



Getting “Supply Chain Ready”

What Does the EUDR Mean for Businesses?

Imagine a world where you can be sure that your morning cup of coffee doesn't come at the expense of precious forest. A world where you know when you buy clothes that their manufacture didn't entail the destruction of ecosystems.

The European Union (“EU”) is building towards such a future through its [Deforestation-free Regulation](#) (“EUDR”). This came into force in June 2023; its prohibitions will apply from December 2024.

The EUDR marks a significant shift in how the EU tackles the environmental impact of producing everyday items. It holds companies to account for their environmental footprint by requiring them to map and report every part of their supply chain.

The new law applies to seven commodities – cattle, cocoa, coffee, oil palm, rubber, soy and wood – and to “derived products” such as meat, chocolate and paper. A business importing any of these to the EU, or exporting them from it, must be able to prove that the goods did not originate from recently deforested land or contribute to forest degradation. (For these purposes, “recently deforested” means that the land was converted to agricultural use after 31 December 2020.)

At the core of the EUDR is a relatable mission: to curb deforestation, reduce greenhouse gas emissions and preserve biodiversity. The aim is to cut the carbon emissions of EU production and consumption by 32 million metric tons annually.

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The EUDR establishes a clear line in the sand: from 30 December 2024, only deforestation-free products can be placed on, or sold from, the EU market. (Small businesses, broadly speaking those with fewer than 250 employees and net turnover under EUR 40 million, face a later deadline: 30 June 2025.)

The rules demand compliance with the producing country's environmental and land-use laws. But, unlike previous EU initiatives in this field, the EUDR confronts practices that may in fact be legal in the country of production. In targeting deforestation driven by agricultural expansion, the EU is leading the way in rethinking supply chains. The only exempt products are those made entirely from recycled materials that would otherwise be discarded as waste.

Although legal implementation of the EUDR lies with authorities in EU Member States, non-government organisations (“NGOs”) and company shareholders will likely be the most ardent enforcers. Private parties will also be allowed to submit substantiated concerns regarding failures of compliance.

As scrutiny comes from all angles, including consumers, large companies with global supply chains can expect to be under the microscope. They should act to review their supply chains, understand the risks and address regulatory requirements, while showing their appetite for engaging positively with the new regime.

The Road to Compliance

With just six months until the EUDR takes full effect, companies must start preparing now. Policies, management systems and the integrity of supply chains all need close attention.

Like regulations targeting forced labour and corruption, the EUDR places the onus of compliance squarely on the shoulders of the company bringing the product to market.

Thankfully, the regulation itself provides a roadmap for due diligence. This involves meticulously gathering evidence of products’ compliance, conducting thorough risk assessments for each item, and implementing mitigation strategies. Independent audits, additional documentation and collaborative capacity-building programmes with suppliers are all valuable tools in this process.

A further noteworthy feature of the EUDR is its emphasis on transparency measures. Businesses must upload a due diligence statement, essentially a public pledge, to the relevant national authority. This declares a negligible risk of non-compliance and embraces responsibility for the product’s adherence to the regulations. While full access to such statements is limited to authorities and traders, some of the information will be available to the general public.

As with regulation of this nature, it is not straightforward; there are still many questions that companies are grappling with, including auditing supply chains that span continents (and thus multiple legal regimes) and assessing the material date when land was cleared. There is never a definitive answer, but the key is to build a programme that you can enhance as your knowledge of the supply chain grows.

The Costs of Non-Compliance

The consequences of breach will be significant. Among them are confiscation of goods and fines of up to 4% of the offender’s EU turnover, as well as exclusion from lucrative public funding and public procurement processes. Companies guilty of serious or repeated infringements risk a temporary ban from the entire EU market.

— THE THREE KEY STEPS COMPANIES SHOULD TAKE:

1. **Assess their supply chains.** A thorough risk assessment and due diligence exercise will bring to light vulnerabilities lurking within the supply chain. While established organisations may already make use of both a supplier code of conduct and routine internal audits, those lacking such protocols should consider this the perfect time to implement them.
2. **Bridge gaps.** The gap analysis gleaned from the risk assessment will serve as a strategic blueprint. To address weaknesses, companies can either leverage their existing systems of vendor management or create more robust ones. These improvements may necessitate significant changes within the supply chain or product offerings. Being proactive about this makes operations more resilient and heralds a more sustainable future for both the company and the environment.
3. **Build a fortress of evidence.** Companies must be prepared to demonstrate their commitment. Every step taken towards compliance, from policy formulation to implementation, needs to be scrupulously documented. This includes tracking data not just from internal processes but also from suppliers. Seamlessly aligned communication is crucial. To maintain trust in a climate of heightened concern over greenwashing and ESG compliance, companies must ensure that their reported actions match their actual efforts.



Conclusion: The Green Advantage

The EUDR is one of many new regulations in the realm of ESG. Another example is the recently approved [Corporate Sustainability Due Diligence Directive \(CSDDD\)](#), which obliges companies to manage the environmental and social impacts of their entire supply chain, from raw material extraction to delivery of the finished product.

As ESG laws and policies proliferate, companies must take responsibility for the downstream effects of their choices and actions. Those who quickly and diligently embrace the EUDR's framework will find themselves well equipped to navigate the evolving landscape.

At the same time, it is important to grasp that the EUDR is not simply a regulatory box to tick. It promises to foster stronger, more collaborative relationships between operators and suppliers.

Moreover, consumers are becoming increasingly eco-conscious, and companies that demonstrate a commitment to deforestation-free products will gain a competitive edge.

By prioritising ethical sourcing and environmental responsibility, you enhance your company's reputation. It's a means to nurture brand loyalty and drive long-term value.

As you embark on this journey, a trusted partner is vital. At FTI Consulting we can assist with supply chain engagement, help identify and rectify compliance gaps, and ensure effective communication of these efforts.

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