



Task Force 04

TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH

Sustainability Standards which Work for All: How Trade Policy Can Protect Forests and Livelihoods

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Abstract

Deforestation-related emissions are a major contributor to climate change, exacerbated by international trade in agricultural products and timber. To combat forest loss, high-income countries are increasingly linking market access to sustainability standards. For instance, the EU deforestation regulation bans specific commodities from entering its market if they are not sustainably produced. However, such unilaterally imposed sustainability standards can cause unintended distributional effects, reinforcing existing inequalities. Within low-income countries, sustainability standards can disproportionately affect smallholders who cannot absorb the additional compliance costs. Across countries, such standards might incentivize corporations and traders to shift their sourcing to countries with better legal and enforcement systems, cutting out low-income countries from global value chains. This Policy Brief discusses the potential distributional consequences of deforestation-related sustainability standards, and outlines solutions for making them work in the interest of all. It proposes that G20 countries cooperate on (1) advancing the information-sharing, harmonisation, and mutual recognition of sustainability standards across high and low-income countries, and (2) empowering smallholders by promoting freedom of association and collective bargaining as well as access to resources and technical expertise.

Keywords: deforestation, sustainability, regulation, international trade, smallholders



Diagnosis: The Effects of Sustainability Standards on Smallholders

International trade in agricultural products and timber is a major cause of deforestation-related emissions that drive climate change. Regulations establishing sustainability standards for global value chains (GVCs) can play an important role to mitigate the contribution of international trade to deforestation, thus preserving the multi-faceted value of forests for people worldwide. However, these measures also entail distributional effects, thereby risking to unintendedly reinforce existing inequalities within and across countries.

Sustainability Standards as a Response to Rising Deforestation

Forests play a significant role for people worldwide. On top of being one of the largest carbon and biodiversity reservoirs on our planet, capturing around 2.6 billion tonnes of CO₂ every year ([Anderegg et al. 2019](#)), forests provide livelihood to an estimated 1.6 billion people globally ([UN DESA 2024](#)) and are of invaluable cultural importance for local and indigenous people. However, the abundant ecological, socio-economic, and cultural benefits of forests are threatened by increasing deforestation. In the past two decades alone, nearly 100 million hectares of net forest area have been lost ([UN STATS 2024](#)), making deforestation the second-largest contributor to man-made greenhouse gas emissions globally ([Smith et al. 2014](#)). The global demand for commodities spurs the expansion of agricultural and forestry activities in forest-rich countries ([FAO 2022](#)). An estimated 39 percent of deforestation-related emissions are associated with international trade ([Pendrill et al. 2019](#)).

Outsourcing the global fight against deforestation to private actors through voluntary sustainability standards and corporate certification schemes¹ has proven ineffective in light of the worsening ecological crisis ([Schleifer 2023](#)). As a result, governments around the world increasingly acknowledge the need to combat forest loss through regulations. In 2021, 145 countries—including 17 G20 countries—signed the [Glasgow Leaders’ Declaration on Forests and Land Use](#), pledging to accelerate action to prevent deforestation. Many G20 countries have begun linking market access to environmental objectives by introducing anti-deforestation regulations (*Figure 1*). For instance, the European Union (EU) introduced a deforestation-focused mandatory due diligence regulation ([EUDR](#)) which bans specific commodities linked to deforestation from entering its market. A similar regulation, the [FOREST Act](#), is currently discussed in the United States (U.S.) Congress. These proposed legislations reflect a broader trend of combining sustainability standards with binding due diligence regulations aimed directly at companies.

Effects of Sustainability Standards Within and Across Countries

Unilateral measures aimed at tackling deforestation can have unintended distributional effects, and thereby reinforce existing inequalities. Within low-income countries, sustainability standards can disproportionately affect smallholders who cannot absorb additional compliance costs. Not only do smallholders constitute a substantive share of commodity producers with high deforestation risk – for instance accounting for more than

¹ Prominent examples include the Forest Stewardship Council (FSC), Fairtrade International, or the Rainforest Alliance. According to the [International Trade Centre](#), there are over 300 different voluntary sustainability standards world-wide.

40 percent of the area of palm oil plantations in Indonesia and Malaysia (Rival & Levang 2014) –, they are also a particularly vulnerable group in GVCs. While in theory sustainability standards and regulations can offer smallholders the opportunity to achieve higher prices in high-value markets and thus provide sustainable livelihoods, in practice these opportunities often fail to materialize, as many smallholders are excluded from certification and international markets (Ruysschaert & Salles 2014).

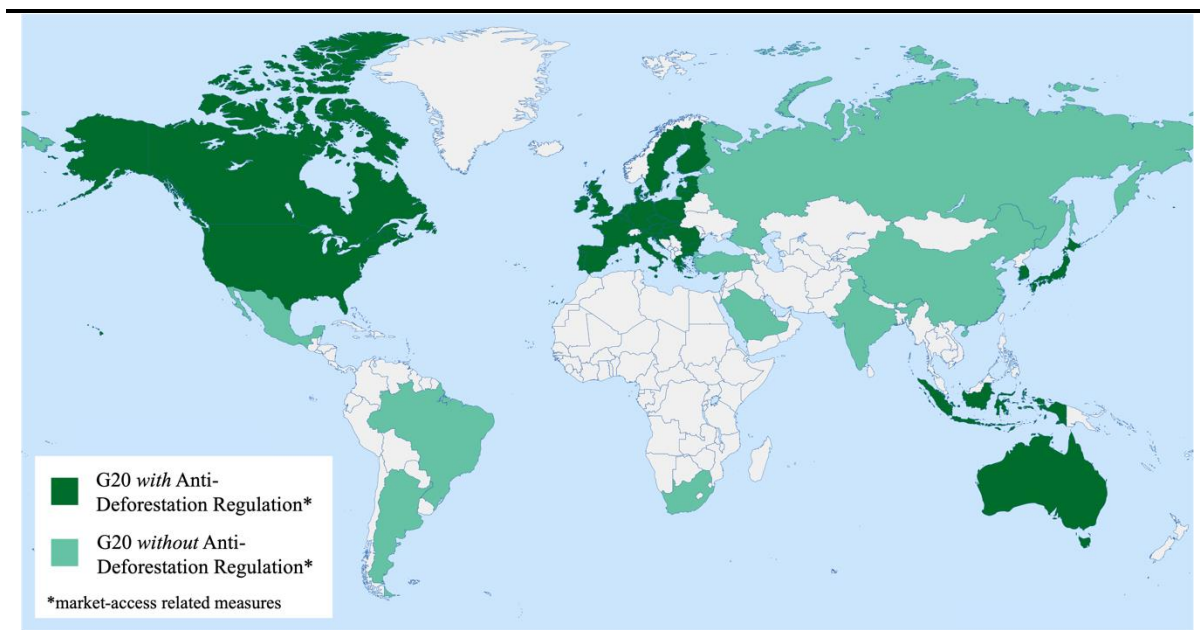


FIGURE 1. Map of G20 Member Countries with Anti-Deforestation Regulations

Source: Authors

Certifying production is often challenging for smallholders because the lack of collective organization and remote locations complicate verification processes. In other cases, smallholders lack the knowledge of the various standards and their requirements and/or the resources to implement them effectively (Glasbergen 2018). Even if smallholders manage to overcome these certification hurdles, the potential profits from sustainable production are often marginal and unevenly distributed as a result of the high

concentration in agricultural and commodity sectors. Smallholders often operate in buyer-driven sectors, with significant power wielded by global processors and retailers. For instance, just four corporations dominate the international trade of grains and oil seeds (Clapp 2020). As a consequence, the potential profits from sustainable production are often captured by downstream actors, leaving only small premiums for smallholders (FAO 2014).

Across countries, anti-deforestation regulations are likely to change trade patterns among commodity producing countries, potentially cutting out low-income countries from GVCs. Firstly, the additional costs involved in complying with these regulations might encourage traders and big corporations to shift their sourcing away from high-risk countries. Consequently, low-income countries might lose access to high-value markets. For instance, the EUDR might result in shifting EU soy imports away from Latin American countries to the U.S. and domestic production in the EU (EU Commission 2021). Moreover, unilateral sustainability regulations imposed by high-income countries might fail to be effective, as the lion's share of demand for deforestation-linked commodities originates from emerging markets with more lenient regulations (Schleifer and Sun 2018).



Recommendations: How the G20 Can Protect Forests and Livelihoods by Harmonizing Standards and Empowering Smallholders

As a forum of both the major producing and consuming countries of deforestation-linked products, the G20 is well equipped to protect forests and livelihoods in an effective and fair way. The ability of unilateral regulations imposing sustainability standards to stop deforestation will largely depend on their ramifications for smallholders producing deforestation-linked commodities. While well-intended, the design of current sustainability regulations is hostile to smallholders and their livelihoods. In their current form, sustainability standards imposed by consumer countries are likely to reinforce existing inequalities between big corporations and smallholders. In this context, the G20 can act as an orchestrator in the global governance of forest conservation by incentivising the harmonisation of private and national standards and enhancing the political and economic capacity of smallholders.

First: Harmonisation of Standards at the G20 Level

The adoption of sustainability standards adds to the complex network of regulations and behind the border measures that constitute international trade policy today. Although pursuing similar objectives, countries' regulations often diverge. As shown in *Table 1*, which maps trade-related anti-deforestation regulations of G20 members with a particular focus on the timber and wood sector, there is substantial regulatory variation among G20 countries. Notably, not only high-income members such as the U.S. (Lacey Act) or the EU (EUDR) have implemented anti-deforestation measures but also emerging economies like Korea and Indonesia. However, there is variation as regards the type of measures adopted, the sectors and specific products they cover (see *Annex* for a detailed overview).

In this context, the G20 becomes an important forum to enhance transparency and convergence among its members' regulatory practices.

To reduce regulatory complexity among its members' sustainability standards aimed at taming deforestation, the G20 should take two actions. First, by working towards unified standards, the G20 could significantly reduce the risk of regulatory divergence. In this process, all members have a role to play. In addition to building on existing regulatory initiatives (including those presented in *Table 1*), an inclusive process of regulatory harmonisation would incorporate insights from other countries such as Brazil, which has implemented sophisticated legal frameworks and remote monitoring technologies to combat forest loss. Second, the G20 could take the lead in mapping the anti-deforestation regulatory initiatives of its members. Members could systematically identify and disclose which domestic laws apply to domestic and foreign market actors. Further, members placed at different nodes of forest-related GVCs could contribute with specific insights and best practices concerning standards' implementation and effectiveness.

TABLE 1. Overview of Trade- Related Anti-Deforestation Regulations

G20 Member	Anti-Deforestation Regulation	Year	Policy Type	Products
Australia	Illegal Logging Prohibition Act	2012	Due diligence	Timber/Wood
Canada	WAPPRIITA	1992	Import restriction & Disclosure requirement	Timber/Wood +
EU	Deforestation Regulation (EUDR)	2023	Import restriction & Due diligence	Timber/Wood +
	Due Diligence Directive*		Due diligence	Timber/Wood +
France	Vigilance Plan	2017	Due diligence	Timber/Wood +
Germany	LkSG	2023	Due diligence	Timber/Wood +
Indonesia	Regulation of Sustainable Production Forest Management	2015	Due diligence	Timber/Wood
Japan	Clean Wood Act	2017	Disclosure requirement	Timber/Wood
South Korea	Acts on the Sustainable Use of Timbers	2012	Disclosure requirement	Timber/Wood
UK	Environment Act	2021	Import restriction & Due diligence	Timber/Wood +
USA	Lacey Act	2018	Import restriction	Timber/Wood
	FOREST Act*		Import restriction & Due diligence	Timber/Wood +

Notes: Table displays G20 member countries with anti-deforestation regulations in place by time of review (April 2024). * indicates that regulation is proposed but not yet in force. “Timber/Wood +” indicates that regulation applies to multiple deforestation-linked commodities besides timber and wood, like soya, cattle, cocoa, palm oil, coffee, rubber, leather, etc.

Source: The authors

A successful harmonisation of sustainability standards will be particularly important to smallholders as it could increase their resilience *vis-à-vis* demand fluctuations in export markets. In particular, since the adoption of standards is time and resource intensive for smallholders, regulatory convergence among the G20 would allow them to more easily react to demand fluctuations in one market and switch to other markets. Moreover, if all G20 countries were to adopt a harmonised approach to sustainability standards, trade diversion towards countries without anti-deforestation regulations could be reduced, increasing the effectiveness and legitimacy of the global fight against deforestation.



Second: Empowering Smallholders

The G20 should actively empower smallholders by promoting their political and economic capacity. Smallholders can play an important role in stopping deforestation and preserving forests, but often lack the bargaining power and resources to profit from sustainable production. Thus, we recommend the G20 to take the following actions:

First, the G20 should promote the freedom of association and collective bargaining of smallholders. One promising approach to enhance smallholders' political and economic power is through producer organisations and cooperative farming. By forming producer organisations, smallholders can collectively address common challenges linked to the implementation and compliance with sustainability standards. Producer organisations can help smallholders to negotiate better prices and premiums making sure that they benefit from adapting and complying with sustainability standards (Valentinov 2007). Moreover, producer organisations can substantially increase the voice of smallholders when it comes to the design of specific sustainability standards, ensuring that the legitimate interests and preferences of smallholders are considered. For instance, standards that require buyers to pay a set premium for certified products, irrespective of market fluctuations such as the Fairtrade Standards, can shift production risk away from smallholders to big corporations. Further, producer organisations can help smallholders to improve their productivity and production by pooling resources to invest in technology, training, and infrastructure, reducing smallholders' incentives to clear forest (Chagwiza et al. 2016; Michalek et al. 2018). Producer organisations can also enable smallholders to access premium markets by facilitating market linkages and collectively marketing their products as sustainably produced. In high-income countries such as the U.S. or France, producer organisations have been highly successful in the past (World Bank 2007).



Second, the G20 should coordinate and finance development programmes for smallholders to improve their access to resources and technical expertise. Context-specific programmes aimed at reaching a high number of smallholders in commodity producing countries can enhance their factor productivity and sustainable practices. By improving smallholders' access to credit, input supply, transport means, and technology, as well as offering technical support for complying with sustainability standards, development programmes can promote equity and efficiency in the commodity producing sectors. In this context, programmes such as the ITC Alliances for Action sustainable agribusiness initiative can be critical in supporting smallholders in low-income countries to prepare for sustainability requirements like the ones outlined in the EU deforestation regulation. Similarly, the formulation and implementation of forest management plans can help smallholders to develop viable, sustainable livelihoods which provide socioeconomic benefits while preserving forests. Projects such as the Transforming Landscapes for Resilience and Development Project (TRALARD) financed by the World Bank in Zambia have provided smallholders with alternative sources of income such as beekeeping and poultry farming. In this context, the G20 should cooperate with the World Bank and regional development banks to finance tailored programs for smallholders.



Scenario of Outcomes: Trade-Offs and Limitations

By following the recommendations outlined above, the G20 can play a crucial role in ensuring that sustainability standards are effective instruments not only for combating deforestation, but also for providing smallholders with sustainable livelihoods. However, this task entails important trade-offs for decision-makers which should not be neglected. Besides general challenges when it comes to the design and implementation of policies to stop deforestation, three trade-offs deserve particular attention.

Universal VS. Context-Specific Sustainability Standards

One major trade-off linked to the harmonisation of standards concerns the *type* of standard the various national regulations should gravitate towards. In particular, the question of whether a harmonised sustainability standard should be universal or context-specific requires further consideration. On the one hand, regulations based on a more universal harmonised standard have several advantages, including reduced complexity for smallholders, higher consistency and comparability for buyers and consumers of deforestation-linked commodities, as well as higher transparency which can build trust among stakeholders and enhance the credibility of the standard. On the other hand, regulations featuring a universal standard might not perfectly reflect the cultural and socioeconomic local context as well as the existing environmental conditions. By contrast, more context-specific standards may be more successful in promoting participation, and support for sustainability initiatives among smallholders by creating local ownership, leading ultimately to more impactful outcomes when it comes to forest protection and the creation of sustainable livelihoods.



Comprehensiveness VS. Practicability of Standard Monitoring

The effectiveness of regulations imposing sustainability standards for stopping deforestation will depend crucially on their actual impact on the conservation of forests and ecosystems. In this context, monitoring compliance with sustainability standards is critical to establish a causal link between sustainability regulations and their effectiveness. Yet, there are trade-offs involved when it comes to the scope of the monitoring desired. A very comprehensive and strict monitoring approach will make it easier to establish robust links between standards and their effects, reduce the risk of non-compliance and green-washing, and ultimately increase the trust and confidence of consumers. Conversely, comprehensive monitoring requirements disadvantage smallholders who lack the resources to establish respective monitoring systems. Not only would this decrease the potential scope of sustainable standards, but it might lead to the undesirable distributional effects described above.

Empowering Smallholders VS. Caving to Corporate Interests

Making sustainability standards work for everyone will require the G20 to actively empower smallholders. However, giving a greater voice to smallholders might not be in the interest of some corporations which, thus far, use their dominant position in commodity markets to exercise control over suppliers and extract value from upstream producers. By acting as entry barriers for smaller, less organised producers, the current design of many sustainability regulations, particularly the ones restricting access to high-value markets, reflects the interest of big corporations. In this context, decision-makers in G20 countries should be aware of the potential political obstacles ahead. However, regulations that only cater to the interests of big corporations will eventually erode the trust in political leadership and undermine the legitimacy of international forums such as

the G20. The recent farmer protests in many European countries are just one example of this dynamic. In order to prevent the rise of protectionism and nationalist sentiment, an inclusive approach to sustainability is not only desirable but necessary. In this context, empowering smallholders is an important step for creating inclusive and sustainable GVCs.

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Appendix

TABLE A: Detailed Overview of Trade- Related Anti-Deforestation Regulations of G20 Member Countries

G20 Member	Anti-Deforestation Regulation	Year	Policy Type	Products
Australia	Illegal Logging Prohibition Act	2012	<u>Due diligence</u> : Due diligence requirements to identify legally logged timber.	Timber/Wood: Timber
Canada	WAPPRIITA	1992	<u>Import restriction & Disclosure requirement</u> : Prohibits international and interprovincial trade of certain animal and plant species and requires documents to disclose in case of investigation. Officers can issue notice to remove non-compliant imports from Canadian market.	Timber/Wood+: CITES and non-CITES animal and plants products
EU	Deforestation Regulation (EUDR)	2023	<u>Import restriction & Due diligence</u> : Prohibits placement on EU market of relevant products if they are not: i) deforestation-free; ii) produced in accordance with the legislation in the country of production; and iii) covered by a due diligencestatement. Hence, makes due diligence requirement mandatory and requires information gathering that is explicitly focused on deforestation. The EUDR repeals the Timber Regulation. The EU Commission will assign third countries to deforestation-risk levels.	Timber/Wood+: Soy, cattle, cocoa, palm oil, coffee, woord, rubber, leather
	Due Diligence Directive*		<u>Due diligence</u> : Mandatory due diligence, deforestation included among environmental harms that companies need to prevent in their supply chains.	Timber/Wood+: Horizontal measure, not sector specific
France	Vigilance Plan	2017	<u>Due diligence</u> : Mandatory due diligence, deforestation included among environmental harms that companies need to identify and prevent.	Timber/Wood+: Horizontal measure, not sector specific
Germany	LkSG	2023	<u>Due diligence</u> : Mandatory due diligence for both human rights and environmental protection.	Timber/Wood+: Horizontal measure, not sector specific
Indonesia	Regulation of Sustainable Production Forest Management	2015	<u>Due diligence</u> : Requires importers to conduct due diligence on forest products and identifies procedures to share data and information related to due diligence process.	Timber/Wood+: Forest products
Japan	Clean Wood Act	2017	<u>Disclosure requirement</u> : Requirement for businesses to use legally harvested wood and wood products. Due diligence seems incomplete and while there are fines for false reporting and non-compliance, no penalties for trading illegal wood and wood products (Chatham House, 2018).	Timber/Wood: Wood and wood products
South Korea	Acts on the Sustainable Use of Timbers	2012	<u>Disclosure requirement</u> : Disclosure requirement through import declaration, but no due diligence requirements.	Timber/Wood: Timber and timber products
UK	Environment Act	2021	<u>Import restriction & Due diligence</u> : Establishes prohibition to make use of forest risk commodities in commercial activities, entities making use of forest risk commodities need to establish and implement a due diligence system to assess forest risk and report on the due diligence system annually.	Timber/Wood+: Forest risk commodities (which commodities are included is specified under regulations made by Secretary of State, as of December 2023: Palm oil, cocoa, beef, leather and soy are to be included)
USA	Lacey Act	2018	<u>Import restriction</u> : Prohibition to sell plants made available in violation to US law or foreign countries. Importers are required import declaration.	Timber/Wood: Timber and timber products
	FOREST Act*		<u>Import restriction & Due diligence</u> : Prohibit products that have been linked to illegal deforestation, provides further due diligence requirement if country identified as high-risk of deforestation.	Timber/Wood+: Palm oil, rubber, cattle, leather, cocoa, wood pupl, soy (to be determined by USTR after enactment)

Notes: Table displays G20 member countries with anti-deforestation regulations in place by time of review (April 2024). * indicates that regulation is proposed but not yet in force. "Timber/Wood +" indicates that regulation applies to multiple deforestation-linked commodities besides timber and wood, like soya, cattle, cocoa, palm oil, coffee, rubber, leather, etc.

Sources used: FAOLEX database, TimberLex database, Government websites, Chatham House Forest Governance and Legality reports, and regulation-specific commentaries.

Source: The authors



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