

(EUDR) Deforestation Regulation 2024

Deloitte SE Indirect Tax – Global Trade Advisory

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Background

The Green Deal | Supporting Sustainable Growth

- The EU has adopted a sustainable growth plan to support its Green Transition.
- The Green Deal provides a roadmap and sets goals to reach climate neutrality by 2050.

The EU Deforestation Regulation

Combating Global Deforestation

- As part of its Green Transition, the EU has introduced a comprehensive deforestation regulation aimed at halting the import of products linked to deforestation and forest degradation.

Preventing Deforestation through Strict Import Rules

- The new regulation ensures that companies placing certain products on the EU market, such as **soy, beef, palm oil, wood, cocoa, and coffee**, must prove that their supply chains are not associated with deforestation.
- This extends to derived products like **leather, chocolate, and furniture**. By enforcing strict due diligence requirements, the regulation aims to prevent the import of goods contributing to deforestation or degradation of forests globally.

Tackling the Drivers of Deforestation

- The regulation specifically addresses the main drivers of deforestation, including agricultural expansion, logging, and

infrastructure development. Companies will need to trace their supply chains to ensure compliance and mitigate the risk of importing goods linked to forest destruction.

The Green Deal and Climate Neutrality

- The EU's Green Deal targets climate neutrality by 2050, and forests play a crucial role in absorbing CO₂ from the atmosphere. The deforestation regulation is designed to complement the EU's climate ambitions by reducing the carbon footprint of supply chains and preserving critical carbon sinks.
- This contributes directly to the EU's interim target of reducing greenhouse gas emissions by at least 55% by 2030.

Sustainable Supply Chains

- The deforestation regulation will encourage companies to invest in sustainable and transparent supply chains. By eliminating products tied to deforestation, the regulation aims to reduce environmental impacts and create a more responsible global trade system.
- Compliance with these rules will push industries to adopt environmentally friendly practices and innovate in sourcing materials that are deforestation-free.

Global Impact and Fair Competition

- The regulation also addresses concerns about unfair competition, ensuring that non-EU producers face similar rules when exporting goods to the EU. This creates a level playing field between EU manufacturers and global exporters.

Due Diligence Obligations

Due Diligence Requirements:

- Operators must upload a **due diligence statement** to a centralized EU system before placing products on the market. This statement confirms that all necessary steps have been taken to ensure the products meet deforestation-free criteria.

Covered Commodities:

- The reporting requirements apply to key commodities like **cattle, palm oil, soy, wood, cocoa, coffee,** and **rubber**, as well as their derived products (e.g., leather, chocolate, paper, and tires).

Deforestation-Free Requirement:

- Products must be proven to be deforestation-free, meaning they should not be sourced from land that has been deforested after **31 December 2020**.

Compliance Monitoring:

- National authorities will regularly audit companies to ensure compliance, and companies may be subject to fines or other penalties if found non-compliant.

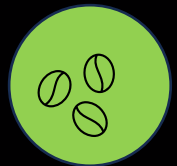
Covered Sectors



Soy



Beef



Coffee



Wood



Rubber



Cocoa



Palm oil

Deforestation Regulation Implementation

Good to Know!

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

2 Definitions and obligations
Operators must assess whether there is a risk the product does not comply with the rules, and if such a risk exists, adopt risk mitigation procedures.

3 Country Benchmarking
A benchmarking system operated by the EU-Commission will classify countries or areas into three risk categories according to the risk of producing commodities there that are not deforestation-free.

Timeline

June 29, 2023

EUDR enters into force.

Dec 30, 2024

Medium and large-sized companies become obligated to comply.

June 30, 2025

The EUDR enters an obligation for small and micro-sized enterprises.

Dec 31, 2027

Until this date, the Timber Regulation applies to wood products produced before 29 June 2023 and placed on the market after 30 December 2024.

June 30, 2028

Commission starts to conduct general reviews of EUDR every five years.

Due diligence structure

If your products fall within the scope of the EUDR, you are required to conduct a due diligence process for each relevant product and submit an EUDR due diligence report.



Obtain supplier data



Evaluate risk



Risk mitigation



Report on obtained data

Financial Impact of Deforestation

EU imports as of 2026

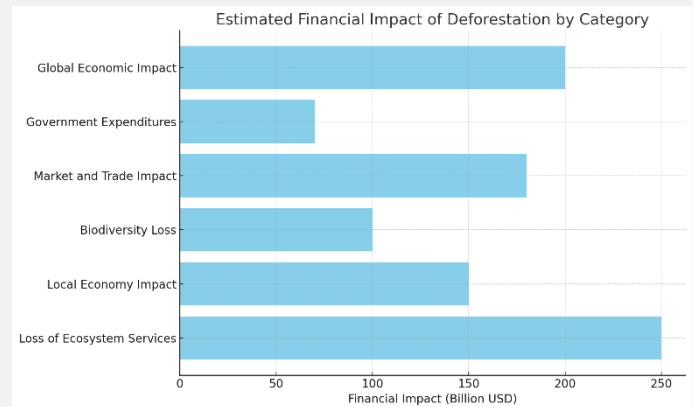
The financial impact of deforestation is vast and multifaceted, affecting various sectors of the global economy. Here are key areas where deforestation has a financial impact:

- **Loss of Ecosystem Service**
Forests provide essential ecosystem services like carbon sequestration, water filtration, soil stability, and biodiversity preservation. Deforestation reduces these services.
- **Impact on Local Economies**
In areas dependent on forests for resources and employment, deforestation can disrupt local economies.
- **Biodiversity Loss**
Biodiversity supports industries like pharmaceuticals, agriculture, and ecotourism.
- **Market and Trade Impacts**
Timber and Agricultural Commodities: In the short term, deforestation may boost profits from timber, palm oil, soy, and cattle farming. However, unsustainable practices can lead to resource depletion, causing long-term financial losses and volatility in commodity markets.
- **Supply Chain Risks:** Companies involved in global supply chains face financial risks, including reputational damage and increased regulation, due to deforestation. Consumers and investors are increasingly concerned about sustainable sourcing.

Financial Impact of Deforestation

EU imports as of 2026

Graph representing the estimated financial impact of deforestation across different categories, with hypothetical figures. Each category highlights the different ways deforestation imposes financial losses, such as through loss of ecosystem services, impacts on local economies, biodiversity loss, and more.

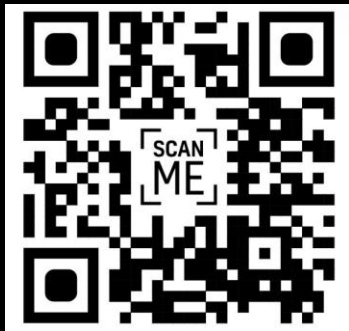


How does reforestation impact global economy?

Reforestation has a positive impact on the global economy in several significant ways. By restoring forests, reforestation can help mitigate climate change, improve agricultural productivity, and boost economic opportunities across various industries.

How can Deloitte assist?

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Supplier training programs

Inhouse-training programs