

Brewing justice

Just transition in the implementation of the EU regulation on deforestation- free products in the EU- Ethiopian coffee value chain



FORESTS OF THE WORLD one

Key messages:

There is a large risk of Ethiopian smallholders being excluded from the EU coffee market due to the EUDR.

The focus on low-risk solutions to the EUDR from dominant companies risk exacerbating current inequalities in existing value chains.

More supportive measures for smallholders and high-risk countries are needed to better align the EUDR with a just transition.



KEY MESSAGES:

The incentives included in the EUDR are market-based and reinforce existing value chain power dynamics. As most coffee is traded by a handful of powerful international traders these traders are key to ensuring a just implementation of the EUDR. The international traders are expected to respond to the EUDR in a risk averse manner prioritising larger farms, low-risk areas, and already third-party certified farms.

The composition of Ethiopian coffee value chains aligns poorly with priorities of international traders for EUDR compliance. Consequently, producers are at risk of being excluded from EU markets potentially aggravating forest pressures if coffee income decreases. Producers that remain in EU value chains risk being consolidated in captive relationships.

There is a lack of incentives in the EUDR for companies to work with smallholders and address forest pressures in high-risk zones. Consequently, there is a risk that the EUDR will align poorly with a just transition. Facilitative measures to mitigate forest pressures and ensure smallholder livelihoods are needed. Transparent traceability systems, landscape-based approaches, and smallholder-inclusive designs may provide a more just alternative to the current implementation pathway of the EUDR.

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Abstract

In June 2023, the EU adopted a regulation on deforestation-free products (EUDR) which aims to halt deforestation and forest degradation from EU imports of seven forest risk commodities. Critics have voiced concern that the policy will exacerbate inequalities for smallholders and lacks justice considerations. Through four analyses, this thesis examines how the expected implementation of the EUDR throughout the EU-Ethiopian coffee value chain aligns with a just transition. Based on field work and 25 interviews in the Bale Eco-region and Addis Ababa, Ethiopia as well as 10 interviews with international distributors and roasters we examine challenges for EUDR implementation and likely implementation responses by key value chain actors. Through implementation and global value chain (GVC) theory we identify likely implementation dynamics, outputs, and outcomes. We conclude that the expected implementation outcomes do not align well with a just transition. We also conclude that the alignment can be greatly influenced by the enabling environment which currently has few initiatives prepared. Lastly, we note that within the planned initiatives there is still much uncertainty and with more than a year until the EUDR enters into force, key stakeholders may still adapt their initiatives to a better alignment with a just transition.

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List of respondent abbreviations

AgriOf_1	Agricultural office officer
AgriOf_2	Agricultural office officer
Bsup	Coffee supplier in Bale
Coop_1	Cooperative committee member
Coop_2	Cooperative committee member
Coop_3	Cooperative committee member
Coop_4 -	Cooperative committee member
Coop_5 -	Cooperative committee member
Coop_promo_1	Cooperative promotion office
Coop_promo_2	Cooperative promotion office
ECTA_fed_1	Ethiopian Coffee and Tea Authority at federal level
ECTA_fed_2	Ethiopian Coffee and Tea Authority at federal level
ECTA_reg_1	Ethiopian Coffee and Tea Authority at Oromia regional level
ECTA_reg_2	Ethiopian Coffee and Tea Authority at Oromia regional level
EPA	Environment Protection Authority officer
Export_1	Coffee exporting company employee
Export_2	Coffee exporting company employee
Int_roast	Large international coffee roaster
Ldist_1	Large international coffee distributor
Lroast_1	Large EU coffee roaster
Lroast_2	Large EU coffee roaster
Lroast_3	Large EU coffee roaster
NGO_1	NGO employee
NGO_2	NGO employee
PFO_1	Public forest organisation official
Prod_1	Coffee producer
Prod_2	Coffee producer
Prod_3	Coffee producer
Prod_coop_union	Coffee producer and cooperative/union member
Sdist_1	Small international coffee distributor
Sdist_2	Small international coffee distributor
Sroast_1	Small EU coffee roaster
Sroast_2	Small EU coffee roaster
Sroast_3	Small EU coffee roaster
Union	Coffee union chairperson



Introduction & Background

1 Introduction

Agricultural expansion is the major driver of deforestation and forest degradation, but global demand for agricultural crops is increasing and is expected to continue as populations and income rise through the mid-century (Dow Goldman et al. 2020; Tilman et al. 2011). Addressing anthropogenic climate change will require respecting the already transgressed planetary boundary for land system change (Richardson et al., 2023). Similarly, halting deforestation and maintaining forests could safeguard more than half of Earth's biodiversity while contributing towards food security (FAO, 2022). In June 2023, The European Union adopted the regulation on deforestation-free products (EUDR) that aims at stopping European imports linked to deforestation across seven forest-risk commodities (Regulation 2023/1115). The policy introduces mandatory due diligence for deforestation risks through traceability of included commodities down to the plot of land of production (Regulation 2023/1115).

With the EUDR, the European Union utilises the international reach of European companies to indirectly regulate their global supply chains. EUDR thereby has implications across producing countries that depend on exports to EU markets despite they have limited responsibility of present levels of environmental degradation (Hickel 2020; Page 2016; Hickel et al. 2022).

Multiple examples exist where green policies and projects has exacerbated existing inequalities. Examples include green grabbing, outsourcing of polluting industries to less regulated low-income countries and import tariffs (Funder & Gravesen, 2022; African Climate Foundation, 2023; Stevenson, 2018). For example, calculations of the impact of the EU Carbon Border Adjustment Mechanisms suggest that it may cause a negative impact on 11 African least developed countries (LDCs) by between 1.5% and 8.4% of their GDP (African Climate Foundation, 2023). The term just transition is gaining traction in policy spheres and policy-oriented research, as a way to phrase social and justice implications of sustainability policies and initiatives, often with reference to the International Labour Organisation's definition: "*Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.*" (ILO, 2015; UN Global Compact, 2023; Just Transition Research Collective, 2018).

The EUDR has been warmly welcomed by many stakeholders as a significant step towards more ambitious protection of forest ecosystems (Bellfield et al., 2022; Solidaridad et al., 2022).

However, producing countries as well as certain NGOs fear that the policy may have adverse social consequences of the policy, as it may effectively shut off certain producers from the European markets leading to increased poverty and hindrance of achieving the sustainable development goals (da Silva, 2023). For example, CSOs have raised concerns of the impact on small scale producers who may struggle to comply with the regulation, and particularly the traceability, therefore calling for a just transition for smallholders and a smallholder-inclusive regulation (Alyansa et al., 2023; Fern, 2023; Solidaridad et al., 2022). This is potentially exacerbated by the short time horizon for implementation, as compliance with the policy will be required from the 31st of December 2024. However, others have highlighted that the legislation also offers opportunities for smallholders through improved traceability, economic incentives, and simplified supply chains (Fern, 2023).

One of the countries that potentially will be particularly impacted by the new regulation is Ethiopia due to its high dependency of coffee exports to Europe (Degaga, 2020; Worku, 2023). However, implementation in the country may be challenging due to the socio-economic situation of Ethiopia and a coffee sector dominated by smallholders (Aparisi, 2021; Minten et al., 2019).

This thesis will investigate how key stakeholders involved in the coffee value chain in Europe and Ethiopia, respectively, will react to and implement the new requirements from the EUDR and examine how implementation efforts align with understandings of a just transition. To illustrate and contextualise the implementation we use the case area of the Bale Eco-region. The research hence aims at informing future partnerships facilitating the implementation process and the upcoming revisions of the policy taking smallholder positions into account.

We address the following research question:

How does the expected implementation of the EUDR throughout the EU-Ethiopian coffee value chain align with a just transition?

Answering the RQ will be structured around the four sub-analyses below, while drawing on theory from public policy, global value chain analysis and justice theory.

1. What is the theory of change embedded in the EUDR?
2. What challenges to implement the EUDR flow from the current composition and governance model in the EU-Ethiopian coffee value chain and Bale?
3. How can we expect the response to the EUDR to influence the composition and governance of the coffee value chains in Ethiopia and Bale?
4. How does the implementation of the EUDR align with a just transition for the coffee sector in Ethiopia and Bale?

To answer the questions the thesis will primarily draw on primary qualitative data from fieldwork conducted in the Bale Eco-region and Addis Ababa as well as interviews with European coffee roasters and international distributors.

The paper proceeds as follows: In section 2 a background section of the EUDR and the coffee sector in EU and Ethiopia is provided together with a site description of the Bale Ecoregion. In section 3 we present the theoretical framework used for the analysis. Section 4 introduces our methodology, research design, and data. In section 5-8 we answer our four sub-questions. In section 9 and 10 we discuss the transformative potential of the EUDR before concluding. Finally, in section 11 we draw aspects of the EUDR into a wider and more structural perspective on planetary justice.

2 Background and site description

In the following section we will first describe the EU regulation on deforestation-free products (EUDR) and how it relates to the concept of traceability. Next, we give a short introduction to the coffee sector in EU and Ethiopia followed by a site description of the Bale Eco-region from where most of our primary data in Ethiopia has been collected. A broader description of Ethiopia and deforestation related issues can be found in Appendix A.

2.1 EU regulation on deforestation-free value chains

The EUDR aims at reducing global deforestation linked to European consumption of seven forest-risk commodities including beef, cocoa, soy, palm oil, natural rubber, timber, and coffee. These commodities may not be placed on the European market unless three central requirements are met as described in article 3 of the regulation (Regulation 2023/1115):

- A) They are deforestation-free.
- B) They have been produced in accordance with the relevant legislation of the country of production.
- C) They are covered by a due diligence statement.

In article 3, “deforestation-free” refers to both deforestation and forest degradation. The regulation sets a cut-off date for the new rules on 31st of December 2020, which means that only products included in the regulation which have been produced on land that has not been subject to deforestation or forest degradation after 31st of December 2020 will be allowed on the EU market or to be exported from the EU (Regulation 2023/1115).

The regulation distinguishes between two central actors, namely *operators* and *traders* with varying obligations. The operators are understood as the entity who places the relevant product on the European market while the traders are other entities making the product available on the market, though not being the one placing it on the market initially. Operators are the main responsible part with the obligations to carry out the due diligence analysis and collection of data to demonstrate that the products comply with article 3.

The information required for operators are listed in article 9 of the regulation, and includes among other things:

- A description of the product
- The geolocation of the plot of land, where the commodities that the relevant product contains, were produced including date or time range for production.
- Adequately conclusive and verifiable information that the relevant products are deforestation-free.
- Adequately conclusive and verifiable information that the commodities are produced in accordance with relevant legislation of the country of production (Regulation 2023/1115).

This collection of information provides the basis together with a risk assessment that needs to conclude that there are no or only negligible risks that the product is non-compliant with article 3. In other words, traceability is a cornerstone of the policy, as it will otherwise be impossible to complete the necessary due diligence analysis (Bellfield et al., 2022). A brief introduction to the concept of traceability is given in section 2.1.2.

2.1.1 The EUDR and producer countries

In article 30 on cooperation with third countries, the regulation partly responds to some of the concerns raised by producing countries that it may have a negative impact on their economies (Alyansa et al., 2023; FERN, 2023; Solidaridad et al., 2022). Article 29 of the regulation sets up a three-tier risk system based on recent trends and policy developments regarding deforestation, forest degradation, agricultural expansion, and production trends in producing countries or sub-national areas (Regulation 2023/1115). Depending on the risk-classifications of the production area, commodities will be subject to varying levels of checks by public authorities. To assist high-risk countries related to deforestation, article 30 lays out how the EU and member states shall engage in coordinated and inclusive partnerships with producing countries to address root causes of deforestation including sustainable commodity production and consumption, conservation, restoration, integrated land use planning, etc. The risk classification of countries and sub-national areas is under preparation (Regulation 2023/1115). Further assistance to the producer countries has recently been announced with a new Team Europe initiative proclaimed at COP28 with €70 million.(Directorate-General for Environment, 2023; Directorate-General for International Partnerships, 2023)

2.1.2 Traceability and the EUDR

Multiple definitions of traceability exist depending on the topic at hand (León-Bravo et al., 2022). However, as sustainability and traceability are increasingly linked, the United Nation's Global Compact suggests a sustainability take on one of the original definitions of traceability provided by ISO (Garcia-Torres et al., 2019). Here traceability is defined as *“the ability to identify and trace the history, distribution, location, and application of products, parts and materials, to ensure the reliability of sustainability claims, in the areas of human rights, labour (including health and safety), the environment and anti-corruption”* (United Nations Global Compact, 2014). As the definition indicates, traceability is key to checking the validity of sustainability claims such as those needed for EUDR compliance.

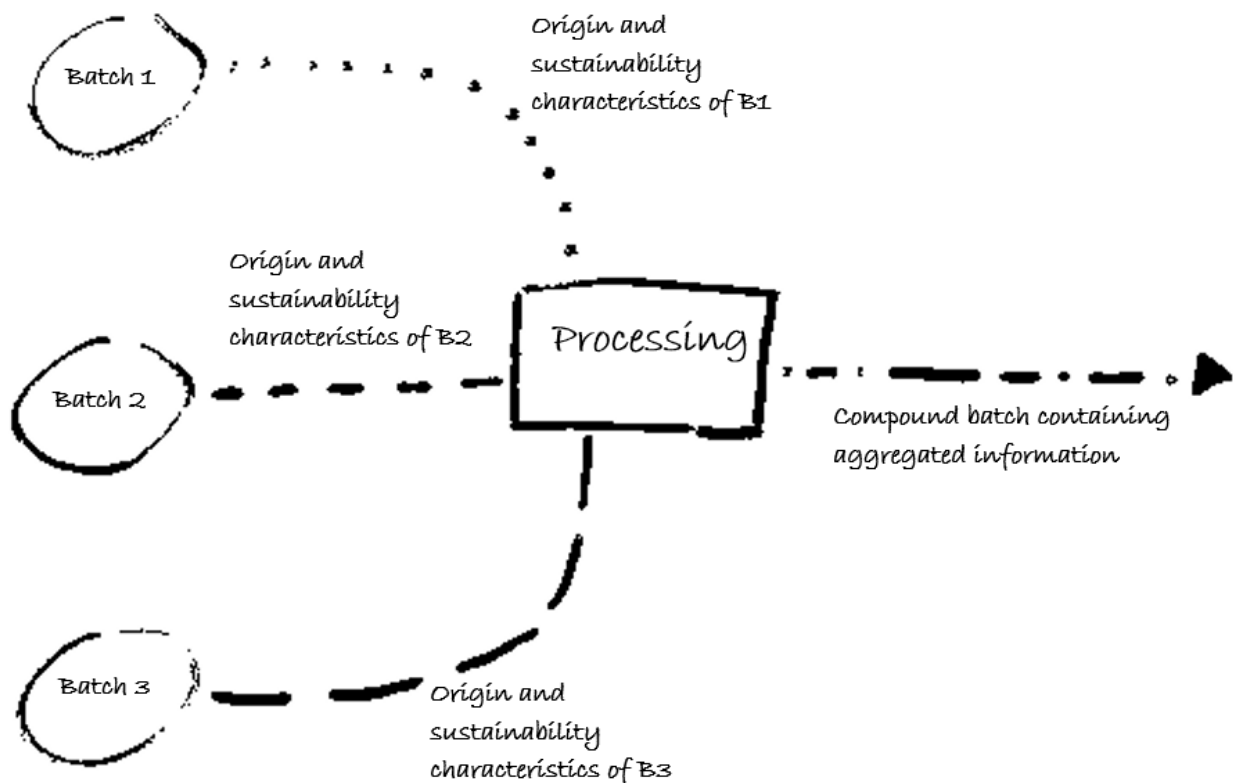


Figure 1: Example of traceable aggregation. Own creation, based on Stoop et al. (2021).

In practice traceability systems to the farm level involve several stages as illustrated in figure 1. First, gathering relevant data and linking it to a farm ID with a geolocation. Second, the linkage between the commodity batch and farm ID must be maintained throughout the value chain. For EUDR purposes commodities must be segregated from non-traceable products, while still allowing for mixing multiple traceable batches. Sustainability characteristics in a EUDR context limited to legality and deforestation and the latter can be confirmed by matching GPS coordinates of batches with satellite imagery (European Observatory, 2023).

2.2 Ethiopia and the coffee sector in relation to EUDR

Coffee is one of the seven forest-risk commodities included in the EUDR. European importers were sourcing approximately 86% of their green coffee beans directly from producing countries in 2021, amounting to 3.1 million tonnes (CBI, 2022). Thereby, the EUDR could have considerable impact on the coffee industry with Europe in total being responsible for approximately 32% of global coffee consumption and 3.1% of coffee imported to the EU is produced in Ethiopia (CBI, 2022; European Coffee Federation, 2023). Likewise, on the production side, Ethiopia is the third largest producer of arabica coffee and the fifth largest coffee producer in the world with approximately 4.5% of global coffee volume coming from Ethiopia (Worku, 2023).

The European market is connected with producer countries through international distributors who acquire coffee locally in producer countries through partnerships with local exporting companies and sourcing agents. The coffee is then shipped to European ports where it is imported by roasters for redistribution in the EU (UNCTAD, 2019). Both the markets for roasters and international distributors are concentrated around a few large companies with two roasters handling about a quarter of the total coffee traded internationally, and 40% of all coffee traded by five firms (UNCTAD, 2019). Commonly, a distinction is made between specialty and bulk coffee. Where the bulk coffee is generally characterised by being traded in large volumes and having price as the most important quality parameter, specialty coffee is generally branded on special features like its origin, high quality, and certification schemes (Daviron & Ponte, 2005). As no clear definition exists, we will differentiate the two as defined here.

Following market liberalisation in the 1980's, farm-gate prices for coffee have globally been subject to dramatic falls leading to oversupply and a weak bargaining position for producer countries (Daviron & Ponte, 2005). As a response, some producer countries have attempted regulating the export price of coffee through strict rules or advised prices. In Ethiopia, similar regulation includes quality checks and licensing requirements for exporters (Daviron & Ponte, 2005; Grabs & Ponte, 2019). Nevertheless, coffee has been labelled the backbone of the Ethiopian economy and coffee exports makes up around 5% of the country's GDP (Degaga, 2020; Worku, 2023).

Different sources estimate that there are between 4 and 5.3 million smallholders producing coffee in Ethiopia (Aparisi, 2021; Minten et al., 2019). However, it is estimated that the work of as much as 15% of the country's population is somewhat affiliated with coffee (Degaga, 2020). This has made coffee the most important agricultural export crop with as much as 30% of Ethiopia's foreign currency earnings arising from coffee and 40% of agricultural exports being coffee (Worku, 2023; Appendix H). Of this, around 53% of coffee green bean exports go to Europe, making it the largest export market for Ethiopia (Eshetu & Goshu, 2021). Ethiopia is currently facing a currency crisis with domestic currency depreciation and a lack of foreign currency inflows due to recent conflicts. A reduction in coffee exports may thus have major implications for Ethiopian imports including medical equipment, agricultural and manufacturing inputs (Addis Standard, 2023; Appendix A).

2.2.1 Ethiopian coffee production

Ethiopian coffee is well known for its arabica varieties and unique and sought after tastes (Tamru & Minten, 2023). Coffee in Ethiopia is mainly produced in the southwestern part of the country, with 59% being produced in the region of Oromia, in the main coffee growing areas Limu, Jimma, Gimbi and Lekempti, Sidamo, Yirgachefe, Illubabor, Harar, Tepi, and Bebeke and many other smaller areas (Melese & Kolech, 2021). Ethiopia has four types of coffee production spanning from forest coffee, semi-forest coffee, garden coffee, and plantation coffee comprising 10%, 35%, 50%, and 5-10%, respectively, of Ethiopia's total production (Aparisi, 2021; Degaga, 2020). In terms of output per hectare, the productivity follows this order with plantation coffee being the most productive (Teketay, 1998). Of this, certified coffee made up around 5% in 2015 (Minten et al. 2018). In forest coffee, the coffee plants grow wild in the forest understory with a minimum of management. Semi-forest coffee mimics the forest coffee but allows for some management activities such as planting and pruning of the coffee plants. Garden coffee, also called agroforestry

coffee, are mixed systems on the farmers' homesteads where the coffee plants are integrated in a wider system of food, fodder, and cash generating crops as well as species bringing other non-provisional ecosystem services to the farm (Jose, 2009; Sollen-Norrlin et al., 2020). Finally, plantations are large monocultural coffee farms with a closely managed system (Teketay, 1998).

The Ethiopian coffee value chain(s), the interaction, and different pathways of the coffee between the various stakeholders have previously been investigated (Aparisi, 2021). Although the value chains overlap and intersect, we interpret five general value chains:

1. **A cooperative and union chain** defined by a high degree of organisation and cooperation,
2. **A trader and broker chain** characterised by a low degree of organisation and many different stakeholders,
3. **A plantation chain** consisting of large plantations with relatively direct access to export,
4. **A direct trade chain** where farmers sell directly to exporters or foreign roasters,
5. **A domestic chain** where the coffee ends in the domestic market for local consumption either directly or due to failing to pass quality checks for exporting (Aparisi, 2021).

The five value chains are illustrated in figure 2.

Importantly, appr. 50% of the coffee produced is consumed domestically thereby being less prone to impacts by EU-regulation (Aparisi, 2021). Depending on the value chain, different management regimes are dominant. The plantation chain is dominated by the plantation management typology, and the other three typologies are produced interchangeably throughout the remaining chains. Of the four coffee typologies described, smallholders account for the three types of coffee other than plantation, producing 90-95% of the country's coffee. On average, coffee makes up around half of smallholders' output both in terms of agricultural production and income (Aparisi, 2021).

Despite their importance to the economy, smallholders in Ethiopia are paid a lower share of the final exporting price than most other producing countries at only 60% compared to as high as 90% in Brazil (Aparisi, 2021). Of all Ethiopian coffee-producing smallholders, 10-15% are organised in cooperatives that are usually able to offer a better price than mobile traders (Aparisi, 2021). These cooperatives vary depending on their main purpose from being agricultural commodity-oriented cooperatives, to forest management cooperatives that also produce coffee and other non-timber forest products (Kahsay & Bulte, 2021; Tefera et al., 2017). However, as cooperatives have a membership fee and are usually focused on areas where the density of farmers is high, rural or

poor farmers do not always have the possibility of organising (Aparisi, 2021). For individual smallholders, access to information, technology, and infrastructure might limit the price they can demand, which again can lead to smallholders being easily pressured by large commodity traders (Aparisi, 2021).

Embedded in the context above, our empirical data from Ethiopia was collected in the capital region of Addis Ababa and the Bale Eco-region.

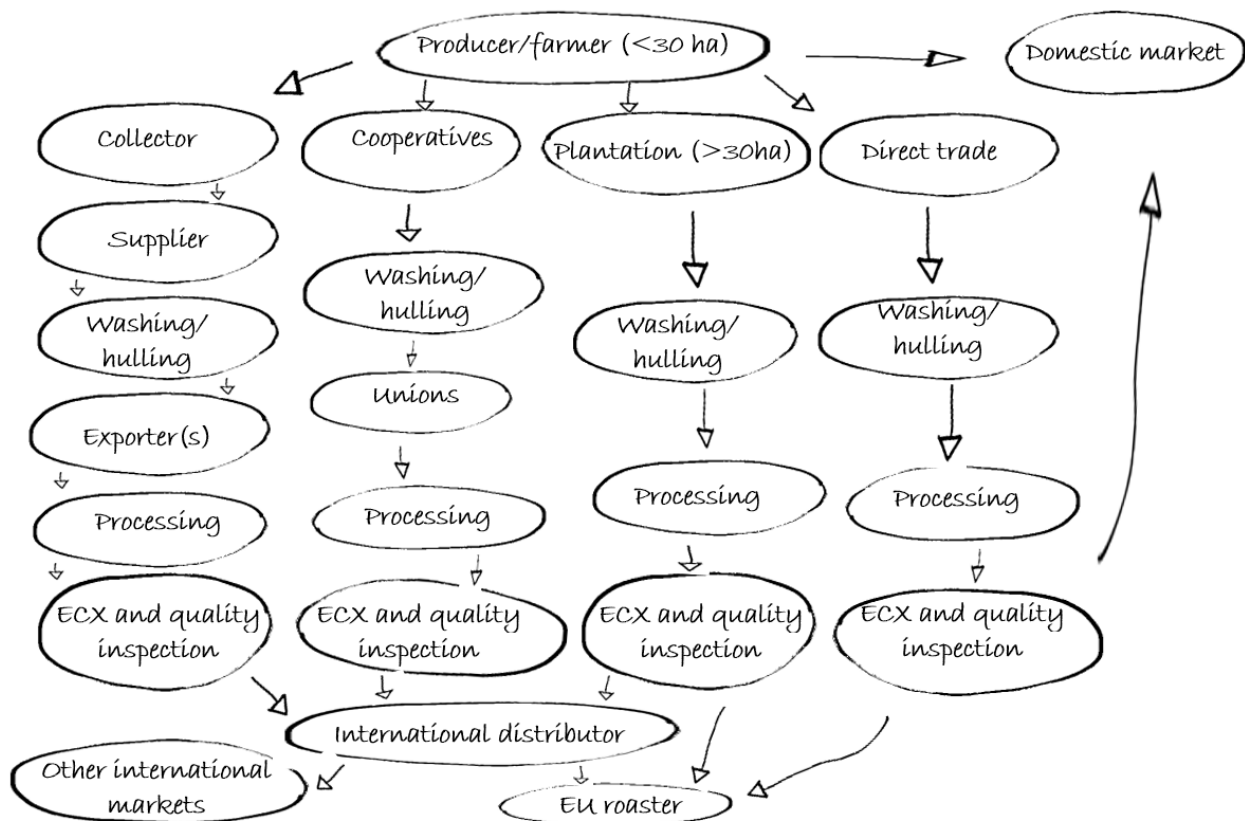


Figure 2: Graphical representation of the different coffee value chains in Ethiopia. Own creation based on (Aparisi, 2021)

2.3 Site description: Bale Eco-region

Bale Eco-region is located in the larger region of Oromia (Vizzuality, n.d.). Our exact definition of the area can be found in appendix B. Oromia accounts for 44% of Ethiopia's total forest thereby being the region most rich in forest (Vizzuality, n.d.). At the same time, 50% of all deforestation happening in Ethiopia between 2001 and 2022 has taken place in Oromia (Vizzuality, n.d.). Bale is one of the two major tropical rainforest areas in Ethiopia and is considered an Afromontane Biodiversity Hotspot of particular importance to conservation (Farm Africa, 2022; Negera et al., 2023).

The region has historically been subject to anthropogenic land use and land cover changes (LULCC) where expansion of farmland and urban settlements into forests have been major drivers (Hailemariam et al., 2016). Between 2000 and 2011 the eco-region had an annual deforestation rate of 2.6% and lost 178.000 hectares of high forest (Farm Africa, 2022).

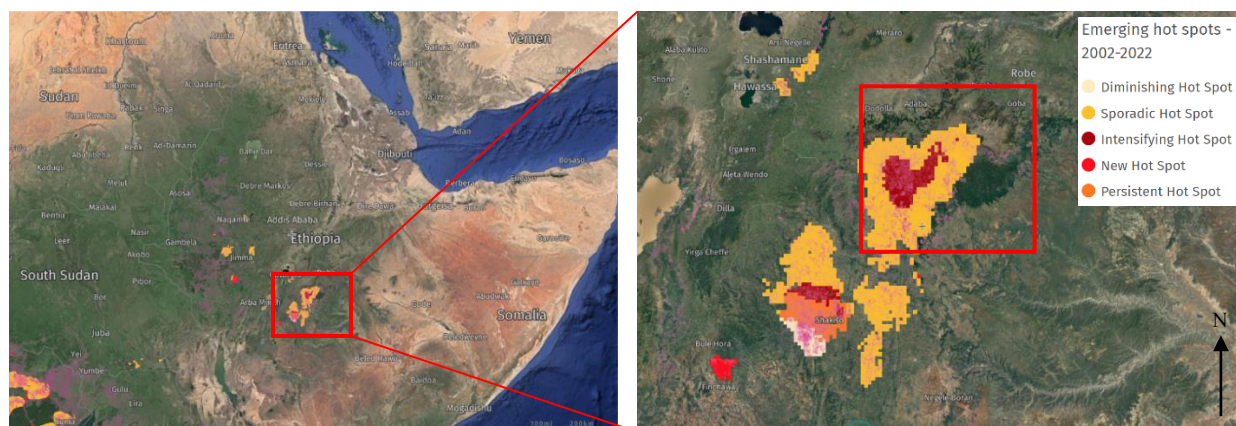


Figure 3: Deforestation hotspots in Bale, modified based on Harris et al. (2023)

The region is home to 1.6 million people, and an additional 12 million people depend on the 40 rivers that flow from the Bale Mountains (Farm Africa, 2022). 88% of the population is rural and relies on subsistence farming primarily consisting of mixed-crop and animal husbandry. In addition, non-timber forest products in Bale make up a substantial portion of household income with some estimates being as high as 54% stemming from fuelwood, fodder, forest coffee, and forest honey (Abdurahman, 2008). However, income from coffee is unequally distributed as there exists exclusionary custom rights for coffee harvesting in the forest meaning that individual households have the harvesting rights of coffee in certain plots of land. The remaining use rights of the forest resources have been entirely or partly transferred from the state to the local participatory forest management cooperatives (PFMC) on the condition that the forest is managed

sustainably in return (Ayana et al., 2017; Kahsay et al., 2021). The PFMCs are typically organised around a general assembly of cooperative members that elect committee members responsible for delegated tasks such as leadership, performance monitoring, forest monitoring, forest compartment committees, livelihood planning and elder committees. See Appendix C for a typical PFMC organisational chart. Other government and NGO-driven initiatives in the area have focused on reducing the dependency on the forest by improving productivity and resilience of existing agricultural land through e.g., improved inputs, agroforestry practices, and forest monitoring activities. Finally, a REDD+ project is being implemented in the area (Birhan et al., 2021).

Theory



3 Theoretical framework

To answer the research questions and the related sub-questions we are drawing on multiple streams of theory related to both public policy analysis, justice theory, and value chain theory. Public policy theories are useful in analysing different phases of the policy cycle to understand policy choices and outcomes. Here our attention is brought to the implementation phase and partly the evaluation phase as we analyse EUDR implementation initiatives of key actors in the EU-Ethiopian coffee value chain. In addition, we also seek to evaluate the likely outcomes based on justice theory. Finally, we utilise value chain theory to understand the EU-Ethiopian coffee sector in which the EUDR is going to be implemented. We will now go through each of the theories in turn, presenting their key concepts and applicability in relation to our analytical scope. Finally, we synthesise the theories in an overall theoretical framework applied to answering the research questions.

3.1 Public policy analysis and the EU regulation on deforestation-free value chains

Jenkins (1978) defines public policy as “*a set of interrelated decisions taken by a political actor or group of actors concerning the selection of goals and the means of achieving them within a specified situation, where those decisions should, in principle, be within the power of those actors to achieve*” (Howlett et al., 2009, p. 6). The EUDR is an example of public policy where political actors understood as the European Commission, Parliament, and Council have come together to formulate the regulation with the aim of reducing deforestation related to European consumption.

Public policy scholars often separate the policy process into a cycle consisting of five phases stretching through the agenda-setting phase to policy-formulation, decision-making, implementation, evaluation, and finally feeding back into new agenda-setting situations (Hofmänner, 2018). While this highly simplified process varies starkly to the complexity of reality it provides analytical clarity to what may be the subject of academic investigations.

In this paper, we seek to understand the outputs and outcomes of the implementation phase. In addition, while the evaluation phase typically examines the final outcomes of policy implementation, we seek to evaluate how the policy implementation fit a just transition based on expected outcomes of decisions made by implementing actors. We therefore limit ourselves to

theoretical concepts drawn from public policy to two key phases: Implementation and evaluation. The policy cycle and our use of it is illustrated in figure 4.

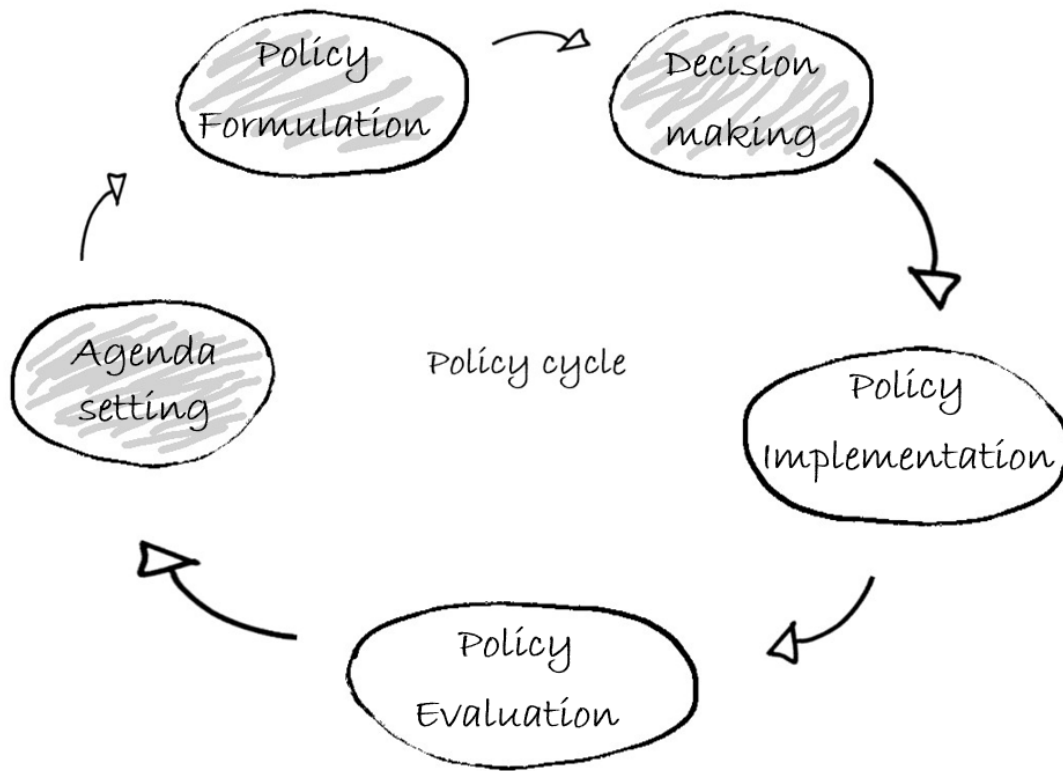


Figure 4: The policy cycle. Own creation, based on (Howlett et al., 2009)

3.2 Implementation

Many scholars have presented conceptual frameworks to guide research on policy implementation (Vancoppenolle et al., 2015). Van Meter & Van Horn (1975) describe implementation as “*actions by public and private individuals (or groups) that are directed at the achievement of objectives set forth in prior policy decisions.*” (Van Meter & Van Horn, 1975, p. 447). The study of implementation is hence the examination of those factors that contribute to the realisation or nonrealisation of policy objectives (Van Meter & Van Horn, 1975). All initiatives prepared as a response to the EUDR at both private and public level is therefore considered implementation. However, Weaver differentiates between the direct and indirect target groups of policies. The target group is considered the group of actors among which a given policy attempts to provoke behavioural change whereas the indirect target group consists of all actors who must change their behaviour accordingly to accommodate the policy (Weaver, 2014).

Pressman & Wildavsky (1973) describe that complexity of implementation increases with the number of actors who need to be involved with their own individual decision-making power and varying interests (Nielsen, 2011). The complexity of multiple target groups is also reflected in the framework by Weaver (2014) that can be used to understand what barriers to EUDR implementation and compliance that may exist. In the framework Weaver divides barriers to implementation into 8 different categories that either work alone or in combination. The barriers most relevant to this thesis are:

- lack of appropriate incentives and sanctions,
- lack of monitoring and regular checks to ensure compliance,
- lack of information as well as requirements for technical knowledge can cause non-compliance even in cases where the target wishes to comply,
- lack of resources, such as human capital, access to infrastructure, or experience and skill, especially in cases where the cost of complying is high.

(Weaver, 2014).

Importantly for the context of the EUDR, Weaver argues that policies that apply to heterogeneous target groups often overlook targets and stakeholders with varying characteristics thereby increasing the risk of barriers to implementation (Weaver, 2014).

An attempt to fathom all the complexity in the implementation field in one model is the integrated implementation model by Winther (Winter & Nielsen, 2008). Although the model has been developed in the context of public administration, it provides a useful distinction of policy results for assessing the EUDR between the policy implementation leading to changed behaviour of the target group and the actual change in performance. A distinction often referred to as policy output and outcome (Van Meter & Van Horn, 1975; Winter & Nielsen, 2008). We use the logic of Winter's integrated model to understand the distinction between output and outcome but supplement the model by global value chain theory to accommodate the context in which the EUDR operates.

3.2.1 Implementation through global value chains

In the following we present the concept of global value chains (GVC) theory which we use to investigate the implementation phase of the EUDR. GVC is used to describe the flow of activities bringing a product from the initial resource extraction phase to the end use phase. While many similar concepts investigate value chains, we have chosen GVC due to its strong emphasis on companies which we believe will play a central role in the implementation of the EUDR and its global perspective (Bair, 2008). GVC theory has been developed and applied on multiple commodities (Gereffi et al., 2005; Grabs, 2017) but for the purpose of this thesis, we focus on what we believe are the most important aspects for understanding the agricultural value chain (AVC) of coffee.

In the following we start out by briefly describing the emergence of GVC and why GVC theory is relevant for examining the EU-Ethiopian coffee value chain. Next, we examine the concept of governance, the importance of lead firms in GVC theory, and how the concept of governance structures can be used as an analytical tool. Finally, we investigate the importance of the enabling environment and state roles in GVC.

3.2.2 The concept of GVC

Following a period dominated by neoliberal ideas such as the deregulation of international commodity agreements and national economies, large international companies have moved to the front stage of value chain governance. This has according to GVC scholars led large multinational companies to disintegrate their production and focus on the parts of production where value add is highest and outsource core part where less value is added. Thereby the governing of agricultural

value chains, such as coffee, has fundamentally changed (Daviron & Ponte, 2005; De Marchi & Alford, 2022; Gereffi et al., 2005; Kano et al., 2020).

Key to GVC theory is understanding how and on what basis large international companies, often referred to as lead firms, govern and shape the value chains they operate in (Gereffi et al., 2005). For defining governance, we draw on two definitions by Gereffi & Kaplinsky (2001) and Gereffi & Korzeniewicz (1994): *“the ability of one firm in the chain to influence or determine the activities of other firms in the chain”* and the *“authority and power relationship that determine how financial, material and human resources are allocated in flow within a chain.”* (Gereffi & Kaplinsky, 2001, p. 5; Hernández & Pedersen, 2017, p. 140). Together the two definitions give a general picture of governance as a process where certain powerful actors, such as lead firms, influence the behaviour of other actors in the value chain by for example determining flows of finance, material, and human resources towards functional divisions of labour (Gereffi & Kaplinsky, 2001; Hernández & Pedersen, 2017).

3.2.3 Determining governance structures

For understanding the governance structures of a value chain Gereffi et al. (2005) identify three parameters:

1. the complexity of the information transfers needed between buyers and suppliers for production,
2. to which extend this information can be codified,
3. to what degree the producer has the capabilities to deliver based on the information given.

Closely related to the three parameters is the understanding that lead firms strive towards capturing economic value by reducing transaction costs, risks, and maximising revenues (Gereffi et al., 2005). Consequently, any perceived or actual shift in one of the parameters, such as an increase in the complexity of the product and hence the relative capability of suppliers in dealing with this complexity, will likely result in a shift in the governance structure (Gereffi et al., 2005). Using these parameters and assigning each a score of either high or low, they compose five archetypal governance structures of GVC spanning from the hierarchical to market governance. These are summarised in table 1. These are summarised in table 1.

Table 1 Five types of governance structures within GVC and the influencing parameters for these. (Gereffi et al., 2005)

Governance type	Complexity of information transaction	Degree of codifiability	Capability of suppliers
Market	Low	High	High
Modular	High	High	High
Relational	High	Low	High
Captive	High	High	Low
Hierarchy	High	Low	Low

The five governance structures can be understood as positions on a spectrum where the power asymmetry between buyers and suppliers increases as you approach a hierarchical governance structure. The different models are described below and depicted in figure 5.

- In market value chains buyers mainly responds to price, thereby requiring little coordination between value chain actors. The low level of complexity and easy codifiability generally allows for low transaction costs when shifting partners both from a suppliers' and buyers' perspective.
- In modular value chains the complexity and codifiability are high, but so are the capabilities to address this by suppliers. This results in a situation where limited coordination is needed between supplier and buyers and costs of switching partners are therefore relatively low.
- In the relational value chains the combination of high complexity, a lack of codifiability of the product and the high capability of suppliers results in a situation with explicit coordination and interaction between producers and buyers. As a result, mutual dependence arises and the cost of switching partners increases.
- In the captive value chains the situation is similar to the relational in terms of product characteristics but due to low capability of suppliers there is need for high degree of buyer intervention. This results in a lock-in as buyers try to ensure that their intervention is only benefiting them and not competing buyers. For suppliers this increases the cost of switching buyer.

- In the hierarchy value chains the complexity of the product is high and the capabilities of suppliers are low. The production is therefore integrated in buyers' businesses. (Gereffi et al., 2005).

Importantly for the theory is that for most agricultural commodities, including coffee, multiple governance structures will likely co-exist. Similarly, the overall governance structures can be subdivided into segments each having a unique governance structure between value chain actors (Gereffi et al., 2005; Grabs, 2017). These we consider sub-segments within the full value chain.

Gereffi et al (2005) acknowledges that the functioning of global economy and the linkages between firms are shaped by more than the factors included in the model such as contexts, rule of the game, path dependence, institutions etc. (Gereffi et al., 2005).

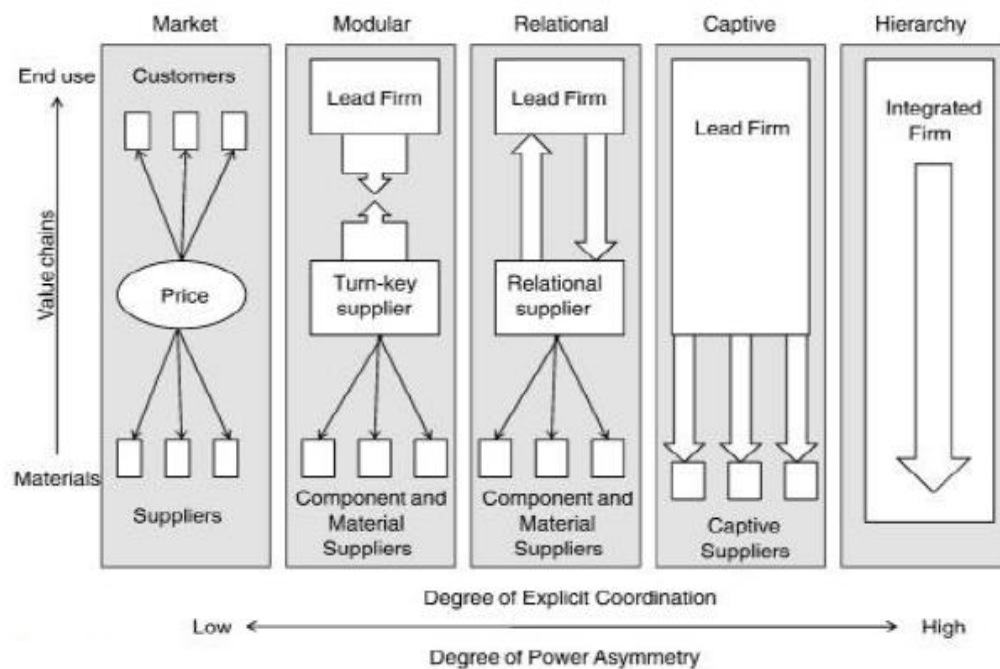


Figure 5: Governance models as described above (Gereffi et al., 2005)

3.2.4 Determining governance

Companies are progressively shifting their focus from purely economic gains to a broader spectrum of value creation, encompassing social and environmental aspects (Bager & Lambin, 2020). This shift is apparent in initiatives such as Corporate Social Responsibility (CSR) and more recent Environmental, Social and Corporate Governance (ESG) reporting (Bager & Lambin, 2020; Laker, 2023). Sustainability is increasingly becoming a market parameter on which companies might brand themselves. For some, sustainability will be part of their license to operate as an

integrated part of their business model. For others, a market-based approach is more prominent with profit maximisation being the end goal (Bager & Lambin, 2020).

It is important to acknowledge that lead firms do not operate in a vacuum and that other actors such as states and NGOs, within GVC theory commonly referred to as the enabling environment, have interest and means to influence the governance of a GVC. This is especially important when considering the role of GVC in this thesis as a lens for assessing how the EUDR is implemented. Furthermore, when assessing a GVC based on the complexity of information, codifiability, and capabilities, it is essential not to view the scores as fixed. For example, a supplier's capabilities might improve over time which could incentivise a lead firm to transition from a strictly captive governance type to a more relational type. This dynamic, often referred to as upgrading, has by public and private actors within GVC been seen as an opportunity for moving suppliers up the value chain (Ponte et al., 2014). While the term upgrading is mostly used to describe changes in the distribution of economic value, it can also be extended to encompass environmental and social dimensions of value (Ponte et al., 2014). In context of the EUDR environmental upgrading can be seen as halting deforestation embedded in products. Social upgrading can be related to the EUDR in terms of the requirement of legality which among other things aims to prevent child labour (Regulation 2023/1115). De Marchi and Alford (2022) argue that the process of upgrading, whether it is economic, social, or environmental, in practice often involves trade-offs with the other two aspects. However, to which degree those trade-offs occur depends not only on the specific type of governance within the GVC but also the enabling environment, e.g., institutional context and the role of the state(s) in which the GVC operates (De Marchi & Alford, 2022).

3.2.5 Enabling environment

GVC literature has since its origins increasingly become firm-centric, focusing on the relationship and governance between firms. Concurrently, the role of the state has been reduced (Mayer & Phillips, 2017). Our decision to combine public policy analysis with GVC mirrors a more recent tendency of bringing the role of the state back into the analysis of GVC, suggesting a much more interventionist understanding of states in GVC, either as being a facilitator, regulator, producer, buyer, or even distributor of GVC gains (De Marchi & Alford, 2022; Grabs & Ponte, 2019; Mayer & Phillips, 2017). Thereby, states can intervene in GVC through a diverse set of policy instruments (Mayer & Phillips, 2017). In this context we consider the EU as a state as they through the EUDR

are able to influence GVC. As we focus on EUDR implementation we will here present the role of the EU and Ethiopia as regulators and facilitators.

3.2.5.1 Regulatory governance

The significance of which the state undertakes a regulatory role of GVC varies with state capacity and institutional legitimacy (Horner & Alford, 2019). In the context of the EUDR, states' role as regulators can be understood as "outsourcing regulatory governance", where states utilise the global reach of lead firms to indirectly regulate international suppliers (Mayer & Phillips, 2017).

3.2.5.2 Facilitative governance

Mayer & Phillips (2017) argue that economic globalisation and the creation of GVC to a large part have been deliberately driven by states' ideological projects and facilitated through institutional restructuring and policy reforms in order to ensure the enabling environment for GVC to thrive (Mayer & Phillips, 2017). For EUDR, examples of relevant facilitative governance include partnerships as proposed by the EU or the Ethiopian state grading system for coffee which eases international exports (Aparisi, 2021; Regulation 2023/1115). From a low-income country perspective, GVC facilitative policies often include efforts to ensure GVC participation to improve suppliers' ability to meet sourcing demands of global buyers (De Marchi & Alford, 2022).

3.2.6 Summing up

When implementing the EUDR, a number of different actors will be affected either as direct or indirect targets of the regulation. This calls for an understanding of potential barriers to implementation which provides a framework to understand the challenges that might occur when implementing the EUDR. Because of the reach of the EUDR, the regulation will affect coffee value chain actors on a global scale thereby calling for a wider understanding of value chains. We therefore introduce GVC theory to understand the dynamics and implications of implementing the policy on the coffee value chains. We here differentiate between the output and outcome understood as the individual changes in behaviour and the actual change in performance. We further elaborate on how powerful enterprises acting as lead firms influence the value chains in which they operate. Flowing from this we present the lead firms' varying motivation for the governance applied. Besides lead firms, we further explain how the enabling environment and national states influence value chains through regulatory and facilitative governance.

3.3 Evaluation

Going back to the policy cycle, evaluations should ideally be used as an input to policymakers regarding whether a policy should be maintained, revised, or terminated (Howlett et al., 2009). This aligns with the purpose of this thesis which aims to advise future revisions of the EUDR as will be elaborated in the Methodology. Though evaluations are typically performed retrospectively, Hansen (2011) points out that ex-ante evaluations are also carried out, such as evaluations of expected consequences of policies.

The emphasis of *evaluation* varies starkly across traditions in relation to methodology and the selection of relevant evaluation criteria. Here, several approaches to evaluation exist (Nielsen, 2011). Looking specifically at the EUDR, it can be understood as a public policy with the objective of curbing global deforestation thereby impacting multiple countries and stakeholders. Several organisations, however, have expressed their concern that the EUDR will have negative social ramifications, especially for smallholders and the least well off (Alyansa et al., 2023; Solidaridad et al., 2022). A range of NGOs, CSOs, and trade unions has therefore called for increased social justice and a just transition (Alyansa et al., 2023; Solidaridad et al., 2022). While the EUDR includes an evaluation as part of its review process (Regulation 2023/1115), the range of organisations calls for an immediate assessment of the impact on smallholders instead of the planned assessment in five years to mitigate adverse negative impacts (Alyansa et al., 2023; Solidaridad et al., 2022).

Responding to this call we argue that the global reach of the EUDR and its potential negative social impacts on producer countries force us to review the policy beyond its explicit objectives. Instead, as suggested by the range of organisations, the policy should be held against a standard of whether it contributes to transforming our societies in a just and sustainable direction. In the following section we therefore lay out the line of reasoning for why a *just transition* must be the standard. Here the legitimacy of the evaluation flows from the explicit arguments of the evaluator for why the criteria are chosen (Nielsen, 2011). The section introduces the term just transition as an already existing framework for evaluating both the social and environmental aspects.

3.3.1 Evaluation through just transition

The use of the term *just transition* has increasingly been proliferated when dealing with green policies that also aim to include aspects of social justice (Stavis & Felli, 2020; UN Global Compact, 2023). In essence, the term refers to the fact that green policies may have implications

for the social context in which they are implemented (Morena et al., 2018). While no universally agreed upon definition of just transition exists, the definition from the International Labor Organisation (ILO) offers a starting point to its application: “*Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.*” (ILO, 2015a). This definition provides an overall direction of the concept, though it simultaneously becomes evident that both fairness, inclusiveness, and the relevant “concerned” actors are essentially contestable. As a result, the concept has over the past decades been used differently both in terms of scale and scope. Here, scale refers to geographic and temporal inclusiveness while scope refers to social and ecological inclusiveness of the issues included (Steviss & Felli, 2020)

3.3.2 Concepts of justice

A plurality of concepts has been applied to the understanding of justice with different scopes and reasoning behind. It is by no means the intent of this paper to provide a full overview of the different concepts and their origins. Instead, we draw upon Gupta et al. (2023) who provide an overview of justice that reflects the need for both social and ecological justice. They adopt three layers of justice in their model.

The first layer constitutes the three I's: Interspecies, intergenerational, and intragenerational justice. These relate broadly to the distribution of benefits across species, generations, and within existing generations. Thereby they open for the possibility of abandoning the notion of human exceptionalism and including the earth system stability needed for non-human species to thrive, while also acknowledging the needs of future generations (Gupta et al., 2023).

The second layer relates to procedural justice elements, which focus on inclusiveness and fair and transparent decision-making. Here, aspects such as information to make informed decisions, inclusion in decision-making, civic space, and courts are covered (Gupta et al., 2023).

The third and final layer relates to substantive justice which covers questions of allocation of benefits, burdens, responsibilities, and risks. These include elements such as minimum access to resources and services, distribution of risks and harm, distribution of responsibilities, and distribution of resources after deducting minimum resources required for human dignity and basic needs (Gupta et al., 2023).

While this is by no means a full list of potentially relevant notions of justice, these will provide the basis of the operationalisation of just transition as expanded on in the Methodology.

3.4 Theory synthesis

In the above sections we have briefly described three main lines of theories that will be applied throughout the thesis to understand how the value chain actors' initiatives to ensure EUDR-compliant traceability throughout the EU-Ethiopian value chain align with a just transition.

The policy design of the EUDR makes up an input to an existing global value chain structure in the EU-Ethiopian value chain. We consider the initiatives for EUDR-compliance as implementation actions (output) carried out by a heterogenous target group of the policy. Hence, we draw on GVC-theory to understand how the composition and stakeholders in the global coffee value chains respond to the regulatory governance of the state (EU). Finally, the expected output and outcome of the GVC-behaviour for compliance is evaluated through a just transition lens. In response to concerns of negative implications of the EUDR we thereby aim to assess whether the EUDR aligns with a just transition that leaves no one behind.



Methods



4 Methodology

In the following section, the methodologies applied throughout the thesis will be elaborated. First, we will briefly explain the research design and the philosophy of science of which it departs. We then describe the composition of the research design and the role of theory and data in each sub-question. Third, we describe our data, data collection and processing. Fourth, we outline our case choice and operationalisation of our key concept of just transition before finally discussing validity and reliability issues for this thesis.

4.1 Research design

The main objective of this thesis is to investigate the question:

“How does the expected implementation of the EUDR throughout the EU-Ethiopian coffee value chain align with a just transition?”

Our research design is characterised as an explorative-descriptive single case study (Andersen et al., 2012). Here our key aim is to understand the EUDR implementation process. As the EUDR has only recently been adopted it is of high relevance to understand how this will be implemented and the justice implications of this. In particular as revisions of the policy is already planned and partnerships with producer countries are under development (Regulation 2023/1115). Our approach to the research area is inspired by methodological holism and system thinking, as our main interest is to understand the interaction patterns and dynamics between actors involved in the implementation rather than the categorisation and causal implications of individual actions (Verschuren, 2001; Daniels & Walker, 2001). Also, for this purpose, the single case study provides advantages, as it allows us to understand the context-dependencies that shape socio-ecological interactions. In our data choice we have therefore not prioritised representation but instead strategic sampling across actors in the system of interest to maximise insights throughout the value chain.

Flowing from the holistic and explorative aspects of our study, our research is predominantly inductive following an iterative-parallel process where the static research design is the emergent result of a dynamic process of moving back and forth between literature, data collection and theory (Andersen et al., 2012; Harrits et al., 2012; Verschuren, 2001). For this purpose, we combine

existing theory, literature, and own primary data to gain new insights. Opposed to most explorative studies, we disregard the formulation of hypotheses for future studies as this is not our main motivation (Andersen et al., 2012). Nor is our purpose to generalise our results outside of the EU-Ethiopian value chain whereby our design does not reflect inferential considerations. Instead, our objective is to inform key stakeholders about justice implications of the EUDR implementation processes. For this purpose, single case studies are a powerful tool for learning about and illustrating dynamics (Flyvbjerg, 2006). We thereby draw on the EU-Ethiopian value for coffee to illustrate implementation dynamics and implications. To further contextualise, we use the case area of the Bale Eco-region. We return to the functioning of the case area of Bale in section 4.4.

In the next section, we outline the composition of our research design and how theory and data is combined when answering our research questions and sub-questions.

4.1.1 Composition of research design

Our final research design follows a stepwise approach with four interlinked questions where each sub-question builds on insights of the previous questions to finally answer our research question. The sub questions can be found in the introduction.

- 1) The first question aims at analysing the EUDR and the theory of change embedded in the policy. For this purpose, we conduct document analysis of policy documents, strategies, and communications from the EU, while drawing on the concept of green growth.
- 2) The second question analyses how the current composition and governance structures may challenge the implementation of the EUDR. Using our case of the EU-Ethiopia value chains and the case area of Bale, we analyse our empirical data from interviews and fieldwork to draw out the main challenges. For analytical purposes, we draw on GVC and implementation theory to understand these challenges.
- 3) In the third analysis, we investigate value chain actors' response (output) to the EUDR based on our primary data. Furthermore, we analyse how the response shapes the composition and governance structures (outcome) identified in analysis 2 drawing on GVC theory.

- 4) In the final analysis, we answer our overall research question. Here we investigate how the implementation outcomes as identified in analysis 3 aligns with a just transition. We first apply our findings to Ethiopia more broadly, before investigating the likely implications in our case area of Bale. To do this, we combine our empirical findings with theoretical insights and evidence in the literature to predict how the implementation process is likely to play out, as most initiatives are still to materialise.

A full overview of the research frame can be found in figure 6. Empirical data is further described in section 4.2 and choice of theory in section 3.1.

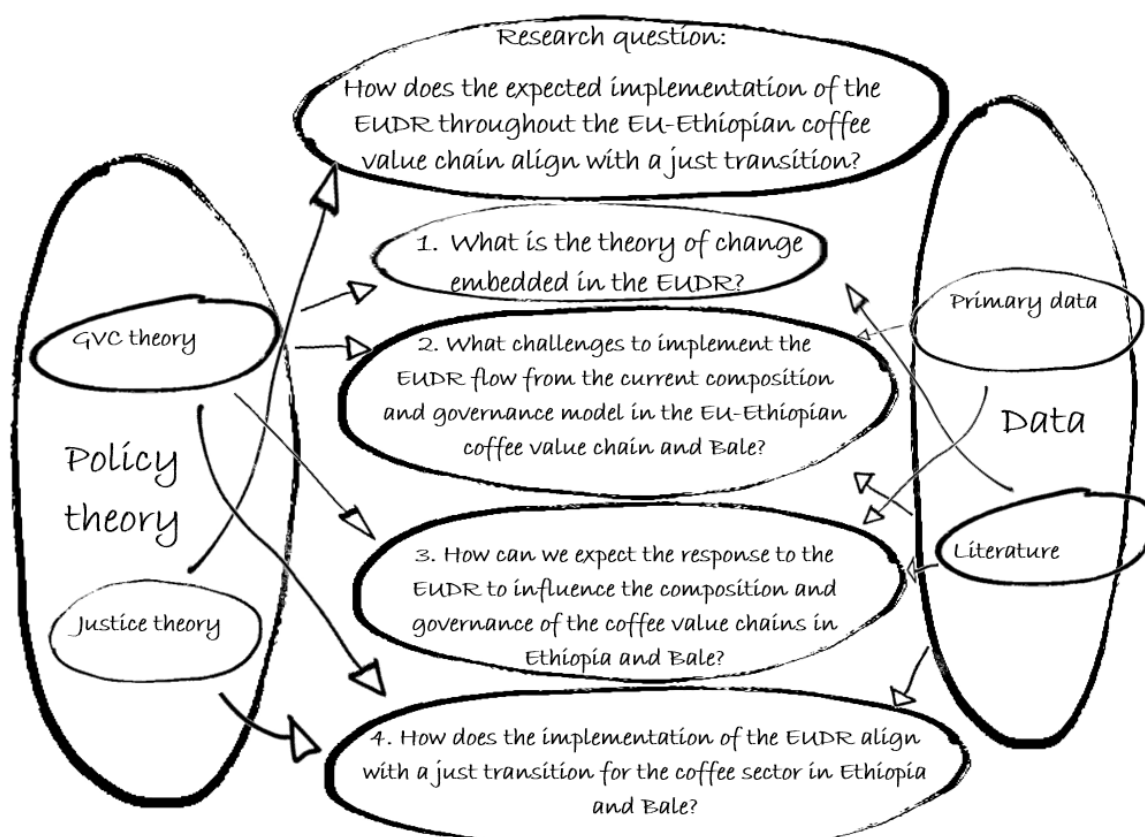


Figure 6: Overview of the research frame. Own creation.

4.1.2 Delimitations of our study

In the study we focus on the implementation of the EUDR with regards to article 3a and 3c. We hence focus on traceability and deforestation, while delimiting from the issues of legality and human rights also included in the policy. Furthermore, while the EUDR is linked to other aspects of EU External Actions Services and Official Development Aid (ODA) by EU member states with regards to for example sustainable value chains, agriculture, and natural resource management, this is disregarded to keep our study more parsimonious (Global Gateway, 2023). We however briefly touch upon recent developments on EU partnerships in the discussion. For simplicity, we largely disregard issues related to forest definitions and how the use of agroforestry, forest and semi-forest coffee systems may provide challenges with regard to baseline mapping and forest monitoring.

4.2 Description of data

Our data originates from 24 days of fieldwork conducted in Ethiopia and the Bale Eco-region at the end of July and August 2023. The fieldwork included interviews and coffee production site visits, such as hulling machines, storage facilities, forest-coffee and garden coffee site visits, tree nurseries as well as observations at NGO project monitoring activities and PFMC visits. The interviews have functioned as the main data from Ethiopia while the remaining observations contributes with better context understandings (Elklit & Jensen, 2012). The interviews are summarised in table 2 and 3 grouped by their role in the value chain or enabling environment to the research. Many informants play a dual role by both being producers, cooperative representatives, union members etc.

Table 2: Overview of Ethiopian value chain interviews

Stakeholder group	Producer	Local supplier	Cooperative	Union	Exporter
Interviews	4	1	5	1	2

Table 3: Overview of Ethiopian enabling environment interviews.

Stakeholder group	Agricultural office	Cooperative promotion office	ECTA regional	ECTA federal	Environmental Protection Agency	NGO	Public forest organisation
Interviews	2	2	2	2	1	2	1

In addition, we have during the fall 2023 conducted 10 interviews with European roasters and international distributors as well as one online interview with an Ethiopian stakeholder. See table 2 and 4 for overview. All key informants have been assigned anonymised codes that reflect their role in the value chain (Appendix K).

Table 4: Overview of Danish and EU interviews.

Stakeholder group	Small Danish roaster	Large Danish roaster	Large European roaster	Small international distributor	Large international distributor
Interviews	3	3	1	2	1

Finally, one conference has been attended and eight preliminary interviews were conducted during the spring of 2023 with key actors to identify the scope and topic of the study. For a more detailed description of the actors interviewed in the preliminary process see Appendix D.

4.3 Data collection strategy and process

For our research purposes we have prioritised strategically sampling respondents from as many different stakeholder groups as possible. While the approach risks introducing reliability issues, it allows for the widest possible insight to the dynamics and expected responses to the EUDR (Harrits et al., 2012; Verschuren, 2001). This approach has been chosen due to our focus on the full system dynamics, as complexes of information and meaning, interactions, processes, and power configurations which we expect will shape the outcome of the policy (Verschuren, 2001). Furthermore, a more comprehensive and random sampling from each group has not been feasible with the resources available. The choice of respondents has thereby been the product of theoretical considerations of variation, while in practice representatives for different groups have mostly been a product of snowballing or convenience (Harrits et al., 2012).

The data collection has by no means been a fully linear-serial process. Partly reflecting our limited preconception on coffee value chains, our process can instead be characterised as an iterative-parallel strategy, where multiple research processes are carried out simultaneously and repeatedly (Verschuren, 2001). In practice this has meant that our theory building and understanding of the coffee sector has developed with each interview thereby feeding back into our data collection. In example we did not have a full list of stakeholder groups from which we wanted to sample prior to starting the research. Similarly, our final research design and research questions, have emerged

along with our data collection, theories, and analysis thereby allowing us to be flexible as we learned along the way (Harrits et al., 2012).

Interviews

The interviews are characterised as loose semi-structured interviews or elite interviews (Aberbach & Rockman, 2002; Harrits et al., 2012). Elite interviews have been open-ended and loosely structured discussions with high-level bureaucrats. Semi-structured interviews were chosen to be adaptable for the context in which the interviews were conducted. A shared interview guide was prepared for distributors and roasters based on different thematical dimensions (Harrits et al., 2012; Appendix E). In practice, the semi-structured approach allowed us to prioritise different elements of the interview guides where we had the most to learn. For the fieldwork limited information was available in advance, and often the interviews were set up with very short notice thereby requiring a lot of flexibility and limiting the possibility for tailor-made interviews. For the semi-structured interviews during the field work, certain crude categories of interviews with corresponding interview guides were designed for different expected respondent groups (Appendix F).

4.4 Case study: Coffee in Ethiopia and Bale

Our main objective with the study is to investigate justice implications of the EUDR. Among the seven forest-risk commodities included in the EUDR coffee is characterised by complex value chains and a high share of smallholder farmers (Grabs, 2017). Smallholder inclusion has through the policy-formulation phase been a continuous concern from several NGO (Alyansa et al., 2023; Fern, 2023; Solidaridad et al., 2022). From this perspective, Ethiopia is a particularly interesting case with coffee being an important export commodity and smallholders producing most of the coffee (Section 2.2). Furthermore, Ethiopia is a low-income country with poverty and a plethora of other internal issues potentially aggravating implementation issues and justice concerns (Appendix A). A study of the EUDR implementation in such a context is therefore of high interest. To accommodate the fact that Ethiopia is a highly diverse country, we have decided to work within a specific area in Ethiopia being the Bale Eco-region which allows for contextualisation of our research. In addition, we, in line with Flyvbjerg (2006), believe that a case specific research contributes with strong illustrative and pedagogical attributes.

Regarding the choice of Bale, the decision of case area has been less due to methodological considerations and more due to the convenience and accessibility. The field work was facilitated by a Danish NGO as major parts of Ethiopia may have otherwise been inaccessible due to the

logistical and safety reasons. Aligned with the idea of an emergent design, considerations of the applicability of the data collected in Bale to understand the justice implications of the EUDR has been carried out post field work.

The Bale Eco-region is generally characterised by a high proportion of forest and semi-forest coffee and a low degree of traceability, complex value chains, and limited access to capital and technology. At the same time the region has an active enabling environment, which might be attributed to the high ecological value of the area which also hosts a large national park (Section 2.3).

Where Ethiopia might be considered a least likely case for a just implementation in the first place, Bale adds an additional layer of complexity as coffee typologies which are considered more complex are overrepresented in the region. This, however, only makes Bale more relevant as the smallholders struggling the most are also the most exposed when considering the new requirements of the EUDR. The finding of a just implementation would therefore provide a strong positive example and potentially be inferable (Andersen et al., 2012). On the other hand, injustices in such an area may be illustrative in showcasing how green policies may influence already marginalised societies and communities which is only potentially applicable to other contexts.

4.5 Data processing

All but six interviews have been recorded, transcribed, and coded. For the remaining interviews either no allowance for recording was given or the situation did not allow for it. For these interviews, we instead took notes which afterwards followed the same coding process.

For the coding a mix between a deductive and inductive approach was used mirroring the approach to the data collection. As a starting point, we used a defined list of codes based on key concepts and topics relevant to our research question. A second round of coding was conducted when we had a stronger sense of what constituted topics of interest. In this way, we combine a deductive coding with pre-identified topics of interest with the benefits of the open coding process by staying open to unexpected insights (Jakobsen, 2012). The start and supplementary code lists are presented in Appendix G.

4.6 Operationalisation of just transition

To answer the fourth and final sub-question of our analysis where EUDR implementation responses are evaluated, we need to further operationalise the concept of just transition due to the contested and political nature of the concept which currently limits its analytical value. We therefore need to move to measurable indicators which validly cover all aspects of just transition relevant to the evaluation of the implementation of EUDR (Adcock & Collier, 2001).

For this purpose, we systematise just transition by using the closest we get to an institutionalised understanding of just transition as described in ILO's definition: "*Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.*" (ILO, 2015b). A just transition approach to the implementation of the EUDR can be split up to cover the following aspects:

- Greening the economy,
- Be fair to everyone concerned,
- Be inclusive to everyone concerned,
- Create decent job and work opportunities,
- Leaving no one behind (LNOB).

We ideally favour both a broad scale and scope in the understanding of just transition to grasp global complexities of modern environmental issues (Gupta et al., 2023; Stevis & Felli, 2020). However, there is a reduction of scope flowing from our case selection which limits our attention to the implementation of the EUDR in the Ethiopian coffee sector despite the global reach across seven forest-risk commodities (Regulation 2023/1115). Regarding scale, we keep a broad focus on intertemporal impacts as well as expand the analysis of a European policy by examining the full coffee value chain from producer to the European market.

In the following sections we will operationalise the components of the systematised concept of just transition. As we consider *leaving no one behind* as an underlying principle of the remaining concepts, this will be presented first, followed by the remaining concepts in order of appearance in the definition.

4.6.1 Leaving no one behind

Leaving no one behind is the core principle of the 2030 Agenda for Sustainable Development, representing the commitment of all UN member states to eradicate poverty, terminate exclusion, and discrimination as well as reduce inequalities (Danish Institute for Human Rights, n.d.; UN CEB, 2017). Hence, it goes across both inclusiveness and fairness aspects of just transition, as we will return to in the following operationalisations. LNOB is thus not operationalised in itself but is expressed through the remaining indicators.

4.6.2 Greening the economy

In just transition frameworks, we interpret *greening of the economy* as the need to limit pressures on earth systems. Relating this to our justice concepts we draw upon intergenerational and interspecies justice where improved earth system stability and a green economy is a prerequisite for non-human species and future generations to thrive (Gupta et al., 2023). Due to our focus on the EUDR, we therefore operationalise *greening of the economy* as the rate of deforestation and forest degradation as defined in EUDR (Regulation 2023/1115). The operationalisation is illustrated in figure 7.

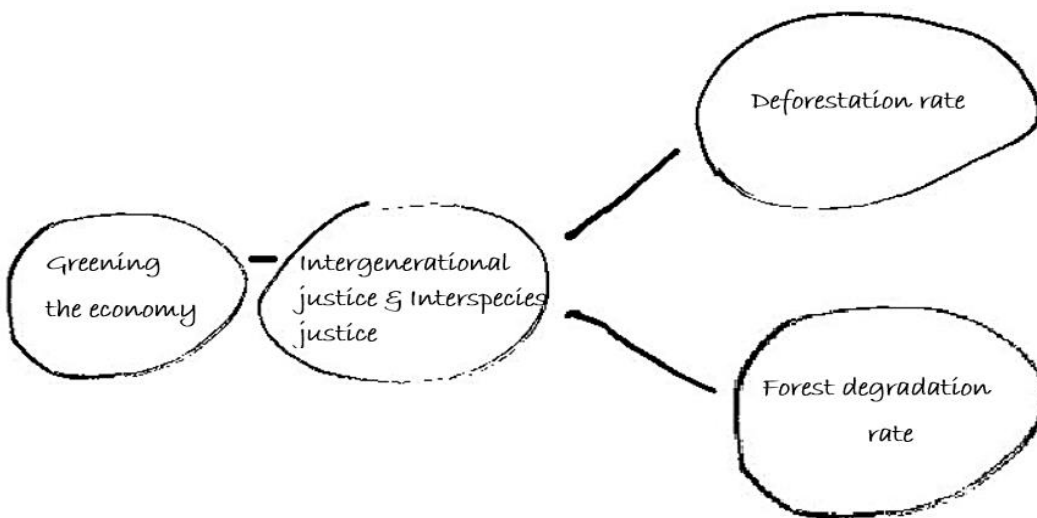


Figure 7: Greening the economy operationalisation.

4.6.3 Be fair to everyone concerned

Be fair to everyone concerned is next considered a substantive measure of justice thereby focusing on allocation of benefits and burdens including risks and responsibilities (Gupta et al., 2023). As we have reduced the scope of the analysis, we focus on smallholder producers in Ethiopia and Bale. Drawing on LNOB, we pay particular focus to the least well-off farmers living in poverty. From this perspective, any change in allocation that is to the advantage of the least well off, will contribute to a higher degree of substantive justice and vice versa. The operationalisation is illustrated in figure 8.

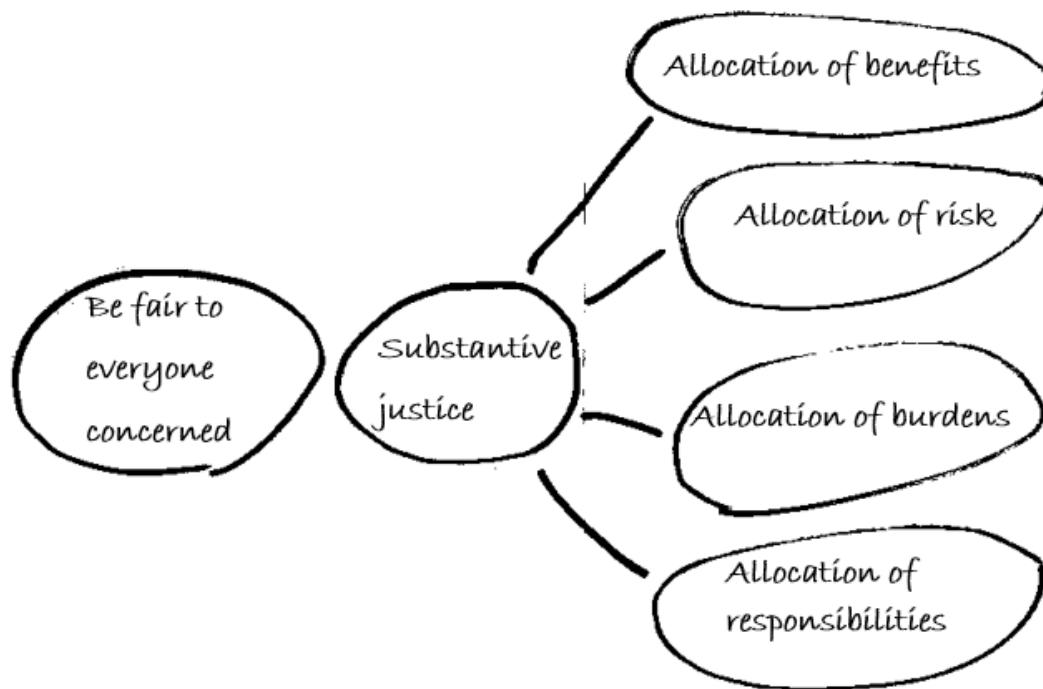


Figure 8: *Be fair to everyone concerned* operationalisation.

4.6.4 Be inclusive to everyone concerned

Be inclusive to everyone concerned is interpreted as elements of procedural justice, which in Gupta et al. (2023) cover four aspects: Access to information, access to decision-making, civic space, and courts. As this thesis only deals with the implementation of article 3 a) and c) of the EUDR regarding deforestation and due diligence, we adhere from covering the role of courts and civic space (in grey on figure 9) as it has not been feasible to include in this study. Access to decision making concerns both access to decide what the response to the EUDR will be and access to future decisions shaping the coffee sector. Access to decision making may either take place directly or through representative bodies, member organisations, and CSOs (Thorpe, 2018). For information we consider knowledge of the EUDR as well as the accessibility and type of information (Alyansa et al., 2023; Solidaridad et al., 2022). We emphasise inclusion of the most marginalised groups by focusing on inclusion of smallholder producers, but we do not include a specific focus on gender, race, or other potentially marginalised and discriminated groups. The parameter is thus operationalised through the degree to which coffee farmers have access to information and decision-making. The operationalisation is illustrated in figure 9.

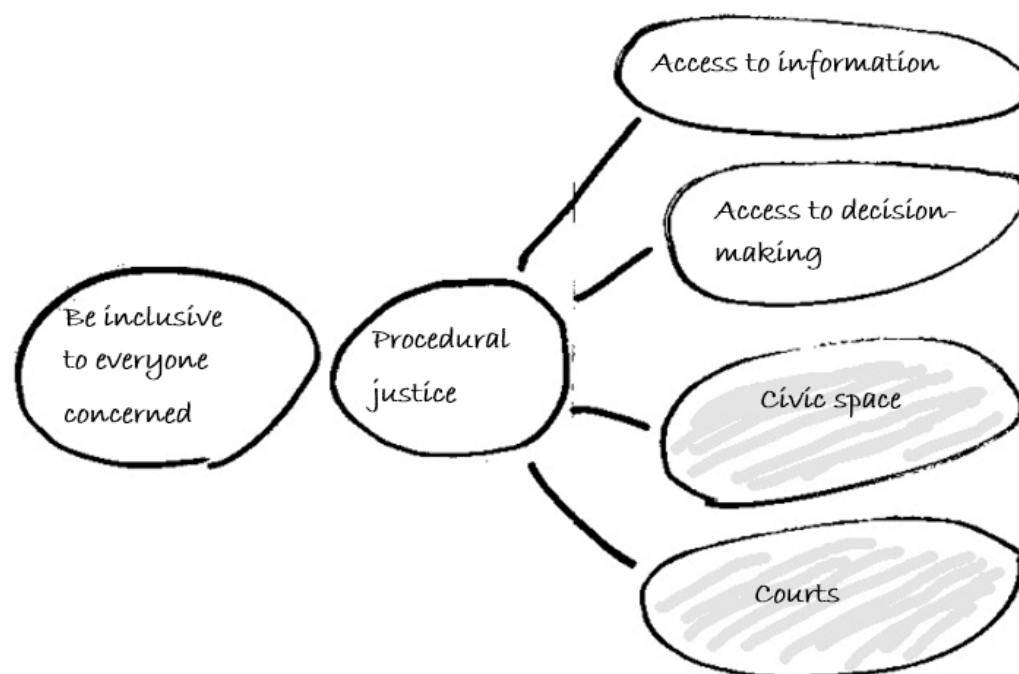


Figure 9: *Be inclusive to everyone concerned* operationalisation.

4.6.5 Create decent job and work opportunities

The final pillar of just transition covers decent job and work opportunities. As we keep a fairly narrow scope focusing on the coffee sector, it will be beyond the scope of the analysis of just transition and the EUDR to specifically investigate impacts on the labour market in broad terms. Instead, we argue that impacts on decent job and work opportunities are partly covered in the substantive justice perspectives. We will therefore not follow this line any further, although this will reduce the measurement validity of our just transition operationalisation.

From the walkthrough above we can operationalise just transition as the three types of justice: 1) Intergenerational & interspecies justice expressed through the change in forest pressures, 2) substantive justice expressed through the change in allocation of burdens and benefits with regard to smallholders, and 3) procedural justice expressed through the change in access to information and decision-making for smallholders. It is important to acknowledge that the three types of justice are inherently interconnected. For example, substantive justice outcomes may shape intergenerational justice as poor livelihoods may increase forest dependency and forest pressure (Chakravarty et al., 2012). Deforestation may harm livelihoods through erosion, water accessibility, lack of forest resources, etc. causing a negative feedback loop (Hailemariam et al., 2016). Similarly, procedural justice aspects will likely shape substantive justice as more inclusive decision-making and transparent information may empower farmers (Stoop et al., 2021). Reflecting the anticipated precision of our assessment, we only cover the sub-parameters of our operationalisation to the level of detail that our data and theoretical framework allows. We will therefore not go into interactions and feedback loops.

4.7 Research criteria

In this thesis we have aspired at following good research practices by aiming for high validity, reliability, and replicability of our findings to the extent possible for qualitative research (Adcock & Collier, 2001; Andersen et al., 2012). However, we have identified some methodological concerns which we cover in the following section.

Our field work was facilitated by two NGOs who assisted with logistics, translation, and local network in Addis Ababa and Bale. Their presence as translators during several interviews may have introduced bias to the data, as multiple respondents are partners and beneficiaries of the NGO projects. This might have led to strategic behaviour of the respondents to frame their perspectives in certain ways fruitful for continued collaboration and support of the NGO. In addition, although

informants were told that interviews were conducted for research purposes, some had the impression that it may be for project or aid scoping, again introducing risks of bias and interests to the interviews. While this is hard to mitigate with the resources available, multiple respondents expressed similar views which reduces our validity concerns. A third issue, flow from language barriers and the translation process in which details are lost and potentially biased as it transfers through worldviews and preconceptions of the intermediary thereby both introducing reliability and validity risks. Translators were instructed to translate as directly as possible but through their simultaneous roles as experts in the field they were often eager to include their own perspectives in the interview setting making it hard to distinguish between the points of translators and respondents.

For quotes included in the thesis, we have translated to English, but sought to stay as true as possible to the original content and language. Grammatical mistakes have been cleaned.

As our approach to data collection has focused on interviewing representatives from as many different stakeholder groups as possible, we often have only one or interviews for each organisation or stakeholder group. Our results may therefore suffer from reliability issues and potential measurement bias according to the representative we have interviewed (Andersen et al., 2012). It is likely the case that large companies include internal variation of knowledge and attitude between e.g., procurement and sustainability officers. However, we treat each actor as unity actors disregarding internal variations. To mitigate this, we have sought after triangulating our data through public reports from respondents' organisations, but EUDR implementation strategies seem to be too recent to be publicly available (Appendix I; Appendix J). However, the screening of each stakeholder as provided useful information about included organisations. Reliability of the data may also suffer from the limited respondents from each group, whereby we might not have reached an information saturation point for each group (Harrits et al., 2012). Our data collection provides a snapshot of a moving reality since the subject field is dynamic due to the recent adoption of the EUDR policy.

Although we have prioritised gaining a full overview of the system rather than in-depth understandings of individual value chain actors' behaviours in relation to the EUDR, we have not achieved a full coverage the full system. E.g., we have tried to set up interviews with the EU delegation to Ethiopia, large bulk coffee exporters in Ethiopia and trade unions, as well as coffee

intermediaries without any luck thereby forcing us to face a partly closed reality through theories rather than data.

Although it was not possible within the available resources of writing this thesis, collecting a larger sample with more respondents from each stakeholder group and hiring an external and trained translator for the field work could have improved the reliability of our data.



Analysis 1:

What is the theory of change embedded in the EUDR?



5 Analysis 1

In this analysis we understand theory of change as the reasoning behind why and how a program or intervention is supposed to work (Weiss, 1995). In other words, it is the intervention logic of the policy that links the initiative with problems, drivers, and objectives. In the following section we analyse the EUDR, and the main articles described in the background through a GVC lens to understand how the policy is expected to reach its objectives. We then draw the logics embedded in the EUDR into the wider context of sustainable development as green growth.

5.1 Objectives and problem drivers

The EUDR aims at 1) avoiding that the listed products EU citizens buy, use, and consume contribute to deforestation and forest degradation in the EU and globally, 2) reducing carbon emissions caused by EU consumption and production of the relevant commodities by at least 32 million metric tonnes a year, and 3) addressing all deforestation driven by agricultural expansion to produce the commodities in the scope of the regulation, as well as forest degradation (European Commission, n.d.).

In the Commission's impact assessment of the policy, five main drivers of deforestation are identified. Firstly, agricultural expansion and illegal logging are identified as the main drivers (European Commission, 2021a). The agricultural expansion is found to be driven by global demand for specific products and increased market pressures, dietary preferences, lack of efficiency in agricultural practices, and waste. It hence makes a clear connection between deforestation, forest degradation, and international trade (European Commission, 2021a). For coffee specifically 44% of deforestation is linked to consumption in EU27 making up appr. 14.000 ha/y (European Commission, 2021a).

Market and regulatory failures are found as the driver that links consumption with environmental degradation where four main failures are identified:

- 1) **Lack of accounting for externalities:** No internalisation of the costs related to environmental degradation in the pricing of the commodities.
- 2) **Lack of level playing field:** Unfair competitive disadvantages that companies who voluntarily implement sustainability standards face compared to other businesses with no voluntary commitments.
- 3) **Lack of dedicated legal framework:** No coherent legal framework as so far illegal logging, and deforestation has mainly been addressed through the FLEGT legislation and Renewable Energy Directive for biofuels, thereby not fully considering agricultural expansion as a driver of deforestation as sketched out above (European Commission, 2005; European Commission, 2023)
- 4) **Lack of transparency and information asymmetries:** No common standards and reliable information for market actors (European Commission, 2021a).

Flowing from this driver and problem analysis the EUDR as a policy instrument is designed to address the market and regulatory failures. While the policy does not address failure 1 regarding externalities it does exercise regulatory and facilitative governance on failure 2-4 as described below.

5.2 EUDR as regulatory governance

As multiple global actors are involved in the GVC for coffee, the objective of reducing deforestation depends on both direct and indirect target groups, which complicates the implementation. However, the EU can only directly regulate markets and companies operating within the European market. These firms constitute the direct target group of the regulation and are referred to as operators and traders. Agricultural value chains are highly geographically dispersed, with global value chains structured on top of segmented and decentralised farms, often with little formalised relationship towards the distributors (Daviron & Ponte, 2005; Gereffi et al., 2005; Grabs & Ponte, 2019). This means that the EU cannot regulate the ones at the frontlines of deforestation outside the EU, but instead relies on outsourcing regulatory governance through the private governance of companies (Mayer & Phillips, 2017) In practice, this means that operators will be responsible for governing their entire supplier-base by ensuring EUDR compliance all the way to the farm level. More tangibly, due diligence assessments are made mandatory, thereby

forcing companies to include deforestation risk management into their business conducts and sourcing strategies. As a policy instrument the EUDR achieves this by exercising strict authority towards EUDR operators and traders with new requirements and imposing penalties dependent on the size of the infringement and company turnover (Regulation 2023/1115).

Coffee has previously been subject to a range of voluntary sustainability standard (VSS) approaches such as certifications and responsible sourcing policies (Grabs & Ponte, 2019). However, companies relying on the VSS approach have not managed to fully address the issues of deforestation as coffee is still a driver of deforestation (European Commission, 2021a). Instead, different niche markets have been created for varying levels of sustainability claims, transparency, and corresponding price levels for different consumer segments. Consequently, this has led to the lack of a level playing field where unfair competition has taken place for sustainability-oriented companies (Grabs & Ponte, 2019).

To mitigate this market failure, the EUDR can be perceived as an overall regulatory framework that ensures the presence of a level playing field and improved transparency (Mayer & Phillips, 2017; Simons, 2015). Thereby, the EUDR signals a shift towards institutionalising public regulatory objectives directly into private governance of suppliers by utilising existing value chain power structures to enable global change beyond the jurisdiction of the EU (Mayer & Phillips, 2017; Simon, 2015). As a result, the implementation will partly be a result of the governance structures already embedded in the coffee GVC.

To sum up, the theory of change rests on the assumption that deforestation is a product of market failures, where better information, a common legislative framework, and a level playing field for companies together can address deforestation issues. Thereby the EUDR seeks to institutionalise sustainability requirements into private governance structures for forest-risk commodities such as coffee.

Besides the regulatory intervention in the market, the GVC-functioning and implementation of the EUDR is further affected by the enabling environment and the facilitative aspects of the policy.

5.3 The EUDR as facilitative governance

This perspective of facilitative governance is directly reflected in Article 30 of the EUDR where supplementary cooperation is thought to assist producer countries in avoiding deforestation and ensuring EUDR-compliance. However, those initiatives are not predefined but are instead to be designed based on country-specific issues and dialogue with producer countries and relevant local stakeholders (Regulation 2023/1115). In the policy text, the EUDR is presented as to follow the EC communication “*The Power of trade partnerships: Together for green and just economic growth*”, which describes the strategy for how EU trade should contribute to sustainable development (European Commission, 2022). In the communication, trade agreements, policies, multilateral efforts, and development cooperation are anticipated to work together to achieve the sustainable development objectives by contributing to positive impacts of trade and mitigating negative impacts (European Commission, 2022). This is further underlined in the impact assessment of the EUDR which links the policy to other initiatives and the EUDR therefore cannot be understood in isolation. Trade agreements and policies such as the EUDR can be considered an overall regulating framework structuring commodity trade while development cooperation reflects some of the central ideas of facilitative governance in GVCs. For example, it can consist of initiatives aimed at assisting GVC participation, e.g., by aiding producers in meeting new sourcing demands from global buyers arising from the EUDR. This is needed as implementation theory generally highlights that a lack of resources, skills, and technical knowledge can act as barriers to successful implementation (Weaver, 2014). This is fully aligned with the EC communication that calls for country specific implementation priorities and early gap analysis (European Commission, 2022). With these partnerships, the EU sets out a direction where the EU Commission's and member states' bilateral development cooperation should aim at facilitating EUDR compliance, thereby ensuring a sustainable deforestation-free supply of EUDR-relevant commodities to the European market.

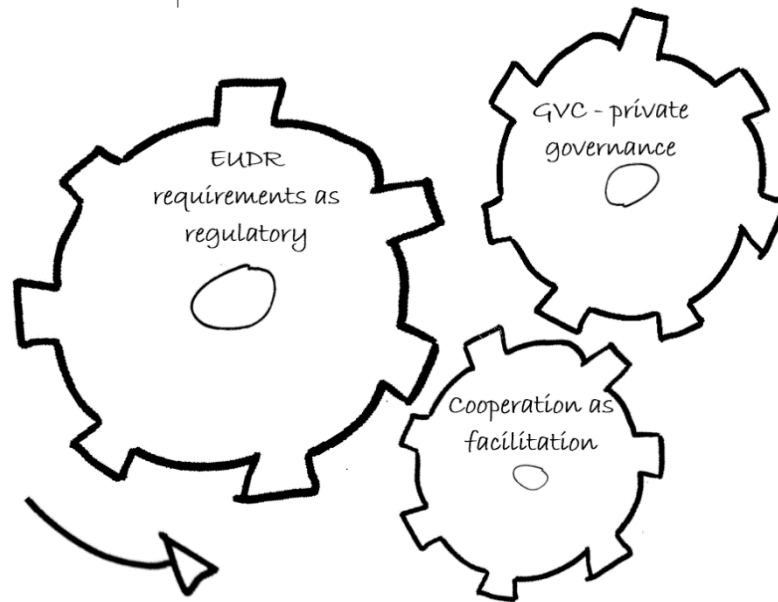


Figure 10: illustration of the theory of change embedded in the EUDR. Own creation.

As depicted in Figure 10, the EU with the EUDR acts not only by outsourcing regulatory governance through private governance in the GVCs but simultaneously facilitates GVC participation and EUDR compliance through cooperation with producer countries. While the regulatory requirements will be enforced from the end of 2024, the facilitative aspects of producer country cooperation are currently under development, and information on delegated finance for these purposes are limited to recent announcement in December 2023 (Directorate-General for Environment, 2023; Directorate-General for International Partnerships, 2023). While EUDR-relevant efforts are already made in existing development cooperation, it is beyond the scope of this report to investigate the full level of focus on deforestation issues, sustainable land management, and traceability in EU and member states' official development aid.

5.4 EUDR and green growth

Zooming out on the wider logics of the policy, the EUDR mirrors the dominant interpretation of sustainable development as *ecological modernisation* or *green growth*, which rests on the assumption that there can exist a win-win relationship between economic growth and environmental sustainability (Connelly et al., 2012; Hajer, 1996). From the perspective of green

growth, sustainable development becomes a question of internalising environmental considerations into existing political, economic, and social institutions (Connelly et al., 2012). Doing this correctly can then become a new source of growth for the economy (Connelly et al., 2012). This is directly stated in EU communication on the Green Deal of which the EUDR is a part. In the Green Deal, the explicit objective is to “*transform the Union into a fair and prosperous society, with a modern, resource-efficient and competitive economy built on sustainable and rule-based free trade, where there are no net emissions of greenhouse gases in 2050, where economic growth is decoupled from resource use and no person or place is left behind.*” (European Commission, 2021b). Flowing from this, the communication on the power of trade further elaborates that trade for sustainable development should ensure green and just economic growth, not only in the EU but also for partner countries (European Commission, 2022) which is also mentioned in the policy. Thereby, the EUDR is clearly a product of a green growth approach to sustainable development as it runs through the core ideas behind the EU Green Deal and the EC communication on trade for sustainable development.

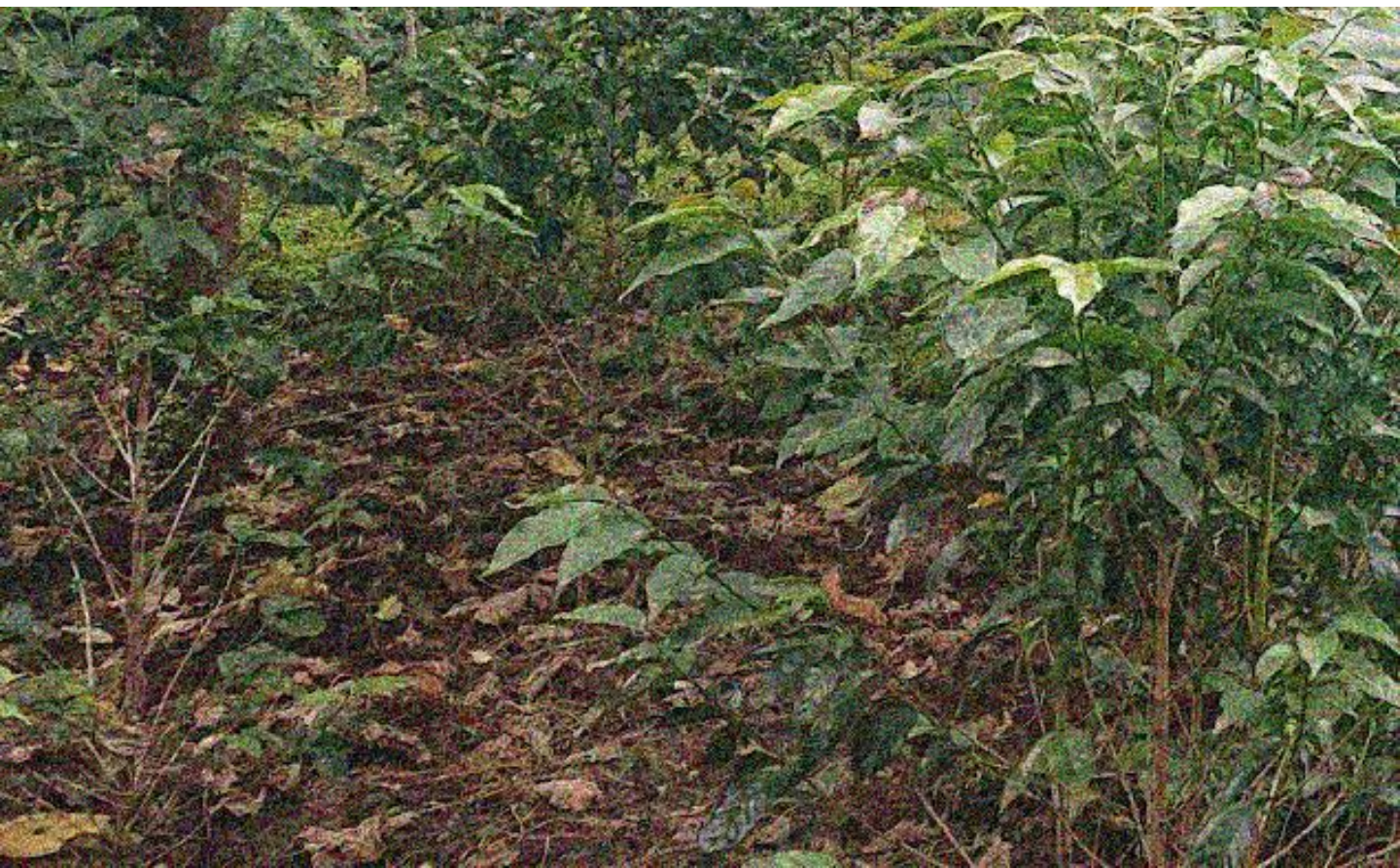
5.5 Summing up

In conclusion, the theory of change embedded in the EUDR relies on two key inputs to the sectors included in the policy. As a main input, the EUDR can be understood as outsourcing regulatory governance hence institutionalising a new shared level of sustainability in the sector. This means that the EUDR takes advantage of the pre-existing governance structures of GVC to change how European operators and traders govern their supplier base. This is done by requiring EUDR compliance through comprehensive traceability, data requirements, and due diligence statements to ensure that only deforestation-free products enter the European market. Secondly, to ensure that the EUDR reaches its desired objectives, cooperation and partnerships are planned to mitigate negative impacts and ensure that sufficient capacities are present throughout the GVC and its enabling environment. Altogether, the theory of change reflects the wider approach to sustainable development as ecological modernisation or green growth, where environmental considerations are integrated into existing political, economic, and social institutions with a view to ensure economic growth along the process.



Analysis 2:

What challenges to implement the EUDR flow from the current composition and governance model in the EU-Ethiopian coffee value chain and Bale?



6 Analysis 2

As is clear from analysis 1, the full global value chain of coffee will need to be involved in the implementation of EUDR included the enabling environment playing a facilitative role. Returning to the definition of implementation as *actions by public and private individuals (or groups) that are directed at the achievement of objectives set forth in prior policy decisions*, the EUDR objectives need to be achieved through the participation of a range of stakeholders. It is in other words characterised by the *complexity of joint action*. One cornerstone action required, is the improved traceability, as without it, due diligence will not be possible. The relationship between traceability and implementation further exacerbates the importance of the multiple actors involved, as sufficient traceability requires the participation and collaboration across the value chain. This complexity opens the door to a range of challenges in the process of implementation. It is expected that the composition of actors, their characteristics, and the present governance structures will determine the challenges for EUDR implementation.

The following analysis will combine GVC and implementation theory with our empirical data and existing literature on the coffee sector in Ethiopia and Europe to explain the challenges of implementing the EUDR in Bale. First, we describe the overall structure of the industry in Ethiopia and internationally. We then go deeper into the Ethiopian context by first analysing key regulations with a focus on traceability. Lastly, we analyse the situation for specialty coffee and bulk coffee before summing up.

6.1 Multiple chains and governance structures

GVC theory suggests that for certain commodities multiple governance structures can co-exist between different segments of the chain while also having variations due to varying product characteristics (Gereffi et al., 2005). This picture of variation is generally reflected in our data where specialty coffee is characterised by a different level of information and governance compared to the commercial coffee sector in Ethiopia (Export_1; Export_2). The Ethiopian coffee value chain is complex with literature identifying 4 different streams from producers onto the international markets, as depicted on figure 2, each with their own layers of actors and composition (2.2.1).

Sourcing strategies vary for the international distributors depending on the demands of their EU clients, available supply, and their business models. Sourcing mainly functions by drawing on networks in Ethiopia through exporting companies, suppliers, and sourcing agents to buy up coffee and deliver to European roasters (Int_roast; Sdist_1; Sdist_2; Ldist_1). Besides the large roasters that comprise most of the commercial coffee market, there are small roasters that focus primarily on specialty coffee. Some of these are socioeconomic enterprises and are typically smaller and driven by close partnerships with their producer farms which in some cases are owned by the roasters themselves (Sroast_1; Sroast_2). The socioeconomic enterprises make up a smaller proportion of the market, and our empirical evidence suggests that most roasters source their coffee through international distributors (Sroast_3; Lroast_1; Lroast_2; Lroast_3; Int_roast).

As a result of the heterogeneous characteristics of the value chain stakeholders, we investigate the governance structures as segments. However, as GVC theory suggest, certain lead firms are able to expand their influence beyond their immediate segment potentially shaping the structure and governance across the value chain (Gereffi et al., 2005).

6.1.1 Lead firms

As previously described, coffee is a value chain where demands are passed upstream from lead firms (3.2.2). As described above, the EU-Ethiopian value chains contain many powerful actors especially in the international and European part of the chain. Many European roasters are international companies with affiliated companies all over the world (UNCTAD, 2019). Similarly, some of the international distributors are large enterprises that are also trading other commodities to and from the Americas, Europe, Asia, and Africa (Grabs, 2017). Through their ability to shape the industry, these companies can be considered lead firms (Grabs, 2017). With the EUDR theory of change in mind, these companies will either in their role as EUDR-operators or through their partnerships with EUDR-operators need to respond to the EUDR.

The relationship between roasters and distributors can be characterised as a mix between a relational and a market governance structure. For example, multiple respondents stressed that the connection between roasters and distributors was very relational in the sense that knowledge of roasters' preferences was developed over time (Lroast_2; Sdist_1; Lroast_1). These demands were generally complex with varying requirements such as price sensitivity, VSS, quality, tasting profile and traceability. However, pointing towards a market governance structure, one roaster made clear

that they did not rely fully on any single distributor but would be able to change supplier if the distributor was not able to deliver on their requirements (Lroast_2). With regards to traceability, we did not find evidence that any of the large roasters had previously been demanding traceability down to the plot of land. Despite not currently demanding traceability, the lead firms and more broadly the international roasters and distributors have a high capability to transfer demands and information between them (Grabs, 2017). Hence, traceability is considered less of a concern in this section of the chain as long as the information is available from further upstream.

The situation is more complicated at the upstream sections in Ethiopia where more actors are involved with fewer resources available. In addition, varying levels of coordination are present across specialty and bulk coffee thereby posing different challenges and barriers for implementing EUDR. These issues will be examined in turn after an initial analysis of the key regulations in Ethiopia that are shaping the functioning across all chains and coffee commodities in Ethiopia.

6.1.2 Key regulations in Ethiopia

Ethiopian coffee is sold at both the domestic and international market. However, the international export market is a strategic priority for the government due to its economic importance for foreign currency earnings. Most coffee exported in Ethiopia goes through the Ethiopian Commodity Exchange (ECX) (ECTA, 2019). In this model the electronic auctioning systems used at the ECX include information about origin down to district level as different areas have different taste profiles which is important for roasters (ECTA_reg_1; Sdist_1; Lroast_2). This is ensured through the first quality check at the local storage, where the coffee is typically processed and sorted based on quality and size before being packed, sealed, documented, and transported onto the ECX (Bsup; ECTA_reg_1; AgriOf_1; AgriOf_2). The information is tracked through the regional Ethiopian Coffee and Tea Authority (ECTA) who gets ongoing electronic updates of coffee shipments to the ECX from the district-based quality control stations (ECTA_reg_2). However, as the EUDR requires traceability down to the plot of land it leaves the current traceability system for the ECX insufficient. While the commodity exchange is still important, the ECX was reformed in 2017 allowing for exports through export licensed companies, organisations, and farmers (Aparisi, 2021). This has led to an increase in the number of exporters, new company models, and hence a more complicated business environment in Ethiopia (Aparisi, 2021).

While the previous key regulations in Ethiopia do not offer sufficient traceability, the export licensing has some relevance to the EUDR. For example, an export license requires the conduction

of a yield estimate, a letter of support by the local agricultural office, a GPS mapping of the farm plot by the rural land administration, and evidence that the applicant has access to the necessary infrastructure required for processing, packaging, and contacts with international buyers (Coop_3; Union; Coop_promo_1). Much of the EUDR relevant information is therefore gathered for export licensed farmers (Sdist_2). However, only a few farmers themselves are licenced to export as they rarely have the available volumes (Coop_2; ECTA_reg_1). Instead, most exporters are private exporting companies and some cooperatives and unions who are licensed to collect and export the coffee from multiple sources including the ECX (NGO_2; Union; Export_1; Export_2).

To sum up, the current governance structure and composition rarely meet the plot of land data collection requirements, and coffee is mostly traceable only down to district level. The next sections will take a closer look at the value chains for first specialty coffee and then bulk coffee with regards to governance and traceability.

6.1.3 Governance and traceability of specialty coffee

Specialty coffee is distinguished from bulk coffee by having certain special characteristics. These can for example be single origin such as traceability down to district or farm level and sustainability claims through VSS certification (2.2). Altogether, these claims increase the level of complexity in the coordination. Furthermore, codifiability is potentially decreased with aspects such as complex quality and taste measures although some sustainability schemes have been standardised thereby pushing towards increased codifiability (Grabs, 2017). The higher complexity points away from market governance structures but still allows for the plurality of other structures, which is also evident in our data (Gereffi et al., 2005; Export_1; Export_2; Coop_2; Prod_3). For example, one distributor with a focus on high quality Ethiopian coffee highlighted how they source some of their coffee directly with their suppliers to improve quality protocols across the chain (Sdist_2). This work includes a few single farms, unions, and exporters, leaving the governance structure more relational with ongoing dialogue (Sdist_2). While this did not include traceability to the farm level, it left the distributor with valuable information and relationships with their suppliers (Sdist_2). A similar approach has been implemented on a subset of the large distributor's producers. Here, the distributor has a brand VSS with an increased focus on farm-level traceability (Ldist_1:Appendix I). Both distributors thereby include a dedicated share of their product portfolio with a greater focus traceability (Ldist_1; Sdist_2). Similarly, albeit not in Ethiopia, two roasters in our sample were involved with direct trade (Sroast_2; Sroast_1).

Here the coffee either followed a plantation chain (figure 2) or similar model although being different in terms of the type of management and the size of the farms involved (Sroast_2; Sroast_1). For this to take place in Ethiopia, farmers must either have an export license, which allows them to export both their own and other farmers' coffee, or there is an exporter or supplier who manages a farm that produces coffee for export (Aparisi, 2021). In our sample, direct trade is observed in a strongly relational governance structure with close dialogue and cooperation. The roaster in this chain actively strived to avoid a captive governance structure (Sroast_2). Another example of direct trade is observed in a more captive and even hierarchical structure where the roaster owns or indirectly manages the farms (Sroast_1). In either case it logically follows that traceability is easier to ensure as much fewer stakeholders are involved than in the other chains. The same counts for the international distributors' share of portfolio included in VSS or direct trade as these are expected to have good prerequisites for collecting EUDR compliant data.

Multiple respondents point at the value of the information in existing VSS as a solution to EUDR compliance (Lroast_2; Lroast_3; Sdist_2; Sdist_1; Ldist_1; Export_1). Our data, however, has limited evidence of the governance structures of certified value chains in Ethiopia. However, literature suggests that the limited capabilities of smallholders to implementing certification schemes has often resulted in roasters or international distributors taking charge of the certification potentially leading to captive governance (Grabs, 2017). This was partly mirrored by one exporting company in Addis Ababa (Export_1). More specifically in Bale there was limited evidence of specialty coffee (Coop_1; Coop_4). One NGO did at times succeed in facilitating direct trade with micro lots, but it was not a dominant business model (Coop_3; NGO_2). In general, there seems to be limited certified coffee in the area and certification was by some perceived as costly and with little knowledge of such schemes among farmers (NGO_2; Coop_1).

6.1.4 Governance and challenges with traceability for bulk coffee

According to our data traceability has often not been prioritised in the bulk coffee markets which in Ethiopia makes up appr. 70-75% of production (Hutz-Adams, 2020). Multiple respondents highlight that EUDR compliant traceability is mainly going to be an issue for the bulk coffee in general for the coffee sector but specifically in Ethiopia (Export_1; Export_2; ECTA_fed_1; Sdist_1; Lroast_3). Different issues are present across the multiple value chains in Ethiopia.

In Bale, coffee has historically been produced as forest coffee, with as much as 90% being forest or semi-forest coffee (NGO_2). However, a shift towards garden coffee is taking place

(Prod_coop_union; Prod_3; Prod_; Coop_2; NGO_1. As a result, farmers are producing different types of coffee that vary in characteristics such as size of the cherry (Bsup; Coop_3; Coop_2; Bsup; Sdist_2). In Bale, we observed two main value chains to be present: the trader/broker chain and the cooperative/union chain (Prod_2; Bsup; Coop_4; Union; figure 2 VC). The governance and information level differ between the two chains in Bale which will be illustrated in the following.

6.1.4.1 The trader/broker chain

In the trader and broker chain, coffee from farmers is typically aggregated by collectors who work for and/or sell to suppliers. After storage the coffee makes its way to the washing and/or hulling facilities through a varying number of middlemen before it eventually ends up at the central markets such as the ECX where it is sold to an exporter (Aparisi, 2021; Bsup; prod_2). The chain is characterised as unstructured compared to the other chains, and the traceability of the chain is consequently limited with varying information from case to case (Bsup; Export_1; Export_2). For example, one supplier interviewed described that he had worked with his collectors and farms for a long time and had names and addresses for the farmers from whom he bought coffee (Bsup). This is backed by ECTA Oromia who underlines that most collectors register the name of the farmers from whom they collect but nothing more (ECTA_reg_1). Meanwhile others described the relationship as more informal with collectors sometimes gathering from multiple villages and mixing different qualities from different sources (AgriOf_2; Prod_2; Export_1).

As the trader and broker chain is characterised by inconsistency and a limited information flow, it can be seen as having low complexity of information transaction (Gereffi et al., 2005). Mainly the price and in few situations the quality of the coffee are determining factors for the transaction. In continuation of this, the codifiability is high as product specifications are typically low. Lastly, the capabilities of suppliers are high relative to the task as there are no strict requirements to live up to and most coffee has the possibility of entering this chain. The key governance structure reflects a market structure where price is the dominant factor and limited concern is given to for example quality measures of the coffee. This seems to be a general governance structure that flows from distributors, exporters, and up to producers (Ldist_1; Export_2; Bsup; Prod_2).

6.1.4.2 The cooperative/union chain

Compared to the trader/broker chain, the cooperative/union chain has a high degree of organisation, and interactions are relatively consistent (Coop_1; Union). For example, the union

respondent indicates that the unions and cooperatives are closely engaged in forest management activities and exchange information on their needs. Furthermore, unions supply equipment to cooperatives so that they can produce higher quality coffee, and the unions facilitate training for the union members that are performing poorly (Coop_promo_1; Union). This works to the benefit of all as the unions pay dividends to their cooperatives if the coffee sells for more than expected (NGO_2; Coop_promo_1). This pattern is repeated in the cooperatives who pay dividends to their member farmers (Coop_2; Coop_4; NGO_1). However, in some cases the financial capacity of the cooperatives is too low to buy from their member producers, while the collectors are able to pay (Prod_2). For the most part, the farmers near the forest seemed to be members of a PFM cooperative (Prod_1; Prod_2; Prod_3; Coop_1; Coop_2; Coop_3; Coop_4; Prod_coop_union). Despite having a PFM membership, it is always allowed for the farmer to sell to local traders and suppliers if they prefer (Prod_2; Prod_3; Coop_2; Coop_3; Coop_4). Thereby, members might sell to traders when the cooperative cannot pay or does not offer a competitive price (Prod_2). Furthermore, the system seems so be primarily build around coffee quantities, with a lack of incentive to produce quality coffee as we will return to.

Despite the higher level of organisation, traceability continues to be an issue as coffee is currently mixed both at the farm level during the drying process, at the cooperative level, at the hulling machine, and at the union (Coop_4; Prod_coop_union; AgriOf_2). As a result, coffee from cooperatives is often traceable down to the area where the cooperatives are producing but still falls short of collecting GPS data on a farm level or forest plot as well as segregating coffee from different farmers (Coop_2; Coop_3; Coop_4). This is further challenged by the lack of capabilities across farmers and cooperatives, where illiteracy, lack of IT equipment and smart phones, etc. is potentially hindering tech solutions (Prod_coop_union; Prod_1; Coop_2). On the other hand, some additional information is available in this chain compared with the trader/broker chain. For example, the PFM cooperatives typically had names registered for the farmer members and knowledge of their farms' locations and the location of the areas with user rights in the forest (Coop_2; Coop_3). However, this information was neither digitalised nor exact down to GPS locations of production sites (Coop_2; Coop_3; Coop_4). Despite the much closer engagement across activities making the system appear more relational compared to the trader/broker chain, the narrow coffee transactions are based on low complexity, high codifiability, and high capabilities of producers, where farmers can easily shift between private collectors and

cooperatives. For the cooperative/union chain we consequently again consider it a market structure.

6.1.5 Incentives and capabilities

The challenges with traceability in Bale arise for different reasons which may also function as actual barriers for implementing the policy going forward. Bale generally suffers from a lack of market linkages especially for quality coffee (Coop_2; Coop_4; Prod_2). As one KI puts it:

“The price should be set on the quality of the coffee. In that way incentives are created for more people to produce higher quality coffee. The price is more or less the same but there is a significant difference in quality. People would be happy and could do better if there was a price margin difference. I think that people would produce good quality coffee if people were trained and provided materials to them and then linking good quality coffee with potential buyers. This would need to be done to improve the quality of the coffee.”
(Coop_2)

Although variations in our data exist, the quote above refers to a general issue around Bale, where there is no network of quality coffee buyers. Instead, buyers often buy a mix of good and bad quality coffee from both forest and garden coffee origins with no price differentiation or segregation (Prod_3; Coop_2; Coop_4). This leaves little economic incentive for the farmers to put in the extra effort required to produce good quality coffee through only picking red ripe cherries, separating forest coffee from garden coffee, using good drying practices and materials such as mesh wires, etc (Prod_2; Coop_1; Coop_2; Coop_4; AgriOf_2). Consequently, the commercial coffee market and hence a market governance structure becomes the dominant market in Bale, where traceability has so far not been a priority. We do not have clear evidence on the main international buyers of coffee from Bale except for some micro lot sales and single export agreements, which might suggest that coffee from Bale does not have a clear export focus (NGO_2). The lack of exports reduces the incentives to implement the required traceability from the EUDR just like it has reduced the incentive for quality improvements (Coop_promo_2; EPA).

6.2 Summing up

To conclude, we identify multiple challenges to implement the EUDR which flow from the current structure and governance models of the value chains. Firstly, we conclude that while we investigate the EU-Ethiopian coffee value chain, there is not only one coffee value chain. Instead, the

composition of the Ethiopian coffee sector is complex with several unique chains determined by the actors tying the production phase together with the European market and the type of coffee traded. Across the chains we conclude that the requirements from lead firms consisting of large EU roasters and international distributors influence the remaining parts of the chain. For specialty coffee and the downstream segments of the value chains, we conclude that the challenges for EUDR compliance are less serious. Especially certified and direct trade coffee have greater levels of coordination and hence more information available. For quality coffee, the more relational governance structure also provides some benefits although there is a lack of information on the upstream production locations. Specialty coffee seems to play a limited role in Bale, and we will therefore in the following analysis disregard specialty coffee in Bale. Instead, commercial coffee is the dominant commodity in Bale with two main chains: The cooperative/union and the trader/broker chain. Stakeholders in the cooperative/union chain work together across different activities going beyond coffee, and some loyalty exist between buyers and suppliers which indicates a relational governance structure. However, the governance is mainly a market structure as pricing is mainly based on quantity, and an ongoing competition is happening between traders and cooperatives. Neither of these chains are currently able to deliver traceability down to the plot of land as this has previously not been a priority or requirement from buyers. Instead, both chains struggle with quality and mixing where different points of aggregation exist along the chains and especially at the upstream end of the chain. From an EUDR perspective this may challenge the implementation due to the gap between required and existing traceability. The area also has little price incentive to implement EUDR-compliance due its present market structure with limited focus on quality coffee which is the main market for EU.



Figure 11: Farmer names as Traceability

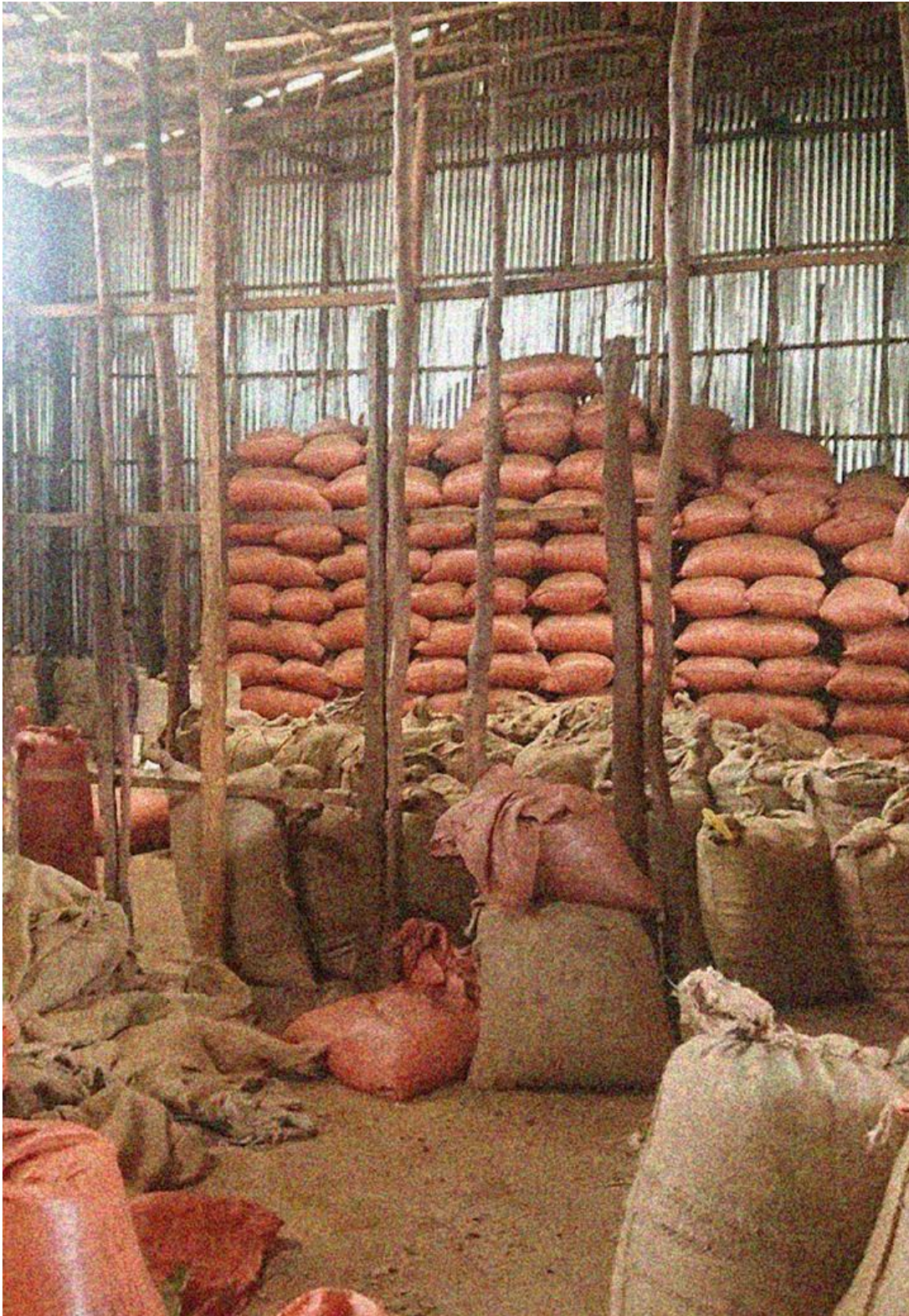


Figure 12: Coffee storage facility



Figure 13: Coffee quality samples



Figure 14: Drying plastic at storage facility



Figure 15: Coffee plant with green unripe cherries

Analysis 3:

How can we expect the response to the EUDR to influence the composition and governance of the coffee value chains in Ethiopia and Bale?



7 Analyse 3

In the following analysis, we build upon results from analysis 2, where we identified a range of challenges to EUDR compliance. In the following analysis we first map the empirical evidence for responses to ensure EUDR compliance as they are currently prepared by value chain actors which we consider the policy output (3.2). For this purpose, we move along the value chain starting with the Ethiopian coffee value chain actors and the enabling environment in Bale and Addis Ababa on to the international distributors and finishing with EU roasters. However, as we describe in analysis 2, different stakeholders of the EU-Ethiopian value chains are in different positions to react to the EUDR according to their position in the GVC, resources, and capabilities. Therefore, to investigate the implementation outcome regarding the composition and governance of the value chains we draw on our theoretical understanding of GVC and power imbalances.

7.1 Ethiopian value chain actors

The initiatives within Ethiopia are explored in the following in three subcategories based on the value chains and the enabling environment identified in analysis 2.

7.1.1 Ethiopian exporters

The two Ethiopian coffee exporters interviewed are both predominantly engaged with certified and specialty coffee (Export_1; Export_2). The one dealing with certified coffee already has farmer IDs and the necessary information available because of the certification process (Export_1). In addition, the company owns the washing station thereby increasing the level of control. Likewise, the other company is mainly a direct trade platform with close knit relationships towards the farmers for most of their sourcing (Export_2). As a result, ensuring traceability is expected to be less of a problem. However, the company explains that additional data collection is needed to deliver the GPS coordinates that European buyers will demand once the EUDR enters into force. For this purpose, the company expects to collect the data themselves as they are afraid that it will not be sufficiently reliable to have farmers or the washing stations running this process (Export_2). Besides the direct trade activities, the company also sources some bulk coffee using both the trader and the cooperative/union value chains. For this part of their business Export_2 is highly sceptical that they will be able to deliver the required traceability and is therefore considering potentially

leaving this part of their business unavailable for the European market. Export_2 mentions the need for a digital platform to ensure traceability for bulk coffee without being specific on who should design this platform.

While the exporters naturally are oriented towards the international market and hence already know about the EUDR, a lower level of awareness is identified in the upstream part of the value chain. No direct initiatives targeting EUDR compliance are identified in our data among traders, cooperatives, and producers. The closest to an initiative identified was one union member who indicated that a committee in the union was looking into the EUDR requirements without being able to give any further information (Prod_coop_union).

Traceability, although not oriented towards the EUDR, is mentioned as a priority for the union interviewed but they remain undecided on how they will approach it as they are still awaiting their export license (Union). In addition, they are hoping for government initiatives and support towards traceability and thereby in practice have no existing or planned initiatives yet (Union).

7.1.2 Enabling environment for Bale

From the section above we find that both private exporters and the unions are signalling the need for government support to improve traceability or for someone to develop a wider system for the data needed for EU exports (Export_1; Export_2; Union). At this stage also the enabling environment seems to have limited initiatives prepared. At the federal level, ECTA directly expressed that they are still in the awareness phase with nothing specific planned yet. They did however share some thoughts on potential facilitative initiatives (ECTA_fed_1). Firstly, training of farmers to understand the new EU requirements potentially including a translation of the policy into local languages. In addition, they mentioned that traceability until now has been a priority to expand down to town (kebele) level where all coffee actors should provide traceability (ECTA_fed_1). However, other KIs more convincingly suggested that it is currently only happening to the woreda (district) level (ECTA_fed_1; ECTA_reg_1; AgriOf_2). In addition, they explained that initiatives that would eventually be prepared will most likely be implemented through ECTA's regional offices and local agricultural offices.

On the regional level, neither of the two ECTA respondents knew about the EUDR and did not know of any strategy on a higher level (ECTA_reg_1; ECTA_reg_2). However, one official suggested that a good solution would be to work with vertical integration and the export licensed farmers and collectors as some information is already available there. Another highlighted that it

would be very tedious work and currently not feasible to collect the kind of data required by the EUDR (ECTA_reg_1). The same official at the regional ECTA pointed out that if the requirements become too burdensome, they would maybe reorientate themselves towards new markets instead (ECTA_reg_1). For the enabling environment in Bale, we similarly did not find any evidence of initiatives targeting EUDR compliance.

On the NGO side nothing was currently explicitly done to ensure EUDR compliance. However, they had previously assisted with delivering information required for exports focusing on micro lots and explained that it could potentially be extended with geo-tags for the cooperatives if required, although it would be costly (NGO_2).

In Ethiopia, a fundamental challenge to compliance is the lack of knowledge of the EUDR which naturally limits the initiatives planned to address the EUDR requirements. Based on our interviews we found no exporter initiatives regarding bulk coffee. Conversely, the certified and direct trade exporters considered themselves compliant or close to being compliant with the new requirements. For the rest of the value chain there are few specific initiatives. The initiatives of the Ethiopian value chain are summarised in table 5.

7.2 International distributors

As we return to, the main tendency among the EU roasters was an expectation that EUDR compliance will be ensured by the international distributors. This expectation was confirmed by all distributors in our data (Ldist_1; Sdist_1; Sdist_2). Despite agreeing on their responsibility there are mixed reactions to the policy across our respondents. This will be described in the following sections.

7.2.1 Uncertainties limit responses

Similar to the roasters, the international distributors are uncertain what will be considered adequate for complying with the regulation. Yet they are all confident that for the most part, ensuring the data needed for compliance will not be an issue for their suppliers (Ldist_1; Sdist_1; Sdist_2). The most prominent source of confusion is the data formatting and whether tracing only to deforestation free areas will be enough, as it would allow for a clustering of farmers (Ldist_1; Sdist_1; Sdist_2). However, our respondents react differently to the lack of facilitative governance from the EU. One distributor expects that they will eventually inform their suppliers about the EUDR requirements, but for now await both their clients to demand EUDR compliant coffee and

a detailed description of what is required for coffee to be EUDR compliant before they take any action:

"It applies to us, and it applies to everyone else in this. As I said in the beginning, we have no idea what it is they want. Therefore, we cannot provide it. When we receive instruction on how we should proceed [...] and the authorities say, 'So, dear friends, when a coffee is imported to Denmark, you need to be able to document X, Y, and Z.' Fine. Then we know it. Then we do it." (Sdist_1).

Sdist_1 is describing a frustration with what they believe is unclear regulation, yet at the same time they are optimistic about their ability to comply as soon as they know what to do. This combination leads them to a non-initiative situation where they await the Commission to specify EUDR requirements and create a more detailed description of the regulation before responding to it (Sdist_1). We thereby regard it a non-initiative as they are aware of the regulation and plan to react but await further facilitation from the EU through more specific requirements. Neither does the larger distributor in our sample feel responsible for initiating the necessary processes in the coffee sector in general, nor do they believe it is their obligation to inform the broader Ethiopian value chain actors about the EUDR (Ldist_1). Despite a general reluctance to initiate projects before they have more certainty, the international distributors are aware of their responsibility and while one smaller distributor shies away from any actions the two other distributors are taking a more proactive approach.

7.2.2 Proactive approaches

One general observation is that all our respondents are notably more uncertain regarding what initiatives they will set up in Ethiopia compared to their plans for the other countries they are sourcing from (Ldist_1; Sdist_1; Sdist_2). This generally reflects the complexity of working in Ethiopia due to the lack of organisation, high proportion of smallholders, and complex structure as described in analysis 2. None of our respondents hence have a fully prepared implementable plan ready (Appendix I). Instead, all are in the planning phase but were able to deliver some key considerations that would shape their strategies for compliance.

7.2.2.1 Prioritising plantations, clusters, and certification

The big distributor mainly has a proactive strategy and is working on several different initiatives (Ldist_1). One key initiative is to alter and adapt their sourcing strategy in Ethiopia. They highlight that plantations are easier to source from because there are less actors involved in value chain

which results in an easier process of ensuring compliance (Ldist_1): *“When certifying plantations, it is much easier. It just requires one entity instead of a thousand farmers. Instead of 1000 satellite images, you can do with only one.”* (Ldist_1). Based on the same reasoning they are looking to cluster producers, either by proximity to each other or by processing facility for documenting compliance (Ldist_1). This is something they are used to doing when certifying coffee, but they are not sure if it will be allowed in the EUDR regulation (Ldist_1). A third strategy mentioned is VSS such as Rainforest Alliance, Fairtrade, and organically certified which is mentioned by two international distributors as an accessible way of potentially complying with the EUDR because the traceability systems are already established. However, Sdist_1 explained that although certification might be an initiative they will use in other countries, in the context of Ethiopia it will be difficult to do because certification is a tedious process in Ethiopia and demand for certified coffee already exceeds supply (Sdist_1). As certified coffee made up only 5% of the Ethiopian coffee exports in 2015 (Minten et al., 2018), it is imperative for the initiative to work that more producers are certified, requiring new investments (Sdist_1). Likewise, as the Ethiopian coffee sector is characterised by a large number of smallholders and consequently only 10% of production currently stemming from plantations (Aparisi, 2021) an increase in production would be required for plantations to cover the entire demand (UNCTAD, 2019). It is difficult to imagine this shift in production without large investments from either state or private actors. If this shift towards plantations ends up as a key initiative by the international distributors, it will likely result in many smallholder producers being replaced by plantations either in Ethiopia or more profitable markets or they will be excluded from the EU market (Ldist_1; Sdist_1; Lroast_2).

7.2.2.2 Implementing traceability systems

One of the big challenges mentioned by international distributors is obtaining high quality data regarding traceability. For this purpose, different strategies exist. The large distributor explained that they have a team of agronomist which they will use in collaboration with exporters to collect the needed data (Ldist_1). Another option is to create partnerships with domestic companies to collect the data needed. Either way Ldist_1 believes that they will be the ones enduring a cost in the end:

“Who is checking the data and that everything is good in some of the producer driven traceability systems? I saw a traceability platform, great, but how do you make sure that the data is correct? If asking the producers to collect the data I need to make sure that the data is good. That is our responsibility” (Ldist_1).

With the current capacity of Ethiopian suppliers, Ldist_1 believes that they need to as a minimum spend money verifying data collected by upstream suppliers, and in most cases produce the data themselves (Ldist_1). Conversely, Sdist_1 is expecting the Ethiopian government to create systems for complying with the EUDR though they are worried that the government will not react in due time. In that case they suspect a similar scenario to what is planned by Ldist_1, where the biggest international distributors will use their own agronomists while smaller distributors will buy this service from third party agronomists (Sdist_1).

This mapping strategy will require additional costs which the distributors will pass on to their buyers. The international distributors in other words intend to introduce a high amount of control and seek to meet the EUDR requirements through top-down investments as quickly and cheaply as possible (Ldist_1). The attractiveness for distributors to invest in data collection of certain coffee producers and areas will be influenced by the final interpretation of the regulation concerning high and low-risk areas, as well as the level of clustering accepted by EU authorities (Ldist_1; Sdist_1; Sdist_2). As the large distributor puts it:

“At a conference we talked about trade margins. They are equal to risk. The more risk the higher the margins needed. If the margins do not justify the risk - no business. I need to cover the risk. So more cost will be passed on to buyers. Coffee will be more expensive.” (Ldist_1)

Thereby the risk associated with trading with a certain producer will affect the attractiveness of investments, and areas that are too risky will imply a margin that makes the coffee uncompetitive, which will likely result in those producers being excluded from the value chains.

A slightly more hands-off approach to what is presented by the large distributor was presented by the smaller proactive distributor. The business model of this distributor is built on close relationships with domestic exporters and suppliers in Ethiopia who are known to deliver high quality products (Sdist_2). For this reason, they do not expect to shift their suppliers to certified producers or plantations. Instead, their strategy is to engage in dialogue with their existing partners on how to collect and trace data. Reflecting the general uncertainty in the sector, the exact methodology of their approach is still being developed. Despite this uncertainty, they believe that because of the close relationship and ongoing dialogue with their suppliers it will prove to be feasible although complicated. In example they are in the process of mapping the policy requirements which they will communicate to their immediate suppliers. In addition, they expect to hire a person to assist their partners in the data collection and communication and they expect much of the work to be done by their suppliers. However, the respondent stated that in some cases it may be necessary to reconsider existing partnerships, for example if the supplier is sourcing from areas with deforestation risks or if the partners are not sufficiently dedicated to ensuring compliance. Similarly, concerns will play out going forward when new suppliers are chosen. Here, risks and capabilities of suppliers to deliver on EUDR requirements will be a determining factor (Sdist_2).

7.2.2.3 Dual markets and producer country shifts

All the traders and many of the EU roasters mention the high quality and the esteemed reputation of Ethiopian coffee (Ldist_1; Sdist_1; Sdist_2; Lroast_2; Sroast_1; Sroast_3). Due to this the distributors are very reluctant to leave Ethiopia out of their sourcing strategies. Instead, a possible initiative mentioned by the big international trader is to redirect their Ethiopian coffee to other markets outside of the EU as they expect that EUDR compliance may be challenging (Ldist_1). This would entail changing the streams of their value chains in a way that directs the EUDR compliant coffee to the European market while potentially non-compliant coffee is directed to non-EU markets. This might create a dual market where only direct trade, certified, and limited parts of commercial coffee is available to the EU. A similar dynamic might occur on a global scale with non-EU markets absorbing the coffee from excluded producers, thereby minimising the implications of losing access to the EU market. This option of redirecting streams of coffee is not possible for the smaller traders who only have clients inside of the EU. Instead, they mention that they in the most extreme scenario are forced to exclude Ethiopian coffee from their sourcing strategy (Sdist_1). However, the distributors expect that the EU is aware of the risk of completely

excluding Ethiopia and working on a way to prevent this from happening (Sdist_1; Ldist_1). Furthermore, Ldist_1 finds it likely that policies similar to the EUDR might be implemented in other important markets in the future. They therefore find it in their interest to have as many EUDR compliant supply chains as possible and not just create a dual market (Ldist_1). Continued investment in traceability is therefore likely.

Across all the initiatives described above, it is evident that risk reduction is of high priority for the international distributors although not all the international distributors are equally proactive. The international distributors are working with several initiatives such as shifting towards plantations globally and in Ethiopia, prioritising certified coffee, informing their suppliers of the new requirements, and to varying degree assisting in collecting and validating the data needed for these requirements. The initiatives of the international distributors are summarised in table 5.

7.3 EU roasters

When analysing the initiatives of the European roasters, two types of reactions become evident: Full or partial outsourcing of responsibilities and VSS certification. Each will now be described in turn.

7.3.1 Outsourcing traceability responsibilities

While variations within the reactions of the interviewed roasters exist, five of our respondents expect to mainly respond to the EUDR requirements through international distributors as they do not have a direct relationship with producers. Instead, they rely on the capacity of the often-large international distributors and the distributors' close connections with national suppliers and producers (Lroast_1; Lroast_2; Lroast_3; Int_roast; Sroast_3). This seems to play out in two ways with different levels of matureness within. One model focuses on including EUDR requirements directly in their demands towards suppliers. In example, two respondents stated that the traceability requirements are already included in their code of conduct (Lroast_3; Lroast_1). Resulting from this approach, one respondent declared that 95% of their sourcing was already traceable and they anticipate that digitalisation will be their main focus (Lroast_1). Interestingly, this respondent expressed much trust in the distributors and perceived them as generally able to provide EUDR compatible data already (Lroast_1). For another roaster, demanding traceability from their international distributors is a new initiative which they are still working on (Lroast_2). They expressed a completely different perspective on the sectoral readiness for EUDR-compliance. In example they stated that no international distributor really knows how to collect and provide the

needed data, despite the two roasters pointing to many of the same companies as their main suppliers (Lroast_1; Lroast_2). The more hesitant respondent of the two also pointed at potential technological solutions to monitor deforestation and deliver traceability such as the German software GRAS but acknowledged that there was still apparently some way to go (Lroast_2; GRAS, n.d.).

Another strategy that partly relies on their suppliers to deliver on their anti-deforestation commitments and traceability for EUDR compliance was expressed by one of the leading roasters globally. This company worked together with their international suppliers to implement VSS aimed at delivering and improving a range of sustainability benchmarks including traceability, using a mix of internal auditors and certification bodies to verify initiatives (Int_roast; Appendix I). Furthermore, it was stressed that they do not have the capacity to move down to farm-level whereby most of their initiatives were targeting cooperatives or groups of farmers (Int_roast). Specifically on traceability, the company aimed at sourcing 100% responsibly from 2025 by which they mean that coffee would be traceable down to cooperative level (Int_roast; Appendix I). In relation to this, the respondent stated that they were already deforestation-free for more than 95% of their coffee with some data missing from suppliers to deliver on the full 100% (Int_roast). It was, however, not made clear how they would deliver on the traceability down to the plot of land. This reflects an uncertainty in the sector on whether it is sufficient to prove that coffee originated from deforestation-free areas or if traceability is required down to plot-of-land regardless of origin (Lroast_2, Int_roast; Ldist_1).

7.3.2 Working through VSS certifications

Aside from engagement with international distributors or applying a hands-on approach to sustainability and traceability, two companies from our data to varying degrees rely on VSS (Lroast3_3; Lroast_2). For one company, aside from having requirements in the code of conduct which was not expected to be changed as a result of EUDR, a key priority was to keep the 100% certification of their product portfolio (Lroast_3; Appendix I). Resulting from this level of certification the respondent expressed that they already had a lot of the data. Instead, the main challenges were twofold: First to digitalise the data and second to validate data. In short, this company seemed somewhat settled with their model and did not express any clear new initiatives needed for compliance except for the data formatting. Likewise, the second company aimed at

increasing the share of certified coffee in their portfolio to enable better data, but it was not meant as the sole initiative (Lroast_2).

In summary, the EU roasters are working in several ways to implement the EUDR depending on their business strategies though most of the initiatives depend on outsourcing the work to the international distributors. The initiatives of EU roasters are summarised in table 5.

Table 5: Observed initiatives and non-initiatives in the EU-Ethiopian value chain as responses to the EUDR.

Value chain section	Observed initiatives & non-initiatives
Ethiopian value chain actors' initiatives:	<ul style="list-style-type: none"> • No exporter driven approaches for commercial coffee observed. • Specialty coffee / direct trade exporters collect data from farmers needed to comply with demands from EUDR operators. • Certified coffee exporters already consider themselves compliant with new requirements. • Union committee to investigate EUDR (No further details). • No initiatives at cooperative or producer level except micro lots.
Initiatives from enabling environment in Ethiopia:	<ul style="list-style-type: none"> • Nothing planned directly as an EUDR response. Still in awareness phase. • Suggestion of increased facilitative governance through training of farmers and increased traceability. • Suggestion of translating the EUDR into local languages. • Potential reorientation towards other markets.
International distributors:	<ul style="list-style-type: none"> • Shifting towards plantations. • Prioritising certification when available. • No action until clarity on requirements. • Increased risk-sensitivity in choice of partners or new suppliers. • Informing suppliers. • Pushing data collection to suppliers. • Carrying data collection or validating data. • Assisting suppliers in data collection. • Dual markets.
EU/DK initiatives:	<ul style="list-style-type: none"> • Outsourcing demands to suppliers through code-of-conducts and contracts. • Working with suppliers to ensure traceability and deforestation-free sourcing areas. • Focus on certification. • Working directly with farmers for direct trade companies.

7.4 Power imbalance and risk determine the outcome of implementation

From a GVC perspective one central role for governments or the enabling environment is to exercise facilitative governance allowing for GVC participation for its producers and exporters (De Marchi & Alford, 2022). Despite the EUDR entering into force a year and four months after the conduction of the field work, no clear strategy was on its way to deliver the kind of traceability

asked for in the EUDR. In fact, no clear response is currently on the drawing board, and only an emerging awareness is present among some top civil servants in ECTA with no evidence of existing communication towards the more local levels. Furthermore, when confronted with the EUDR requirements on a regional and local level it was made clear that the level of resources required to lead the implementation of the traceability system and data collection was currently not available (ECTA_reg_1; ECTA_reg_2).

Contrary to the enabling environment, the international distributors have some initiatives on the way. Based on our KIs there is currently a lack of facilitation from the EU leading to uncertainty regarding the ability to codify the required traceability information. They therefore call for the EU to clearly communicate what format of data will be accepted and how compliance is specifically proven (Sdist_1; Sdist_2). These actors are still working out their specific solutions, but all distributors are certain that their European clients will eventually require them to ensure EUDR-compliant coffee and hence they are working towards implementable solutions. Thereby, the actors identified to take the most initiative are also the ones identified as lead firms in Analysis 2. The lead firms act in accordance with our theoretical framework whereby they seek to control the value chains (Gereffi et al., 2005).

With the implementation of the EUDR, the risks related to sourcing are changing dramatically due to the possibility of being fined for non-compliance (analysis 1). When asked how they expect to react to this increase in risk the lead firms expressed a market-based logic and expected to have the risk be reflected in a higher profit margin (Ldist_1; Sdist_1). Lead firms are therefore expected to shift towards less risky producers whenever possible (Sdist_2; Ldist_1; Sdist_1). Due to challenges with first mile aggregation, data collection, and deforestation, the Ethiopian coffee market is regarded as risky, and the lead firms indicate that Ethiopian coffee might be excluded from sourcing until the traceability issues are worked out (Ldist_1; Export_1; Sdist_1). However, due to Ethiopian coffee being internationally sought after for its unique taste (2.2.1) the lead firms are motivated to avoid a complete shift away from the country (Ldist_1; Sdist_1; Sdist_2). We thereby identify a situation where lead firms are balancing their risks of continued trading while trying to maintain market shares in Ethiopia.

On a final note, several respondents are unsure if the EU will be able to monitor and enforce the regulation to its full extent from the beginning because of the large amounts of data that the EU will have to process (Lroast_2; Sdist_2). Meanwhile, the EU will have to perform checks and to

some degree have people on ground that can ensure that the data they have received is correct and in compliance (Sdist_2). Some think that parts of the regulation will initially be partly or completely ignored until the internal systems in the EU reach full speed (Lroast_2; Ldist_1; Sdist_1; Sdist_2). The EU's ability to monitor and enforce the regulation is thus met by scepticism and lead firms are doubtful that the EUDR will even enter into force on the decided date (Ldist_1; Sdist_1). For one stakeholder this means that they are not preparing any initiatives until the EU communicates more detailed requirements (Sdist_1). The stakeholders' perception of the strictness of EU's enforcement therefore seems to shape their initiatives which will be presented in the following.

7.5 Shifting governance structures

The current governance structure for bulk coffee, whether it is traded in the cooperative/union chain or the trader/broker chain, resembles a market structure where the information being exchanged is minimal and primarily about price and quality (Analyse 2). However, after an implementation of the EUDR, the complexity of the information flowing in the bulk coffee value chains will increase (Gereffi et al., 2005; Regulation 2023/1115). Concurrently there is a lot of attention by the lead firms on the risks related to not complying and consequently, they have a reluctant attitude concerning the producers' capabilities to acquire the data needed (Ldist_1; Sdist_1; Sdist_2; Lroast_2; Sroast_2). Most lead firms are anticipating the establishment of a digital platform for tracking coffee from the producer and onwards (Lroast_2; Ldist_1; Sdist_1; Sroast_1; Sdist_1). However, as the platforms are not yet fully developed, the degree of accessibility and transparency of the platform is unknown and as a result the degree of codifiability (Lroast_2; GRAS, n.d.). It is therefore not possible to assess the capabilities of producers in relation to a digital platform, but IT equipment and digital competencies are likely required. However, lead firms' perception of suppliers' capabilities may be the determining factor rather than de-facto capabilities.

Resulting from the initiatives identified in table 5 and their expected implications identified above, we expect lead firms in the Ethiopian coffee sector to shift towards and consolidate low-risk producers. Any investments made by lead firms to ensure traceability among their consolidated producers are expected to be designed in ways that tighten their value chains to ensure a return of investment. This will likely increase shifting costs of producers and based on the theoretical framework we therefore expect the current market governance structure to become captive (Gereffi

et al., 2005). The degree to which producers become captive will depend on the final design of initiatives and to a high degree the transparency and data availability of the anticipated digital platform.

The governance structure for the producers who are not included in the process of meeting EUDR requirements, will likely remain unchanged as there is little incentive for lead firms to change their governance in these value chains (Ldist_1; Lroast_1; Lroast_2; Sdist_1). Thereby the governance structure of the excluded value chains is expected to remain a market structure.

7.6 Summing up

In the present analysis the sub-question, *How can we expect the response to the EUDR to influence the composition and governance of the coffee value chains in Bale*, has been answered by identifying relevant stakeholders' initiatives in response to the EUDR and assessing their influence on the composition and governance of the coffee value chains in Ethiopia. In the analysis we find that the outcome of the EUDR is expected to be highly determined by lead firms' efforts to reduce risks and minimise costs related to the implementation of the EUDR. Due to a lack of resources among the enabling environment, the lead firms' initiatives are predominant as would be expected from our theoretical framework. We thereby identify a power imbalance that leaves the lead firms' actions highly uncontested with market-driven dynamics determining the initiatives and implications of the EUDR.

As most of the initiatives identified will require new investments, such as retrieving coordinates of production areas and paying for certification schemes, we expect lead firms to consolidate their suppliers to ensure a return on investment. Based on this dynamic we expect a shift in the dominant governance structure for bulk coffee in Ethiopia from market governance towards a captive governance structure. Furthermore, we find that the producers being consolidated will likely be the ones producing in low-risk regions while producers that operate in high-risk areas will likely be excluded from the European value chains. This will result in the excluded producers losing market access. However, some lead firms are expecting the EU enforcement of the EUDR to be less strict in the beginning, which might give more time for the coffee sector to adjust to the regulation and thereby fewer producers being excluded. Furthermore, lead firms might keep the non-compliant producers as trade partners for non-EU sourcing, and a large part of the market

including the domestic market will still be accessible to these producers. The EU, on the other hand, is the largest export market for Ethiopia, and the implications of the loss of market access for some producers is therefore difficult to predict.



Analysis 4:

How does the implementation of the EUDR align with a just transition for the coffee sector in Ethiopia and Bale?



8 Analysis 4

In analysis 3, we have identified the expected outcome of the EUDR implementation on the composition and governance of coffee value chains in Ethiopia and Bale. In the following analysis the implementation process and outcomes are assessed based on the degree to which they align with the just transition parameters (4.6). As the analysis seeks to assess the expected future implications which have not yet been observed, the assessment of the implications will draw on our theoretical framework, empirical data, and agricultural value chains literature.

From Analysis 3, we find that suppliers which meet the requirements demanded by lead firms, are likely to be consolidated into captive governance structures while those who are less attractive suppliers from an EUDR perspective are likely to be excluded from the EU market. The implications of this across the three aspects of justice are evaluated in turn. Finally, we apply our findings on our case area before concluding.

8.1 Procedural justice

In this section we evaluate the implementation of EUDR based on two key aspects of procedural justice: Access to information and access to decision-making (4.6.4). In addition, procedural justice has a two-sided relevance for the EUDR. Partly how smallholders have been involved in the formulation of the response to the EUDR and partly how the outcome of the response influences future levels of access. Process and future access will now be treated in turn.

8.1.1 Implementation process

Among the companies only one direct trade company and one quality coffee distributor with a relational governance structure directly mentioned how they planned a dialogue with their immediate suppliers or cooperatives on how to ensure EUDR compliance (Sdist_2; Sroast_2). In addition, the direct trade company mentioned how they planned on making the data available for the suppliers thereby allowing them to export to other roasters. For the remaining roasters and distributors involved in bulk coffee there was no indications of such inclusive processes. Instead, two aspects point towards a low access to decision making for producers in the EUDR implementation process. Firstly, the general patterns of distrust towards suppliers in their ability of data collection. Secondly, the approach that seems to re-orient lead firms away from their

current suppliers and towards consolidating other suppliers in captive systems does not witness of an inclusive approach. Instead, firm interests seem to dominate the strategies (Ldist_1; Sdist_1).

The risk of a top-down approach is further exacerbated due to the lack of information about the EUDR and general limited resources among producers, local, and even regional enabling environment actors thereby limiting possibilities in shaping implementation processes. Although there is no guarantee of inclusive processes and collective objectives flowing from the government authorities in Ethiopia, the lack of public interference and what could be a more democratic approach is not taking place. Instead, implementation is dominated by companies with a clear risk-minimising agenda potentially excluding certain smallholders from decisions if disregarded by lead companies (Ldist_1; Sdist_2).

8.1.2 Future access

Besides the immediate process of implementing the EUDR, the outcome of the EUDR may also influence future levels of access to information and decision-making. As small-scale producers in captive value chains are subject to the decisions of lead firms and have little to no negotiating power, requirements and price can quickly change without the accept or influence of the producers (Hoang et al., 2021). Meanwhile, lead firms might ensure a return of investment through captive designs that create transactional dependence (Gereffi et al., 2005). An example of this has been observed in the cocoa industry where producers in captive governance structures with multinational lead firms were dissuaded from diversifying their production to anything other than cocoa. This worked as a way of maximising output of those farms, but to the benefit of the lead firms while also creating an even more captive governance structure (Carodenuto & Buluran, 2021). Throughout agricultural value chains, many smallholders are already transactionally dependent, and while producers may benefit from finance and guidance of lead firms, producers also often gain access to markets through schemes designed to discourage opportunistic behaviour (Thorpe, 2018). In Ethiopian coffee value chains, this would mean that independent producers and cooperative members are discouraged from the current dynamic of being able to sell to whomever the producer wants. In practice this might prevent producers from selling their coffee at the highest possible price and diversifying into agroforestry systems, both of which would otherwise contribute to producers' livelihoods and risk mitigation. Furthermore, evidence from the Indonesian coffee sector suggests that a traditional open market relationship is perceived as more

just by producers, and traditional market dynamics might work to the benefit of producers (Thorpe, 2018).

The final design determining how captive the system will be, depends on the type of traceability system implemented as a transparent system will decrease the transaction costs and instead potentially reinforce a market structure. In addition, transparent traceability systems that allow for information to flow both upstream and downstream can benefit farmers. E.g., cocoa farmers and their organisations expect that better traceability can benefit and empower farmers in multiple ways (Stoop et al., 2021).

To sum up, the procedural justice appears very low for the implementation of EUDR as the process is driven through a top-down approach by lead firms with low access to information and decision making for producers. While the outcome for future levels of access is harder to assess it seems to be generally shaped by the captive model where information and decisions flow unidirectionally. This may be altered if more transparent traceability systems are implemented. Results are presented in table 6.

8.2 Substantive justice

In this section we evaluate the substantive justice of the implementation of EUDR by assessing whether the expected changes in allocation of risks, responsibilities, benefits, and burdens are to the advantage of the least well off which in this situation are the smallholder producers. Since the implication will be different for those producers who will be excluded from the EU market and those who will be part of the captive governance structure, the two will be assessed in turn before assessing some broader macroeconomic implications.

8.2.1 Substantive justice for excluded farmers

From an allocation perspective, the EUDR will cause a shift away from already poor producers who will be even worse off as a result of having fewer trade partners and market linkages. The excluded producers are expected to be burdened considerably if they lose pre-existing access to the European market or slightly if their trade is currently not with the EU. However, it is hard to fully comprehend the price implications that the EUDR will have across global coffee markets, which multiple of our respondents have also indicated (Sdist_1; Sroast_1; Sroast_2; Lroast_1; Int_roast). The impacts of exclusion will likely be shaped by future price differences between EU and non-EU markets as a product of the EUDR.

With regards to responsibilities, an injustice exists as farmers and cooperatives will be left by themselves to ensure EUDR-compliance if they want to participate in the EU value chains. As a result, they will bear the costs and burdens of implementing the EUDR despite not having influenced the policy and having very little environmental impact compared to European citizens (Rammelt et al., 2023). They hence become the ones bearing the costs of environmental policies pushed from Brussels, if no lead firms or enabling environment are present to orchestrate the implementation.

8.2.2 Substantive justice for captive farmers

It is difficult to one-sidedly predict to what degree the anticipated captive governance structure will align with a just transition for the producers being consolidated.

Increased product requirements and supply chain initiatives risk exacerbating existing inequalities as producers with good access to finance and technologies will have an easier time complying to the new demands (Lambin et al., 2018). The actions of lead firms planning to apply a captive governance structure are expected to be less invasive for producers that are already resourceful or located in the right coffee regions with low deforestation rates. E.g., in Ethiopian coffee regions in high demand and low deforestation risk, the costs of ensuring the data quality will be lower due to the lower margin needed to be applied, and the producers are in a better negotiating position (Grabs et al., 2016). In other words, the negotiating capacity of producers is proportional to the number of market linkages available to them and inversely proportional to the deforestation risk which again shape substantive justice outcomes.

Drawing once more on evidence from the cocoa industry, if consolidated producers' access to markets and crop diversification is limited, a captive governance structure may worsen the allocation for farmers (Carodenuto & Buluran, 2021). As collection of data is an investment in smallholder farms, lead firms have an incentive to induce a larger coffee output per farm, hence reducing diversification.

With regards to the distribution of costs and burdens we see mixed evidence. As one respondent puts it:

“When considering our main partners in countries of production, we will ask them to deliver documentation. These requirements will be passed on to the suppliers. Then maybe there will be a farmer that will say: It will cost me 500 dollars to get this certification. Then our answer will be: then you must eat it. And if you don't want to, we will look elsewhere.”
(Sdist_1)

Although the respondent continues by mentioning that the price will be nothing special and a one-time cost, the quote signals that burdens will be passed upstream. However, another respondent suggests that costs will be endured by themselves and passed downstream (Ldist_1). We thereby expect that responsibilities and costs for some producers will be carried out by lead firms through in-house capacities and for other producers, costs will be passed onto producers with no immediate stake in the regulation.

8.2.3 Substantive justice for Ethiopia and the least well off

We have identified a general risk that distributors sourcing for the EU-market may reduce their focus on Ethiopia and East Africa more generally due to the inherent complexities such as number of smallholders, complex value chains, low level of organisation, and political tensions etc. (Sdist_1; Ldist_1). For example, one respondent concludes:

“When you become certified then it is settled, and it will be undramatic. But in the countries where it is hard to get any documentation because nothing works it will be a problem. And here, Ethiopia is one of those countries that concerns me. It will be the poorest and least developed that gets with the hammer here.” (Sdist_1)

Partly countering this pattern is the need and demand for Ethiopian coffee known for its unique qualities. However, a part or even full exclusion of Ethiopian suppliers as one respondent mentions may be the consequence in the initial implementation phase (Sdist_1). A loss of access to the EU market may harm the Ethiopian economy. Coffee is a key export commodity for Ethiopia providing valuable foreign currency earnings (Aparisi, 2021). Consequently, limiting the coffee export market may spill over to other sectors if imported commodity prices in Ethiopia increase such as manufacturing equipment, fertiliser, and medical equipment (Aparisi, 2021). Such price increases will in particular impact the economically least well off in Ethiopia.

To sum up, we see mixed substantive justice implications by the implementation of the EUDR although a majority seem to have an immediate negative effect on farmers. For excluded farmers,

they are losing market access. The consequence of this will mostly be determined by price differences between markets and number of market linkages. For captive farmers the implication is harder to predict as we both see evidence of shifting costs for compliance upstream and downstream. However, we conclude that the negotiating power of the farmers depends on origin and resources of the farmers, and this will likely shape the substantive justice implications for captive systems. Finally, the EUDR may impose pressures towards intensifying coffee production, hence reducing diversification to improve return on investment by lead firms responsible for data collection and traceability systems. If the regulation results in reduced export, it might further have large economic consequences for Ethiopia. In total we observe limited positive substantive outcomes for farmers but a range of potential negative implications. Results are presented in table 6.

8.3 Intergenerational & interspecies justice

In this section we evaluate the implementation of the EUDR based on intergenerational justice and interspecies justice. While many aspects shape the two types of justice, we limit ourselves to consider deforestation and forest degradation as our parameters (4.6.2).

Deforestation is complex and can rarely be attributed to a few actors or direct causes but rather has several historical, cultural, demographic, and cultural root causes (Chakravarty et al., 2012). This makes it difficult to attribute a certain rate of deforestation to certain actions and even more so when these actions are yet to occur.

8.3.1 Mixed impacts on deforestation

We identify three potential impacts on deforestation that arise from the EUDR implementation. On the positive side, the first impact arising from the EUDR is that lead firms and exporters are incentivised to mitigate forest pressures in areas from which they source coffee. With increased traceability and information on forest monitoring from sourcing areas, companies are in a better position to address deforestation. However, our data has not suggested any such responses directly addressing deforestation, which might also be attributed to the focus of our data collection. Instead, our analysis suggests that a second strategy for lead firms is to shift sourcing away from high-risk areas prone to deforestation and forest degradation (Ldist_1; Sdist_2). This will potentially reduce the influence and engagement from international distributors in high-risk areas and thereby also the resources and investments flowing into these areas. This may limit the impact that the EUDR has on deforestation as the focus of trade is redirected elsewhere. A third possibility is the creation

of dual markets where lead firms stay active in deforestation prone areas sourcing for non-EU markets. Consequently, there will be no incentives for companies to address deforestation as they can simply sell to other markets. However, one large distributor was aware of the general trend, with other markets potentially following suit with EUDR-like policies referring to the US and UK discussing similar policies (Bond et al., 2023; George, 2023; Ldist_1). In such a scenario the distributor would be interested in ensuring as many EUDR compliant sourcing options as possible, thereby diminishing the effect of a dual market (Ldist_1). Results are presented in table 6.

8.4 The EUDR: A just transition for Bale?

In the following section we will analyse and evaluate how the response to the EUDR aligns with a just transition in Bale moving through the three parameters of justice.

8.4.1 Procedural justice in Bale

In Bale almost no knowledge about the EUDR was identified except some NGOs and one union starting to consider the policy (Prod_coop_union; Appendix D). In addition, the limited market linkages and lead firm engagement in the area suggested no coordination on EUDR matters between local actors and downstream buyers. From a procedural perspective this will likely mean that the ability to influence the policy implementation with buyers is limited. Instead, the EUDR will likely exclude most Bale coffee farmers from the EU market without any possibility of shaping the implementation.

The lack of existing engagement from lead firms may open the door for more bottom-up solutions for EUDR compliance. NGOs were starting to be aware of the EUDR requirements at the time of data collection. In Bale these NGOs were working closely together with local government authorities and PFM cooperatives (Coop_2; Coop3; NGO_2; Union; AgriOf_2; PFO_1; EPA). They may therefore be able to assist on a collaborative traceability system although resources are scarce. For example, they already facilitate traceable micro lot coffee sales or plot mappings for other forest conservation purposes, exhibiting the skills needed (NGO_2; PFO_1). While a lack of trust from buyers on locally collected data may reduce its feasibility, the NGO involvement may increase the trustworthiness of the data (Sroast_2). Results are presented in table 6.

8.4.2 Substantive justice in Bale

In the light of the EUDR four factors suggest that Bale will become less attractive for lead firms in the future. First, lead firms are signalling a new sensitivity to operating in areas prone to

deforestation as a response to the EUDR. According to the NGOs involved in the area, the deforestation rate in Bale ranges between 1-6% and the region is among the most deforestation prone areas in Ethiopia (2.3; NGO_1; PFO_1). This is further substantiated by Hou-Jones et al. (2019) who assert the deforestation rate in the REDD+ project area in Bale as 3.7% between 2000 and 2011 while the national rate is 1%.

Second, Bale is not one of the primary coffee producing regions in Ethiopia, and the demand for coffee from Bale specifically is doubtful. According to the farmers themselves, one of the most aggravating economic barriers in Bale is a lack of market access and price incentives for producing quality coffee (Analysis 2). Combined with the deforestation risk, this reduces the likeliness of new sourcing activities for EU-markets to take place in Bale.

A third reason is the expected shift in sourcing towards plantations and certified coffee which stands in contrast to the current situation in Bale which is dominated by smallholders and few or no plantations currently established. This is further aggravated by the fact that most farmers are subsistence farmers producing only a limited volume of coffee per hectare (Aparisi, 2021; Degaga, 2020; Teketay, 1998). As there is only little direct trade and certified coffee in the area, most plots will have to be mapped and assessed from the ground up before the coffee can be sold to the EU. However, while NGOs and local government authorities are present in the area resources are scarce and may not be sufficient to perform such a mapping (PFO_1; NGO_2).

A fourth and final reason identified is the coffee produced in Bale which is forest coffee despite an ongoing shift towards garden coffee promoted by the enabling environment in the area. Counterproductively, the high proportion of forest coffee in Bale is potentially increasing the costs of compliance for two reasons: First, forest coffee is more costly to map because locations are remotely located in dense forest compared to easily accessible farms. Underpinning this, several stakeholders from the enabling environment are concerned that collecting the necessary information will take significant resources (ECTA_reg_1; ECTA_reg_2). For example, PFO_1 estimates it would take hundreds of days to map all households in the 18 districts part of Bale administrative zone (PFO_1). Second, it is complicated as the farmers' user-rights are not demarcated in the forest but instead known by locals using trees to identify each area (EPA). A prerequisite of mapping the areas is thus identifying the plots which would require cooperatives or other forms of farmer assistance. The EUDR would thereby require a dual geo-tagging and

monitoring for each farmer as coffee is produced both in forest and on-farm thereby adding another layer of costs and complexity.

It is likely that the EUDR will decrease market linkages between Bale and the EU markets as attempts at minimising costs and risks by lead firms align poorly with the value chain composition in Bale. The substantive justice implications of such an exclusion will depend on market linkages to non-EU markets, and price differences.

Looking at Bale in a more positive light, the area is interesting as a conservation case as the Bale Eco-region is a biodiversity hotspot (Hou-Jones et al., 2019). This has meant that a REDD+ project has been established along with an increased monitoring effort reducing deforestation issues in the area (Hou-Jones et al., 2019; 2.3) The enabling environment in Bale is further working with promoting cooperatives, agroforestry systems, and trying to facilitate increased market access (Hou-Jones et al., 2019; NGO_2; Coop_promo_1; Coop_promo_2). As the enabling environment is already present in Bale with both NGOs and local authorities working in the area, Bale might have good prerequisites to improve the situation possibly creating a better investment case for lead firms. Results are presented in table 6.

8.4.3 Intergenerational and interspecies justice in Bale

Prior to policy implementation, PFM cooperatives including forest management bylaws, extensive forest monitoring practices, and collaboration between local authorities altogether create a good foundation for forest conservation (Hou-Jones et al., 2019). Furthermore, the presence of a REDD+ project further incentivises farmers in the area to conserve the forest (Hou-Jones et al., 2019). It is therefore difficult to predict whether the EUDR will have any direct effect on the deforestation rate in Bale. However, if EUDR compliant coffee is produced in the area it will likely enhance existing conservation practices through better data. Results are presented in table 6.

Table 6: Likely implications on procedural, substantive, intergenerational and interspecies justice of implementing the EUDR in Ethiopia and in Bale specifically.

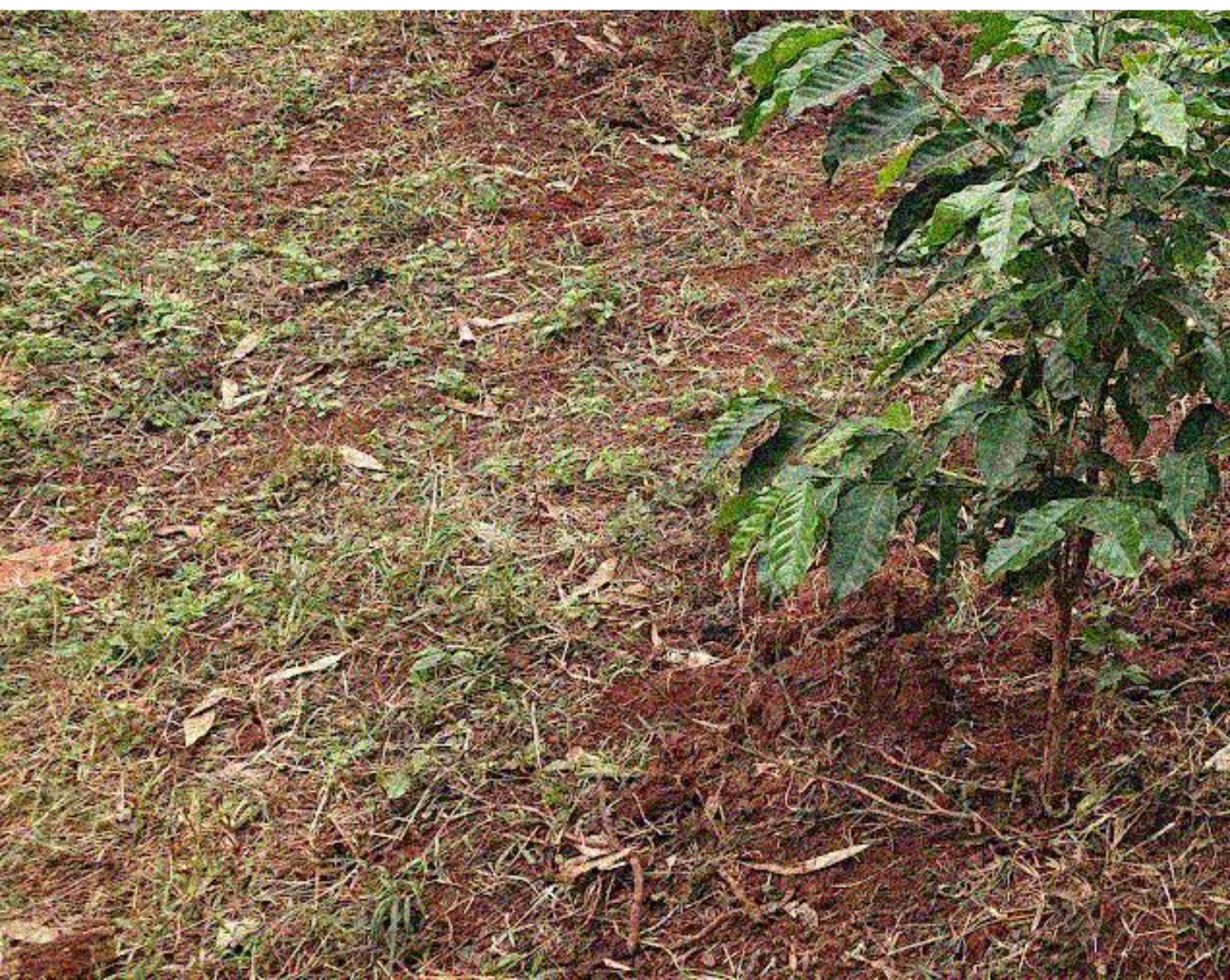
	Ethiopia	Bale
Procedural justice	Limited sign of inclusion Lack of knowledge	Limited sign of inclusion Lack of knowledge

Substantive justice	Excluded producers: Impact depends on price difference between markets	Exclusion from EU markets due to poor alignment between firm priorities and the situation in Bale
	Consolidated producers: Depending on bargaining position. Costs related to complying with the EUDR passed onto some producers	Bale is characterised by having many smallholder producers, existing deforestation, production of forest coffee, and not being a sought-after area
Intergenerational / interspecies justice	No clear conclusion	Due to enabling environment in Bale it is difficult to predict whether the EUDR will have any direct effect on the deforestation rate in Bale.

8.5 Summing up

In the foregoing analysis we have answered the research question, *How does the implementation of the EUDR in Ethiopia and Bale align with a just transition?* We find that the implementation of the EUDR aligns poorly with a just transition across all parameters although to varying extents. For procedural justice the imbalance in responses to the EUDR across actors results in a highly market-based implementation logic where risk minimisation and profit optimisation are deciding factors. This results in a low level of access to decision making and information across farmers. The future outcomes will depend on the transparency of the traceability systems implemented. Substantive justice is expected to be negatively affected; Exclusion and thereby decreased market linkage and access for low resource small-scale farmers or farmers in high-risk areas will likely have negative implications with regard to price. This scenario is generally what we expect in Bale which for multiple reasons is unattractive due to the incentives introduced by the EUDR. With regards to intergenerational and interspecies justice, forest pressures will be influenced through multiple channels. While incentives to secure sourcing areas exist for lead firms, we mostly see a tendency to shift supply away from high-risk areas. This may reduce the influence of lead firms in high-risk areas and potentially aggravate forest pressures. In Bale, however, forest preservation does not seem to be heavily linked with the coffee sector but instead through other activities such as PFMs and REDD+ projects. We therefore do not expect the EUDR to influence intergenerational and interspecies justice negatively.

Discussion



9 What is the transformative potential of the EUDR?

In analysis 4 we identify a mostly negative alignment between the EUDR implementation and a just transition. We argue that a stronger focus on facilitative governance in the implementation of the EUDR may mitigate some of the potential negative justice implications thereby resulting in an implementation that to a higher degree aligns with a just transition. In the following discussion we consider the transformative potential of the EUDR focusing on traceability systems, transparency, and landscape approaches.

The required level of traceability to comply with the EUDR indicates that the policy has some transformative potential. Zu Ermgassen et al., (2022) argue that the degree of transparency traceability systems is a determining factor of traceability impact. In a scenario where the degree of transparency in a traceability system is voluntary it might result in lead firms segregating their value chains into a compliant and a non-compliant subset (Zu Ermgassen et al., 2022). A potential outcome we have also identified in Analysis 3. However, if transparency is ensured it can be a powerful tool for empowering farmers for multiple reasons.

From our analysis we have found that a lack of traceability also leads to a lack of price incentives for quality coffee. Smallholder representatives from the palm oil industry have argued that traceability can help ensure that farmers get a fair pricing and identifying fraud (Boren, 2022). As an example, traceability can shorten supply chains in the first mile of the value chain onto the first point of aggregation by decreasing dependence on middlemen and brokers reducing risk of non- or unfair payments. Including sustainability and performance data in traceability systems can also unlock access to finance including more innovative and advanced finance systems such as payment for ecosystem services (PES) for producers that are otherwise excluded from financial services (Stoop et al., 2021). Access to finance, can unlock investments in farming practices such as stumping and rejuvenation of coffee plants, which otherwise may be unaffordable for farmers at the edge of poverty, as it takes several years for the return of the investment to materialise (TechnoServe, 2023). The need for coffee rejuvenation can partly explain the low coffee yield for Ethiopia compared to other countries (Appendix H). Finally, transparent traceability systems may

increase leverage and representation for smallholders in the value chain potentially mitigating the procedural injustices discovered in analysis 4 (AidEnvironment, 2022). In Analysis 4 we find that the benefits of such a system for producers are highly linked to the accessibility of the system. With many farmers in Ethiopia being illiterate and lacking internet access, such benefits may remain absent (Appendix A).

For reaping the full benefits of traceability, collaboration beyond individual supply chains is needed (Fripp et al., 2023). This requires trust among stakeholders in precompetitive spaces to build compatible systems and allow for openness into potentially sensitive information (Fripp et al., 2023; Simons, 2015).

From the above it is evident that transparent traceability systems hold a potential to transform global value chains. However, most company-led traceability systems lack transparency in contrast to systems funded by civil society, governments, or philanthropy (Fripp et al., 2023). This suggests that the transformative potential of the EUDR is linked to how the facilitative governance by the EU and Ethiopia plays out. Evidence from other sustainability initiatives suggests that while transparent traceability systems allow for suppliers and farmers to remain in value chains, they are seldom able to retain the added value (Ponte, 2022). Instead, the value from better sustainability information and environmental upgrading is squeezed out of suppliers and farmers by lead firms (Grabs & Ponte, 2019).

Transparent traceability systems may not only contribute towards farmer empowerment. It may also improve linkages between roasters and international distributors to the areas they are sourcing from and provide direct incentives for mitigating forest pressures in the landscapes they depend on (Zu Ermgassen et al., 2022). Increased information on shared interests between companies in certain areas may contribute to facilitating multi-stakeholder initiatives, where value chain collaboration moves beyond vertical links to also include local enabling environment, civil society, and other commodity traders (Bastos Lima & Persson, 2020; Boshoven et al., 2021; Deans et al., 2018). It can therefore catalyse finance into holistic approaches in existing jurisdictions through locally present authorities. By being more holistic through its participatory character, landscape approaches may be better positioned to consider the multifunctionality of landscapes such as working across commodities and livelihood strategies to better address socio-ecological issues and drivers of deforestation (Deans et al., 2018). However, local power structures risk shaping

outcomes if inclusive and equitable participation of the vulnerable stakeholders is not ensured (Bastos Lima & Persson, 2020).

The EUDR includes a certain potential to shift the sector onto more sustainable and transparent practices with potential benefits for farmers and forests. Although there are direct incentives in the EUDR to comply with the regulation, no clear incentives are made to ensure that the full potential for traceability systems and landscape approaches is reached. Here governments can play an important role in ensuring mandatory disclosures through a level playing field in data transparency and facilitating access to key datasets and multi-stakeholder dialogue and collaboration (Fripp et al., 2023; Zu Ermgassen et al., 2022). This is especially important in countries and sectors like the Ethiopian coffee sector with a weaker state capacity and complex supply chains. While still too early to say, the EU observatory, partnerships with producer countries, and the latest demand-driven Team Europe initiative may contribute towards reaching the transformative potentials of the EUDR (Directorate-General for Environment, 2023; Directorate-General for International Partnerships, 2023).



Conclusion



10 Conclusion

In this thesis we have answered the research question, *How does the expected implementation of the EUDR throughout the EU-Ethiopian coffee value chain align with a just transition?* We approach the research question through four sub questions which structure the thesis: 1) What is the theory of change embedded in the EUDR? 2) What challenges to implement the EUDR flow from the current composition and governance model in the EU-Ethiopian coffee value chain and Bale? 3) How can we expect the response to the EUDR to influence the composition and governance of the coffee value chains in Ethiopia? 4) How does the implementation of the EUDR in Ethiopia align with a just transition? For this purpose, we have conducted 25 interviews with Ethiopian coffee value actors and 10 interviews with international and European distributors and roasters. In our answering we draw on implementation and GVC theory as well as just transition and justice theory to understand and evaluate implementation outputs and outcomes.

In the first analysis we find that the theory of change embedded in the EUDR relies on outsourcing regulatory governance through existing private governance structures of global value chains. It hence seeks to formally institutionalise sustainability concerns that was previously voluntary in the sector. In addition, the policy relies on facilitative governance, by looking to partnerships and cooperation to mitigate negative impacts of the regulation and enhance positive outcomes. We finally conclude that the policy reflects a green growth approach to environmental issues by perceiving deforestation as a product of market failure that needs to be addressed.

In analysis 2 we investigate the composition and governance structure of the EU-Ethiopian coffee value chain. We find that several chains exist each with their distinct challenges to implementing the EUDR. A significant difference also exists between specialty and bulk coffee, with the latter being the most challenging due to less information already being transferred. The lead firms identified in the chains seem to dominate the governance which for specialty is more relational while the bulk coffee has a market structure. In Bale we identify mainly bulk coffee flowing through a trader/broker and a cooperative/union chain both of which have a market structure and are challenged by a lack of traceability and price incentives to produce quality coffee.

In the third analysis we identify how key stakeholders' response to the EUDR is expected to change the composition and governance structure of the coffee value chains in Bale. We find a power imbalance between lead firms and the enabling environment which leaves the lead firms to predominantly determine how value chains are changed following a market-based logic of risk and cost minimisation. This will likely lead to a shift towards and consolidation of producers in low-risk regions while producers in high-risk regions will be excluded. For producers who are consolidated, the existing market governance structure is expected to become captive. Excluded producers will instead lose market access. If the EU enforcement of the EUDR is gradually phased in or a dual market emerges, the consequences of exclusion will be less severe.

In the fourth and final analysis we evaluate to which degree the expected change in composition and governance structure of the value chains identified in analysis 3 aligns with a just transition operationalised through procedural, substantive, and intergenerational and interspecies justice. Due to the market-based logic determining the response to the EUDR, we expect producers to have poor procedural justice, although the degree depends on the transparency of the final traceability system implemented. For substantive justice, we expect excluded producers to experience lower prices and thereby a negative alignment with a just transition. For consolidated producers, the substantive justice is more nuanced though still poorly aligned. Due to the composition of value chains in Bale, we expect producers to mainly be excluded due to the incentives introduced through the EUDR. For intergenerational and interspecies justice, we expect lead firms to shift away from areas with high forest pressures, thereby decreasing influence and market access, potentially aggravating deforestation. Little change is expected when consolidating producers in areas with already low forest pressure. Though producers in Bale are generally expected to be excluded we do not anticipate an increase in forest pressures, as forest preservation efforts already exist.

From the analyses we conclude that the EUDR aligns poorly with a just transition, although to varying extent for the different types of justice. Within the planned initiatives there is still much uncertainty and with more than a year until the EUDR enters into force, key stakeholders may still adapt their initiatives to a better alignment with a just transition.

At the same time, we argue that the alignment is highly influenced by the final design of the response of the enabling environment and lead firms as well as the specific context in which it is implemented. As such, ensuring transparency holds a large potential to empowering producers and

planned collaboration and partnerships might empower the enabling environment and allow for more participation for smallholders.

11 Perspectives

In this final section, we first argue for the need for planetary politics and a planetary justice conception that moves beyond the traditional understanding of a just transition. Next, we argue that the EUDR struggles to live up to such requirements due to the limitations embedded in its theory of change as described in analysis 1. We finally call for more transformative policies that address existing inequalities and injustices.

11.1 The demands for planetary politics and justice

Studies have shown a discrepancy between the ones who benefit from the economic processes that drive environmental degradation and those who bare the risks and burdens, thereby calling for an inclusion of justice considerations in policy making (Kashwan et al., 2020). Earth system science and the transgression of planetary boundaries highlight the fundamental challenge of environmental issues, namely planetary singularity and societal multiplicity (Corry & Stevenson, 2017; Richardson et al., 2023). It hence suggests that earth system governance is required to mitigate existing planetary pressures despite an institutional context shaped by multiple societies with pre-existing economic stratification and interests (Corry & Stevenson, 2017; Macionis, 2017). While globalisation until now have resulted in new forms of governance and the construction of GVC it has still not produced institutions that fully integrate the planetary boundaries (Blewitt, 2018; Hirsch & Norton, 2012). Earth system science forces us to expand justice notions into a backward- and forward-looking intergenerational time horizon as inaction today will have irreversible implications for future generations, just like current distributions of wealth is a product of former actions contributing to earth system destabilisation (Gosseries & Meyer, 2009). Compared to a traditional just transition understanding, moving into a planetary just transition requires expanding the scale and scope of the analysis. This would imply integrating the planetary implications of a policy including historic responsibilities and interlinkages across ecological systems instead of the typically more localised and narrow understanding prevalent in just transition studies and discourses (Stavis & Felli, 2020).

To achieve planetary justice, policies need to contribute to a planetary trajectory within earth system boundaries where minimum access for all is ensured, and responsibilities reflect economic capabilities and historical distribution of liabilities (Gupta et al., 2021; Kashwan et al., 2020;

Raworth, 2012; Stevis & Felli, 2020). The question therefore remains: Does the EUDR stand against such requirements?

11.2 Why the EUDR may not be enough

As described in analysis 1 the EUDR is a product of the green growth understanding prevalent within EU policies (Analysis 1). With the EUDR and other similar policies the EU is striving to become the first “climate neutral continent” (European Commission, 2021b). Essential to the policy is promoting the consumption of deforestation free products thereby bringing down the GHG emissions and biodiversity loss (Regulation 2023/1115).

The premise for green growth can be contested as decoupling of resource use from economic growth would have to happen at an unrealistic rate to reach even a 2°C warming scenario (Hickel & Kallis, 2020). More specifically for land use, the lack of biosphere integrity and intensive land use systems are addressed in the latest Global Biodiversity Framework, but with increased population and income levels, pressure for continued agricultural expansion may risk transgressing these targets (CBD, 2022; Tilman et al., 2011).

Despite already having transgressed six planetary boundaries, millions of people do not yet have minimum access to resources (Richardson et al., 2023; World Bank, 2022). Planetary justice scholars have illustrated that achieving minimum access to resources for all people will unequivocally further increase pressures on earth system boundaries (Gupta et al., 2023; Rammelt et al., 2023). Nevertheless, the EUDR remains an overwhelmingly supply-side oriented policy that matches the fundamental logics of green growth working through pre-existing market and power structures. However, as global green growth is yet to be seen Rammelt et al., (2023) states that to mitigate earth system pressures decision-makers will have to either accept that millions will continue to live without having their basic needs met or face the need for a more distributional approach to global resources and wealth (Gupta et al., 2023; Hickel & Kallis, 2020; Rammelt et al., 2023).

The inequalities of the market functioning are further expressed in current price differences. For example, countries in the global South must on average export approximately five times the resources and labour to be able to import the same amount from the North (Hickel et al., 2022). To the price difference it pertains that rich countries and global enterprises have exercised their influence through GVC to captivate the South in an uneven system to maximise profits (Hickel et

al., 2022). One such dynamic also exists in Ethiopia where coffee is exported to acquire foreign currency needed to buy advanced products that Ethiopia itself is not able to produce. Such products include fertiliser, medicine, and manufacturing inputs thereby creating a dependency on disadvantageous trade (2.2). From this perspective, it is unlikely that the EUDR implemented through GVC will be able to address present levels of inequality. Looking at the objectives, this is also not the focus of EUDR (Regulation 2023/1115.). Previous deforestation policies from the EU have nonetheless been accused of simply seeking to “clean” EU value chains (Rutt et al., 2018). In relation to this, Kumeh and Ramcliovic (2023) argue that the EUDR by framing the situation as a matter of problematic production and challenges with governance of global value chains allows for the continuation of the status quo. Thereby current overconsumption patterns continue while the EU is simultaneously branded as the global leader of sustainable development (Kumeh & Ramcilovic-Suominen, 2023). Hence, to achieve planetary justice, policies will need to include changes in consumption patterns in the EU and put a plug in the resource drain currently upholding the uneven distribution of resources between the global North and South (Hickel et al., 2022). While present levels of consumption in the EU are not sustainable, it is also important to note that a sharp decrease in consumption of tropical agricultural crops may also have substantial consequences for producer countries. Such a transition would therefore need to include considerations of justice and partnerships to support the adjustment of production systems and economies.

11.3 Which level of justice?

In the perspectives above we have elaborated on earth system justice and supplemented the concept of just transition with a planetary scope. In this light, the EUDR fails to mitigate earth system pressures to a satisfying degree while also not properly addressing minimum access for the least well off. However, as this is also not the stated objective of the EUDR, one might argue that holding the EUDR against such a standard is to no purpose. Conversely, the concept of planetary justice calls for the need for a more holistic approach to all policies.

The EUDR will likely not be the policy that lights the spark to transformative change of the global distribution of resources. However, depending on the final response and implementation, it might get some of the way. The question therefore remains as the evaluation of the EUDR in the end comes down to whether an earth system compatible trajectory is a prerequisite for justice or if any improvement is seen as a contribution to a just transition.



Figure 16: A final cup of coffee



12 Considerations on writing our thesis

Before starting the process of writing this thesis we were by no means experts on coffee, or any other commodity included in the EUDR. We allowed our passion of coffee and an opportunity to join a project monitoring visit to Ethiopia to decide which commodity to examine.

This turned out to be the right choice for us.

This thesis is a product of a steep learning curve; Being new to Ethiopia, new to coffee production and new to global value chain dynamics. Denmark, Europe and Ethiopia are closely connected by value chains and a shared love of coffee and yet still so fundamentally different. In essence, this project has been explorative for us...

We must acknowledge that coming to a country for the first time trying to map and understand local dynamics is never going to be an easy task. However, we have tried to do all the voluntary contributions justice through our work with this project. In particular, we have hoped to bring the voices of the people which we owe our daily morning brew to the forefront of this thesis.

The EUDR is a new phenomenon and we have not been alone in our confusion during this process. Stakeholders are still scrambling for answers and solutions, so while feeling the actuality of this research has kept us motivated, it has been challenging to catch a moving target. Though we feel confident that we in the end managed to grasp the patterns that in the end will shape the likely outcome of this policy.

13 Literature

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