

IMACE POSITION ON THE EU PROPOSAL FOR A REGULATION ON DEFORESTATION-FREE PRODUCTS

The European Green Deal, the Farm to Fork and the Biodiversity Strategies lay out the EU's objective to tackle climate change, to reduce the environmental footprint of food production and consumption and to halt global deforestation and forest degradation. In that context, the Commission recently adopted a legislative proposal to curb EU-driven deforestation by only allowing deforestation-free products on the EU market.

The European Margarine Association (IMACE) welcomes the proposal for a Regulation "Deforestation and forest degradation – reducing the impact of products placed on the EU market" and its aim to minimise the EU's contribution to deforestation and forest degradation and to promote consumption of products from deforestation-free supply chains. The proposal for a Regulation proposes a "vertical" approach which includes mandatory due diligence on specific commodities, among which palm oil, combined with a benchmarking system.

The margarine sector is fully committed to playing its part in sustainable sourcing, and IMACE has already been involved in multi-stakeholder platforms on the topic such as the European Sustainable Palm Oil Alliance and the Roundtable on Sustainable Palm Oil. However, to ensure that the political ambition of the Regulation is delivered on successfully, and that the objectives of the Regulation are achievable for all stakeholders along the supply chain, more clarity is needed on the following points:

- **Definition:** The proposal does not provide a clear definition of the terms "operator" and "trader". **IMACE urges the European Commission to further clarify the terms "operator" and "trader" and substantiate the definition with examples in order to avoid confusion.** Additionally, to avoid duplication of administrative work, it is important to clearly differentiate between the role of a supplier and a retailer.
- **Scope and timeline for revision:** The proposal foresees regularly reviewing and updating the scope **every two years** to extend the list of relevant commodities. IMACE deems such timeline **not sufficient**, especially if the revision should be preceded and substantiated by an impact assessment. IMACE would also warn against a potential

domino effect due to the focus put on a specific commodity: for instance, the due diligence system linked to palm oil could have an impact on costs and could eventually lead margarine producers to turn towards other commodities to partially replace palm oil (e.g. coconut or rapeseed oil). This could put pressure on producers of these alternative commodities, with a risk of adding them to the scope of the Regulation in the upcoming revisions.

Furthermore, the approach proposed in the Regulation cannot be a one-size-fits-all, but should be tailored to each commodity and its related products. **IMACE therefore supports the development of commodity-specific rules and guidelines for the implementation of the Deforestation Regulation** to further define the role and responsibilities of stakeholders across supply chain.

- **Due diligence:** IMACE welcomes the development of a mandatory harmonised due diligence scheme, which should take into account the roles and responsibilities of different food actors across the value chain. Such scheme should be based on the following elements:
 - **Harmonised, science-based methodology:** Due diligence requirements should be science-based and applied to all companies within a specific commodity value chain.
 - **Proportionality:** Due diligence towards ensuring deforestation-free supply chains should be a concern for all segments of a same value chain. However, **responsibility for demonstrating due diligence should be decided based on a company's impact and influence at the most critical steps (i.e. sourcing, importing and refining)**. For instance, the margarine sector has little influence or means of verifying due diligence with regard to the origin of their raw materials. Several steps and decision-makers come in-between the sourcing of the ingredients and the production of margarine. Taking the case of palm oil, the cultivation of a palm plant and the crude oil extraction generally takes place (step 1). Once extracted, the oil is transported to a refiner (step 2), before reaching margarine factories (step 3).

- **Information exchange:** The due diligence framework should facilitate transparent information exchange across the value chain, especially with producing countries.
- **Benchmarking system:** The new Regulation proposes a benchmarking system that will categorise countries according to their deforestation patterns (high, standard or low risk). The benchmarking system is a positive attempt to operationalise the risk-based approach while encouraging countries to improve forest regulation and governance. However, IMACE would warn against the potential negative impacts that a firm categorization of countries could have on smallholders and farmers in problematic areas or developing countries, and in their effort to improve the sustainability of their production practices. In this regard, **IMACE urges the European Commission to adopt tailored approaches for responsible smallholders from countries categorised as “high-risk”.**

The success of the Regulation will strongly rely on robust partnerships and cooperation between the EU and producing countries. Alongside the benchmarking system, **IMACE advises the European Commission to consider additional instruments, such as WTO requirements and compliance, as well as trade and partnership agreements.**

- **Support for SMEs:** The new Regulation will require SMEs to invest in tracking, analysing, auditing, stakeholder engagement and reporting. Considering the complexity and the significant financial and human resources commitment required for this process, **it is crucial to ensure that SMEs have enough resources to enforce the Regulation.**
- **Enforcement and liability:** A proportionate set of enforcement rules should be developed, and sanctions should aim at encouraging and enabling companies to improve their practices, based on their role and influence on the supply chain. A transparent reporting system would enable to measure progress and define the best actions to take to increase the sustainability of a commodity’s value chain. While the competent authority responsible for the enforcement and monitoring progresses and

potential liabilities would be set up at national level, **the EU has the crucial role of coordinating such work, ensuring a harmonised implementation across Member States.**

Clarifying the above-mentioned points will ensure a successful implementation of the Regulation that could deliver on its objectives and effectively tackle the root problem of deforestation, while ensuring a level playing field for companies operating in Europe. IMACE looks forward to working together with other stakeholders and EU policymakers to create a deforestation-free European supply chain.