

---

## EU DEFORESTATION-FREE PRODUCTS REGULATION (EUDR)

---

### CONTEXT

The EU's regulation on deforestation-free supply chains constitutes a key element of the EU Green Deal, aligning with a wider EU approach aimed at safeguarding global forests.

This new regulation is closely connected to the measures introduced by the EU Timber Regulation and the Forest Law Enforcement, Governance, and Trade (FLEGT) Regulation, which primarily address deforestation resulting from unauthorized timber harvesting. In contrast, the new EUDR encompasses a more comprehensive range of traded goods.

EU imports stand out as one of the primary causes for worldwide deforestation. In the time frame spanning from 1990 to 2008, imports into the EU were responsible for a substantial 36% of deforestation linked to crop products and an additional 25% of deforestation tied to ruminant livestock products.

The introduction of the EUDR seeks to significantly mitigate the repercussions of deforestation and forest degradation. Considering the far-reaching impact on global deforestation, the EUDR aims to play a pivotal role in curbing deforestation, greenhouse gas emissions, and global biodiversity loss.

### WHAT DOES EUDR ENTAIL?

The scope of EUDR encompasses seven distinct commodities (namely cocoa, coffee, soy, palm oil, wood, rubber, and cattle) along with their byproducts, and also extends to

goods manufactured using these commodities (for instance, leather, cosmetics, chocolate, etc.). A comprehensive evaluation is scheduled to occur within the next two years, with the possibility of augmenting the list to include further items. Under the EUDR, any business operator engaged in the import or export of these commodities within the EU must substantiate that their products are free from deforestation. This requirement is applicable to all companies, irrespective of their EU-based status, encompassing both legal and illicit origins of deforestation, whether occurring within Europe or abroad.

As outlined in EUDR, a product is considered to meet the criteria of deforestation-free if neither the product itself, its components, nor its byproducts have been manufactured on land that experienced deforestation or forest degradation subsequent to the designated cut-off date of 31 December 2020.

### HOW WILL EUDR WORK IN PRACTICE?

Companies seeking to engage in the import or export of the commodities that fall in the scope of EUDR will be required to undertake thorough due diligence, either independently or through proficient external parties. The regulation outlines a set of essential steps for compliance:

- Acquire geographical information, such as satellite imagery, pertaining to the specific land parcels where the commodities originated.
- Evaluate the potential risks for non-compliance with the EUDR regulation.
- Implement measures to reduce identified risks to minimal levels.

In preparation for complying to the EU deforestation-free product regulation, practical measures include:

- Enhancing visibility and traceability along the value chain by analyzing available data.
- Prioritizing categories (of products) based on their significance to the business and the ecological footprint of the products.
- Assessing the compliance status of the current supplier base in alignment with the new regulation.
- Streamlining and refining the process of screening and onboarding new suppliers.

### WHAT IS EUDR BENCHMARKING SYSTEM?

The EUDR introduces a benchmarking framework that involves categorizing countries, both within and beyond the EU, based on the degree of risk associated with deforestation and forest degradation.

These risk levels, categorized as low, standard, or high, will take into account factors like agricultural expansion for the cultivation of the seven specified commodities and their derived items, national policies and forest protection measures, among others.

The obligations imposed on companies will vary depending on the determined risk level of the country of production of the commodities.

### WHICH OBLIGATIONS FOR COMPANIES?

Companies are requested to conduct due diligence, with varying criteria for small and medium-sized enterprises (SMEs) and traders:

- Starting in 2025, operators and traders are mandated to perform due diligence, providing evidence that products falling under the scope of the EUDR and introduced to or exported from the EU market are free from deforestation.
- Within the supply chain, operators and

traders are tasked with substantiating that the products are manufactured in compliance with the legal requisites of the country of origin and are covered by a due diligence statement.

- In cases of reasonable doubt, any uncertainties regarding a product or commodity necessitate operators to conduct a risk assessment to establish that there is no risk of deforestation.
- Products produced on land subjected to deforestation after 2020 are prohibited from entering the EU market.
- SME operators are mandated to implement comprehensive due diligence requirements for components of products not already encompassed by a statement, starting in 2025; while small and micro enterprises are required to adhere to these regulations by mid-2025.

### Reporting on due diligence

The due diligence procedure outlined by the EUDR requires the fulfillment of three core aspects: information requisites, risk evaluation, and risk alleviation, all of which are complemented by reporting obligations.

Entities other than SME operators are mandated to publicly report on their due diligence systems (Article 12), outlining the actions undertaken to fulfill their responsibilities under the due diligence regulations (Article 8).

Operators encompassed by the scope of value chain due diligence obligations imposed by other EU regulations can meet these obligations by integrating the requisite information as stipulated by the EUDR when reporting in accordance with another EU legal framework.

Although not presently mandated by the EUDR, SME operators are encouraged to adopt public reporting for their due diligence systems, aligning with best practices to communicate how impacts are identified and managed.

### *Importing and exporting derivative products*

The requirements stipulated by the EUDR encompass both pertinent commodities (such as cattle, cocoa, coffee, etc.) and relevant derivative products.

The derivative products deemed relevant are characterized as those containing, being derived from, or produced using the specified commodities. For instance, items like 'new pneumatic tires, made from rubber' or 'plywood, veneered panels, and similar laminated wood'.

#### For instance:

Consider the supply chain process of importing cocoa beans, a regulated commodity under the EUDR, into the EU market, followed by the subsequent sale of chocolate. The importer assumes the role of the primary operator, consequently being subjected to due diligence responsibilities to ensure the deforestation-free status of the cocoa beans prior to their introduction to the market. The cocoa beans are then managed by a larger downstream operator, obligated to verify the due diligence processes of the primary operator before utilizing the commodity to craft the relevant product, which in this case is chocolate bars. The value chain culminates with a significant trader who also verifies the due diligence procedures before vending the relevant product, the chocolate bars.

The EUDR's scope also extends to encompass relevant commodities and products that are exported from the EU.

#### For instance:

Consider the scenario of exporting a product governed by the EUDR — specifically, furniture crafted with the pertinent commodity, wood — from the EU market. This scenario also sheds light on the responsibilities of the EU forest owner (operator) responsible for tree harvesting. Moving along the supply chain, the subsequent stage of the transformation of the wood by a downstream SME operator within the EU, converting the commodity into the relevant

product, sawed wood. This product is then sold within the EU market by an SME trader. Subsequently, the sawed wood undergoes further processing by a larger downstream EU-based operator to create another relevant product, furniture, before ultimately being exported from the EU.

### **WHAT IS THE TIMELINE OF IMPLEMENTATION OF EUDR?**

The EUDR entered into force on 29 June 2023, affording companies and pertinent authorities in both producing and consuming countries 18 months to prepare before the rules become enforceable as of 30 December 2024.

Starting in January 2025, business operators and traders will be mandated to conduct due diligence on products entering (or exiting) the EU market.

SME operators, however, will need to conduct due diligence solely for portions of products not covered by an existing due diligence procedure. Small and micro-enterprise operators are exempted from these regulations until mid-2025.

Upon the enforcement of the legislation, all producing countries, whether within the EU or other global regions, will initially receive a standard-risk classification. Before January 2025, the European Commission will issue a roster of countries categorized as presenting either a low or high risk in relation to commodities and products linked to deforestation.