

# Understanding EUDR Compliance for AHFA Members

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# Navigating European Deforestation-Free Requirements

# Purpose of This Presentation

THIS IS NOT LEGAL ADVICE OR GUIDANCE! Let's get that out of the way!

The regulatory landscape is changing faster than we can all keep up. This presentation is to provide each of you with the broad strokes of the EUDR and how it could potentially affect you.

Please note, as stated above, these regulations are changing all the time (including last week)! This PPT is a primer for all of you to begin understanding the EUDR only! The information here could easily be out of date (as of last week) – you are forewarned.... Therefore, you are forearmed!

# Purpose of the EUDR

The EUDR, or the EU Deforestation Regulation, aims to prevent products linked to deforestation and forest degradation from entering the European market by ensuring that companies conduct due diligence to verify their products are sourced from deforestation-free areas, thereby reducing the EU's contribution to global deforestation and promoting sustainable practices in supply chains of certain commodities like soy, palm oil, and timber.

# Products Impacted by the EUDR

Cattle, Cocoa, Coffee, Palm Oil, Soy, Timber, Rubber



# Why the EUDR Matters

The European Union Deforestation Regulation (EUDR) significantly impacts U.S. furniture exporters and importers due to its stringent requirements aimed at preventing deforestation. Key considerations include:

## **Scope of the EUDR:**

The EUDR targets commodities such as timber and derived products like furniture. It mandates that these products must be "deforestation-free," meaning they are not sourced from land that has been deforested. Additionally, products must comply with the relevant legislation of the country of production.

**NOTE** – The European Union just published an update last week with changed conditions and timelines for implementation.

# Defining Deforestation-Free

The European Union Deforestation Regulation (EUDR) defines "deforestation-free" as follows:

## 1. No Deforestation After **December 31, 2020**:

- Products are considered "deforestation-free" if they are not sourced from land that was subject to deforestation after **December 31, 2020**. This includes land converted from forests to agricultural use, plantations, or any other purpose.

## 2. Forest Definition:

- A forest is defined as land spanning more than **0.5 hectares** with:
  - Trees higher than **5 meters**, and
  - A canopy cover greater than **10%**, or the potential to reach these thresholds naturally, excluding land primarily under agricultural or urban use.

## 3. Legal Compliance in Country of Origin:

- The product must also comply with relevant **local laws and regulations** concerning land use, ownership rights, and resource extraction.

# Key Stakeholders Regulated by the EUDR

## Operators

### •Definition:

- Operators are individuals or companies that first place regulated commodities or products on the **EU market**, or export them from the EU. **HINT** – *Think Lacey Act Violations!*

## Traders

### •Definition:

- Traders are individuals or companies that buy or sell regulated commodities or products already on the **EU market**.

# Core Compliance Pillars of the EUDR

## 1. Traceability

### Requirement:

- Operators must provide precise geolocation information for the land where the regulated commodities were produced.
- Each supply chain segment must be traceable, ensuring that the origin of commodities and derived products can be verified.

### Purpose:

- Enables authorities to check if products come from areas that were deforested or degraded after the EUDR's cut-off date (**December 31, 2020**).



# Core Compliance Pillars of the EUDR

## 2. Due Diligence

### Requirement:

- Operators must conduct due diligence to ensure their products are:
  - **Deforestation-Free:** Not linked to deforestation or forest degradation.
  - **Legally Compliant:** Conforming to relevant laws in the country of production (e.g., land-use rights, labor laws).
- A formal **due diligence statement** must be submitted before products can be placed on the EU market.

# Core Compliance Pillars of the EUDR

## 2. Due Diligence

### Key Steps in Due Diligence:

- **Information Collection:** Gather geolocation data, producer details, and proof of legal compliance.
- **Risk Assessment:** Evaluate the risk of deforestation or legal non-compliance in the supply chain.
- **Risk Mitigation:** Implement corrective measures if risks are identified, such as sourcing from alternative suppliers.

# Core Compliance Pillars of the EUDR

## 3. Product Scope and Deforestation-Free Status

### Requirement:

- Commodities covered include **cattle, cocoa, coffee, palm oil, soy, timber, and rubber**, and their derived products.
- Products must meet the criteria for being "deforestation-free," meaning they are not linked to land cleared or forests degraded after **December 31, 2020**.

### Purpose:

- Ensures that only sustainable, deforestation-free products are placed on the EU market or exported from the EU.

# Core Compliance Pillars of the EUDR

## 4. Risk-Based Enforcement

### Requirement:

- Authorities use a risk-based approach to enforcement, focusing on:
  - **Country Benchmarking:** Countries or regions are classified as **low-, standard-, or high-risk** for deforestation.
  - **Enhanced Scrutiny:** Higher-risk regions face more rigorous checks, while lower-risk regions have simplified compliance requirements.

### Purpose:

- Allocates resources effectively and ensures targeted monitoring of high-risk

# Core Compliance Pillars of the EUDR

## 5. Record-Keeping and Reporting

### Requirement:

- Operators and traders must maintain records for at least **5 years**.
- Traders must document their suppliers and buyers to ensure traceability, while operators must provide detailed compliance reports.

### Purpose:

- Facilitates transparency and enables regulators to track products across supply chains.

# Core Compliance Pillars of the EUDR

## 6. Penalties and Compliance Monitoring

### Requirement:

- Non-compliance can lead to significant penalties, including:
  - Fines proportional to the environmental damage caused.
  - Temporary or permanent exclusion from the EU market.
- Competent authorities regularly monitor compliance and investigate potential violations.

### Purpose:

- Ensures accountability and deters violations of the regulation.

# Core Compliance Pillars of the EUDR

<u>Pillar</u>	<u>Objective</u>
<b>Traceability</b>	Ensure products can be traced back to their source.
<b>Due Diligence</b>	Mitigate risks of deforestation and ensure legality.
<b>Deforestation-Free Status</b>	Prevent products linked to deforestation or forest degradation.
<b>Risk-Based Enforcement</b>	Prioritize resources based on country or region risk levels.
<b>Record-Keeping</b>	Maintain traceability through detailed records and reporting.
<b>Penalties</b>	Enforce compliance through fines and sanctions for violations.



# The Due Diligence Statement (DDS)

The **Due Diligence Statement** is a critical component of compliance under the **EUDR**. Operators submit a formal declaration to confirm that their products meet the EUDR's requirements, ensuring they are deforestation-free and legally compliant.



# Key Features of the DDS

## 1. Purpose:

The statement serves as proof that the operator has conducted due diligence to ensure the commodities or products:

- Are not linked to deforestation or forest degradation after **December 31, 2020**.
- Comply with the relevant laws in the country of production.

# Key Features of the DDS

## 2. Contents:

Information about the product and its supply chain, including:

- Geolocation of the land where the commodity was produced.
- Details of the supplier(s).
- Results of the risk assessment process.
- Any risk mitigation measures taken.

A declaration confirming that the product meets the EUDR's requirements.

# Key Features of the DDS

## 3. Submission:

- The statement must be submitted to the relevant **competent authority** in the EU member state where the product is being placed on the market or exported.
- The product cannot legally enter the EU market without this statement.

# Role of the DDS

## **Risk Management:**

- Submitting the due diligence statement ensures that operators have assessed and mitigated risks of deforestation or illegal practices in their supply chain.

## **Accountability:**

- By signing the statement, operators accept legal responsibility for the product's compliance.
- Authorities can use the statement to investigate non-compliance or verify supply chain data.

## **Transparency:**

- The statement fosters supply chain transparency, allowing authorities to trace products back to their source and ensure adherence to EUDR standards.

# Failure to Provide a DDS

## Consequences:

- Products cannot be placed on the EU market without a valid due diligence statement.
- Non-compliance may result in:
  - Fines proportional to the environmental damage.
  - Removal of the product from the EU market.
  - Potential bans on market access for the operator.

# Supply Chain Requirements of the EUDR

## 1. Geolocation Information

- **Requirement:**

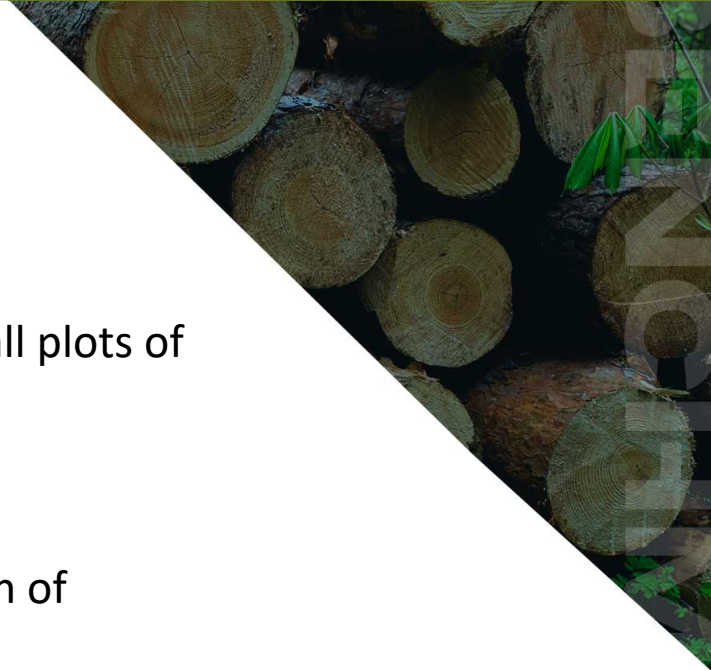
- Operators must collect **geolocation coordinates** of all plots of land where the commodities were produced.

- **Scope:**

- Geolocation data must precisely identify the location of production or harvest.
- The data must cover the entire supply chain, from raw material extraction to final product manufacturing.

- **Purpose:**

- To verify whether the land complies with the EUDR's cut-off date for deforestation (December 31, 2020)



# Supply Chain Requirements of the EUDR

## 2. Traceability

### Requirement:

- Operators must establish a clear chain of custody for the commodities, ensuring that the origin of the product and its movement through the supply chain can be traced.

### Documentation Needed:

- Supplier information.
- Records of product handling, processing, and distribution.
- Proof of compliance at each stage of the supply chain.

### Purpose:

- To ensure transparency and accountability throughout the



# Supply Chain Requirements of the

## EU Deforestation Regulation (EUDR)

### •Requirement:

- Operators must assess the risk that their commodities or products are linked to deforestation or forest degradation.

### •Steps:

- Analyze country and regional risks (e.g., deforestation rates, governance issues).
- Evaluate supplier practices and compliance with local laws.
- Use benchmarking systems (e.g., low-, standard-, or high-risk countries) provided by the EU.

### •Purpose:

- To identify and mitigate risks of non-compliance within the





# Supply Chain Requirements of the EUDR

## 4. Risk Mitigation

### Requirement:

- If risks are identified, operators must take action to address and minimize them before placing the products on the EU market.

### Actions:

- Switching to compliant suppliers.
- Strengthening monitoring and verification systems.
- Enhancing supplier training on deforestation-free practices.

### Purpose:

- To ensure all risks are effectively managed, reducing the likelihood of deforestation-linked products entering the market.

# Supply Chain Requirements of the EUDR

## 5. Legal Compliance

### Requirement:

- Commodities must comply with all relevant laws in the country of production, including:
  - Land tenure and use rights.
  - Environmental protection laws.
  - Labor rights and other regulatory requirements.

### Purpose:

- To ensure ethical and sustainable practices in commodity production.

# Supply Chain Requirements of the EUDR

## 6. Due Diligence Statement

### Requirement:

- Operators must submit a formal **due diligence statement** to confirm that:
  - All supply chain requirements have been met.
  - The products are deforestation-free and legally compliant.

### Purpose:

- To demonstrate compliance with the EUDR and provide assurance to regulators.

# Supply Chain Requirements of the EUDR

## 7. Record-Keeping

### •Requirement:

- Operators and traders must maintain supply chain records for at least **five years**.

### •Documentation Includes:

- Supplier contracts.
- Geolocation data.
- Risk assessment and mitigation reports.

### •Purpose:

- To facilitate audits and investigations by competent authorities.

# Implications for Supply Chains

## Increased Documentation Needs:

- Companies must invest in systems to collect, store, and manage geolocation and traceability data.

## Enhanced Supplier Engagement:

- Close collaboration with suppliers is essential to ensure compliance, particularly for commodities sourced from high-risk regions.

## Compliance Costs:

- Operators may face higher costs due to additional compliance requirements, such as conducting audits and upgrading traceability systems.

## Market Access Risks:

- Non-compliance can result in penalties, product removal from the EU market, and reputational damage.



# Supply Chain Requirements Summary

## Requirement

## Key Elements

## Purpose

### **Geolocation**

Precise location data for production/harvest sites

Verify deforestation-free compliance.

### **Traceability**

Clear chain of custody across supply chains

Ensure transparency and accountability.

### **Risk Assessment**

Identify deforestation or legal risks

Proactively manage non-compliance risks.

### **Risk Mitigation**

Address risks through supplier changes or audits

Eliminate deforestation risks in supply chains.

### **Legal Compliance**

Conformance with local laws and regulations

Promote ethical and sustainable production.

### **Due Diligence Statement**

Formal submission to EU regulators

Demonstrate compliance with EUDR.

### **Record-Keeping**

Retain supply chain documentation for 5 years

Enable audits and regulatory checks.

# Country Risk Classifications

## Low-Risk

**Definition:** Countries or regions where the risk of deforestation and forest degradation is minimal or negligible.

### Implications for Operators:

- Simplified due diligence requirements.
- Operators must still collect geolocation data but may not need to conduct an in-depth risk assessment.

**Examples:** Countries with strong forest governance, minimal deforestation rates, and high compliance with local and international environmental standards.

# Country Risk Classifications

## Standard-Risk

**Definition:** Countries or regions that fall between low-risk and high-risk levels, with moderate risks of deforestation and forest degradation.

### Implications for Operators:

- Full due diligence applies, including geolocation data collection, risk assessment, and risk mitigation measures (if necessary).

**Examples:** Most countries are expected to fall into this category, requiring a balanced approach to risk evaluation.



# Country Risk Classifications

## High-Risk

**Definition:** Countries or regions where deforestation and forest degradation are significant, and there is a high likelihood of non-compliance with EUDR requirements.

### Implications for Operators:

- Stringent due diligence obligations.
- Detailed geolocation data, thorough risk assessments, and robust risk mitigation measures are mandatory.
- Increased scrutiny by EU authorities.

•**Examples:** Countries with high deforestation rates, weak environmental laws, or poor enforcement of existing regulations.

# Practical Steps to Prepare

## 1. Understand the EUDR Requirements

### Familiarize Yourself:

- Understand the commodities and products covered (e.g., cattle, cocoa, coffee, palm oil, soy, timber, rubber, and derivatives).
- Know the "deforestation-free" criteria and legal compliance standards.
- Review the due diligence obligations, including traceability, risk assessment, and mitigation.

# Practical Steps to Prepare

## 2. Map and Assess Your Supply Chain

### Identify Sources:

- Map your entire supply chain to identify all suppliers, intermediaries, and production locations.

### Collect Geolocation Data:

- Obtain geolocation coordinates for the land where commodities are grown or produced.

### Analyze Current Practices:

- Evaluate existing supply chain practices for risks of deforestation and legal non-compliance.



# Practical Steps to Prepare

## 3. Conduct Risk Assessments

### Assess Country and Regional Risks:

- Use the EU's country risk classifications (low, standard, high) to identify areas requiring enhanced scrutiny.

### Evaluate Supplier Risks:

- Examine supplier history, transparency, and compliance with local and international standards.

### Document Findings:

- Maintain records of potential risks, mitigation measures, and overall supply chain risk profiles.

# Practical Steps to Prepare

## 4. Develop a Due Diligence System

### Establish Internal Processes:

- Create a system to manage traceability, risk assessments, and risk mitigation.

### Train Teams:

- Ensure relevant staff are trained on EUDR compliance requirements and due diligence processes.

### Engage Technology:

- Use software solutions to track geolocation data, manage supplier documentation, and streamline compliance reporting.

# Practical Steps to Prepare

## 5. Strengthen Supplier Engagement

### Communicate Requirements:

- Inform suppliers about EUDR compliance obligations, including the need for geolocation data and legal adherence.

### Evaluate and Audit:

- Conduct supplier evaluations and audits to ensure alignment with EUDR standards.

### Build Partnerships:

- Collaborate with suppliers to implement sustainability practices and improve transparency.

# Practical Steps to Prepare

## 6. Establish Risk Mitigation Measures

### Switch to Compliant Sources:

- Transition to suppliers and regions with low deforestation risk where necessary.

### Enhance Monitoring:

- Introduce regular monitoring and verification mechanisms for high-risk suppliers.

### Develop Corrective Action Plans:

- Address identified risks through supplier education, process changes, or alternative sourcing.

# Practical Steps to Prepare

## 7. Prepare the Due Diligence Statement

### Compile Documentation:

- Gather required information, including geolocation data, supplier details, and risk assessment reports.

### Create the Statement:

- Draft a due diligence statement confirming compliance with the EUDR.

### Submit on Time:

- Ensure the statement is submitted to the relevant EU authority before placing products on the market.



# Practical Steps to Prepare

## 8. Maintain Records

### Keep Documentation for 5 Years:

- Store geolocation data, due diligence statements, risk assessments, and supplier communications.

### Ensure Accessibility:

- Records must be readily available for audits and inspections by competent authorities.

# Practical Steps to Prepare

## 9. Monitor Regulatory Updates

### Stay Updated:

- Keep track of changes in the EUDR, including country risk classifications and implementation guidance.

### Engage with Industry Groups:

- Join industry associations or initiatives to share best practices and stay informed.

# Practical Steps to Prepare

## 10. Plan for Contingencies

### Prepare for Enforcement:

- Anticipate potential supply chain disruptions and develop alternative sourcing strategies.

### Budget for Compliance:

- Allocate resources for compliance measures, including audits, technology upgrades, and training.



**WELCOME TO THE  
PARTY, PAL.**

IFC

# Thank You!

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