



# TRANSFORMATIVE TRACEABILITY

How robust traceability systems can help implement the EUDR and fight the drivers of deforestation

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# EXECUTIVE SUMMARY

**O**n 29 June 2023, the European Union (EU) Regulation on deforestation-free products (EUDR) entered into force.

Its obligations will fully apply to companies from 30 December 2024, after which date companies will need to ensure goods they are bringing into the EU are deforestation-free and legally produced—requiring them to show where these goods come from.

How this traceability is done, and by whom, is critical to the impact the EUDR will have—on achieving its objective of reducing deforestation, but also on smallholder farmers. At the moment, companies are approaching the EUDR’s traceability requirement individually, tracing their own supply chains via their own private systems. This is understandable given that companies will become liable for EUDR compliance at the end of this year. However, ultimately traceability will be more credible and

efficient if it is done for a whole producer region or country, cross-checking information across individual supply chains to establish a complete picture of commodity sourcing in that place. Supporting producer country systems also maximises the potential for EUDR traceability to have a truly ‘transformative’ impact in driving down deforestation, as well as improving conditions for smallholders.

The purpose of this paper is to lay out principles for an approach to traceability that might contribute to meaningful reforms across forest and farming landscapes.

**In particular, it lays out 10 crucial criteria for a traceability system that is credible and transformative.**

## ➔ 10 criteria for credible and transformative traceability systems

### For credible systems

**Companies and EU Competent Authorities must be sufficiently convinced that a traceability system is trustworthy to use it for EUDR compliance and enforcement. If the following seven criteria are not in place, a traceability system should not be considered credible:**

- 1. The traceability system is based on robust, ground-truthed data**, focusing most urgently on verifying farm polygons and agreeing on a definition of legality for the producer country.
- 2. The data in the system is publicly accessible and comprehensible**, including to independent NGO monitors.
- 3. The system is co-designed and continuously evaluated by a multistakeholder body**, because to be credible there must be widespread trust both in how a traceability system is built, and the way it is implemented.
- 4. The system is subject to periodic independent audits**, to ensure the system is still fit for purpose and the processes are being complied with, and to recommend any needed revisions.

5. **The system has a clear and accessible grievance mechanism** where issues affecting the credibility of the system can be flagged and are responded to, including by creating a role for civil society independent monitoring.
6. **The system is capable of detecting or excluding double-counting** of farm polygons in the supply chain. Mandatory and comprehensive public systems are best placed to mitigate the danger. Failing this, it is important to ensure that systems are interoperable and allow data comparison.
7. **Smallholder farmers have access, control and ownership over the data generated from them.** This is critical to ensuring data quality on an ongoing basis; it also helps reduce the smallholder farmers and cooperatives' dependence on large exporters.

## For transformative systems

**Traceability does not automatically lead to a positive transformation on the ground. Transformative traceability will actually reduce deforestation and illegalities, and improve the position of farmers in the supply chain. A transformative system would:**

8. **Track characteristics that are important to all stakeholders**, instead of only serving the needs of the downstream consumers—for example, many actors in producer countries would like more information on prices and payments made along the supply chain.
9. **Be linked to remedy and enforcement actions, because merely detecting problems is not enough.** When instances of deforestation or illegality come up in a traceability system, this should trigger direct enforcement or remedial interventions.
10. **Be linked to positive incentives for producers**, because this can help to materially improve conditions on the ground while also generating longer-term support for maintaining a well-functioning system.

## In the longer term: working towards robust public traceability systems

Public traceability systems are often best placed to meet the 10 criteria in this paper. A public (government-run) traceability system has the potential to:

- Strengthen the credibility of traceability claims, by enabling cross-checking between different supply chains within a jurisdiction. This is essential to avoid laundering of commodities through double counting, when different unconnected systems each claim to source products from the same EUDR-compliant area.
- Reduce the costs of traceability, by minimising duplication of efforts to service different systems, and pooling costs of operating and maintaining a robust credible system.
- Amplify the transformative power of traceability, by using the results of a traceability system to directly trigger enforcement or remedial actions by the government. These remedial actions can moreover potentially be applied across the entire sector, instead of only spotting problems in EU-destined supply chains. A public system operated by producer country actors is also more likely to track locally-relevant information, resulting in a system with more buy-in, legitimacy, and a greater chance of long-term sustainability
- Make it easier for companies, small farmers and EU competent authorities to ensure compliance with the legality requirements in the EUDR—which are more complex to check and sometimes rely

on information held by producer governments—providing more of a ‘one-stop shop’ approach.

**We therefore recommend that, where there is interest or existing work from a producer-country government to develop a public traceability system, all actors work to promote and strengthen these systems.**

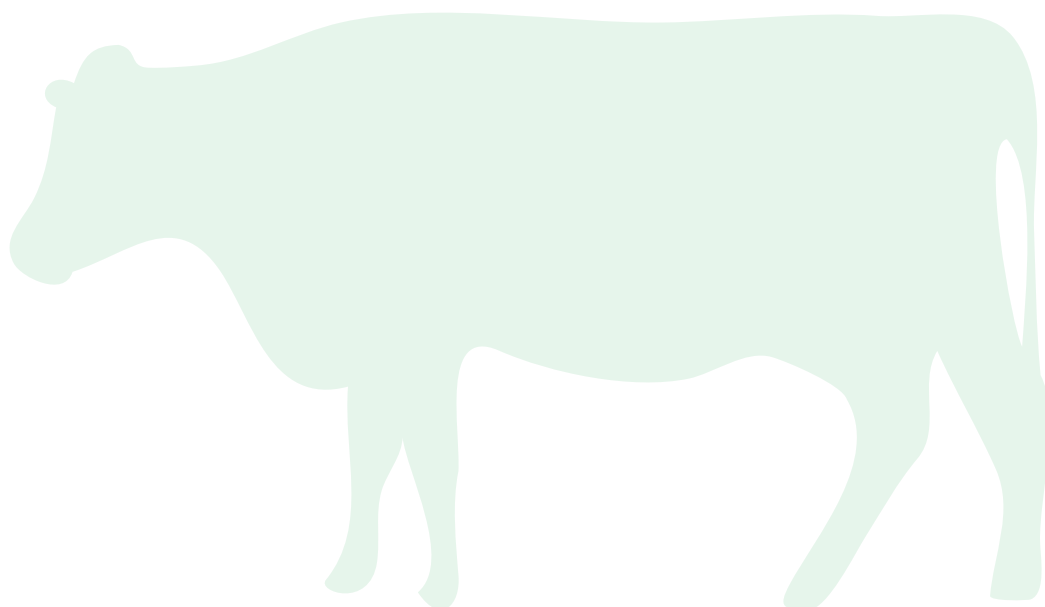
Amongst other things, this will require developing a long-term funding mechanism for the system. In particular, companies should contribute to the costs of running a public traceability system, since the data it generates will be highly valuable to them. Possible options for a cost-contribution mechanism include: applying a traceability charge at the point of export, including a traceability premium in the commodity purchase price, charging a fee for companies to access government data, and/or applying a tax to downstream players which is paid back to producers and their organisations.

### **In the shorter term: strengthening private systems and ensuring interoperability**

**Where public systems do not exist, or are not feasible or credible, company-led traceability systems can serve an important interim role by applying the same 10 criteria. In addition, all traceability initiatives should work towards a principle of system interoperability.** This allows for

cost-efficient systems that can build on each other, pool resources, share information and strengthen sector-wide traceability and transparency over time. In particular, actors can promote interoperability by:

- **Developing consistent data protocols.** This entails revising and building consensus around the type of data to be collected and how it should be presented—for example, agreeing on the format for presenting geospatial data.
- **Sharing datasets.** Some datasets are relevant to all commodity buyers operating within a particular sector and jurisdiction – for instance land tenure data or production area polygons. A single public (or partially public) dataset could provide a backbone for multiple traceability systems. Where multiple versions of data have already been created (duplicated polygon mapping, for instance), parties should share the data they have created and acknowledge the existence of discrepancies.
- **Share costs.** Collectively-held systems should present cost efficiencies to companies in terms of maintaining the system, verifying the data, and operating a functional grievance mechanism. Innovative funding mechanisms should therefore be explored to share these costs across the operators most able to carry the burden; potential options are listed above. These funding mechanisms can also eventually be applied to public systems once they are up and running.



## → Key recommendations

### The European Commission should:

#### In the short term

- Promote the development of a standardised data protocol for deforestation commodity traceability, ensuring interoperability-as-standard across systems.
- Support national efforts towards interoperability in producer countries.

#### In the longer term

- support the development of public traceability systems that meet all 10 of the criteria for credible and transformative traceability
- Provide a way for EUDR benchmarking to take account of public traceability systems that meet the 10 criteria for credible and transformative traceability.

### Governments in producer countries should:

#### In the short term

- Make available, or partially available, publicly held datasets that can help verify legality claims for commodities.
- Work with companies to ensure interoperability of traceability systems.

#### In the longer term

- Develop public traceability systems in line with the 10 criteria in this paper, so that in the medium or longer term they can be used to prove EUDR compliance.
- Develop a long-term funding mechanism for the traceability system that includes contributions from companies

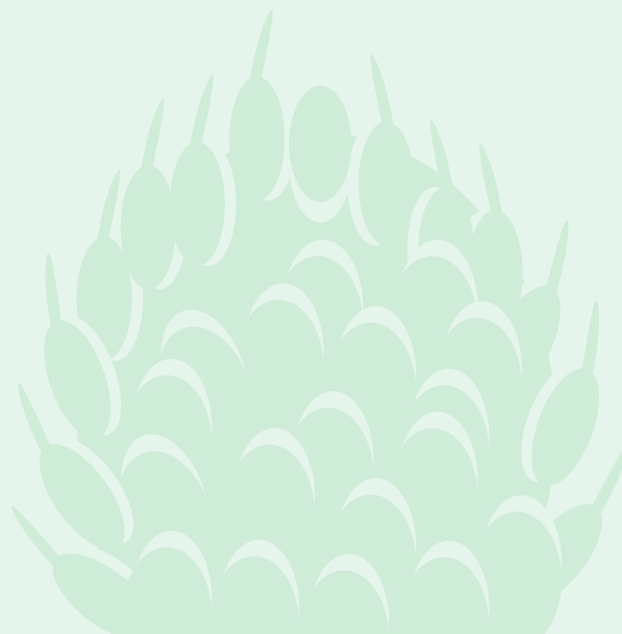
### Companies should:

#### In the short term

- Release the production plot polygon data they have already collected, to enable data sharing.
- Support and contribute to efforts to develop interoperable approaches to deforestation commodity traceability.
- Review existing internal traceability systems and systems in development, against the 10 criteria in this paper, and take steps to address any shortfalls.

#### In the longer term

- Financially contribute to the set-up of and running of public traceability systems.
- Engage in purchasing practices that enable smallholders to invest in producing the data needed for traceability, in particular via long-term contracts and pricing.



# A stepwise approach to traceability

## SHORT TERM

All actors should establish elements of interoperability

- Develop consistent data protocols
- Share datasets
- Share costs

**COMPANIES**  
in addition  
to the above:

- Improve own systems to meet 10 criteria



## LONG TERM

All actors should support public traceability systems that are credible & transformative:

1. Based on robust, ground-truthed data
2. Makes data publicly accessible
3. Has a multistakeholder body
4. Has periodic independent audits
5. Has functional grievance mechanism
6. Prevents double-counting of polygons
7. Gives small farmers control over data
8. Tracks characteristics important to producer country stakeholders
9. Linked to remedy & enforcement actions
10. Linked to positive incentives for producers



### PRODUCER GOVERNMENTS SHOULD

- Develop & run system



### NGOs SHOULD

- Participate in multi-stakeholder body
- Independent monitoring



### EU COMMISSION SHOULD

- Technical & financial support
- Give weight in benchmarking to credible systems



### FARMER ORGS SHOULD

- Participate in multi-stakeholder body
- Input to farm data



### COMPANIES SHOULD

- Participate in multi-stakeholder body
- Financially contribute