ERM POLICY ALERT

1 April 2025

EU Deforestation Regulation (EUDR)

ARE YOU CAUGHT IN THE EUDR NET?

Sustainability is our business

ERM

The EUDR is around the corner: How prepared are you?

The EU Deforestation Regulation (EUDR) (Reg. (EU) 2023/1115) is part of the EU's Green Deal efforts to tackle transparency in supply chains, contributing to the EU's goal to become climate neutral by 2050. It replaces the EU Timber Regulation (EUTR), which was limited to wood and timber products, both imported and domestically produced in the EU.

With the EUDR covering a wider range of commodities and their derivatives, companies are now obliged to conduct due diligence if they place on or export to the EU market, making sure that they do not contribute to deforestation or forest degradation. The regulation covers wood, palm oil, soy, cocoa, coffee, cattle and rubber. The commodities in scope are said to be continuously reviewed and updated to include relevant deforestation trends and patterns. With EU consumption contributing to about 10% of global deforestation, this regulation is meant to put a halt to the issue and reduce the consumption of goods that negatively impact forests. The regulation also aims to reduce the EU's contribution to greenhouse gas emissions and global biodiversity loss.

The EUDR was initially adopted in December 2022 and went into force in June 2023. Companies were meant to comply with the regulation by 30 December 2024, however, as many companies and supply chains were inadequately prepared for the EUDR requirements, the EU Commission proposed a 12-month delay. This delay was accepted by the EU Council, meaning the compliance date now stands on 30 December 2025.

By June 2025, the European Commission intends to present an impact study on the extension of the regulation to other wooded areas, other natural ecosystems, other commodities and financial players. This impact study will, if necessary, be accompanied by a legislative proposal at the initiative of the European Commission to review EUDR. The time to take adequate action to comply with the regulation has come and companies need to prepare now, showing their commitment to nature and preventing serious business disruption.

Scope of the EUDR

Companies:

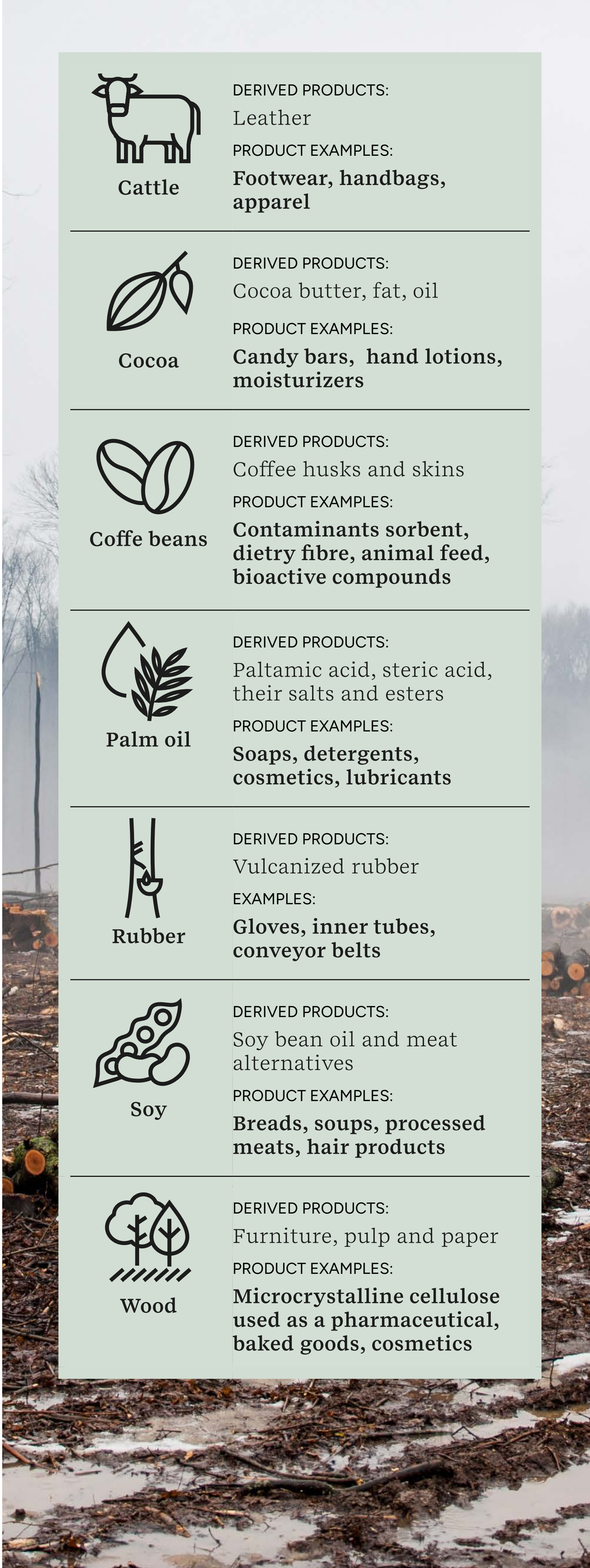
The EUDR differentiates itself by not setting specific thresholds for companies but by including all that place or export their relevant products on or to the EU market. SMEs are expected to follow large and medium enterprises a year later. There is also no threshold set for a minimum amount of goods. The regulation does differentiate between Operators and Traders. Depending on where you are in the supply chain, oftentimes Traders will be able to refer to due diligence statements already performed but still have the obligation to assess the risk.

Operators: Companies that place their relevant products on the EU market for the first time or export them

Traders: Companies making a product available on the market in the course of a commercial activity without being an operator

Applicable commodities:

The EUDR covers seven primary commodities linked to agricultural activities, the main driver of deforestation. This does not just include the raw materials but also the derived products as shown in the visual on the right.* Essentially, the regulation targets any product that could be linked to deforestation through its production process. The due diligence exercise must be done every time there is a shipment. It is key that companies keep in mind that this is not a yearly exercise but done at a transactional level.



Cattle	DERIVED PRODUCTS: Leather	PRODUCT EXAMPLES: **Footwear, handbags, apparel**
Cocoa	DERIVED PRODUCTS: Cocoa butter, fat, oil	PRODUCT EXAMPLES: **Candy bars, hand lotions, moisturizers**
Coffe beans	DERIVED PRODUCTS: Coffee husks and skins	PRODUCT EXAMPLES: **Contaminants sorbent, dietry fibre, animal feed, bioactive compounds**
Palm oil	DERIVED PRODUCTS: Paltamic acid, steric acid, their salts and esters	PRODUCT EXAMPLES: **Soaps, detergents, cosmetics, lubricants**
Rubber	DERIVED PRODUCTS: Vulcanized rubber	EXAMPLES: **Gloves, inner tubes, conveyor belts**
Soy	DERIVED PRODUCTS: Soy bean oil and meat alternatives	PRODUCT EXAMPLES: **Breads, soups, processed meats, hair products**
Wood	DERIVED PRODUCTS: Furniture, pulp and paper	PRODUCT EXAMPLES: **Microcrystalline cellulose used as a pharmaceutical, baked goods, cosmetics**

*These derived products and product examples do not cover everything that is applicable under the EUDR.

Are you aware that you are selling products potentially subject to EUDR?

Our experts have seen multiple instances of companies being unaware that they sell products in scope of the EUDR. Based on real-life examples our experts have seen, we created a list of cases with different trajectories.

PALM OIL IN COSMETICS	A company located in Italy imports palm oil from Indonesia and sells it to another company to make cosmetic products. The second company sells its products within the EU. Palm oil is a listed EUDR commodity, meaning that the first company located in Italy has a responsibility as an Operator since it is the first to place palm oil on the EU market. The second company has no obligation under the EUDR as cosmetics are not a specifically listed commodity, only the raw palm oil and its derivatives.
COFFEE BEANS	A French company sources coffee beans from Africa to sell directly to a company in the UK. Since the coffee beans are not entering the EU market, the company has no obligation under EUDR. If the French company decided to sell some of the coffee beans within the EU, they would be considered an Operator and be subject to EUDR, including the filing of a due diligence statement.
COCOA BEANS FOR CHOCOLATE COOKIES	A Swiss company imports cocoa beans from Côte D'Ivoire. The company sells the cocoa beans to another Swiss company that manufactures chocolate in Switzerland, which is then sold to a German company that uses it to produce cookies. The importing Swiss company has no obligation under EUDR as Switzerland is not part of the EU. The chocolate manufacturer, however, is selling chocolate into the EU market and is therefore an Operator under EUDR. The cookie manufacturer has no obligation under EUDR as this is not a listed commodity.
WOOD FOR PRODUCING CELLULOSE	A French pharmaceutical company imports high purity cellulose from a US company that produces their cellulose from wood pulp. The French company uses the cellulose as a binder in their products, which they sell within the EU market. The French company is considered an Operator under the EUDR and must file a due diligence statement.
WOOD FOR PACKAGING	A Dutch data center imports electronic components from the US using wood-based packaging. They then ship the empty packaging to another data center in Germany to be reused for another shipment. While wood-based packaging is normally exempt under EUDR, by shipping it within EU countries as a commodity for the purpose of reuse, they are subject to EUDR.
WOOD FOR OAK CASKS TO MAKE BLENDED DRINKS	An Italian company imports American bourbon in oak casks, which it sells to another Italian company that uses the bourbon in blended drinks placed on the market. The first company is subject to the EUDR as wooden casks are a listed commodity. The second company is not subject to the EUDR as blended drinks are not a listed commodity.

Requirements of the EUDR

The EUDR states clear obligations for companies operating and trading in seven primary forest-based product commodities. These minimum requirements will ensure due diligence, allowing companies to identify risks connected to deforestation and forest degradation.

1. Collect information

Collect information, documents and data showing that the product is deforestation-free and legal, such as geolocation coordinates, quantity, country of production, etc.

2. Risk assessment

Assess whether there is a risk the product does not comply with the rules. Operators need to demonstrate how the information gathered was checked against the risk assessment criteria and how they determined the risk.

3. Risk mitigation

Adopt adequate and proportionate risk mitigation procedures and measures if there is a risk that the product does not comply with the rules. Make sure that the risk becomes negligible.

Source: Deforestation Regulation implementation - European Commission

Operator obligations	Key provisions
1. Collect geolocations of the plots of land you are buying from	EUDR requires disclosing the geolocation of all plots of land where the relevant commodities that your products contain were produced. If the commodity was produced in multiple locations, then geolocations of all plots of land should be provided. Companies need to disclose the date or time range of production of these commodities.
Ensuring products are deforestation-free or forest degradation-free after 2020	EUDR requires that all products placed on the market or exported are deforestation-free. Companies have to provide adequately conclusive and verifiable information that the relevant products are deforestation-free. ‘Deforestation-free’ means that the relevant products contain, have been fed with or have been made using relevant commodities that were produced on land that has not been subject to deforestation after 31 December 2020. For wood, this cut-off date refers to its harvesting.
Ensuring products are produced in accordance with national legislation	EUDR requires that all products placed on the market have been produced following the relevant legislation of the country of production. Companies should also include information on any arrangement conferring the right to use the respective area for the production of the relevant commodity.

Submit due diligence electronically to the deforestation registry created by the European Commission	Once products are determined to be deforestation-free and in compliance with national regulations, companies must prepare a due diligence statement to this effect and submit it to the European Commission. Products can be placed on the market or exported only after submitting a due diligence statement.
Exercise mandatory due diligence and analyze and evaluate risks in the supply chain	EUDR requires companies to establish whether there is a risk that the relevant products intended to be placed on the market or exported are non-compliant. Unless no or only a negligible risk is found, the products cannot be placed on the market or exported. Risk assessment should cover criteria such as country-level risk of deforestation, presence of forests in the area, indigenous communities, complexity of supply chain and malpractices to circumvent the EUDR regulation. This risk assessment must be carried out at least annually.
Take adequate and proportionate mitigation measures	Unless during the risk assessment process, you find risks to be negligible or absent, companies need to provide a risk mitigation plan. Companies should be able to demonstrate how decisions on risk mitigation procedures and measures were taken. Satellite monitoring tools, field audits, capacity building of suppliers or isotope testing can be used to check the origin of the product.

Supply chain transparency first, action next

The regulation is set out to bring greater clarity beyond the companies' own operations. Knowing where your products are produced and derived from will allow you to identify if deforestation or forest degradation exists in the supply chain. The EUDR sets itself apart by mandating companies to not contribute in any way to these matters and to mitigate or remove these harmful activities completely.

Better collaborations in the supply chain

In order to comply with the EU regulation, it is necessary to build better relationships with local farmers and producers. Companies are dependent on their external stakeholders to successfully tackle this exercise. Forming a resilient supply chain will make it easier to receive the needed data and start conversations about addressing compliance issues. This will contribute to enhancing your sustainability journey and showing up as a respected Operator or Trader.

ERM'S POINT OF VIEW

Even though the regulation is inherently complex, we believe nature and its resources are the foundation for many businesses for many businesses. EUDR will play a big part in decarbonization worldwide.It is our collective job to treat it with respect, as protecting the planet's forests is key to successful decarbonization worldwide. The EUDR will play a big part in this and sets a level playing field for companies placing their relevant products on the EU market. Companies viewing this regulation as an opportunity to take this further than a compliance exercise will create value beyond their own operations by building resilience.

The EUDR requires a due diligence approach like the one required by the CSDDD (Corporate Sustainability Due Diligence Directive). For companies that are in scope of both directives, we recommend building a comprehensive corporate due diligence approach that covers both requirements. We believe that taking such an approach will take fewer resources, allow you to take this exercise on more strategically and create more overall impact.

Effectively increase the transparency of high-impact commodities: It is clear that the transparency of where commodities come from needs to grow. The EUDR pushes companies to dive into the contents and data, which is new and challenging. Especially for companies with long supply chains. ERM also notes the importance of understanding the components that your products contain. Sometimes, the products and commodities in scope can be hidden in your products, meaning compliance is still necessary. Take the time to assess your products and figure out if your products cause harm to our forests. Then, take the next steps to mitigate risks.

Implementation timeline

The EUDR came into force on 29 June 2023 and will start applying to the first companies on 30 December 2025. Following many discussions, the implications of the regulation will come into effect soon with not much time left to prepare. Even though there have been recent updates in the regulation's timelines, it most likely will not get postponed any further. We encourage companies to adapt quickly and act now.

29 JUNE 2023:	30 DECEMBER 2024:	30 DECEMBER 2025:	30 JUNE 2026:
Entry into force	EUDR was supposed to apply but got postponed by a year	Rules begin to apply for medium & large operators and traders	Rules begin to apply for micro and small enterprises
2023	2024	2025	2025

Note: The EU proposed an Omnibus package to streamline reporting, impacting several directives like the CSRD, CSDDD, EU Taxonomy and CBAM. This proposal doesn't impact the EUDR regulations or its timelines.

5 takeaways from ERM's work on EUDR

1. **The average time to set up a minimum EUDR management system is between 9 and 12 months**
You have to set up a fully working system that makes it easy to close any gaps against EUDR requirements. We have seen that creating this takes time and is not something to take lightly. Especially creating the right level of awareness and commitment from your indirect suppliers through your Tier-1 suppliers requires enough time and interaction to get them on board.

2. **Setting up a management system for due diligence is key**
The best way to go about EUDR is by creating a simpler way to manage due diligence. This means setting up mitigation procedures for main sourcing countries, making sure internal controls are in place to check suppliers' data and legality, and ensuring that your due diligence statements are legally reviewed.

3. **Implementing digital tools will help you in the long run**
We have also seen that including digital tools in your arsenal will strengthen both in the short and long-term process. Digital tools prove useful to automate risk management, check supplier readiness and ensure that companies provide official declarations about their import and export activities.

4. **You can connect EUDR with other legislation to improve efficiency**
EUDR is highly connected to other EU Green Deal legislation, such as the CSDDD (for your due diligence approach), CSRD and EU Taxonomy (to disclose the action taken). Connecting the dots with where the legislation overlaps will improve your efficiency in overall compliance.

5. **The EUDR requires specific expertise that you may need to (out)source**
Understanding land-change use dynamics, forest preservation in origin countries, best ways to interact with technical stakeholders with local expertise and how to manage direct suppliers are essential to effectively comply. Not all companies have this knowledge in-house. Building on these capabilities can be done through connecting with voluntary sustainability certifications, like Rainforest Alliance and Fairtrade, or by connecting with experts in the field.

Enforcement and monitoring

The EU Member States' competent authorities will carry out inspections of products in the scope of the Regulation. Following those inspections, they have to report on their enforcing activities to the European Commission and react to substantiated concerns. If non-compliance is found and operators or traders do not address it through corrective actions, penalties will be applied.

EU Member states review applications

Product is EUDR compliant

Product is not EUDR compliant

ROUTE A:
Operator or trader takes corrective action

ROUTE B:
No corrective action taken

NO PENALTY

Corrective actions include:

1. Rectifying non-compliance
2. Preventing placing product on market or exporting it
3. Product recall
4. Donating product
5. Destroying product

PENALTY

Penalty includes:

1. Fine proportionate of value of item
2. Product or revenue confiscation
3. Exclusion from public procurement and funding
4. Temporary prohibition from dealing in the EU

If no corrective action is taken after non-compliance is determined, the regulation will be enforced through the following measures:

- **Fines proportionate to the environmental damage and value of items**
  The maximum fine comes up to 4% of EU turnover in the preceding year and may be increased to exceed the potential economic benefit. This fine will gradually increase with repeated infringements of the regulation.
- **Confiscation of products or gained revenues**
  Operators and Traders can expect their products or gained revenues from relevant products to be confiscated when infringing the regulation.
- **Exclusion from public procurement and funding**
  Failure to comply can cause companies to be excluded from public procurement processes and public funding, including tendering procedures, grants and concessions for a maximum of 12 months.
- **Temporary prohibition from dealing in the EU**
  Companies with repeated or serious infringements can be prohibited from dealing relevant products in the EU entirely. These companies will be mandated to use the advanced due diligence process for their further reporting.

Serious business disruption

For companies that primarily focus on the in-scope products, failing to comply with the EUDR can lead to significant business disruption. Ultimately, it won’t just affect a company’s sales but also their profitability and operational stability.

Brand reputation on the line

ERM expects that NGOs will not hold back and start finger-pointing at companies not adjusting their business under the regulation. Also, consumers will lose trust and seek to buy from competitors taking a more transparent and ethical approach in their business practices.

Next steps for companies

Even though the compliance dates have been moved, it is not expected that this will happen again. Building due diligence statements in line with the EUDR will require investments, time and effort. Companies should consider taking these next steps when preparing for the regulation:

1. N-tier supply chain and current state assessment	Map out what your current supply chain looks like and whether your products are covered by the EUDR. Assess your internal capabilities, accessible information and maturity of existing due diligence in line with deforestation.
2. Engage with your Tier-1 and Tier-2 suppliers and collect geocoordinates	Getting the geolocation coordinates of the plots of land is key to reaching the needed transparency. Request this data from your main Tier-1 and Tier-2 suppliers and support them where necessary, to assess the effective traceability of plots of land and collect geocoordinates in a meaningful way.
3. Conduct risk assessment	With the right data on hand, you now need to identify where the risks are. It should cover country-level risk of deforestation, presence of forests in the area, indigenous communities, complexity of supply chain, and malpractices to circumvent the EUDR regulation. Find out if there are any (near) violations in your supply chain. We recommend not only looking at the risks but also understanding where you do particularly well to rely on best practices.
4. Risk mitigation measures	Take measures to mitigate any risks that were uncovered in the assessment. Prioritize the highest risks and make an action plan to address these potential issues.
5. Due diligence statement	Create a statement explaining how you have performed your due diligence and removed or mitigated deforestation risks in your supply chain. Submit these in the registry from the European Commission so these can be checked
6. Operationalize efficiently in your business	Build an approach that will help you operationalize the obligations of the EUDR within your business, making sure that compliance becomes easier over time. Explore digital solutions that can support you in doing so.

How ERM can help you

We have been helping our clients for over 50 years to navigate the ever-evolving landscape of sustainability. Our teams consist of a large variety of experts who look forward to supporting you through your EUDR journey. We have nature and water experts who know their way with biodiversity and land use, while our supply chain specialists can support your company to unfold your complicated supply chains and our disclosures and regulation experts fully understand the extent of the EUDR. With our help, you'll confidently get ahead of the EUDR and be ready by the compliance date. ERM can guide you through your EUDR journey, focusing on the following aspects:

Discover

- Unpack product portfolio to determine if any of your products fall under the purview of EUDR
- Determine the likely penalty amount if conditions are not met

Mapping

- Performing a careful analysis of current procurement practices
- Finding traceability gaps in your supply chain and from raw materials to end products within your company
- Identification of potential areas of risk

Development

- Develop an action plan and due diligence processes required to comply with EUDR
- Building procurement policies and contracts and supplier due diligence questionnaires
- Create risk assessment tools, risk mitigation procedures and form alignment with third-party risk toolsProvide an audit and management review procedure
- Upskill internal and external stakeholders through training

Implementation

- Implement IT solutions for data collection and management
- Collect data and due diligence statements
- Prepare submissions for EUDR compliance
- Select a digital solution that can create efficiency in your compliance journey

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