

Position Paper on Deforestation: How to ensure deforestation-free supply chains

Reducing EU-driven deforestation

Palm oil, soy, cocoa and cattle – growing demand of global markets for those food commodities has led to massive agricultural land expansion. And the European Union as one of the largest importers and consumers of these commodities is a key actor in this development, which accounts for 10% of global deforestation today. Permanent removal of trees is regarded as a major driver of climate change and biodiversity loss. As a European food wholesaler, we take over responsibility for our supply chains. By changing our ways of sourcing these commodities, we take action in ending deforestation and land conversion. This way, we allow also our customers – hospitality and retail entrepreneurs – to make more sustainable choices.

The European Union is one of the largest importers and consumers of these forest risk commodities, which are responsible for around 10% of global deforestation. Deforestation is mainly driven by the agricultural. As a wholesaler and part of the supply chain, we want to transform take action to end deforestation and land conversion and to change the way such commodities are sourced. By doing so, we also contribute to the sustainability of our customers' business and enable them to make more sustainable choices.

Creating a level-playing field for fair competition within the EU single market to fight against deforestation

There are many global and European initiatives that fight deforestation such as the Sustainable Development Goals and the United Nations Global Compact and on the European level, the EU timber regulation (EUTR) and the Forest Law Enforcement, Governance and Trade (FLEGT) action plan to reduce illegal logging.

However, these policies have mostly fallen short of expectations. The implementation of EU member States has often lacked ambition. Instead, the different interpretation of rules by national authorities which are responsible for checks, has led to a further fragmentation of the single market and ultimately created competitive disadvantages for companies. On the other hand, has the EUTR regulation for paper & wood shown that Due Diligence is feasible, if producers and suppliers are willing to share data along the supply chain.

Therefore, a harmonized EU standard for the single market is crucial to provide a policy framework that creates a level playing field and legal certainty for all companies active in the EU. In addition, it is necessary that competent national authorities will receive guidelines to implement new due diligence requirements in a harmonized way. In this position paper, we explain the three building blocks we regard as essential for this to succeed.

I. Creating a Level-Playing-Field for global supply-chains

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METRO supports the aim to curb deforestation. Forests play a critical role in maintaining biodiversity, helping to regulate temperature and humidity and are important carbon stores to mitigate climate change. Therefore, all actors in the food system, to which retail and wholesale belongs, should be involved in finding solutions to tackle commodity-driven deforestation. One of the biggest challenges we encounter is the believing that international companies can control every single operation of all their business and supply chain partners. We contribute to a more sustainable agenda and to healthier supply chains, yet we cannot address and control underlying challenges alone. Without the right legal framework and harmonized rules on the European and global level, new measures will have a limited effect. Retail and wholesale companies such as METRO operate within globalised supply chains with tens of thousands of suppliers and producers involving complex logistical processes. Therefore, extended due diligence requirements can only be fulfilled when producers collect data digitally and provide these along the supply chain.

We believe that the most effective way to reduce global deforestation is to extend risk assessment, when sourcing respective goods, which are potentially linked to deforestation. This should be done by the trader, who is placing affected goods on the EU market for the first time. These traders are in direct contact with producers or other suppliers which have a direct contact to producers. As the pinhole of information, they are capable to receive all necessary documents to perform a proper risk assessment. Upstream traders and operators within the supply chain should check and confirm the plausibility of these risk assessments. It does not make sense that every stakeholder within the supply chain is repeating the entire due diligence process. As a wholesaler, our true leverage and possibility to make an impact, is with our tier-1 or direct suppliers, with the aid of tools such as certification, and focusing on our own brand label. While METRO can sign a Code of Conduct with suppliers of branded products, it should be clear that the ability to exert influence over producing countries is limited. The responsibility for brand-name products must be with the respective suppliers and their producers.

II. A smart mix of measures & collaboration between businesses & governments

Based on our experience shared with other companies and governmental bodies trying to decouple agricultural supply chains from deforestation, we have realised that there is no "silver bullet": No single policy instrument can address by itself all drivers of unsustainable production. A smart mix of measures is necessary to tackle the challenges. This should include:

- **Internal corporate policies and standards:** The development and continuous update of internal policies and standards for responsible sourcing of all commodities is key. The implementation shall be regularly checked by internal assessments and necessary corrective action aligned with producers.
- **Certification:** Certifications ensure transparency and guarantee certain minimum standards of a product and a supplier. A rigorous and robust

verification and certification system with audits conducted by independent certification such the Roundtable on Responsible Soy (RTRS) or the Roundtable on Sustainable Palm Oil (RSPO) is necessary.

- **Differentiation of commodities:** To effectively reduce deforestation, it is important to focus on those commodities with the strongest links to deforestation. However, their supply chains and production differ significantly. A “one fits all” approach with no differentiation is, thus, not feasible. Customised measures and timelines are necessary. Dialogue with industry and producers shall be reinforced.
- **Partnerships with producers, traders and producing regions:** Through partnerships with farmers on the ground as well as with traders and other actors in the supply chains, production can be made more sustainable. Success factors are trust and commitment built upon a good partnership over time, knowledge exchange and feasibility studies for agreed measures. This is crucial to improve standards of governance and law enforcement. Producers shall be incentivized to put in place many of the enabling conditions necessary to protect forests and improve the standards of the production of agricultural commodities.
- **Liability & obligations:** It is important to identify the roles and responsibilities of each actor. In general, producers or operators placing the product on the market for the first time shall be responsible. When it comes to traders (distributors), it is important to differentiate whether a certain product is an own brand product including liability for this business or an A-brand product which was produced by a third party. Wholesalers and retailers can only be fully liable for own brand products, over which they have control and place on the market.
- The implementation of a **due diligence reporting system** must be based on a digitalised system which allows the interoperability of systems already used by businesses and which is aligned with other traceability requirements. A system dependent on paper-based documentation is unfit to deliver good quality data on time.

Ambitious goals for critical commodities

For several critical commodities, METRO has in place sustainable procurement policies with the aim to source from deforestation-free producers. These goals include:

- **Soy procurement policy:** By 2025, 100% of the soy Tier 1 and Tier 2 (soy used as animal feed) in our Own Brand and A-Brand supply chain is sourced from areas which are verified as zero deforestation, according to market availability.
- **Meat procurement policy:** By the end of fiscal year 2025, 100% of Tier 1 soy products in our own brand and A-brand supply chain will be sourced from areas which are verified as zero deforestation, subject to market availability. METRO's ambition is to increase the use of alternatives for animal feed to reduce the use of soy.
- **Palm oil procurement policy:** By end of Fiscal Year 2023, 100% of the palm oil of METRO is purchased with the system of the Roundtable on Sustainable Palm Oil (RSPO) on levels Segregated or Identity Preserved, according to market availability.
- **Paper and wood procurement policy:** METRO aims to ensure that, by end of FY 2023, 100% of its own-brand products made from wood or wood fibre originate from legal and responsibly managed forests.

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