Coffee firms turning away from Africa as EU deforestation law looms

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Importers of coffee to the European Union are starting to scale back purchases from small farmers in Africa and beyond as they prepare for a landmark EU law that will ban the sale of goods linked to the destruction of forests, a cause of climate change.

Red coffee berries are seen at a farm in Shebedino district of Sidama, Ethiopia November 29, 2018. Picture taken November 29, 2018. REUTERS/Maheder Haileselassie/File Photo

Industry sources said the cost and difficulty of complying with the EU Deforestation Regulation (EUDR), which comes into force late in 2024, meant it was already having unintended impacts that could in time reshape global commodities markets.

Four cited a drying-up of orders in recent months for coffee from Ethiopia, where some 5 million farming families rely on the crop. They warned that sourcing strategies being adopted by companies in advance of the law risk increasing smallscale farmer poverty and raising prices for EU consumers, while also undermining the EUDR's impact on forest conservation.

"I see no way of buying significant quantities of Ethiopian coffee going forward," said Johannes Dengler, an executive at German roaster Dallmayr, which buys about 1% of the world's exported coffee.

Because beans he orders now could find their way into coffee products sold in the bloc in 2025, they must be EUDR-compliant, he said - even though implementing acts for the law have yet to be finalised.

Under EUDR, importers of commodities like coffee, cocoa, soy, palm, cattle, timber and rubber - and products that use them - must be able to prove their goods did not originate from deforested land, or face hefty fines.

Coffee major JDE Peets said it might be forced to exclude some smaller producing countries from its supply chain as early as March if it hasn't "found and implemented a solution with them" by that date.

Deforestation is the second leading cause of climate change after burning of fossil fuels.

The European Commission said it has several initiatives to help producing countries and smallholders comply with the EUDR, including one launched at COP28 where the EU and member states pledged 70 million euros ($76 million) to that end.

It added that some smallholders see the EUDR as an opportunity, especially if accompanied by EU support measures, as it will help them meet growing global demand for sustainably sourced products.

Tracking and tracing

The EUDR requires companies to digitally map their supply chains down to the plot where the raw materials were grown, which could potentially involve tracing millions of small farms in remote regions.

Moreover, because companies often don't deal directly with farmers, they could be relying in part on data provided by multiple local middlemen, some of whom they also might not deal with directly or trust.

In some developing countries, patchy internet coverage makes mapping difficult, while traders and industry experts say land rights disputes, weak law enforcement and clan conflict can make it dangerous to even seek data on farm ownership,

"Nowadays from Europe no one is interested in our coffee," a representative from Ethiopia's Oromia Coffee Farmers' Cooperatives Union, told a recent World Coffee Alliance webinar.

He said most Ethiopian coffee farmers have never heard of the EUDR and that even educated villagers would struggle to collect the required data in time.

Coffee generates 30-35% of Ethiopia's total export earnings, with almost a quarter sold to the EU.

"Roasters are moving to big rich Brazilian farmers. It's really shocking," said a trader at one coffee trade major.

"In risky countries, there's smallholders and middlemen who are illiterate - and we're coming to them with a law that even Europeans don't understand."

Segregared supply chains

But cutting out small-scale farmers or whole countries will not be feasible if they are major commodity producers.

Ivory Coast and Ghana, for example, produce nearly 70% of the world's cocoa, while 60% of coffee comes from Brazil and Vietnam. Indonesia and Malaysia grow almost 90% of the world's palm oil, a commodity used in everything from pizza and lipstick to biofuels.

As such, some major companies say they will redirect raw materials they cannot reliably trace in those countries to non-EU markets, while sending compliant goods to the EU.

Golden Agri Resources, one of the world's largest palm oil companies, told Reuters "segregated supply chains will be required" to implement the EUDR. A source at palm oil major Musim Mas concurred.

To the extent this strategy comes to dominate, it would lessen the EUDR's impact on forest conservation because raw materials would still be grown on deforested land, just not for EU consumption.

Compliance costs throughout the supply chain are meanwhile expected to raise food prices in the 27-country EU.

Two of the world's largest coffee traders, Sucafina and Louis Dreyfus Company (LDC) have already locked in future sales contracts that include an EUDR premium, according to a source at a commodities trade major.

LDC and Sucafina declined to comment.

The European Commission said the EUDR is not expected to drive food inflation. It noted, for example, that while traceability has a cost, this will likely be offset as the law should reduce the number of intermediaries in the market.

Saving forests?

EUDR is a particular challenge in major cocoa-producing countries.

Half of Ivory Coast's crop, for example, is sold by local intermediaries and thus difficult to trace. Grown mostly for EU consumption, it cannot be completely redirected to Asia as chocolate is less popular there.

But slashing purchases from intermediaries is also tricky, traders say, not least because Ivorian authorities force them to buy 20% of their beans from this local supply chain.

"That's where the authorities come in. They have to guarantee that supply, but they're not," said the global head of cocoa at a top global agri-commodities trade house.

The problem for Ivory Coast is that 20-30% of its cocoa is grown in protected forests by nearly one million people. Denying them their livelihood could cause social unrest, while relocating them is unfeasible without major funding and support.

Abidjan is as a result considering reclassifying its protected forests, sources said, prompting the EU to publicly call on the country to desist.

"Where do you relocate the community, with what resources?" said Renske Aarnoudse, senior programme manager for cocoa and forests at the non-profit IDH.

She said the EU should accept an Ivorian plan to reclassify as agricultural land some areas where forests are already heavily degraded.

"These areas are virtually zero forest by now, and would probably benefit most from conversion to smallholder-owned agroforestry holdings," Aarnoudse said.

ABOUT THE AUTHOR

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