Title: Due diligence on forest risk commodities **IA No: N/A** **RPC Reference No: N/A** **Lead department or agency:** DEFRA **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 25th November 2021 **Stage: Consultation** **Source of intervention:Domestic** **Type of measure: Secondary Legislation** **Contact for enquiries:** Due.Diligence@defra.gov.uk

Summary: Intervention and Options

RPC Opinion: RPC Opinion Status

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	
(£m)	(£m)	(£m)	
Option 2: -172.1 to -667.7	Option 2: -172.1 to -667.7	Option 2: 20.0 to 77.6	**Business Impact Target Status** Choose an item.
Option 3: -266.6 to -1251.9	Option 3: -266.6 to -1251.9	Option 3: 31.0 to 145.4	
Option 4: -489.4 to -1912.5	Option 4: -489.4 to -1912.5	Option 4: 56.9 to 222.2	

What is the problem under consideration? Why is government intervention necessary?

Deforestation is increasing in many parts of the world due to agricultural expansion driven by global demand for forest risk commodities. Three types of market failure are prevalent in this context: inadequate provision of public goods (forests are non-rivalrous and non-excludable), negative externalities associated with agricultural expansion that apply to society but not producers (e.g. pollution), and incomplete information in which consumers are unaware of the adverse environmental outcomes of specific consumption decisions.

What are the policy objectives and the intended effects?

The core policy objective is to increase demand for sustainably produced forest risk commodities in the UK by working in partnership with producer countries to reinforce their domestic governance. We aim to achieve this by operationalising new measures on UK businesses in the Environment Act to ensure they aren't using commodities grown on land illegally occupied or used. The intended effect is to reduce illegal deforestation caused by the production of agricultural commodities, without causing the conversion of other types of natural ecosystem.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0 is the baseline option and maintains the status quo, this option would result in not implementing secondary legislation

Option 1 is based upon the introduction of additional voluntary measures

Option 2 regulates two priority commodities in the fastest achievable timeline (18-24 months)

Option 3 regulates 3-4 commodities in 3-4 years

Option 4 regulates 5-7 commodities in 4-5 years

Within options 2, 3 and 4, different turnover thresholds are explored for the commodities that may be brought into scope. These turnover options are £50m, £100m and £200m.

Will the policy be reviewed? It will be reviewed 2 years from implementation of the policy, and every two years thereafter. **If applicable, set review date: This depends on when the legislation is laid.**

Does implementation go beyond minimum EU requirements?		Yes		
Is this measure likely to impact on international trade and investment?		Yes		
Are any of these organisations in scope?	**Micro** No	**Small** No	**Medium** No	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** Not assessed	**Non-traded:** Not assessed	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: ..... Date: .....

Summary: Analysis & Evidence

Policy Options 2-4

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate:**

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		Optional	**Optional**
High	Optional	1	Optional	**Optional**
Best Estimate				

Description and scale of key monetised costs by 'main affected groups'

Regulated businesses will incur costs associated with undertaking their due diligence obligations. These include transition costs (administrative systems, training) and annual costs (traceability systems, undertaking risk assessments and mitigation, reporting). The turnover threshold which will determine the size of businesses within scope will be set after consultation. At this stage a range of costs estimates are provided based on three different annual turnover thresholds: 1: £50m+, 2: £100m+ and 3: £200m+.

Other key non-monetised costs by 'main affected groups'

For some micro, small and medium businesses not directly regulated but handling forest risk commodities, additional costs will be incurred (considered in section 4.0) when these businesses are required to provide supply chain data to regulated businesses. Some businesses may choose to use certified commodities to help satisfy the requirements. Certified commodities are more expensive and businesses that chose this path may be charged a product premium (roughly 5% cost increase per tonne of raw commodity).

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate				

Description and scale of key monetised benefits by 'main affected groups'

Owing to difficulties quantifying the impact of this policy on illegal deforestation, the benefits in terms of changes in ecosystem services have not been monetised. It is inherently difficult to evaluate the scope of illicit activity such as illegal deforestation, and there are associated challenges in attempting to accurately quantify the related environmental and social benefits.

Other key non-monetised benefits by 'main affected groups'

This regulation is expected to contribute to a reduction in illegal deforestation associated with the production of forest risk commodities destined for the UK market. Evidence suggests that reducing illegal deforestation in producer countries brings with it economic, political and social benefits and that protecting forests and other natural ecosystems can enhance provision of ecosystem services. For businesses operating in the UK, benefits may include supply chain risk reduction and reputational enhancement.

Key assumptions/sensitivities/risks **Discount rate (%)**

Costs estimates are provided across 3 different turnover threshold scenarios (corresponding to differing numbers of businesses) across 7 different commodities. These are indicative only and will be finalised following further consultation and analysis. A low, mid (best) and high range estimate have been produced by altering assumptions about costs per business and the number of businesses that already conduct due diligence.

BUSINESS ASSESSMENT (Options 2- 4)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: (£m) Option 2: 20.0 to 77.6 Option 3: 31.0 to 145.4 Option 4: 56.9 to 222.2	**Benefits:**	**Net**: (£m) Option 2: 20.0 to 77.6 Option 3: 31.0 to 145.4 Option 4: 56.9 to 222.2	

1.0 Policy Rationale

1.1 Policy background

International commitments and UK objectives

This policy operationalises primary legislation in the Environment Act, which will contribute directly to the Government's 25 Year Environment Plan commitment to "leave a lighter footprint on the global environment" by "enhancing sustainability" including by tackling deforestation. Due diligence legislation in the Environment Act seeks to deliver against these objectives by tackling illegal deforestation in UK supply chains. This includes making it illegal for larger businesses in the UK to use key forest risk commodities produced on land illegally occupied or used; requiring businesses in scope to undertake a due diligence exercise on their supply chains, and to report on this exercise annually; and the publication of information about businesses' due diligence exercises to ensure transparency. Businesses in scope that do not comply with these requirements may be subject to fines and other civil sanctions.

Due diligence legislation in the Environment Act, and proposals under consideration here to implement its provisions, builds on the work of the Global Resource Initiative (GRI) taskforce, which was also established as part of the 25 Year Environment Plan to identify specific measures to address the UK's imported deforestation and wider environmental footprint. The GRI taskforce submitted their final report[1] to the Government in March 2020 and a key recommendation was that the Government "urgently introduces a mandatory due diligence obligation for companies that place commodities and derived products that contribute to deforestation on the UK market". In addition to this, the Dasgupta Review on the Economics of Biodiversity, an independent global review commissioned by HM Treasury[2], reports that the production of traded commodities has been found to contribute to the major drivers of biodiversity loss in exporting countries.

This policy to operationalise Environment Act provisions also connects to a number of the UK's international commitments. The UK notably hosted the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP) in November 2021. These proposals complement the aims of the Forest, Agriculture and Commodity Trade (FACT) Dialogue as part of COP26, which seek to discuss and agree an inclusive vision and effective roadmap of actions to protect forests and other important ecosystems while promoting sustainable development and trade.

In 2014, the UK also endorsed the New York Declaration on Forests, which aims to reverse forest loss by strengthening the protection of intact forests and supporting large scale forest restoration, and is a signatory to the Amsterdam Declaration Partnership.

The UK has also signed the Leader's Pledge for Nature, Action 4 of which relates to sustainable production and consumption. This commits the UK to transitioning to sustainable patterns of production and consumption and sustainable food systems that meet people's needs while remaining within planetary boundaries and includes a specific commitment to support sustainable supply chains. Our work overall contributes to achieving the United Nations' Sustainable Development Goals, in particular goal 12 'Responsible Consumption and Production' and goal 15 'Life on Land'.

[1] GRI final recommendations report 2020: https://www.gov.uk/government/publications/global-resource-initiative-taskforce
[2] The Economics of Biodiversity: The Dasgupta Review (publishing.service.gov.uk)

How does this intervention complement others designed to address habitat loss in supply chains?

The Global Resource Initiative (GRI) taskforce's final report[3] highlighted that both supply and demand-side interventions are required to address habitat loss and deforestation[4]. Supply-side measures are those that aim to foster better management of natural resources in producer countries by building the country's governance capacity and performance, while demand-side measures aim to influence natural resource management indirectly by requiring businesses to evaluate their supply chains in line with specified standards or principles and to only use products that comply[5]. The Government's response to the GRI's recommendations[6], lays out a comprehensive package of both demand and supply side measures that the UK Government is taking forward, including due diligence as one of the demand-side measures. We have since introduced due diligence provisions through the Environment Act.

In January 2021, the UK Prime Minister committed to spend at least £3 billion on nature and biodiversity over the next five years, allocated from the UK's existing commitment of £11.6 billion on International Climate Finance. Part of this will be invested in programmes that support the shift to more sustainable production of timber and other key commodities associated with deforestation.

The UK played a central role in developing the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan[7] and resulting EU Timber Regulations (EUTR), which combine supply and demand-side measures to prevent illegal logging. In the UK, these regulations have been transposed into domestic law - the UK Timber Regulations in Great Britain. These regulations prohibit illegally harvested timber and timber products from being first placed on the market, and requires operators first placing timber products on the market to exercise due diligence. In order to avoid overlap with this regime, the due diligence measures considered here would not extend to timber or timber products.

The Government also supports a wide range of voluntary demand-side initiatives, for example by convening industry-led roundtables on sustainable soya and palm to support businesses in the UK working to improve the sustainability of their supply chains. However, the due diligence obligation in the Environment Act was brought forward as evidence suggests that these existing voluntary measures are not accelerating the transition to fully sustainable supply chains quickly enough.

1.2 Problem under consideration

Forests and deforestation

Forests exhibit enormous value as intact biodiverse ecosystems. Globally, forest ecosystem goods and services have been valued at $4.7 trillion annually[8]. They provide a wide range of ecosystem services; particularly climate change mitigation; regulation of local and regional climates; and provision of watershed services, which are critical for the agriculture sector. Forests host unparalleled levels of terrestrial biodiversity and are critical to the livelihoods of at least 250 million people who live in forests, including indigenous groups[9,10].

[3] GRI final recommendations report 2020: https://www.gov.uk/government/publications/global-resource-initiative-taskforce
[4] GRI final recommendations report 2020: https://www.gov.uk/government/publications/global-resource-initiative-taskforce
[5] FERN Discussion Paper: Developing EU measures to address forest-risk commodities
[6] Government response to the recommendations of the Global Resource Initiative - GOV.UK (www.gov.uk)
[7] What is the EU FLEGT action plan?: https://www.euflegt.efi.int/flegt-action-plan
[8] Economic value of forest ecosystem services report: https://www.sierraforestlegacy.org/Resources/Conservation/FireForestEcology/ForestEconomics/EcosystemServices.pdf
[9] The exceptional value of intact forest ecosystems: https://www.nature.com/articles/s41559-018-0490-x
[10] The Economic Value of Forest Ecosystems: https://onlinelibrary.wiley.com/doi/abs/10.1046/j.1526-0992.2001.01037.x

Despite this, deforestation is increasing in many parts of the world. Although the rate of annual forest loss declined between 1990 and 2015[11], in 2017, global deforestation rates were more than double than what they were in 2001[12]. In the absence of new forest conservation policies, it is estimated that 289 million hectares of tropical forest will be cleared between 2016 and 2050 - an area about the size of India and one-seventh of Earth's tropical forest area[13].

Drivers of deforestation

Agricultural expansion drives almost 80% of all deforestation[14], where commercial and subsistence agriculture are the most important drivers[15]. Globally between 2001 and 2015, it is estimated that 27% of all forest disturbance was associated with commodity-driven deforestation, which equates to about 5 million hectares per year. The remaining disturbance arose from forestry (26%), shifting agriculture (24%) and wildfire (23%)[16,17]. In tropical areas, a recent study found that large-scale commercial agriculture accounted for 40% of deforestation between 2000 and 2010, and local subsistence agriculture another 33%[18].

Global markets exert an increasing influence on forests. It is estimated that between 2000–2011, the production of beef, soybeans, palm oil and wood products in seven producer countries was responsible for 40% of tropical deforestation and the resulting 1.6 gigatonnes of carbon emissions. Of these carbon losses, a third were embodied in exports in 2011 (up from a fifth in 2000)[19].

UK demand for these commodities is considerable. It is estimated that between 2016 and 2018 a total overseas area equivalent to 88% of the total UK land area was required to supply the UK's demand for seven agricultural and forest commodities (beef & leather, cocoa, palm oil, soy, rubber, pulp & paper, and timber). Compared to the period 2011–2015, this is a 15% increase[20].

1.3 Rationale for intervention

Market failures

There are three principal market failures resulting from the UK's consumption of commodities from biodiverse habitats:

- First are the environmental public goods and services provided by forests which are non-excludable and non-rivalrous[21]. These include regulating services such as carbon sequestration and climate regulation, provisioning services such as water or timber, and cultural services such as tourism opportunities or spiritual connection. Public goods are subject to free riding; everyone can receive the benefits of these goods without contributing to the cost of production. It is rational for producers to free ride as the cost of action will impact on profitability and competitiveness. Markets therefore underprovide public goods as there is no incentive for markets, or producers, to provide them.

[11] Dynamics of global forest area: https://www.sciencedirect.com/science/article/pii/S0378112715003400
[12] Global forest watch dashboard: https://www.globalforestwatch.org/dashboards/
[13] The Future of Forests, Emissions from Tropical Deforestation: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2671559
[14] State of world forests 2020: http://www.fao.org/3/ca8642en/online/ca8642en.html
[15] An assessment of deforestation and forest degradation drivers: https://iopscience.iop.org/article/10.1088/1748-9326/7/4/044009/meta
[16] IPCC land degradation chapter 4: https://www.ipcc.ch/site/assets/uploads/sites/4/2019/11/07_Chapter-4.pdf
[17] Classifying drivers of global forest loss: https://science.sciencemag.org/content/361/6407/1108.full
[18] State of world forests report 2020: http://www.fao.org/3/ca8985en/CA8985EN.pdf
[19] Trading forests environmental research letter: https://iopscience.iop.org/article/10.1088/1748-9326/10/12/125012/pdf
[20] RSPB riskier business report: https://www.rspb.org.uk/globalassets/downloads/documents/risky-business/risky-business-report-summary.pdf
[21] Goods for which individuals cannot be excluded from use or could benefit from without payment, and where use by one individual does not reduce availability to others, respectively.

- In addition, agricultural processes lead to negative externalities[22] such as water and air pollution, which can further degrade nearby ecosystems. The costs this imposes (through erosion of natural capital or costs to remove pollution) are borne by society at large rather than by producers, whilst the economic benefits flow directly to producers, leading to over-supply. These costs are over and above the cost of production and therefore prices consumers pay for commodities do not reflect the environmental degradation attached to them. These impacts are significant: the Food and Land Use Coalition estimates that food and land use systems generate 'externalised' environmental, health and poverty costs of almost $12 trillion a year[23].

- Finally, a consumer's ability to integrate environmental impacts into their consumption decisions is limited by asymmetric information (i.e. a lack of information around the provenance of the product). In current market conditions products are supplied regardless of environmental impact even where consumers may prefer to consume less environmentally adverse commodities.

Impact of deforestation

Deforestation creates immense environmental, social and economic harm:

- Estimates differ but deforestation accounts for a significant proportion of greenhouse gas emissions[24]. It has been estimated that if all deforestation were stopped tomorrow, damaged forests were allowed to grow back, and mature forests were left undisturbed, tropical forests could reduce total annual net emissions by up to 30%[25,26].

- It puts at risk the home of more than 80% of all terrestrial species of animals, plants and insects globally[27] and there is growing evidence that the clearance of natural ecosystems exacerbates the spread of infectious diseases[28].

- It undermines the livelihoods of 1.2bn of the world's poorest people[29] and looking forward, the sustainability of the food sector is put at risk by the degradation of critical ecosystems. In 2016, a report from the Carbon Disclosure Project (CDP) - a global disclosure system for companies, cities, states and regions to manage their environmental impacts - found that the total annual turnover at risk for over 200 publicly listed companies from deforestation is estimated to be up to US$906 billion, with 24% of company revenues dependent on four forest risk commodities (palm, soy, cattle products and timber)[30].

This legislation is aimed at tackling *illegal deforestation,* which has a particularly damaging impact on the environment in producer countries. See Annex 1 for a more detailed analysis.

- It is estimated that 60% of tropical forest loss between 2013 and 2019 was driven by commercial agricultural expansion with 69% of this conducted in violation of national laws and regulations[31]. The clandestine nature of illegal deforestation makes it difficult to

[22] A negative externality is a cost that arises when a product or decision costs more to society than its private costs.
[23] FOLA growing better report: https://www.foodandlandusecoalition.org/wp-content/uploads/2019/09/FOLU-GrowingBetter-GlobalReport.pdf
[24] IPCC climate change physical science basis: https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Full_Report.pdf
[25] Why forests? Why now? CGD paper: https://www.cgdev.org/sites/default/files/Seymour-Busch-why-forests-why-now-full-book.PDF
[26] Perturbations in the carbon budget of the tropics: https://onlinelibrary.wiley.com/doi/full/10.1111/gcb.12600
[27] WWF forest habitat overview: https://www.worldwildlife.org/habitats/forest-habitat
[28] Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), *'The Global Assessment Report on Biodiversity and Ecosystem Services'* (2019) https://doi.org/10.5281/zenodo.3831673
[29] International Climate Fund Business Case: https://aidstream.org/files/documents/BioCF-and-FCPF-Business-Case.pdf
[30] CDP 2016 forests report: https://www.cdp.net/en/research/global-reports/global-forests-report-2016
[31] The state of illegal deforestation for agriculture report: Illicit-Harvest-Complicit-Goods_rev.pdf (forest-trends.org)

accurately estimate the percentage of deforestation that is illegal[32]. However, it is expected that the ability to monitor illegal deforestation will improve as better earth observation techniques and data become available.

- Illegal deforestation can lead to significant negative impacts in producer countries; aside from the environmental impacts there are considerable economic, social and political repercussions. For example, Forest Trends have estimated that in total illegal deforestation generates economic losses in tropical countries of more than $17 billion per year[33]. These losses result from financial impacts (mostly lost revenue through taxes and reduced investment), natural capital loss (through removal of ecosystem services), loss of social/human capital (for example, ignored peoples' rights of ownership of the land and the forests they contain) and loss of political capital (loss of trust and subsequent investment).

1.4 Policy objective

The ultimate objective of this policy, which implements due diligence provisions in the Environment Act, is to **reduce deforestation associated with the production of agricultural commodities**. The intended outcome is that less natural forest is converted for agricultural use each year, and that the protection of forest does not lead to the conversion of other natural ecosystems. However, because the UK represents only a portion of the demand for some key commodities driving conversion, the success or failure of our options cannot be measured against global rates of commodity-driven deforestation alone. It is therefore useful to breakdown our ultimate objective into proximate objectives against which our options can be assessed:

1. Increased demand for sustainably produced commodities

Indicators:

- Increased demand from UK businesses for sustainably produced agricultural commodities
- Contribute to driving increased demand for sustainably produced agricultural commodities globally

2. Effective partnerships forged with producer countries

Indicators:

- Effective dialogues are established
- Producer countries' domestic initiatives to reduce deforestation are supported

3. Improved transparency in forest risk commodity supply chains

Indicators:

- UK consumers can access reliable information on supply chains
- Business, financial services and civil society can access and use supply chain information to inform their work

1.5 Options considered

During the consultation we are aiming to elicit stakeholder views on which turnover threshold should be introduced for each commodity in scope, as well as which commodities should be brought into scope first. This turnover is based on total revenue. The Companies Act definition of

[32] Deforestation in the Amazon commentary: https://www.elementascience.org/articles/10.12952/journal.elementa.000141/
[33] Economic Impacts of Illegal Agro-Conversion brief: https://www.forest-trends.org/wp-content/uploads/2018/06/Info-Brief-Costs-of-Illegal-Agro-Conversion_Final.pdf

a ‘large’ business is those with a turnover threshold of over £36m. We have used this minimum figure to identify the following three options and ensure only large businesses are directly in scope. The following options will be assessed against different turnover thresholds; £50m, £100m and £200m.

While a wide number of commodities have played and continue to play a role in driving global deforestation, we have identified seven key commodities that are responsible between them for driving the majority of recent and ongoing deforestation. Recent research including reports from the European Union[34], World Resource Institute[35] and World Wildlife Fund[36] have helped to inform this shortlisting, prioritising those commodities with the biggest deforestation risk in their supply chains. Each report assesses the impact of specific forest risk commodities on deforestation and highlights key drivers of deforestation. Due to this, there is a high degree of confidence that the most damaging commodities are included. The commodities are: cattle (beef and leather), cocoa, coffee, maize, palm oil, rubber and soya. We are seeking further evidence through consultation to inform the shortlisting of these commodities.

Option	Description
Option 0	The baseline option – Maintain the status quo. Secondary legislation is not implemented and businesses handling forest risk commodities continue to uptake commodities certified by international sustainability schemes on their current trajectory. Businesses’ commitments would remain on a voluntary basis, and there would be no prohibition on the use of illegally produced commodities (with the exception of timber and some timber products for which separate legislation is in force under the UK Timber Regulations). Existing voluntary certifications include those run by the Roundtable on Sustainable Palm Oil (RSPO) and Round Table on Responsible Soy (RTRS).
Option 1	Builds upon existing voluntary initiatives to reduce deforestation in supply chains. The Government would support the development of private sector measures like voluntary codes of conduct, promotion of commodity certification schemes, and implementation of a standardised voluntary protocol for conducting due diligence on commodity supply chains.
Option 2	Two commodities are regulated, this is expected to come into effect in 18-24 months (including a minimum period of 6 months for businesses to prepare for regulation) in initial secondary legislation. This is the fastest timeframe to effect change and begin to reduce illegal deforestation driven by UK consumption.
Option 3	Three to four commodities are regulated, this is expected to come into effect in 3-4 years (including a minimum period of 6 months for businesses to prepare for regulation) in initial secondary legislation. This could only be implemented in slower time than Option 2.
Option 4	Five to seven commodities are regulated in initial secondary legislation, this is expected to come into effect in 4-5 years (including a minimum period of 6 months for businesses to prepare for regulation). This could only be implemented in slower time than Options 2 and 3.

[34] The impact of EU consumption on deforestation: www.ec.europa.eu/environment/forests/pdf/1.%20Report%20analysis%20of%20impact.pdf
[35] Role of 7 commodities in deforestation technical note: www.tropicalforestalliance.org/assets/publications/WRI-estimating-role-seven-commodities-agriculture-linked-deforestation-Nov-2020.pdf
[36] Riskier Business – UK’s overseas land footprint: www.wwf.org.uk/sites/default/files/2020-07/RiskierBusiness_July2020_V7_0.pdf

2.0 Costs and Benefits

2.1 Option 0 – Do Nothing

Impact
The do-nothing option is not expected to meet policy objectives. The evidence for this can be separated into three main strands.

The first concerns the uptake of certified products. Evidence suggests there has not been uptake in forest risk commodity[37] certification by businesses at the speed needed to meet government objectives. In 2019, 27% of soy in the UK was covered by a deforestation and conversion-free standard[38]. This is important because recent studies have shown that exports of soy to the EU from Brazil is mixed with illegally produced soy[39,40]. Although in 2018 around 77% of raw palm oil entering the UK was certified under RSPO (and thus considered to have been produced sustainably and legally), this figure has not increased substantively since 2015[41] and consultation with market experts and business indicate that there is no reason to expect this percentage to increase without further intervention. Indeed the 2020 annual report from the RSPO notes that in 2019 this figure actually dropped to 70%[42]. It is commonly understood that other commodities, like cocoa, beef and rubber, do not possess as high levels of certification related to environmental sustainability or legality[43,44].

Secondly, businesses are not voluntarily committing to removing deforestation from their supply chains at the pace required to meet Government objectives or do not succeed at meeting the commitments they have made. Recent reports by Forest500, Cere and The Convention on Biological Diversity (CBD) are clear that many companies do not have deforestation-free commitments, often fail to meet commitments in place, and consistently fail to report on progress[45,46,47]. These points are echoed in the GRI recommendations report and in the New York Forests Declaration 2019 Report[48] which states that although businesses are beginning to act to address deforestation, their plans often lack ambition and efforts remain isolated.

Finally, across businesses and internationally, and as indicated by the GRI, there is a growing consensus that voluntary measures are not doing enough to combat deforestation. Other major consumer blocs are recognising this. For example, the EU Commission has been clear that voluntary action has not brought about sufficient change. Prominent businesses and investors are increasingly recognising the links between deforestation and climate change and biodiversity loss, as well as the financial risks it poses. For example, due to warmer climates and drought, cocoa farmers are being forced to relocate production to the remaining forest frontiers that have a wetter climate, and there is growing concern that supplies of cocoa in West Africa could be compromised if production continues to expand into the last of the forest reserves[49]. A 2016 CDP report[50] found that the total annual turnover at risk for publicly listed companies from deforestation is estimated to be up to US$906 billion, with 24% of company revenues dependent on four forest risk commodities (palm, soy, cattle products and timber). More and more, businesses are

[37] Agricultural products and derived products where production processes involve significant conversion of natural forests and other natural ecosystems into agricultural land.
[38] UK Roundtable on Sustainable Soya: https://www.efeca.com/wp-content/uploads/2019/12/UK-RT-on-Sustainable-Soya-APR-2019-final.pdf
[39] The rotten apples of Brazil's agribusiness: https://science.sciencemag.org/content/369/6501/246
[40] Illegal deforestation and Brazilian soy exports: http://resources.trase.earth/documents/issuebriefs/TraseIssueBrief4_EN.pdf
[41] UK Roundtable on Sourcing Sustainable Palm Oil 2019: https://www.efeca.com/wp-content/uploads/2019/12/UK-RT-on-Sourcing-Sustainable-Palm-Oil-APR-2019..pdf
[42] UK Roundtable on Sourcing Sustainable Palm Oil 2020: UK-Roundtable-on-Sourcing-Sustainable-Palm-Oil-APR-2020.pdf (efeca.com)
[43] WWF Risky Business report 2017: WWF-and-RSPB-Risky-Business-Report-single-pages-October-2017.pdf (tropicalforestalliance.org)
[44] Sustainable cocoa supply chains report: https://www.fern.org/fileadmin/uploads/fern/Documents/2019/Fern-sustainable-cocoa-supply-chains-report.pdf
[45] The state of corporate no deforestation commitments: https://engagethechain.org/resources/out-limb-state-corporate-no-deforestation-commitments-reporting-indicators-count
[46] CDP Global Forests report 2019: https://6fefcbb86e61af1b2fc470d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/004/653/original/CDP_Global_Forests_Report_2019.pdf?1563799387
[47] Forest 500 annual report 2019: https://forest500.org/sites/default/files/forest500_annualreport2019_final_0.pdf
[48] 2019 NYDFR Report – Protecting and Restoring Forests: 2019NYDFReport.pdf (climatefocus.com)
[49] Eliminating Deforestation from the Cocoa Supply Chain report: https://openknowledge.worldbank.org/bitstream/handle/10986/26549/114812-5-5-2017-12-49-5-Cocoafinal.pdf?sequence=8&isAllowed=y
[50] CDP global forests report 2016: https://www.cdp.net/en/research/global-reports/global-forests-report-2016

recognising the risks of deforestation directly to their supply chains[51] and are calling for regulation to set a level playing field[52].

Costs and benefits

Not assessed for the do-nothing baseline option.

2.2 Option 1: Additional voluntary measures

Impact

It is considered unlikely that additional voluntary measures will meet the policy objectives. The impacts for the do-nothing option (above) provide evidence that voluntary measures are insufficient to produce the desired change. This assessment also applies to the provision and promotion of additional voluntary guidance, because without introducing a material cost to inaction there remains little incentive for non-publicly visible companies to act.

Many larger companies already conduct a form of due diligence, and codes of conduct and systems for voluntary due diligence already exist, for example as part of RSPO and RTRS membership and through the OECD's Guidelines for Multinational Enterprises. Given that tools and support are already available to companies that wish to conduct due diligence, there is no reason to believe that the provision of further guidance would increase uptake amongst other large businesses. In addition, it is likely that any change that would result from this option would occur at a slower pace than for regulatory options.

Evidence gathered through public consultation[53] on our due diligence proposal supports the development of legislation and the consequent rejection of Option 1. Of those who provided responses to the relevant closed answer questions in the consultation, 4,422 respondents (99%) agreed that Government should introduce legislation to make forest risk commodities more sustainable and 4,397 (99%) also agreed that it should be illegal for businesses to use forest risk commodities in the UK if they have not been produced in accordance with relevant laws in their country of origin. Accordingly, 4,417 (99%) respondents agreed that businesses operating in the UK should be subject to a forest risk commodity due diligence requirement. This demonstrates the overwhelming consensus that legally binding measures are needed and provides a compelling argument to implement Options 2-4.

It is also important to note that voluntary measures do not address the problem of enforcement where a company has not successfully mitigated deforestation risk in their supply chain. The FLEGT action plan[54] and EUTR, for example, were brought in to build upon existing voluntary measures because these were found to be failing to prevent illegally harvested timber entering the EU market.

Costs and benefits

Given we expect there to be minimal additional impacts with respect to the do-nothing option, we expect minimal costs and benefits would result from this option.

2.3 Relevant information for options 2-4

The following elements of the legislation are relevant to all options.

As discussed in section 1.5 above, seven forest risk commodities have been identified as key drivers in global deforestation. Joint Nature Conservation Committee (JNCC) are developing an indicator to assess

[51] Nestle human rights DD regulation page: https://www.nestle.com/ask-nestle/human-rights/answers/human-rights-environmental-due-diligence-regulation
[52] Cocoa barometer 2020: 2020-Cocoa-Barometer.pdf (voicenetwork.eu)
[53] Forest risk commodities primary consultation government response: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933985/due-diligence-forest-risk-commodities-government-response.pdf
[54] What is the EU FLEGT Action Plan? | FLEGT (efi.int)

the global environmental impacts of UK consumption[55]. Their analysis can be used to estimate the deforestation risk per hectare associated with UK consumption[56] of a range of commodities. See table below:

Table 1 – Deforestation risk associated with UK consumption by commodity

Commodity	**Deforestation risk of UK consumption per annum. In hectares (2013-2017 average)**
Soy	4,990
Palm oil	4,987
Maize	2,553
Cattle	5,913
Coffee	1,039
Cocoa	911
Rubber	741

Source: Towards indicators of the global environmental impacts of UK consumption: Embedded Deforestation | JNCC Resource Hub

As set out in the primary legislation, only large businesses using regulated commodities will be in scope. This legislation focusses on large businesses, as they have the most influence over UK supply chains within each commodity area. They are most likely to be able to influence their suppliers and to ensure the regulation is proportionate. Preliminary analysis on the palm oil and soya supply chains by expert consultants indicates that large businesses handle large volumes of commodities and act as 'pinch points' in the supply chain, and this applies to both raw and embedded commodities[57]. In general, smaller businesses in these supply chains are supplied by larger businesses and so by capturing these larger businesses in the regulation their commodity usage would be captured.

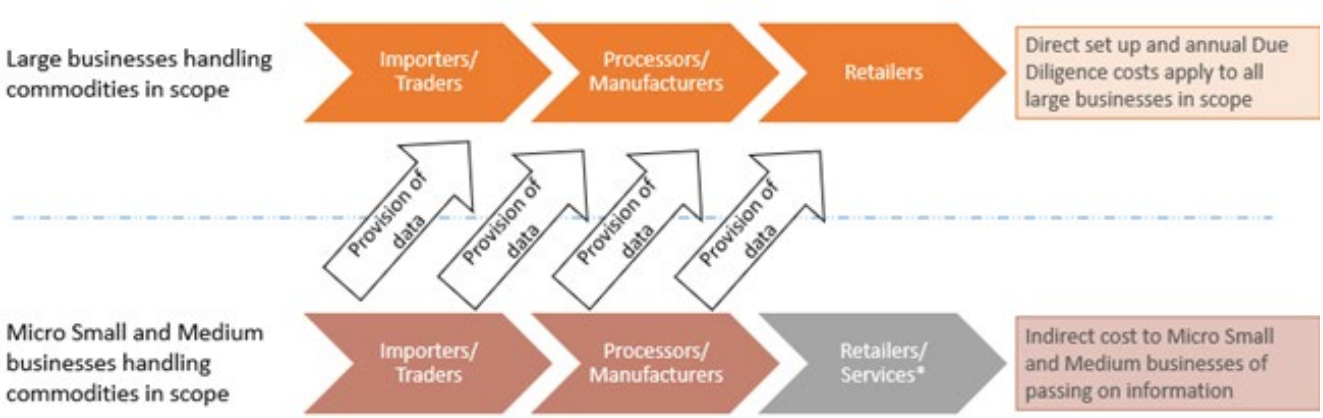
Expert consultants contracted to provide specific technical and analytical inputs have carried out analysis to determine the number of UK businesses in scope for each commodity under a range of turnover thresholds: £50 million, £100 million and £200 million[58]. Please see table below, where 'High' represents the high estimate and 'Low' the lower estimate.

Table 2 – High and low estimates for the number of businesses by commodity and turnover threshold

	Commodity		**Large businesses with turnover £50m+**		**Large businesses with turnover £100m+**		**Large businesses with turnover £200m+**	
			High	**Low**	**High**	**Low**	**High**	**Low**
Number of businesses (total)	**Soy**		1502	998	917	616	565	382
	Palm oil		1603	1041	972	640	595	395
	Maize		1605	966	985	607	608	383
	Cattle[59]	**Beef**	1068	621	668	397	421	253
		Leather	320	55	182	31	103	17
	Coffee		1043	682	669	450	438	300
	Cocoa		1063	688	654	427	413	274
	Rubber		1091	593	678	375	418	239

[55] Towards indicators of the global environmental impacts of UK consumption: Embedded Deforestation | JNCC Resource Hub
[56] Note that this analysis does not consider future trends, which are uncertain. Due to lack of available data we have used backward looking analysis in this assessment.
[57] Mapping & Understanding the UK Palm Oil Supply Chain: http://randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=None&Completed=0&ProjectID=17170
[58] Internal Efeca analysis
[59] There may be some overlap between companies that use both beef and leather. As such the cattle figures could be overestimates.

Figure 1 - Simplified supply chain schematic illustrating businesses in direct scope of proposed legislation alongside indirect impacts on micro, small and medium businesses



Primary legislation also allows an exemption threshold to be set, such that large businesses handling only small volumes of forest risk commodity may be exempt from the regulation's requirements. We are seeking views through consultation about where the exemption threshold should be set for each of the shortlisted commodities and will also gather evidence to inform final decisions post-consultation. We are seeking views on a range of options to help determine the scale at which the exemption threshold should be set, from 1-1000 tonnes.

As discussed above, the consultation will be used to gather stakeholder views and further evidence to help inform:

- Which commodities should be subject to initial secondary legislation
- Businesses in scope, including the level at which to set UK turnover thresholds for each commodity, and how to effectively capture non-UK based businesses that have operations in the UK
- The level at which to set de minimis exemption thresholds for each commodity

The questions below will seek views and help to gather this evidence.

Commodities in scope:

• Which of the following factors do you think should be considered to determine legislative sequencing? Please tick all that apply and state your reasons. • What data sources or information should be used to consider the proposed factors?
• Which option for the first round of secondary legislation do you recommend? Please state your reasons.

Businesses in scope:

• Should we use UK turnover as the metric to capture UK businesses?
• Which of the following metrics should be used to regulate the UK operations of businesses that are based outside of the UK under due diligence legislation? Please state your reasons.
• Can you provide any data or information that will help identify potential businesses in scope based outside the UK? Please provide details for your answer.
• For each of the following commodities, please tick where the turnover threshold for inclusion of UK-based businesses should be set.

Exemption threshold:

• For each of the following commodities, please tick the scale at which the exemption threshold level should be set. • Please provide reasons for the scale selected for each commodity in the previous question.
• [For business respondents only] What volume of each forest risk commodity do you use in your UK commercial activities in a given year?

Due diligence system:

• Please provide any relevant evidence on current business practices, methods and metrics available to assess and mitigate risk.

2.4 Option 2 – Introduce 2 commodities, expected 18-24 months

Impact

A key objective of the legislation is to increase demand for sustainably produced commodities, whilst reducing illegal deforestation from UK supply chains. Option 2 (introducing 2 commodities) strikes the balance between regulating priority commodities that can have the greatest impact on the UK's deforestation footprint and speed of regulation to address the immediate risk of commodity-driven deforestation. As can be seen in Table 1 in Section 2.3 this risk is significant.

The JNCC analysis discussed in Section 2.3[60] shows that the tropical deforestation risk per hectare associated with UK consumption for **all** commodities is 32,361 hectares per annum (taking the mean value from years 2013-17, as above). By regulating the two long-listed commodities with the greatest deforestation risk, **the UK's overall deforestation risk could be reduced by up to a third**, allowing an annual saving of up to almost 11,000 hectares.[61] Further evidence collection and analysis, including through public consultation, will help to inform how many and which commodities will be prioritised for regulation, reducing the range of uncertainty around this figure for the final Impact Assessment.

The legislation can only achieve its key objective if it is tailored to the supply chains of regulated commodities and is effectively enforced. For the legislation to be deliverable, effective, and enforceable, time must be spent gathering information to design regulations tailored to different commodity supply chains and to develop enforcement infrastructure to help ensure the regulations are adhered to. It is then important to test the regulatory details and enforcement infrastructure with relevant sectors/stakeholders, including producer countries. This is because another key objective of the legislation is to forge effective partnerships with producer countries, in order to support and help strengthen the legislative frameworks they have in place to protect forests and other natural ecosystems. If we proceed with a maximum of two commodities in the first round, we expect that legislation could be in force in 18-24 months (based on a minimum 6-month transition period for businesses to prepare, which will be subject to consultation). Introducing two commodities in the first round would allow us to set up initial enforcement infrastructure that could be expanded and strengthened as we review and explore when and how to introduce other commodities through further rounds of legislation.

Costs

Costs estimates are the same for options 2, 3 and 4 and so are outlined in this section.

By placing an onus on businesses within scope of the legislation to conduct due diligence, there is an expectation that additional administrative processes must be put in place to comply. In general, costs that are likely to be borne by businesses can be placed into three categories: transition, on-going and provisioning. Cost analysis was performed with significant input from independent consultants with expert

[60] Towards indicators of the global environmental impacts of UK consumption: Embedded Deforestation | JNCC Resource Hub

[61] note that this legislation focuses on only illegal deforestation, however the JNCC data looks at all tropical deforestation. Here we are using all tropical deforestation as a proxy for illegal deforestation, due to lack of evidence.

industry knowledge of forest risk commodity supply chains in the UK. The cost estimates per business below are derived from their interviews with market experts and industry.

Premium costs

Incurred if a business prior to being regulated handled commodities determined to be produced illegally in the producer country, and the subsequent switch to 'legal' commodities comes with a legal product premium, or a business took a decision to buy certified commodities that come with a premium attached having not done so before. For businesses choosing to certify, expert consultant analysis found that a cost increase of around 5% would be placed on each tonne of commodity handled. Owing to the difficulty in estimating how many businesses would opt to certify, no premium cost estimate has been included in this impact assessment.

No empirical data (public, peer reviewed) was found to determine any additional (or otherwise) product cost associated with switching from illegally to legally produced forest risk commodities. Businesses will not be able to charge a premium for legally produced goods, however, there is potential that illegally produced forest risk commodities are themselves cheaper to produce and deflate global prices, for which there is precedent in timber.[62]

Transition Costs

Arise from implementing due diligence in year one. For example, setting up an administrative system to manage business compliance to track, record and retain details of product usage from supplier to customer. It might also include initial training to employees on legal requirements, company policy, standard operating procedures relevant to job role and operation of administration systems.

The transitions costs have been estimated based on costs that will be relevant to all companies. Additional transition costs may apply to a small subset of businesses such as buying data, geospatial mapping tools and consultancy fees, which could be used by larger companies. These costs were not included within our analysis as expert consultants deemed it likely that only a small portion of large businesses would face these costs. We expect any further relevant information on such costs to be flagged by respondents during consultation.

On-going Costs

Include carrying out the initial due diligence assessment on forest risk commodities within the supply chain and establishing systems for on-going management of risk. This includes developing business policy and contract terms, evidencing commodity provenance, mapping out supply chains, understanding the presence of forest risk commodities in products, assessing risk, training staff and arrangements for monitoring and reporting. Each year it is assumed that these costs reduce by 5% with respect to the previous year's annual costs. This decline is assumed to arise because due diligence systems will be in place already, businesses become familiar with and streamline the process, and supply chains become better understood and mapped.

Provisioning costs

These costs apply to businesses not directly impacted by the due diligence legislation. They arise when a business is required to provide data or information to other businesses to enable them to carry out their due diligence obligations. The provisioning costs will depend on the frequency the business will have to report to the larger business, where the business is in the supply chain and whether or not they already have passing on information (POI) systems in place. Please see section 4.0 below, that estimates these costs for micro and small businesses.

Total costs estimate per business

Estimates of costs to individual businesses in year 1 resulting from options 2, 3, and 4 are outlined in Table 1 below. Business costs estimates are indicative and only apply to large businesses (small and medium-

[62] Tackling deforestation and the trade in forest risk commodities: https://www.forest-trends.org/wp-content/uploads/2019/05/Consumer-Legality-Brief-FINAL-WEB.pdf

sized businesses will not be regulated). As turnover thresholds will be determined following consultation, the Companies Act definition of a 'large' business is used, those with a turnover higher than £36 million[63]. Expert consultants have advised that the costs should be similar as the turnover size increases. They have been calculated by estimating the employee time to execute a task, multiplied by the daily rate for the relevant seniority of employee (ranging from administrative officer to senior management). The daily rate is based upon the ONS Annual Survey of Hours and Earnings (ASHE).

Table 3 Individual business costs in year 1 for options 2-4.

	Large business[64]		
Existing due diligence practice	No DD in place	Partial DD in place	Full DD in place
Premium cost	£-	£-	£-
Set up costs	£3,196	£1,598	N/A
Ongoing (annual) costs	£58,585	£29,560	£536
Total	**£61,781**	**£31,158**	**£536**

Whether a large business already conducts due diligence impacts the costs it faces, and this is broken down within Table 3. For this assessment, it is assumed that where a business has partial due diligence in place it will face 50% of due diligence costs, and businesses with full due diligence are assumed to face zero additional cost (aside from reporting costs).

Although the process of setting up due diligence is likely to be similar for businesses that handle different commodities, costs will differ. The costs have been estimated based on generic activities that would need to be carried out irrespective of commodity type (e.g. system set-up, training, exposure assessment, reporting). The variability in commodity cost will depend, in part, on the current status of traceability and transparency across commodities. For example, palm oil, soya and cocoa have reasonably well-developed traceability systems, while traceability in the rubber and beef supply chains is less well established. We aim to get more information on general and commodity specific costs through consultation, please see consultation questions below.

- Can you provide any evidence on the cost of carrying out due diligence? Please provide details including how it relates to business size.

- Can you provide any evidence on the cost of carrying out due diligence for specific commodities? Please provide details about your answer.

Benefits

It is inherently difficult to evaluate the scope of illicit activity such as illegal deforestation, and there are associated challenges in attempting to quantify the associated costs and benefits. This is particularly true for the range of associated environmental and social externalities for which there is not a clear market value. The economic, environmental, and social benefits outlined below are not monetised beyond the provision of high-level values where these exit in the wider literature.

Avoided deforestation and wider global benefits

The primary objective of this policy is to promote sustainable supply chains and thus reduce deforestation associated with the illegal conversion of forest into agricultural land to grow agricultural commodities. It is well established that the global production of just a few forest risk commodities is responsible for a substantial share of global forest loss[65]. Furthermore, production for export markets has been shown to play an increasing role in agricultural expansion and land use change in threatened forests[66] and the UK plays a part within this.

[63] As defined by Companies Act 2006: https://www.legislation.gov.uk/ukpga/2006/46/contents
[64] As defined by Companies Act 2006: https://www.legislation.gov.uk/ukpga/2006/46/contents
[65] Role of commodities in deforestation note: https://files.wri.org/s3fs-public/estimating-role-seven-commodities-agriculture-deforestation.pdf?U_I9ydQ17cByOKKf2ohGGJ_aZWe3HVxw
[66] Trading forests research letter: https://iopscience.iop.org/article/10.1088/1748-9326/10/12/125012/pdf

This legislation is expected to reduce the quantity of illegally produced forest risk commodities consumed in the UK. For those businesses not currently undertaking any due diligence activities, it is anticipated that improved knowledge of their supply chain will encourage them to substitute unsustainably produced commodities for sustainably produced commodities, which have a less destructive impact on ecosystems and the services that they provide. It has not been possible to accurately quantify the extent to which this will be the case and therefore an estimate of the benefits in terms of increases in biodiversity and ecosystem services is also not possible. Specific challenges to quantifying this impact include a lack of specific data on the current proportion of forest risk commodities used by large businesses that are grown on illegally deforested land, and how this varies by commodity, sector, and business size. In addition, the impact on ecosystem services of any reduction in UK consumption of illegally produced forest risk commodities will vary by geography, ecosystem, and commodity - and number of commodities - brought into scope.

However, Forest Trends (2018) estimate that globally, illegal deforestation for industrial agriculture resulted in costs of more than US$17 billion per year during the early 2000s. These losses stemmed from financial impacts (mostly lost revenue through taxes and reduced investment), the loss of natural capital (through removal of ecosystem services), the loss of social/human capital (for example, ignored peoples' rights of ownership of the land and the forests they contain) and the loss of political capital (loss of trust and subsequent investment)[67]. At a country level, in Indonesia they estimate that conflict with communities, lost tax revenue, and degradation of ecosystem function, resulted in lost production to the value of more than US$4.9 billion/year between 2009 and 2013. In addition, the cost of damage to human health resulting from forest fires associated with land clearing were estimated at more than US$16 billion in high fire years[68].

With regards to ecosystem services, a 2013 meta-analysis found that estimates for forest value[69] ranged between US$8/ha and US$4080/ha[70]. A 2021 meta-analysis of the global economic value of ecosystem services[71] highlights the importance of valuing ecosystem services in the aggregate, rather than valuing marginal changes in specific ecosystem services, the primary focus of the valuation literature to date. In synthesising 261 primary studies the authors calculated an average (median) value of forest ecosystem services for tropical forests of US$1656/ha/year whilst emphasising the significant variations in reported economic values of forests and the ecosystem services that they provide.

An assessment of the economic effects of forest-policy inaction through to 2050 estimated annual global benefits of +0.03% of 2050 GDP to an annual loss of −0.13%. The greatest negative impact is expected in countries where increasing deforestation is taking place, showing an annual loss of 2–6% (2050 GDP)[72]. Countries which experienced economic benefits from current forest policy were generally in temperate regions.

Clearly, given the UK consumes a portion of the global supply of these forest risk commodities, the adverse impact mitigated under the due diligence options, will equate to a portion of these impacts, though the scale of the benefits will differ between sub-options. An additional direct benefit to UK consumers will be improved knowledge of the provenance of the product they consume[73] [74] [75]. As outlined in Section 1.3, reducing information asymmetries will address a key market failure, enabling consumers to make more informed decisions about their consumption of products associated with potentially significant environmental and social impacts.

In terms of specific climate impacts, benefits of reduced illegal deforestation include the maintenance of climate regulation services provided by standing forests. The IPCC[76] report a high level of confidence that local land use change, such as conversion of forests to agricultural land, can result in a redistribution of energy and water vapour between land and the atmosphere, ultimately influencing regional climate. The

[67] Valuing forest ecosystem services paper: https://www.sciencedirect.com/science/article/pii/S0921800913001638
[68] Economic Impact at the National Level of the Illegal Conversion of Forests: Climate-Advisers-Costs-of-Deforestation-for-Industrial-Agriculture-11-2017-clean.pdf (climateadvisers.com); Info-Brief-Costs-of-Illegal-Agro-Conversion_Final_BEN-00000002.pdf (forest-trends.org)
[69] 2010 Purchasing Power Parity (PPP)
[70] Valuing forest ecosystem services paper: https://www.sciencedirect.com/science/article/pii/S0921800913001638
[71] The economic values of global forest ecosystem services: A meta-analysis - ScienceDirect
[72] Economic Assessment of Forest Ecosystem Services Losses: https://link.springer.com/article/10.1007/s10640-011-9478-6
[73] Greening the Dark Side of Chocolate: A Qualitative Assessment to Inform Sustainable Supply Chains | Environmental Conservation | Cambridge Core
[74] Transparency and sustainability in global commodity supply chains - ScienceDirect
[75] Beyond sustainability criteria and principles in palm oil production (jstor.org)
[76] Special Report on Climate Change and Land — IPCC site

IPPC also note land use change impacts on the likelihood, intensity, and duration of extreme events. A key benefit of reducing levels of illegal deforestation at the regional scale is therefore likely to be a reduction in the likelihood of extreme events.

In the same report[77] the IPCC present evidence that land degradation resulting from unsustainable land management practices has adverse impacts on people's livelihoods, with a disproportion burden falling on those living in developing countries. As the dominant sector driving land degradation, agricultural expansion has a wide range of economic, social, political, and cultural impacts including on inequality and demographic change. Reducing rates of illegal deforestation has benefits through the minimisation of these impacts.

Benefits to businesses trading in the commodities in the UK

This option could give rise to benefits to UK businesses through the improved understanding of their supply chains and sustainability of their products.

It is neither possible to estimate accurately, nor monetise, these benefits. A recent EU Commission report[78] on due diligence noted that it is difficult to relate specific economic benefits directly to assessed sustainability activities because, for example, a benefit such as improved financial performance might be the result of a complex mix of activities. However, potential benefits identified in the report of relevance here include:

- Brand value and reputation enhancement
- Employee and future workforce retention
- Operational effectiveness
- Risk reduction and management
- Direct financial impact
- Organisational growth
- Business opportunity

A 2017[79] report by WWF identified similar benefits for retailers in responsible sourcing of forest products. Whilst the report did not attempt to monetise these benefits, a survey of 54 retailers highlighted key business drivers for retailers including positive impact on: risk management and brand reputation (80% of respondents), employee satisfaction (70%) and customer satisfaction and stakeholder engagement (60%).

Furthermore, it is widely accepted that reducing deforestation in supply chains works to reduce supply chain risks for companies handling these commodities and that the sustainability of the food sector is put at risk through degradation of critical ecosystems.

We are including the following questions at consultation to gather explicit evidence on benefits to businesses of conducting due diligence.

• Can you provide any evidence on the benefits to businesses of conducting due diligence for specific commodities? Please provide details about your answer.
• If you answered the previous question, can these benefits be quantified? Please provide details about your answer.

[77] Special Report on Climate Change and Land — IPCC site
[78] Study on due diligence requirements through the supply chain: https://op.europa.eu/en/publication-detail/-/publication/8ba0a8fd-4c83-11ea-b8b7-01aa75ed71a1/language-en
[79] WWF Business Case responsible sourcing_0.pdf

Net present social value

Net present social value (NVSP) is an estimate of the present value of benefits minus the costs. As there is a lack of evidence on illegal deforestation, this analysis has been unable to monetise expected benefits. The net present social value only includes the costs to UK businesses (table 4).

Table 4 Net present social value (costs only) across each turnover scenario in options 2-4. Figures are provided in 2019 prices using a 2020 baseline year across a 10-year period.

	Commodity	All large businesses with turnover 50m+	All large businesses with turnover 100m+	All large businesses with turnover 200m +
Number of businesses (mean of high and low estimates)	**Soy**	1250	767	474
	Palm oil	1322	806	495
	Maize	1286	796	496
	Cattle[80]	1032	639	397
	Coffee	863	560	369
	Cocoa	876	541	344
	Rubber	842	527	329
Net Present Social Value (costs only)	**Soy**	- £320.1m	- £196.3m	- £121.2m
	Palm oil	- £338.5m	- £206.4m	- £126.8m
	Maize	- £329.1m	- £203.8m	- £126.9m
	Cattle	- £264.2m	- £163.6m	- £101.6m
	Coffee	- £220.8m	- £143.3m	- £94.5m
	Cocoa	- £224.2m	- £138.4m	- £87.9m
	Rubber	- £215.6m	- £134.8m	- £84.1m

The upper range for each option in the summary table was calculated by adding the NPSV figures for the largest number of commodities that could be introduced for options 2-4, using the commodities that had the largest number of businesses and the smallest turnover threshold. This ensured the maximum number were included.

For option 2: 2 commodities: palm oil and maize, £50m turnover.
Option 3: 4 commodities: palm oil, maize, soy, and cattle, £50m turnover.
Option 4: 7 commodities: palm oil, maize, soy, cattle, cocoa, coffee, rubber, £50m turnover.

The lower range for each option in the summary table, was calculated by adding the NPSV figures for the smallest number of commodities that could be introduced for options 2-4, using the commodities that had the smallest number of businesses and the largest turnover threshold. To ensure the minimum number were included.

For option 2: 2 commodities: cocoa and rubber, £200m turnover.
Option 3: 3 commodities: coffee, cocoa, rubber, £200m turnover.
Option 4: 5 commodities: cattle, soy, coffee, cocoa, rubber, £200m turnover.

2.5 Option 3 – Introduce 3-4 commodities, expected 3-4 years

Impact

Option 3 will see 3-4 commodities introduced under the due diligence requirements through a first round of secondary legislation. Using the deforestation risk linked to UK consumption in hectares, from the JNCC analysis, this option has the potential to save up to almost 19,000 hectares per year – depending on the commodities selected for regulation. This could capture the commodities that drive 57% of all UK consumption associated tropical deforestation.

As outlined under Option 2, for the legislation to achieve its key objective, it needs to be tailored to the supply chains of regulated commodities and to be effectively enforced. Key details of the secondary legislation (such as where turnover thresholds and the exemption are set and therefore which businesses

[80] There may be some overlap between companies that use both beef and leather. As such the cattle figures in Table 4 could be overestimates.

are in scope) can be commodity-specific to help ensure the regulations have their intended effect. As discussed above, these are key areas that will be consulted on during consultation.

Introducing 3-4 commodities at the same time will take longer than introducing 1-2 commodities because it will require gathering information and determining how to tailor such commodity-specific details in secondary legislation for double the number of commodities. Introducing a larger number of commodities would also require testing regulatory details and enforcement infrastructure with a larger number of sectors/stakeholders, including producer countries. To effectively enforce regulations on 3-4 commodities, a broader enforcement regime will be needed in the first instance which will take more time to put in place than a narrower one focused on a maximum of two commodities. The enforcement regime could then still be further expanded and strengthened as we consider when and how to introduce other commodities in subsequent rounds.

If we proceed with 3-4 commodities in the first round, we expect that legislation could be in force in 3-4 years (based on a minimum 6-month transition period for businesses to prepare, which will be subject to consultation). Moving forward with Option 2 would therefore mean that no illegal deforestation would be tackled by the UK for at least a further year, however a higher % of deforestation caused by UK consumption would be addressed than in Option 2. As the average values in Table 1 show, this further year could result in up to 21,000 hectares being deforested.

Costs and Benefits

The majority of costs and benefits for this option are as outlined in Section 2.3 above.

However, it is important to note that transition and ongoing costs will increase if an organisation uses more than one forest risk commodity. As more forest risk commodities are regulated, the likelihood of this occurring increases. However, there could be some economies of scale present if a business handles more than one forest risk commodity, such as already having a system in place to collect information from suppliers. As costs and benefits relating to ecosystem services vary geographically and by ecosystem type, and key forest risk commodities produced for export differ by country, overall costs and benefits will vary depending on which forest risk commodities are brought into scope. Depending on which commodities are brought into scope first and whether they are the most impactful, there may be diminishing/increasing marginal returns to the legislation. As outlined above, we are seeking stakeholder feedback through consultation to better understand views on the regulation of different commodities and which should be prioritised.

We are also seeking information through consultation on whether many businesses use more than one forest risk commodity, as well as how the costs vary by commodity.

2.6 Option 4 – Introduce 5-7 commodities, expected 4-5 years

Impact

5-7 commodities are introduced under the due diligence requirements in the first round of secondary legislation for Option 4. As described above, the JNCC analysis shows this option could save up to 21,000 hectares per year, capturing the commodities driving 65% of all UK consumption linked deforestation, depending on how many, and which, commodities are brought into scope.

JNCC estimated the deforestation risk associated with 161 commodities, however just seven of them account for 65% of the UK's deforestation footprint[81].

Whilst regulating most or all seven of those commodities would make a significant impact on the UK's deforestation footprint, it would also take the longest time period of the proposed options – estimated at an additional 3 years from implementation of the fastest proposal, option 2. As before, looking at Table 1, we can see that this could result in up to almost 63,000 hectares being deforested before legislation is laid.

[81] Addendum datasheet: https://www.hub.jncc.gov.uk/assets/709e0304-0460-4f83-9dcd-3fb490f5e676

As outlined under Options 2 and 3, this longer period of time would be required to introduce 5-7 commodities because of the research needed to design the commodity-specific details of the secondary legislation, to establish an enforcement regime broad enough to effectively regulate that number of commodities given their distinctly complex supply chains, and to test the legislative design and enforcement regime with relevant stakeholders. Additionally, introducing 5-7 of the key commodities identified would include regulating commodities which are more or less ready for regulation, which may mean more significant testing and awareness raising is needed, and/or a longer transition period for businesses to prepare.

If we proceed with 5-7 commodities in the first round, we expect that legislation could be in force in 5-6 years (based on a minimum 6-month transition period for businesses to prepare, which will be subject to consultation).

Costs and Benefits

The costs and benefits for this option are as outlined in Section 2.3 above.

As seen in option 3, it is important to note that transition and ongoing costs will increase if an organisation uses more than one forest risk commodity. As more forest risk commodities are regulated, the likelihood of this occurring increases. As costs and benefits relating to ecosystem services vary geographically and by ecosystem type, and key forest risk commodities produced for export differ by country, overall costs and benefits will vary depending on which forest risk commodities are brought into scope. As outlined above, we are seeking stakeholder feedback through consultation to better understand views on the regulation of different commodities, and which should be prioritised. In addition, we are seeking information through consultation on whether many businesses use more than one forest risk commodity, as well as how the costs vary by commodity.

2.7 Business Impact Target Calculations

For each Standard Industrial Classification of Economic Activities (SIC) code, independent expert consultants estimated the proportion of businesses likely to already be conducting due diligence (see Annex 2 for a list of SIC codes in scope). To calculate aggregated costs, the total number of businesses that either conduct due diligence already, conduct partial due diligence or conduct no due diligence within each turnover threshold was multiplied by the respective costs estimates per business.

As per Green Book guidance, costs are estimated over a ten-year period, and the aggregate of these informs the Equivalent Annual Net Direct Cost to Business (EANDCB) using a standard discount rate of 3.5% (table 5).

Table 5: Annual business costs (EANDCB) estimates for each scenario (mid-range estimates) for all options. Figures are provided in 2019 prices using a 2020 baseline year. Mean values were used to determine the number of businesses in each commodity.

	Commodity	All large businesses with turnover 50m+	All large businesses with turnover 100m+	All large businesses with turnover 200m +
Number of businesses (total)	**Soy**	1250	767	474
	Palm oil	1322	806	495
	Maize	1286	796	496
	Cattle[82]	1032	639	397
	Coffee	863	560	369
	Cocoa	876	541	344
	Rubber	842	527	329
Annual business costs (mid-range)	**Soy**	£37.2m	£22.8m	£14.1m
	Palm oil	£39.3m	£24.0m	£14.7m
	Maize	£38.2m	£23.7m	£14.7m
	Cattle	£30.7m	£19.0m	£11.8m
	Coffee	£25.7m	£16.6m	£11.0m
	Cocoa	£26.0m	£16.1m	£10.2m
	Rubber	£25.0m	£15.7m	£9.8m

Because this regulation would not directly impact small and medium-sized businesses, estimates for these have not been included.

Consistent with the calculations for the Net Present Social Value above, the upper range for each option in the summary table was calculated by adding the EANDCB figures for the largest number of commodities that could be introduced for options 2-4, using the commodities that had the largest number of businesses and the smallest turnover threshold. This ensured that the maximum possible figure was included in the summary table for each option.

For option 2: 2 commodities: palm oil and maize, £50m turnover.
Option 3: 4 commodities: palm oil, maize, soy, and cattle, £50m turnover.
Option 4: 7 commodities: palm oil, maize, soy, cattle, cocoa, coffee, and rubber, £50m turnover.

The lower range for each option in the summary table was calculated by adding the EANDCB figures for the smallest number of commodities that could be introduced for options 2-4, using the commodities that had the smallest number of businesses and the largest turnover threshold. This ensured that the minimum possible figure was included in the summary table for each option.

For option 2: 2 commodities: cocoa and rubber, £200m turnover.
Option 3: 3 commodities: coffee, cocoa, rubber, £200m turnover.
Option 4: 5 commodities: cattle, soy, coffee, cocoa, rubber, £200m turnover.

2.8 Sensitivity Analysis

Sensitivity analysis

This analysis has varied the input assumptions for business costs that have the greatest impact on annual business costs to generate low and high range estimates for aggregated costs.

[82] There may be some overlap between companies that use both beef and leather. As such the cattle figures in Table 5 could be overestimates.

Table 6 Low and high range estimates for annual business costs (EANDCB) across each turnover scenario in options 2-4. Figures are provided in 2019 prices using a 2020 baseline year.

	Assumptions	Commodity	All large businesses with turnover 50m+	All large businesses with turnover 100m+	All large businesses with turnover 200m +
Annual business costs per commodity (low range). *Using low estimate of the number of businesses in scope*	All of the businesses already conduct due diligence. It is assumed that 75% conduct partial due diligence and the other 25% conduct full due diligence.	Soy	£22.4m	£13.8m	£8.6m
		Palm oil	£23.4m	£14.4m	£8.9m
		Maize	£21.7m	£13.6m	£8.6m
		Cattle	£15.2m	£9.6m	£6.1m
		Coffee	£15.3m	£10.1m	£6.7m
		Cocoa	£15.4m	£9.6m	£6.1m
		Rubber	£13.3m	£8.4m	£5.4m
Annual business costs per commodity (high range). *Using high estimates of the number of businesses in scope*	No businesses conduct any form of due diligence already, meaning that full costs apply to all businesses that undertake due diligence[83].	Soy	£88.6m	£54.1m	£33.3m
		Palm oil	£94.5m	£57.3m	£35.1m
		Maize	£94.6m	£58.1m	£35.8m
		Cattle	£81.8m	£50.1m	£30.9m
		Coffee	£61.5m	£39.4m	£25.8m
		Cocoa	£62.7m	£38.6m	£24.3m
		Rubber	£64.3m	£40.0m	£24.6m

Impact on EANDCB ranges for options 2-4

Using methodology for calculating the EANDCB ranges as outlined in 2.6 above.

Table 7 – EANDCB ranges for options 2-4 based on low and high ranges from table 6

Option	Sensitivity Analysis	EANDCB range[84]
***Option 2** – 2 commodities are regulated*	Low range - All of the businesses already conduct due diligence. It is assumed that 75% conduct partial due diligence and the other 25% conduct full due diligence.	£11.4m – £45.8m
	High range - No businesses conduct any form of due diligence already, meaning that full costs apply to all businesses that undertake due diligence.	£49.0m - £189.1m
***Option 3** – 3-4 commodities are regulated (low estimate calculations are based on 3 commodities, high estimates are based on 4 commodities)*	Low range – as above	£17.6m - £82.9m
	High range – as above	£74.8m - £359.5m
***Option 4** – 5-7 commodities are regulated (low estimate calculations are based on 5 commodities, high estimates are based on 7 commodities)*	Low range – as above	£32.9m - £126.7m
	High range – as above	£139.0m - £548.0m

[83] This is considered very unlikely.

[84] Estimates rounded to the nearest 0.1 million

3.0 Risks and unintended consequences

Assumptions of the benefits that would be realised under each option are dependent on the effective delivery of regulations through passage of secondary legislation and in the establishment of a regulatory system to enforce regulations. This will require the body responsible to have access to appropriate resource and capability to deliver regulations.

In addition to the above, and the current evidence gaps highlighted in Section 2.2 that will be addressed through consultation, there are a range of assumptions underpinning the data presented in this Impact Assessment. They have been referenced throughout.

Costs to consumers

As discussed in the premium costs section above, no empirical data (public, peer reviewed) was found to determine any additional (or otherwise) product cost associated with switching from illegally to legally produced forest risk commodities. Businesses will not be able to charge a premium for legally produced goods, however, there is potential that illegally produced forest risk commodities are themselves cheaper to produce and deflate global prices, for which there is precedent in timber[85]. We are therefore including the below question in the consultation document to gather evidence to inform the development of secondary legislation on the cost to consumers as a result of due diligence requirements.

- Can you provide any evidence on the costs to consumers of businesses conducting due diligence? Please provide details about your answer.

Deregulation

The problem of illegal deforestation is difficult to separate from deforestation more generally, and through demand for forest risk commodities, the UK plays a direct role in exacerbating its negative impacts.

In all options, there is a risk that rather than strengthening environmental protection, a producer country could weaken their laws and under our proposed due diligence requirement we would not have a mechanism to respond. However, recent events have shown the effectiveness of diplomatic alliances, industry action, and Overseas Development Assistance (ODA) to effectively reinforce existing laws and minimise the risk of deregulation. We also have a strong review mechanism to monitor the effectiveness of our intervention, so we can manage these risks.

Leakage

The impact of each option would be limited if reduced demand for illegal forest risk commodities from the UK was offset by the uptake of these commodities in other markets, referred to as 'leakage'. If the UK implemented legislation prohibiting the use of illegally produced commodities, leakage would be said to have occurred if some or all the illegally produced commodities no longer consumed by the UK were consumed by other markets in which no regulations are in place to prevent the use of illegally produced commodities.

It is not possible to directly estimate the extent of leakage resulting from this policy. A recent study modelling the impact of the introduction of tariffs by an importer country (based on the proposed EU certification scheme for imported palm oil) concluded that should the import tariffs lead to a depression in the international palm oil price, the potential for leakage to more price sensitive markets, such as India and China, could be high[86]. Importantly this risk of leakage is reduced when supply-side measures are implemented in conjunction with demand-side measures, for example, reduction of transition costs to switch to sustainable production and output subsidies favouring sustainable production.

While leakage does pose a risk to the efficacy of this regulation, any option taken forward would form part of a comprehensive set of supply- and demand-side measures, which are set out in the UK Government's response to the findings of the GRI. Importantly, through its engagement with a number of key international

[85] Tackling deforestation and the trade in forest risk commodities paper: https://www.forest-trends.org/wp-content/uploads/2019/05/Consumer-Legality-Brief-FINAL-WEB.pdf

[86] Market Redirection Leakage in the Palm Oil Market paper: https://www.sciencedirect.com/science/article/pii/S0921800918310115#bb0075

processes, the UK is working to see whether and how other countries might undertake similar measures to support the transition to forest positive agricultural production.

4.0 Wider impacts

4.1 Small and Micro Business Assessment

Small and Micro Business are not directly in scope of this legislation. However, it is expected that they may be asked to pass on supply chain information to larger businesses in scope, which may cause them to incur costs. See figure 1 in section 2.2. For the purposes of this impact assessment, these costs have been categorised as indirect impacts. This is consistent with Regulatory Policy Committee (RPC) guidance[87], because Small to Micro businesses will not be subject to the regulations and any increase in costs will occur from a 'pass-through' effect of the regulatory impacts.

In line with the Better Regulation Framework guidance, we have defined small businesses as those with between 10 and 49 full time equivalent (FTE) employees. Micro businesses are defined as those with between 1 and 9 employees[88].

The extent of the costs incurred will depend on where in the supply chain the business is, how often they are asked to report the information and whether or not they already have established systems for passing on information.

Expert consultants have calculated the set-up and ongoing costs that small and micro businesses may have to incur, depending on where they are in the supply chain and whether they already have passing on information systems in place. The calculations in Table 8, below, are based on the assumption that businesses will only be asked to report once per year. Data for retailers are not included in the table as their position in the supply chain means it is unlikely that they would supply information to other businesses, and so their costs are estimated as 0.

Table 8 Individual small business costs in year 1 for all options

	Small Business - importer			**Small business – middle supply chain**		
Existing due diligence practice	No POI systems in place	Partial POI in place	Full POI in place	No POI systems in place	Partial POI in place	Full POI in place
Base cost	£2,403	£1,202	£-	£1,601	£800	£-
Ongoing (annual) costs	£1,453	£726	£-	£811	£406	£-
Total	**£3,856**	**£1,928**	**£-**	**£2,412**	**£1206**	**£-**

Costs for small retailers are 0, and so have not been included in the table above.

Table 9 Individual micro business costs in year 1 for all options

	Micro Business - importer			**Micro business – middle supply chain**		
Existing due diligence practice	No POI systems in place	Partial POI in place	Full POI in place	No POI systems in place	Partial POI in place	Full POI in place
Base cost	£961	£481	£-	£640	£320	£-
Ongoing (annual) costs	£581	£291	£-	£324	£162	£-
Total	**£1,542**	**£772**	**£0**	**£964**	**£482**	**£0**

Costs for micro retailers are 0, and so have not been included in the table above.

The number of small and micro businesses at each stage of the supply chain; importer, middle and retailer, have also been estimated by expert consultants for each of the commodities.

Table 10 Number of small and micro businesses by commodity and stage of supply chain

[87] RPC impact guidance: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/790016/RPC_case_histories_-_direct_and_indirect_impacts__March_2019__1_.pdf

[88] Better regulation framework - GOV.UK (www.gov.uk)

	Commodity		Importer stage of supply chain	Middle of supply chain	Retailers
Small businesses	**Soy**		1,375	6,370	79,270
	Palm oil		2,600	7,390	83,075
	Maize		4,540	6,615	86,405
	Cattle[89]	**Beef**	550	4,810	68,215
		Leather	135	4,980	13,170
	Coffee		1,175	1,375	58,490
	Cocoa		120	3,450	59,085
	Rubber		3,470	6,295	38,635
Micro businesses	**Soy**		8,540	127,300	322,615
	Palm oil		12,670	137,845	346,645
	Maize		32,830	108,740	407,055
	Cattle	**Beef**	2,860	66,315	290,530
		Leather	935	47,635	133,780
	Coffee		4,815	8,630	321,070
	Cocoa		1,315	18,985	294,410
	Rubber		19,970	36,780	324,960

Of the 541,595 small businesses identified, 486,345 (90%) are retailers, which are not expected to incur any costs. This indicates that a maximum of 10% of small businesses handling these commodities may incur costs – depending on whether they already have passing on information (POI) systems in place.

Similarly of the 3,077,230 micro businesses identified[90], 2,441,065 (79%) are retailers. Indicating that a maximum 21% of micro businesses handling the long-listed commodities may incur costs.

4.2 Equalities Impact Assessment

We have considered the effect of proposals within this consultation under the Public Sector Equality Duty set out in the Equality Act 2010. No impacts have been identified. As outlined in 2.3, proposals outlined in this impact assessment will carry costs to businesses. We have considered the risk that these costs are passed on to consumers in a way that could impact the affordability of goods to those in lower income households, including those with protected characteristics. As proposed thresholds target the largest businesses that use forest risk commodities and costs are proportionately small, we consider that this risk is very low. We will keep potential impacts under the Public Sector Equality Duty under review following consultation as legislation is developed.

4.3 Justice Impact Test

A Justice Impact Test will be conducted following consultation, to assess any impacts of proposed regulations.

4.4 Trade Impact

This legislation is looking to demonstrate coordination and cooperation with producer countries, by mirroring their local laws. It is not expected that businesses in the UK relying on imports of forest risk commodities will be impacted significantly beyond their obligation to conduct due diligence.

However, the proposed regulation will impact suppliers to the UK including in producer countries as they may be required to provide new information to their supply chain to support UK businesses in applying the regulations. It would also impact any suppliers in producer countries who are operating illegally under their country's law, who would no longer be able to supply produce to the UK. Despite this, this regulation would explicitly focus on legal production, so that producers are not required to undertake production activities

[89] There may be some overlap between companies that use both beef and leather. As such the cattle figures could be overestimates.

[90] where the definition of micro business is based on employee numbers 0-9, as laid out in the RPC Samba guidance: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/828084/Checklist_for_high_quality_SaMBA_NEW_AUGUST_2019.pdf

that go beyond their local country laws. Furthermore, many producers already produce legally; for these producers it is unlikely there will be significant impacts.

For raw (unprocessed) commodities, internal analysis and additional analysis undertaken by expert consultants using Comtrade data indicates that for countries that export most forest risk commodities (soya, palm oil, beef and leather, cocoa and rubber) to the UK, the proportion of total exports that flow to the UK is relatively low (ranging from 0–5%) and in general, countries are not exceptionally reliant on the UK.

However, there are exceptions. For beef and leather, the Republic of Ireland exports 43% and 26% of these commodities to the UK respectively. Internal analysis shows that for 2019, based on import country reporting, 18–19% of palm oil exports from Papua New Guinea flow to the UK[91,92]. For the Solomon Islands in the same year, import country reporting indicates that 67–68% of palm oil exports move to the UK[93,94.]

There may be a risk of negative trade-related environmental impacts, where this due diligence legislation results in a shift in production of forest risk commodities to countries with weaker deforestation laws. This risk will be considered in more detail in the final impact assessment, once the specific commodities and number of commodities that fall within the initial scope of the legislation have been finalised. This additional analysis will assess the likelihood and potential severity of this risk for each of the commodities in scope.

For businesses in scope selling to international markets, it is possible that those handling forest risk commodities in the UK will be at a relative disadvantage to those selling to international markets from outside of the UK, who would be able to continue sourcing illegally produced commodities. This will be explored further at secondary legislation stage, but indications suggest that there is no need for major concern. For example, because this regulation will target larger businesses, the *relative* cost increase of conducting due diligence is unlikely to be significant. Any cost increases in end products are unlikely and if they do arise, they are likely to be insignificant. Secondly, no direct evidence has been found indicating that illegally produced commodities are significantly cheaper than those legally produced (although this does not mean there is no price differential).

4.5 Competition assessment

A key benefit of the options discussed is that they will level the playing field across businesses handling the forest risk commodities in scope because all businesses are subjected to the same minimum standards. This is something explicitly highlighted in the GRI Report[95] and in a recent EU Commission report on due diligence[96]. This could increase competitiveness amongst businesses and may also provide leverage for environmental improvement for businesses with third parties in the value chain through the introduction of a non-negotiable standard.

As a result, no significant distortions on within-UK competition are expected. The fact that the regulation will apply not only to UK-registered businesses, but international businesses (within scope) that handle these commodities in the UK too means that international businesses will not hold an advantage over UK-registered businesses. Businesses may still wish to go further than the legality baseline and certify their products, so that products would still be differentiated with respect to their sustainability characteristics. Importantly, this regulation sets out a lower threshold of legality.

It is not considered likely that due diligence costs will lead to a reduced number of suppliers, because only large businesses will be in scope. Large businesses are considered better able to cope with costs increases and can therefore remain within their existing commodity market. This is made more likely by the fact that we expect ongoing costs to decline from year one onwards.

[91] UN Comtade Database: https://comtrade.un.org/data/
[92] Trade map indicators of export performance: https://www.trademap.org/Country_SelProductCountry.aspx?nvpm=1%7c598%7c%7c%7c%7c1511%7c%7c%7c4%7c1%7c2%7c2%7c1%7c1%7c2%7c1%7c1%7c1
[93] UN Comtade Database: https://comtrade.un.org/data/
[94] Trade map indicators of export performance: https://www.trademap.org/Country_SelProductCountry.aspx?nvpm=1%7c090%7c%7c%7c%7c1511%7c%7c%7c4%7c1%7c2%7c2%7c1%7c1%7c2%7c1%7c1%7c1
[95] GRI Final recommendations report 2020: https://www.gov.uk/government/publications/global-resource-initiative-taskforce
[96] Study on due diligence requirements through the supply chain: https://op.europa.eu/en/publication-detail/-/publication/8ba0a8fd-4c83-11ea-b8b7-01aa75ed71a1/language-en

5.0 Post implementation review

Effective monitoring, evaluation, and learning (MEL) will underpin and inform post implementation review. MEL activities will help to ensure the impact of the due diligence policy is tracked and assessed, with learning captured and fed back to improve policy delivery. Whilst due diligence policy development is being informed by external expertise and internal analytical inputs, successful ongoing implementation of this innovative policy will require continuous learning and adaptive management.

We intend to contract an external organisation to lead on MEL activities and meet the annual reporting and review obligations necessary to comply with statutory requirements. In practice this will mean tendering out the MEL contract in early 2022. Our analyst team will manage and work closely with the contractor to define the evaluation approach, refine the intervention theory of change, and develop a concrete monitoring and evaluation plan. This will include elements specifically focused on due diligence reporting.

It is intended that businesses will report annually on their due diligence exercise, offering an overview of how conducting due diligence has eliminated the use of commodities sourced from land that was illegally occupied or used, and also that part of this report will be published to ensure transparency. Guidance will be published which outlines how businesses can comply.

There will also be a review clause as part of this legislation, that will enable an assessment of whether objectives have been met and wider impacts. Reviews would be required every two years after the legislation comes into force. It is intended that flexibility is maintained but the review must consider the following in particular:

1. the amount of forest being converted to agricultural use for producing commodities
2. the impact of the legislation on the amount of forest being converted to agricultural use for producing forest risk commodities
3. the impact of the legislation on the use of forest risk commodities, and their derived products, from being used in UK commercial activities where they were produced on land illegally occupied or used
4. any changes to relevant local laws in relation to forest risk commodities.

The review must be laid before parliament alongside any steps the Secretary of State deems necessary to take to ensure the policy is delivering as intended. For example, if the review found evidence that other commodities not in scope of the legislation were contributing to deforestation, one of the steps might be to bring that commodity into scope.

To assess whether the regulation is having a wider impact (for example in the enhancement of producer country environmental laws) analysis would need to be conducted on producer country legislation. This would not be provided as part of business reporting.