



The Road to Green: Understanding the EU's **Deforestation** Regulation

Executive Summary

Forests are crucial ecological and economic resources that sequester carbon, provide wildlife habitats, and support community livelihoods, among other vital functions. Over the past decade, governments have repeatedly committed to restoring forests, halting deforestation, and reversing land degradation, making various pledges and commitments that highlighted the importance of forests and the severe impacts of continued deforestation.

The reality, however, is different. Total tropical primary forest loss in 2023 totalled 3.7 million hectares, the equivalent of losing almost 10 football fields of forest per minute. And, with only six years remaining until 2030, by which time leaders of 145 countries promised to halt and reverse forest loss, it's becoming clear that the world is falling far short of its targets—and that additional anti-deforestation measures are urgently needed.

Executive Summary

In this context, the European Union’s Regulation on deforestation-free products (EUDR) represents a turning point in the global fight against deforestation.

By promoting the consumption of “deforestation-free” products, and reducing the EU’s impact on global deforestation and forest degradation, the new Regulation (EU) 2023/1115 on deforestation-free products aims to bring down greenhouse gas emissions and biodiversity loss.

The EUDR will come into effect on December 30, 2024. To ensure compliance, this paper takes a deep-dive into the regulation—and showcases why Gartner has named Prewave as a top EUDR vendor when it comes to supplier risk management. Keep reading to discover how to assess whether and to what extent your business is subject to the regulation, understand the importance of combining risk data with location data for effective compliance, and learn how to certify your compliance.

The Products

The EUDR is different from other legislation because it is product-based and places prohibition at the centre, compared to the CSDDD or the German Supply Chain Act (LkSG), for example, which are primarily focused on due diligence best efforts.

Seven commodities (cattle, cocoa, coffee, palm oil, rubber, soy, and wood), as well as many derived products (meat products, leather, chocolate, coffee, palm nuts, palm oil derivatives, glycerol, natural rubber products, soybeans, soybean flour and oil, fuel wood, wood products, pulp and paper, printed books) are listed in Annex 1 of the EUDR.*

* To ensure full compliance, it is important to go over the list of products carefully and review the product's tariff classification under the Combined Nomenclature. Also important to note is that many products which are derived from commodities listed under the EUDR are not in scope. This is because often, products that are not in scope are heavily processed. Due to the level of processing, the EUDR does not consider these products as in scope.

Examples of products that are derived from EUDR-listed commodities, but are not in scope:

1. Cattle (in scope) - Leather bags (not in scope).

2. Ground coffee (in scope) - Coffee cake (not in scope).

3. Coffee pod (in scope) - To-go coffee (not in scope).

4. Palm oil (in scope) - Soap made with palm oil (not in scope).

Companies should find their products in the combined nomenclature, look at the HS codes in Annex 1 and at the HS codes in the nomenclature, and compare the two to understand if their product is in scope or not.

The EUDR applies to goods produced on or after 29 June 2023.

Exception:

- Timber and timber products, which are covered if produced before 29 June 2023, and placed on the EU market from 31 December 2027.
- Goods produced entirely from material that has completed its lifecycle and would otherwise be discarded as waste.

The Scope

From 30 December 2024 (or 30 June 2025 for micro or small businesses), it will be prohibited to place products that fall under the EUDR on the EU market—or export them from the EU—unless they are:

- “Deforestation-free”^{***}
- Produced in accordance with the relevant legislation of the country of production
- Covered by a due diligence statement indicating no more than a negligible risk of non-compliance

It is important to note that, unlike previous EU regulations targeting illegal logging and associated trade, such as the EU Timber Regulation, the EUDR targets deforestation that complies with the laws of the country where the products are produced.

** “Deforestation-free” = Products that contain, are derived from, or produced using relevant commodities sourced from land that has not been converted from forest to agricultural use, whether by human activity or natural processes, after December 31, 2020. For products that contain or were made with wood, it means that the wood was harvested from forests without causing forest degradation^{***} after December 31, 2020.

*** Forest degradation = The transformation of primary forests or naturally regenerating forests into plantation forests or other wooded areas.

How Production Shapes Compliance

Although the primary obligations of the EUDR will officially come into effect on December 30, 2024, they will have immediate implications for the marketing of relevant products currently in production or being processed with relevant materials.

Companies must guarantee that the goods entering the EU market have not originated from land that has undergone deforestation or forest degradation since December 31, 2020.

Ensuring Compliance: The Who & How

Starting December 30, 2024, any company that intends to introduce relevant products into the EU market must first submit a due diligence statement to their respective national authority. By doing this, companies affirm their accountability for ensuring the product's adherence to the EUDR.

Due diligence statements will be available to authorities, traders, and to a lesser extent, the general public. Companies placing relevant products on the market must also communicate the reference numbers of due diligence statements along with all necessary information to show that due diligence was conducted and that only a minimal risk was identified.

The requirement to conduct due diligence under the EUDR extends to:

- Companies placing relevant products on the EU market or exporting them from the EU, including both Small and Medium-sized Enterprises (SMEs) and large corporations.

Non-EU companies may increasingly face requests from their clients to furnish necessary information to fulfil their due diligence obligations under the EUDR.

This means that ensuring EUDR compliance will affect companies on a global scale, impacting businesses of all sizes across various sectors involved in the supply chain. Compliance is mandatory for all operators and traders dealing with commodities like cattle, cocoa, coffee, palm oil, rubber, soy, and wood, and their derivatives, requiring rigorous data collection, risk assessment, and mitigation measures.

Penalties

Among the most severe penalties is the inability of a company to sell a product on the European market that is in direct violation of EUDR requirements. In other words, if your goods and/or materials have not been cleared (meaning, they are in scope and do not comply with EUDR requirements), your product is essentially blacklisted in the European market—leading to significant monetary and reputational damages.

Other penalties may include:**Fines:**

Companies may face fines based on the environmental damage and the value of the products, increasing with repeated violations and capped at 4% of their EU turnover from the previous year.

Confiscation:

Products involved in violations or profits gained from them may be confiscated.

Exclusion:

Temporary exclusion from public procurement and funding may occur.

Suspension:

Severe or repeated violations could lead to temporary trading suspension within the EU or a ban from using simplified due diligence procedures.

Ensuring Due Diligence With Prewave**The EUDR outlines the procedure for conducting due diligence, which includes:**

-
- Gathering comprehensive information to verify compliance with EUDR requirements.
 - Conducting a risk assessment for each product to determine the likelihood of non-compliance with the EUDR, as well as local laws. Factors considered in this assessment include the risk category assigned to the country of production, categorised as 'high risk', 'standard risk', or 'low risk' by the European Commission.
 - Mitigating identified risks by conducting independent surveys or audits, obtaining additional documentation, or collaborating with suppliers, especially small and medium-sized enterprises (SMEs), through capacity building and investments.

Ensuring Due Diligence With Prewave

With the 30th December deadline approaching, it is crucial for companies to act swiftly. Prewave's platform enables the immediate implementation of due diligence measures.

With its comprehensive approach to risk assessment, seamless integration of compliance actions, and automated reporting, Prewave offers a future-proof solution for companies striving to meet the EUDR's stringent due diligence requirements.

Below, you will find a detailed overview of the Prewave approach to ensuring EUDR compliance.

Prewave's End-to-End Solution Approach for EUDR Compliance

The EUDR sets forth stringent requirements to ensure that companies and their suppliers are not contributing to deforestation. Prewave stands out by offering a seamless and efficient solution to ensuring EUDR compliance.

Clients are asked to submit the location of their suppliers, and we leverage satellite imaging technology to confirm the absence of deforestation activities in those areas.

Our system goes a step further by generating a detailed risk score for each supplier, providing clients with a clear assessment of potential compliance issues. This verification process is designed to be quick and user-friendly, enabling businesses to produce and upload the necessary certificates directly to regulatory authorities with minimal hassle.

By simplifying the compliance process, our solution not only ensures adherence to EUDR requirements but also saves time and resources for businesses. This ease of use, combined with the speed and accuracy of our verification system, positions our service as an indispensable tool for companies aiming to maintain regulatory compliance and support sustainable sourcing practices.

We begin by determining the origin of your product through a request that is sent directly to your supplier. We provide an email-based form to your supplier, who will then submit the origin information for this product, which consists of the origin country, the upstream producer of the commodity, and the geolocation. Information pertaining to the geolocation of a product can be provided in the form of a dot on a map for plots that are under four hectares, and a polygon shape for larger, more complex areas of production. Prewave will also provide suppliers the possibility to forward the requests upstream the supply chain—and clients will be able to request this information at any time.

In addition to the origin information, the supplier can also provide companies with a due diligence statement, which facilitates the process. This statement is registered at the European Union Information System—and the Prewave platform will interface with it.

After gathering the origin and due diligence information, we move into the risk assessment stage. This step begins with the country risk benchmarking, which, while not yet available, will classify countries into different risk categories: low, standard, and high risk.

This classification is important because it will determine the information that must be submitted. For low-risk countries, for example, the risk assessment requirement will be reduced. This means that only the gathering of information—origin and due diligence statements—will be needed. In comparison, high-risk countries will be mandated to undertake additional steps, including more detailed risk assessments, as well as mitigation measures.

We currently expect that large parts of the European Union, as well as other well-developed countries, will fall under the low-risk category. It is unclear which countries will fall under the high-risk classification. What we do know is that any country that falls into this category will be under severe pressure from a trade perspective with the EU.

Risk-Based Approach

The risk assessment stage is structured into separate streams.

Step 1: Verifying the origin of the product

First, we must verify the origins that were provided by your suppliers and that are now attached to your inbound product in the Prewave platform. This is done by checking satellite data against the definition of deforestation under the EUDR.

The origins that are provided - the geolocation that we have mapped - will be then checked against the definition of deforestation, meaning no deforestation or forest degradation after the 31st of December 2020, or rather only negligible risk for that, and that can only be checked using satellite data and at Prewave, we are also combining satellite data providers (both public and private) to ensure that we only provide the most accurate satellite data to our clients.

Once we've verified that the product is deforestation free, we move onto the next stage.

Step 2: Assessing whether the origin and production process comply with relevant local legislation

The EUDR mandates that products adhere to the applicable laws of the country where they are produced, concerning various aspects, including:

- Land use rights
- Environmental protection measures
- Forest-related regulations, encompassing forest management and biodiversity conservation specifically concerning wood harvesting
- Rights of third parties
- Labour rights
- Human rights safeguarded under international law
- The principle of free, prior, and informed consent (FPIC), as articulated in the UN Declaration on the Rights of Indigenous Peoples
- Tax regulations
- Anti-corruption measures
- Trade and customs regulations

To ensure that your product complies with relevant local legislation, we employ a risk-based approach, similar to what we've done for the German Supply Chain Act (LkSG) and the CSDDD.

We do this by combining data sets (country, industry, and commodity information) with a screening of media data—in this case, of the producers that are upstream in the supply chain. If elevated risks are found during this process, we also deploy follow-up questionnaires.

Step 3: Risk mitigation

As a next step (as detailed in art. 11), companies must mitigate risks. When it comes to adhering to local legislation, companies can work with the supplier to apply mitigation measures and reduce the likelihood of noncompliance under this provision.

For this step, Prewave provides an action planning module, one that is already in use by customers for existing compliance purposes. With this, companies are able to plan and implement audits, trainings, and self-assessments, thus ensuring a more detailed view—and assessment—of each risk.

Clients will be able to track all of this with Prewave. We also plan on extending our Action Platform and collaborate with partners that target EUDR requirements more closely.

Due Diligence Reporting

At present, the EU Information System, where the due diligence statements are filed and requested, is still in its piloting phase. This means that companies must be prepared for and anticipate uncertainties related to the EUDR, particularly in relation to due diligence statements. Questions arise: will companies be required to submit multiple statements verifying the deforestation-free status of their products, or will one statement suffice?

Prewave offers a solution for every scenario: a simplified and standardised reporting approach directly through the platform. Companies will be able to generate due diligence statements based on the origin information that is already in the system—for every import and/or export transaction—as well as update the information if needed.

While further details remain unclear, we do know that the EU will require due diligence statement reference numbers for all imports/exports with relevant HS codes. Companies must remain vigilant, as competent authorities will employ a risk-based approach within their information system by verifying a certain percentage of the provided due diligence statements.

By leveraging Prewave's platform and proven success with other report-based legislation, companies can generate automated reports that align with the EUDR's specifications, streamlining the compliance process for businesses.

Beyond Compliance: Enhancing Business Value

Prewave's value proposition extends far beyond merely meeting the regulatory demands of the EUDR. It provides businesses with a strategic opportunity to transform their supply chain operations into a competitive advantage and a hallmark of sustainability leadership. By integrating Prewave's tools into their supply chain management practices, companies can enhance operational resilience, effectively mitigate risks, and improve their corporate reputation among stakeholders.

Industry leaders such as Magna International, Kärcher, and Hilti Corporation have demonstrated the transformative impact of Prewave on supply chain risk management. These companies have utilised Prewave's capabilities not only to comply with global regulations, but also to cultivate a proactive risk management culture that promotes sustainable and ethical business practices.

Prewave's solution offers a dual advantage: it helps companies meet the rigorous requirements of the EUDR while also leveraging compliance efforts to enhance business value. By improving risk management, transparency, and sustainability, organisations can adeptly navigate the complexities of modern supply chains and establish themselves as leaders in corporate responsibility and sustainability.

Conclusion

Coming into effect on December 30, 2024, the EUDR sets stringent requirements for the importation of products linked to deforestation, aiming to reduce the EU's impact on global deforestation and forest degradation while addressing critical environmental and social concerns.

To navigate the complexities of compliance with the EUDR, innovative solutions such as Prewave's offer comprehensive tools for risk assessment, due diligence, and reporting. By leveraging advanced analytics, machine learning, and automated reporting capabilities, businesses can proactively identify and mitigate risks, ensure supply chain transparency, and streamline compliance processes.

As businesses look for solutions, they not only contribute to the preservation of global forests and biodiversity but also position themselves as responsible protectors of the environment. Through collective action and innovative solutions, the EUDR paves the way for a more sustainable future in global trade, where economic prosperity goes hand-in-hand with environmental protection and social responsibility.

Get started

Watch our recent and upcoming webinars on the EUDR on YouTube, follow us on LinkedIn for the latest news and updates around our compliance solutions, and book a meeting to kick off your EUDR project!

[Book a demo](#)[Follow us](#)[EUDR webinar](#)