropriate information systems to prove the **legality** (e.g. compliance with national laws, rights of indigenous peoples, absence of corruption, etc.) of the produced commodities **will not** be in place by the end of 2024 (the time the EU law will become effective)? On a scale from 1 to 5 (***1*** *meaning* ***not*** *worried,* ***five*** *meaning* ***extremely*** *worried*)

	1	2	3	4	5
Cattle	○	○	○	○	○
Soy	○	○	○	○	○

12. What are the key components of appropriate information systems that prove the legality of the produced commodities that are still missing?

- ☐ Clear guidance by the EU / Member States National Competent Authorities
- ☐ Financial capacity to implement effective information systems
- ☐ Technical readiness of the information systems
- ☐ Communication between stakeholders in producer countries and the EU to agree on common standards and information procedures
- ☐ Creation of integrated data platforms by producing countries Governments'
- ☐ Other (please specify)

13. In you opinion, what needs to be done to overcome the challenges you just mentioned around proving the **legality** of the exported commodities?

14. To what extent do you agree with the following statement: The EUDR puts my country at a comparative advantage vis-à-vis other Mercosur countries. (*On a scale of 1 to 5, **1** meaning "**don't agree at all**", **5** meaning "**completely agree**"*).

	1	2	3	4	5
Cattle	○	○	○	○	○
Soy	○	○	○	○	○

15. If you agree to be contacted for in depth expert interview after the Iguazu Summit, please leave your contact details in the box below. Thank you for your participation.

Name	
Organisation	
E-mail address	

Annex 2 – Details Questions 8 and 12

Q8

Answer Choices	Responses	
Clear guidance by the EU / Member States National Competent Authorities	70,45%	31
Financial capacity to implement effective information systems	50,00%	22
Technical readiness of the information systems	36,36%	16
Communication between stakeholders in producer countries and the EU to agree on common standards and information procedures	52,27%	23
Creation of integrated data platforms by producing countries Governments'	54,55%	24
Other (please specify)	4,55%	2
	Answered	**30**
	Skipped	**14**

Q12

Answer Choices	Responses	
Clear guidance by the EU / Member States National Competent Authorities	83,33%	25
Financial capacity to implement effective information systems	46,67%	14
Technical readiness of the information systems	40,00%	12
Communication between stakeholders in producer countries and the EU to agree on common standards and information procedures	66,67%	20
Creation of integrated data platforms by producing countries Governments'	50,00%	15
Other (please specify)	0,00%	0
	Answered	**30**
	Skipped	**14**

Annex 3 - Summary Tables from the Participatory Workshop

Table A: Consolidated Responses from Soy and Cattle Workshop Participants for Question 1

Q1. What are the critical gaps in current traceability solutions?	
Soy	**Cattle**
1. External procedures of the EUDR	14. Definitions
2. High costs and low quality of the images	15. Gap in sufficient documents
3. Physical segregation	16. Integration-Compatibility Gap Public Private
4. Information about smallholders	17 Feed traceability
5. The whole chain shares information disclosure problem“	18. Reliable satellite Imagery/baseline interpretation
6. Information on how to comply with human rights and national regulations	19. Cost coverage for monitoring and verification
7. Lack of recognition of national legislation in Mercosur	20. Specific Regulations for Small Producers
8. Uniformity of criteria to comply with the EUDR	21. Animal traceability - Individual
9. Levels of access to the Platforms	22. Tracing animal batches - What to do for those in Transition?
10. Collaboration between stakeholders of the value chain	
11. Producer convincing of investments	
12. Criteria to define deforestation	
13. Management of legal information	

Table B: Consolidated Responses from Soy and Cattle Workshop Participants for Question 2

Q2. What are the essential investments in filling these short/long-term gaps?	
Soy	**Cattle**
1. Cost of satellite photos	8. Implementation/development/compatibility cost
2. Cost of physical segregation (barge, silo...)	9. Exclusion cost
3. Cost of software + hardware	10. Cost of satellite imagery/analysis
4. Will there be no market that justifies the investment?	11. Cost of awareness, training, HR
5. Who pays the investment for the shipment?	12. Logistic costs?
6. Audit costs	13. Cost of individual animal identification
7. Communication and Training costs	

Photos from the international seminar IGUAZU SUMMIT

Above: Thomas Baldauf, from the German Federal Ministry of Food and Agriculture (BMEL) talking about the EUDR. Below: Bruno Leite, from the Brazilian Ministry of Agriculture Livestock presenting Brazil's strategy for complying with EUDR standards.

Beside:: a working group discussing EUDR gaps in Mercosur countries.


1. Traceability of mixed loads
(truck; vessel)

Previous page: Iguazu Summit participants from Germany, Argentina, Brazil and Uruguay.

Photos above and below: Participants' discussion of the gaps identified in Mercosur countries with regard to compliance with EUDR standards.

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