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ESG Newsletter

EUDR – European Union Deforestation Regulation

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EUDR - EU regulation on deforestation and forest degradation

Key changes and their relevance for business undertakings

The Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No. 995/2010 ("EUDR") is a very important ESG regulation that came into force on 29 June 2023. This stringent EU legislation aims to stop global deforestation and forest degradation.

The EUDR imposes specific obligations on companies importing and placing on the EU market products that contribute to deforestation, such as soy, cocoa, coffee, palm oil, wood and derived products.

The Regulation requires undertakings to comply with due diligence principles throughout every stage of the supply chain. The new provisions cover a wide range of sectors and may have serious implications for both large companies and small and medium-sized enterprises (SMEs).

When will the new provisions come into force?



As outlined in the Regulation, the key obligations were initially set to take effect as of 30 December 2024. However, on 2 October 2024, the European Commission published a communication with a proposed 12-month postponement, shifting the date to **30 December 2025**.

The communication itself does not yet determine that the key provisions of the Regulation will enter into force on a different date as this still requires additional legislative action. However, **the change of the date seems very likely**.

New obligations under the EUDR



The Regulation introduces a number of requirements that companies must comply with to lawfully place products on the EU market. A key objective of the EUDR is to ensure that **no products originate from areas affected by deforestation after 31 December 2020**.

<p>Verification of raw material origin</p>	<p>Undertakings must prove that their products do not contribute to deforestation. They will be required to provide the geolocation of all plots of land where raw materials were produced. The geolocation can be verified using satellite technology, such as the EGNOS/Galileo systems, allowing the origin of products to be closely monitored.</p>
<p>Risk assessment</p>	<p>Companies must regularly carry out supply chain risk assessments, verifying, among other things, the country of origin of products and potential deforestation risks. Where the risk is high, additional risk mitigation measures must be implemented.</p>
<p>Due diligence statement</p>	<p>For each batch of products subject to the Regulation, a due diligence statement must be issued before the goods are placed on the market. These statements must be stored for at least five years and may be inspected by the relevant supervisory authorities.</p>
<p>Monitoring systems</p>	<p>Undertakings will be required to invest in advanced supply chain monitoring systems to continuously track and report the origin of products. These systems should include data analytics, satellite and even blockchain technologies to help meet the requirements.</p>

Products subject to the EUDR

The Regulation applies to a wide range of products involving deforestation, including:



soya

mainly used for animal feed production



cocoa and coffee

key products exported from tropical countries



palm oil

widely used in the food, cosmetics and chemical industries



wood

whose production is clearly the primary cause of deforestation



cattle

involving the conversion of forests to pasture, which is an important factor in deforestation

Products derived from these raw materials are also subject to the requirements and must comply with the same strict rules.

This means that obligations relating to the placing of wood on the market may also affect undertakings from such sectors as the furniture or paper industries. For this reason, the scope of application of the EUDR will be very wide.



Impact of the EUDR on business undertakings

The implementation of the EUDR means that undertakings will face a number of new challenges related to **aligning their operations with the regulatory requirements**. Below are the key areas affected by the new regulations:

Higher operating costs	<p>The costs associated with implementing monitoring, reporting and risk assessment systems can be significant, especially for undertakings operating globally. Additional capital expenditures related to certification, data analytics and supply chain tracking technologies will be necessary to meet the EUDR requirements.</p>
Risk of sanctions	<p>Breaching the EUDR can result in severe financial sanctions. Penalties include fines of up to 4% of the undertaking's annual turnover, confiscation of goods and even a ban on placing them on the EU market. Undertakings must therefore closely monitor their activities to avoid the penalties.</p>
Increased social pressure	<p>Consumers and investors have a growing expectation of greater transparency and sustainability. Undertakings that will implement the new regulations quickly and effectively can strengthen their reputation as socially responsible entities, which may translate into a competitive advantage.</p>
Necessity of internal regulations	<p>To comply with the EUDR, undertakings will be required to implement appropriate procedures and policies, such as codes of good practice for their suppliers.</p>

How can you prepare for the changes under the EUDR?

To effectively implement the EUDR regulations and minimise the risk of financial penalties, undertakings should take several preparatory measures, including in particular:

Due diligence systems



Undertakings must invest in technologies to **monitor the supply chain** and collect data on product origins. Implementing automated risk analysis systems and geolocation tools will help ensure compliance.

Close cooperation with suppliers



To ensure that products comply with the new regulations, undertakings should establish closer relationships with their suppliers, enabling more effective control of the origin of raw materials. **Supplier details must be stored and reviewed** regularly.

Process audits



Regular internal and external audits can help **detect non-compliance** and enable prompt **corrective actions**.

Training



It is crucial that all persons responsible for supply chain management are properly **trained in the EUDR requirements**. This will enable them to better understand their new responsibilities and implement them more effectively.

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