



SEEING THE WOOD FOR THE TREES

MEETING SUSTAINABILITY
GOALS WHILE INCREASING
TRADE WITH THE
GLOBAL SOUTH

EXECUTIVE SUMMARY

The overarching objective of the European Union's Green Deal is to accelerate the push towards Net Zero, reduce climate change and prevent the destruction of the environment globally. Its leaders are striving to make Europe the first climate-neutral continent and position Europe as a global leader in fulfilling this environmental mission. Sadly, the Green Deal is currently failing in this goal since the EU has adopted the wrong strategy to achieve this objective.

The current EU approach is both unilateral and antagonistic, with many countries – particularly in the Global South – disproportionately negatively impacted by new policies and regulations stemming from the Green Deal. The list of commodities covered by the EU Deforestation Regulation (EUDR) and carbon intensive products impacted by the Carbon Border Adjustment Mechanism (CBAM) are great cases in point.

Non-EU countries are forced to swallow a whole new set of rules that have been formulated in isolation, behind their backs, with no possibility for input. This is regardless of whether they have a positive or negative contribution to global environmental objectives. Delivering this type of *fait accompli* builds only resentment in the global community, rather than incentivises and inspires action. The current anger and outrage being expressed by third-countries towards the EU bears testament to this. As a result, the EU is failing in its twin goals of improving the environment globally, and positioning itself as a positive global leader.

The EU would instead be better served leading by example, rather than dictat. Building a global consensus would also be more powerful and sustainable. This would include establishing a dialogue and engaging countries in the regulatory and standard-setting process. Going further, this should cover the recognition of global norms and underline that countries have differentiated levels of responsibility in reaching the overall objective.

This kind of consensus approach has been successfully adopted in agreements already in place with some developing nations, including Case Studies with Guyana and Malaysia, set out in this Paper.

RECOMMENDATIONS FOR A BETTER, TRADE-POSITIVE GREEN DEAL

1) Implementation of Existing/Ongoing Regulation

EU policymakers should actively engage with relevant countries when it comes to the implementation of EU regulation, and tailor activities so that they are relevant to the partnership.

In practical terms, this means:

- establishing meaningful platforms to listen to the views and needs of third-countries, as well as the capacity to act upon feedback;
- producing a framework for the provision of funding for technical support, compliance, assistance and training, for example;
- creating a mutually-acceptable and transparent approach to the implementation of legislation and executive decision-making. This should cover definitions and the detailed practical scope of new regulations, as well as acknowledge existing efforts, schemes and practices.

2) Preparing New Regulations

- The EU should build genuine and proactive engagement with the governments and industries of the Global South. This should be a two-way dialogue and should happen early in the process of all new Green Deal regulations.
- In order to ensure consistency, EU decision-makers should respect and rely on internationally-accepted datasets (e.g. established by WRI/UNFAO, ISO or ILO) as the basis for regulation, rather than subjective EU political choices which undermine free trade, open markets, and the global norms that govern those interactions.
- The EU should accept the principle that poverty is a driver of environmental destruction, and include poverty alleviation as a core goal for all environmental regulations (in line with UN Sustainable Development Goals). This must be a precursor to addressing environmental issues.
- Policymakers should align the EU's geopolitical and security interests with environmental policies. This means supporting – rather than damaging relations with – democratic partners in key strategic regions such as ASEAN, the Indian subcontinent and Latin America.
- The EU should replicate existing blueprints for environmental and trade partnerships that have worked well, and copy these programmes in order to build a roadmap as to how these can be rolled out for EU partners around the world.



PART
ONE:

A POSITIVE
MODEL FOR
THE GREEN
DEAL

While the European Green Deal is a cornerstone of the EU's efforts to combat climate change and promote sustainable agriculture, it is essential that it facilitates global trade, creates jobs and supports economic growth. In this regard, substantial changes in tone and praxis need to be adopted.

Reaching out to the Global South

Against the background of military conflict and rising global competition for spheres of influence, the European Union has a significant opportunity to use trade in order to build coalitions and cooperation with like-minded and friendly countries, particularly in the Global South, as well as advance its goal of a green transition.

It is well understood that climate change is a global challenge that requires collaborative efforts. By partnering with countries in the Global South, the EU can have a more substantial impact on reducing global greenhouse gas emissions as well as access sustainable raw materials that can further the EU's green agenda.

Furthermore, a focus on trade can create economic and environmental opportunities. By building partnerships with the Global South new opportunities for EU businesses can be opened up. Joint ventures, technology transfers, and investments in green infrastructure projects can stimulate economic growth in both the EU and partner countries.

By leading international coalitions focused on sustainability, the EU can wield its soft power effectively and influence global environmental policies and standards. Yet it needs to acknowledge the strides forward taken by developing country partners in advancing environmental progress at a national or regional level - this includes where deforestation rates have been reduced; where transitions are underway from coal and other fossil fuels; where investment is being made into renewables; and other such commitments from partner countries.

An opportunity for the EU to recognise progress

Within this context, the EU institutions have the opportunity to show credit and support for the initiatives, schemes and legitimate successes achieved by countries globally in working towards the same climate and environmental objectives as the EU itself. When countries make tangible and verifiable progress this should be recognised and rewarded by the EU. At present the EU treats the Global South - and more broadly many international trading partners - in the same, indifferent one-size-fits-all light. In turn, many of those nations view the EU as a high-handed antagonist that punishes both supporters and transgressors alike.

EU Green Deal: a current barrier to trade and global partnerships

It is a great pity – and lost opportunity – that the EU is not reaching out to global partners and recognising positive change. Instead, the EU's Green Deal has become a byword for protectionism and intransigence. International trading partners are seeing their commodities being targeted with trade barriers and the new EU Regulation on Deforestation (EUDR) represents a perfect case in point. Under the terms of this legislation which came into force in June 2023, companies trading in cattle, cocoa, coffee, oil palm, rubber, soya and wood, as well as products derived from these commodities, are obliged to impose sweeping traceability and geolocation requirements, which bring real technical and governance problems for small farmers. These new obligations will apply as of 30th December 2024 (or 30th June 2025 for micro or small businesses), and will prohibit goods being placed on the EU market which do not meet these standards.

A far better approach than adopting draconian measures would be to instigate a dialogue between the EU and relevant country representatives in order to recognise achievements and build on current best practice in a spirit of cordial cooperation. Small and micro-farmers should not be discriminated against, and overly restrictive laws, compliance standards and classification schemes should be interpreted to facilitate trade between friendly trading nations.

The road map for the new EU institutions

With European Parliament elections to be held in June 2024, and a new European Commission to be drawn from this shortly afterwards, it is vital that these European institutions pursue the path of international partnerships and mutual cooperation on climate, sustainability and forestry issues. The antagonism and protectionism of the current term should be placed in the past and a spirit of cooperation, dialogue and progress should be adopted as the EU institutions and international partners focus on workable and progressive trade partnerships.

Increase trade with friendly democracies

The EU should leave its current isolationist path and engage with friendly democracies across the globe to strengthen trade and promote open markets. In a world increasingly marked by polarisation and fragmentation, it is more important than ever before that the EU sets a good example and acts as an open and global trading partner, rather than a "Fortress Europe". This is fundamental to the ethos of the EU but also represents enlightened self-interest in that friendly democratic countries are large markets for EU products and services with significant, skilled populations which also enjoy high growth rates. This runs in direct contrast to the low growth and ageing populations that make up the majority of the EU.

Time for an EU reset

The EU should follow a similar path to inclusion and collaboration, rather than inflexibility and isolationism. By pivoting to a new approach, the EU should extend a welcoming hand to developing nations, especially from regions such as ASEAN and Latin America, who have an integral constructive role to play in the green transition. They are part of the solution, rather than part of the problem, and if the EU recognises this and changes their approach, there are a number of willing partners across the ASEAN region who are prepared to engage and work towards the same goals in a spirit of partnership rather than enmity.



PART
TWO:

A BETTER
APPROACH
TO
GREENING
TRADE

As discussed in the previous section, the EU's introduction of unilateral measures have and will continue to have a negative impact on many of its trading partners, particularly in developing countries.

Many developing countries have expressed clear opposition to these measures in international forums, including the World Trade Organization (WTO). Indeed, it is highly likely that they will challenge EU initiatives under the WTO's rules.

The EU's trading partners have expressed the view that these measures are thinly disguised protectionism. Indeed, the imposition of the measures are in many cases accompanied by subsidy programmes that favour European industries and companies.

Underlying this is the understanding that the ability to achieve the EU's targets for "clean" or "sustainable" manufacturing or commodity production entails a higher level of economic development. The introduction of more complex processes, management systems, or the opportunity cost of expansion entails a price that impacts the economic gains. Consequently, without realising these gains, the environmental benefits become increasingly elusive and less likely.

They will inevitably lead to market fragmentation, where there is "clean" production within some firms or countries supplying a more expensive European market, with less restrictive regimes being supplied under non-EU standards. This may result in some countries opting out of supplying the EU market altogether.

There is a better way forward. Namely pro-trade policies that are supportive of the green and sustainability agendas. Existing programmes and case studies should be considered and borrowed from, to build a set of Green policy tools that are more liberal and more open to the world. Two contemporary case studies underline how this could work in practice.





CASE
STUDY:

COOPERATION
ON TIMBER
STANDARDS IN
SOUTH
AMERICA

Guyana, on the northern coast of South America, has extensive tropical forests covering more than 18 million hectares. Forestry has become a particularly significant industry for the country, generating around 3 to 4 per cent of GDP, and employing around 20,000 people. It is also a major contributor to export receipts and is export-focused due to Guyana's small population.

The forestry sector in Guyana is made up of a large number of smallholders. Out of the 581 forest concessions in Guyana, around 550 are small-scale concessions operated and managed by local communities. Indigenous groups also play a significant role in the management of these concessions, and are afforded special land rights across forest concessions. This allows them to utilise the forest for non-timber products to meet their own needs.

Guyana has a clearly developed forest framework for legal purposes, which was first established in 2000, with the implementation of the country's log tracking system. The tracking system was established to enable the tracing of all logs to the concession level through the use of tags. The system was also able to track forest inventory, therefore keeping tabs on sustainable harvest levels.

The approach was eventually developed into a more elaborate Wood Tracking System, which provided greater levels of transparency, allowing products to be tracked down to the concession level. This process was also linked to a declaration of legality.

Guyana and the European Union cooperated to build on this system in order to implement a Timber Legality Assurance Scheme (TLAS) as part of a Voluntary Partnership Agreement (VPA)-Forest Law Enforcement, Governance and Trade (FLEGT) agreement between Guyana and the EU.

The existing Wood Tracking System (WTS) was adapted to meet the specific requirements of the VPA, and covered additional legality criteria and verification procedures. The EU provided technical assistance to integrate these new components into the existing WTS framework.

The adapted WTS, which became part of the broader TLAS, was standardised to meet both Guyanese and EU regulations. This standardisation ensured that the timber exported to the EU would meet the stringent legal criteria set forth in the VPA.

To complete this standardisation, both the EU and the Guyana Forestry Commission undertook widespread consultations to ensure that the new standard - the TLAS - would be appropriate for both Guyana and the new requirements required by the EU's Timber Regulation.

Ongoing work between the EU and Guyana in this area is undertaken via three technical platforms. These are the Joint Monitoring and Review Mechanism (JMRM), Technical Working Groups, and Multi-Stakeholder Consultations.

The **Joint Monitoring and Review Mechanism (JMRM)** is a formal platform where representatives from the Guyana Forestry Commission (GFC) and the EU convene to assess the progress of the Voluntary Partnership Agreement (VPA) implementation. These meetings are usually held annually and serve as a critical evaluation point.

The **Technical Working Groups** are specialised assemblies formed to address specific issues such as legal definitions, traceability systems, and monitoring. These groups consist of experts from the GFC and the EU who meet periodically to discuss technical aspects of the VPA.

The **Multi-Stakeholder Consultations** are organised by the GFC and EU. These involve civil society, indigenous communities, and the private sector. These consultations aim to gather diverse perspectives and are crucial for the inclusive implementation of the VPA.

The EU-Guyana cooperation is therefore a positive example of how two parties can work together to not only develop a broad-ranging multilateral environmental agreement, but also build on strong and existing domestic standards and institutions.



CASE
STUDY:

THE HEART OF
BORNEO
CONSERVATION
INITIATIVE

In 2007, the governments of Malaysia, Brunei, and Indonesia took a landmark step by signing an agreement to set aside a huge area of tropical rainforest on the island of Borneo (which the three nations share) for conservation and sustainable development. It was known as the “Heart of Borneo” (HoB) initiative.

This initiative was part of a series of programmes pioneered in Malaysia since the turn of the century to bring down the country’s deforestation rate and embed sustainability into the country’s agricultural commodities – primarily palm oil, rubber, cocoa and wood products.

Key to the HoB project was international funding and support, provided in 2013 from the Asian Development Bank and the Global Environment Facility. Global environmental NGO the World Wildlife Fund (WWF) also contributed to support the programme. The agreement remains in place to this day and is a key plank of transboundary conservation in Borneo.

The institutional support for the HoB initiative from Malaysia’s federal government (particularly the Ministry of Water, Land and Natural Resources) and Malaysian state governments has been instrumental in maintaining the initiative, garnering further support from multilateral agencies. In 2019 a new USD 90 million project in integrated landscape management was approved for the region, with Malaysia as the key government partner supporting work of the United Nations Development Programme.

The HoB area covers about 22 million hectares (ha), approximately one-third of the island of Borneo. HoB is among the world’s top priority areas for conservation, due to the diverse nature of the rainforest, the high level of endemic species, and the importance of maintaining Borneo as a tropical forest ecosystem. The territory of HoB comprises: (i) in Brunei Darussalam, about 0.3 million ha in the northwest; (ii) in Malaysia, about 3.4 million ha in the state of Sarawak along the northwest coast and about 5.8 million ha in the state of Sabah along the northeastern tip of Borneo; and (iii) about 12.5 million ha in the state of Kalimantan, Indonesia.

HoB’s large carbon sequestration and storage capacity makes it an important component of the fast-shrinking band of equatorial forests that function as the “lungs of the earth.” The ecosystem services provided by the HoB have significant impact on the lives of about 12 million local and indigenous peoples, including over 200 Dayak groups, who depend heavily on its resources for their subsistence.

Among the objectives of the HoB projects are (i) strengthened capacity and institutions for sustainable forest and biodiversity management, (ii) Reduced Emissions from Degradation and Forest Degradation (REDD+) at the local level, (iii) establishment of pilot areas for Payment of Ecosystem Services (PES).

Of these, reducing deforestation has had the highest international profile. Project evaluations indicated that the project closely matched its objectives of a 2% decrease in forest loss and a 5% reduction in incidence of wildlife and biodiversity poaching (including flagship species such as orangutan and pygmy elephant).

But equally important was the harmonisation of environmental laws across the three participating countries. Specific conservation areas were identified, and a common policy framework was developed to manage these zones. This administrative and legal element was successfully established, and gave a clear framework for future projects and for engagement of new partners and international organisations.

HoB serves as an instructive example of the success that can be achieved through proactive engagement, and cooperation, by international organisations with local governments in the developing world. It stands as a rebuke to those who believe that behavioural change or environmental protection can be only be achieved through coercive tariffs or regulations.

Three main factors explain the success of the HoB initiative:

First is the high level of regional cooperation between the governments of Indonesia, Malaysia, and Brunei. This transboundary partnership enables a more harmonized approach to legal frameworks, policies, and enforcement strategies, which makes it easier to tackle issues like deforestation, habitat fragmentation, and biodiversity loss across borders. It also allows international actors – government, NGOs and private sector – to deal efficiently with all local governments.

Secondly, the HoB initiative has involved a wide range of stakeholders, including international organizations such as the World Wildlife Fund (WWF), the United Nations Development Programme (UNDP), and the United Nations Environment Programme (UNEP). The engagement of these organizations has brought technical expertise, funding, and international attention to the project. Moreover, involving the private sector has spurred investment in sustainable practices, contributing to the financial sustainability of the initiative. This investment and expertise has been provided with the aim of supporting the environmental objectives on the ground, and encouraging the other major conservation efforts taking place across Malaysia. The trap of 'making the perfect the enemy of the good', has been avoided.

Third, the initiative has taken significant strides in involving local communities and indigenous peoples in its programmes. By integrating local and traditional knowledge into conservation efforts, the project has gained the support and buy-in from these communities, which is crucial for the long-term sustainability of any conservation initiative. Their participation also ensures that local livelihoods are taken into account in planning and decision-making processes.

This approach stands in contrast to external or top-down initiatives, which place coercive pressure on countries to conserve, with little consideration for the wants and needs of local populations. The EU's Deforestation Regulation is a classic of this genre, attempting to use trade barriers as a means to force conservation – but in the process alienating local communities and governments because the costs and burdens fall on them and their people.

The EU Deforestation Regulation-style approach ignores the vital role of local communities in conserving forests; it does not engage with or support countries such as Malaysia or Guyana that are making progress and have shown commitment to ending deforestation. This approach build walls, when it should be building alliances. The EU institutions would do well to examine the case studies of those projects where cooperation took precedence over coercion.

CONCLUSIONS: THE WAY AHEAD

The EU needs to meet sustainability goals while increasing trade with the Global South. To do so effectively, though, it needs to drop its current approach which is both unilateral and hostile. With regards to the implementation of existing and ongoing regulation, more active engagement and dialogue is needed with partner countries.

When it comes to preparing new legislation, the EU should also engage proactively with Global South governments and industries early in the regulation process. In addition, decision-makers should also rely on internationally-accepted datasets, prioritise poverty alleviation, align geopolitical interests with environmental policies, and replicate successful environmental and trade partnerships for global implementation.

The EU is currently having problems seeing the wood for the trees yet a number of positive, workable blueprints exist for how it can work with third-countries to meet environmental goals while furthering trade, economic partnerships and broader political objectives in a spirit of partnership. The Recommendations outlined at the start of this Paper, would be a positive start towards achieving those objectives.



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