



A man unloading oil palm fruit in Sepaku, East Kalimantan, in July. Indonesia is pinning its hope on the agriculture and forestry sectors as it aims to boost its economy. Yet, it is precisely these sectors that will be targeted by the EU's Regulation on Deforestation-free products. There are also millions of smallholder farmers whose livelihoods will be affected if their produce is targeted by the new rules. PHOTO: AFP

Sticky business: Region frets over EU regulation that affects palm oil trade

Singapore-based traders may feel the impact, but they can also be a force for good.

Simon Tay and Aaron Choo

Agriculture and commodities have always been important for our region, and remain a priority for Indonesia, Malaysia and Thailand. But concerns about climate impacts and deforestation have now come to the fore. It is in this context that an upcoming regulation from the European Union could have a huge impact on the region.

On the face of it, the aim of the EU's Regulation on Deforestation-free products, or EUDR, is noble. It wants Europeans to avoid buying, using or consuming products that contribute to deforestation. In

reality, the move can be hugely disruptive for the region's producers, the European consumers and even players in Singapore.

The regulation was originally slated to be implemented by the end of 2024. It has been challenged in legal cases brought by Indonesia and Malaysia to the World Trade Organisation. Fortunately, the European Commission and European Council have agreed to a proposal to delay the EUDR's implementation by 12 months, pushing it back to the end of 2025.

The proposal is now going to the EU's third governing body, the European Parliament, for a vote between Nov 13 and 14.

Yet even if a one-year extension is granted, this may not be

enough to resolve questions surrounding the impact of the EUDR, even on Singapore.

After all, it is the traders that link the producers and the consumers. This includes many businesses in Singapore, which serves as a hub for global exports.

HIGH STAKES FOR REGION

The regulation aims to stop consumption that can drive deforestation, but many in the region have painted it as a "ban on palm oil".

Adopted in 2022, the regulation applies to seven types of agricultural goods imported into the EU, namely cattle, cocoa, coffee, palm oil, rubber, soy and wood. While palm oil is of particular importance to Indonesia and Malaysia, there are countries like Brazil for which other exports like soya beans and beef are more significant.

All the same, the regulation could have major implications for the region.

Indonesia, in particular, is pinning its hope on the agriculture and forestry sectors as the new government under President Prabowo Subianto ambitiously targets to increase annual gross domestic product growth to 8 per cent. The Indonesian government also aims to increase food and energy security, which will increase demand for staple food crops as well as biofuels.

Yet, it's precisely the agriculture and forestry sectors that will be targeted by the EUDR. Complicating the picture further is the fact that while many companies that produce and trade food and agri-commodities are big businesses, operating immense plantations, there are also millions of smallholder farmers in our region. If their produce is targeted by the regulation, then even the livelihoods of people would be affected.

Asean exports a wide range of commodities such as pulp and

paper, cocoa, rubber and palm oil. Palm oil, for example, is by far the world's most used vegetable oil, used in over half of the world's household products.

Palm oil will continue to be crucial in the future as it is an important feedstock for biodiesel and sustainable aviation fuel. Together, Indonesia and Malaysia account for over 80 per cent of the global trade. Simply put, much is at stake.

DEVIL IN THE DETAILS

How will the regulation work in practice? To be clear, it does not directly impact methods of production. Rather, the EU requires the importers to undertake due diligence to verify that the imports were not grown in recently deforested areas. In this regard, the process is focused more on audits and paperwork rather than actual evidence on the ground.

Traders, too, are expected to do due diligence. This, in turn, requires them to rely on the sustainability certifications held by their producers and their capability to trace and verify that no deforestation has occurred down the supply chain.

While producers and traders in the region were understandably worried by the EUDR, so too were some Europeans. Germany, for instance, has expressed concerns that the EUDR, if rushed into effect, will disrupt supply chains coming into the EU.

At present, both businesses and customs officials around the world are still struggling to understand the new procedures and put systems in place to comply with the rules.

If the regulation is pushed back to the end of 2025, all parties concerned will have another year to get their act together.

GETTING OUR ACT TOGETHER

Fortunately, the big players have started working together.

The EU, Indonesia and Malaysia have formed a joint task force, which has met several times since 2023, and is now working on a practical guide for smallholder farmers and small businesses to help them comply with the EUDR and address any impact that the regulation may inadvertently have on their livelihoods.

The producer countries are themselves moving towards systems that can provide greater transparency and more information. For example, Indonesia's Ministry of Agriculture has developed a national dashboard system to consolidate traceability data from all producers, including both big businesses and smallholder farmers.

This can create a better system to monitor, govern and grow the sector, but also help Indonesia and its companies comply with the EUDR or any similar requirements that other developed companies may have.

Much depends on the willingness of the private sector to share information with government agencies via processes that are interoperable. This requires buy-in from the traders and commodity purchasers. The way that global traders based in Singapore respond to the new regulations will be critical not only to their business but to the impact of the regulations on both producers and consumers.

Some are already moving towards systems that allow them to provide environmental and sustainability assurances to buyers with due diligence and tracing. For instance, Agridence, a Singapore tech firm, has developed a digital platform for the trading of sustainable rubber, and is now working to develop a similar traceability system for palm oil.

Major palm oil traders such as Bunge and Wilmar have long adhered to responsible sourcing commitments, purchasing from suppliers with robust No Deforestation, No Peat and No Exploitation commitments as well as independent certifications like the Roundtable on Sustainable Palm Oil standards.

Singapore-based companies can do more to act as the bridge between producers and consumers on the EUDR. With better reporting systems in place, even ordinary consumers can be sure that the goods on our shelves are truly sustainable.

In the years to come, the biggest demand growth for the region's agricultural products will not be from Western markets, but from within Asean and Asia. That makes it even more important to ensure that agri-business is truly sustainable.

• Simon Tay is chairman of the Singapore Institute of International Affairs (SIIA) and associate professor of the National University of Singapore's Faculty of Law. Aaron Choo is senior assistant director (special projects and sustainability) at the SIIA.