



Overview of the EU Deforestation and Forest Degradation Regulation (EUDR)

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Agenda

- A Little Background
- EU Trade in Affected Commodities
- What is the EUDR
- Main Components of the EUDR
- Strategic Considerations

A Little Background*

Deforestation versus Forest Degradation: defined

Deforestation is defined as “the conversion of forest to agricultural use, whether human-induced or not”. [Notably, this definition does not include conversion for non-agricultural uses such as mining or urban development] (Note 3)**

Forest degradation is defined as “structural change to forest cover, taking the form of the conversion of: (a) primary forests or naturally regenerating forests into plantation forests or into other wooded land; or “primary forests into planted forests (e.g. oil palm).” *(Article 2-7)*

For the purposes of this presentation, the term deforestation refers to both deforestation as well as forest degradation as defined within the EUDR *(Article 1a)*

* Regulation (EU) 2023/1115 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1115>

** The EUDR Regulation (linked above) has a preamble consisting of 86 notes

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A Little Background

Rationale behind the EUDR

- ***Agricultural expansion drives 90% of global deforestation/degradation with over half being converted into cropland and about 40% into rangeland (Note 16)***
- An estimated 10-15 million hectares of primary forest has been lost since 1990 (Note 2)
- The EU imported and consumed 1/3 of globally traded agricultural products associated with deforestation between 1990 and 2008 (Note 18)...
- ...and was responsible for 10-11% of annual deforestation (Note 18)
- Previous efforts to reduce deforestation and forest degradation by excluding illegal timber from the EU have not been effective in reducing deforestation, primarily due to leakage (Note 32)
- To better meet their commitment to reducing global warming emissions and slowing climate change, the EU had adopted the EU Deforestation Regulation (EUDR)

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The EUDR

EUDR Timeline

- The EU adopted the EUDR Regulation to ensure that commodities linked with deforestation or forest degradation are not imported into, or exported from, the EU (*Article 38*).
- EUDR enacted December 6th, 2022
- EUDR implemented June 29th, 2023
- EUDR enforcement for most companies begins December 30th, 2024
- Enforcement for micro and small businesses begins June 30th, 2025

The EUDR

The following commodities are within the scope of the proposed regulation:



Wood



Soy



Rubber



Cattle



Coffee



Oil Palm



Cocoa

Detailed lists of products are outlined in Annex I of the regulation, using the EU customs codes.

Source: Preferred by Nature 2024

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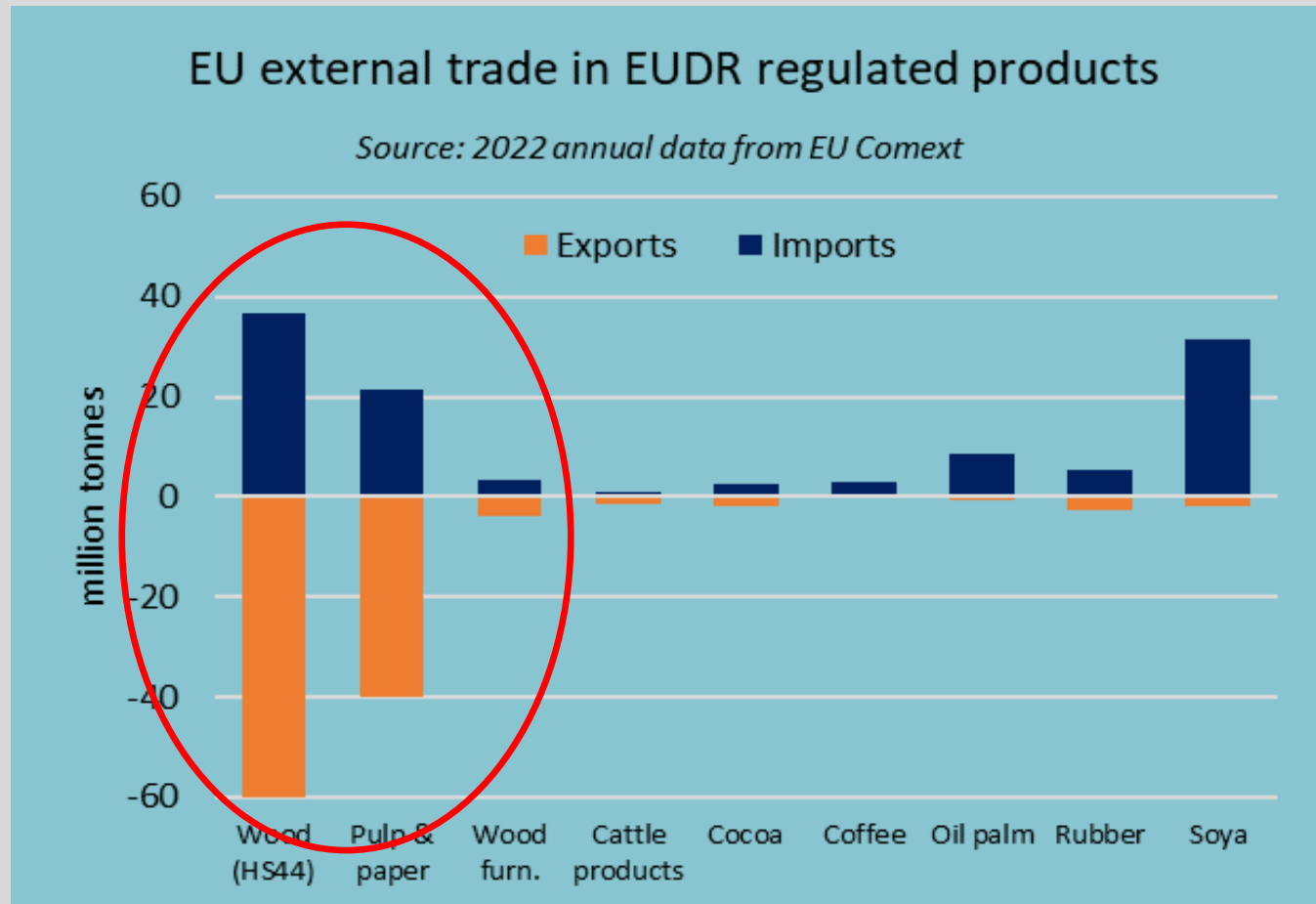
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Source: Preferred by Nature 2024

Affected wood products include:

- Examples of derived products for wood include the following HS codes: 44 (wood products), 47 (wood pulp/fibers), 48 (paper and paperboard), 9403 (Wood furniture and parts) and 940610 (prefab buildings of wood) *(Annex 1)*

EU Trade in Affected Commodities



Wood-based products accounted for about 90% of all EU exports and 50% of all trade in EUDR-regulated products in 2022 and it is a huge concern for the domestic EU wood processing sector.

Source: American Hardwood Export Council 2023

Main Components of the EUDR

EUDR Regulation *(Article 3)*

“Relevant commodities and relevant products shall not be placed or made available on the EU market or exported from EU countries, unless:

- 1. *they are deforestation-free, and***
2. they have been produced in accordance with the relevant legislation of the country of production (legality), and
3. they are covered with a due diligence statement”

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Main Components of the EUDR

1. *Deforestation free means:* (Article 2-13)

- that the relevant products contain, have been fed with, or have been made using, commodities that were produced on land that has **not been subject to deforestation or forest degradation after 31 December 2020**

Main Components of the EUDR

2. *“Relevant legislation of the country of production’ means the laws applicable in the country of production concerning the legal status of the area of production in terms of: (Article 2-40)*

- (a) land use rights;
- (b) environmental protection;
- (c) forest-related rules, including forest management and biodiversity conservation, where directly related to wood harvesting (including that the timber has been legally harvested);
- (d) third parties’ rights;
- (e) labour rights;
- (f) human rights protected under international law;
- (g) the principle of free, prior and informed consent (FPIC), including as set out in the UN Declaration on the Rights of Indigenous Peoples;
- (h) tax, anti-corruption, trade and customs regulations”

Main Components of the EUDR

3. *Due Diligence statements should ensure negligible risk, where:*

- ***On the basis of the collected information, operators shall carry out a risk assessment to establish whether the relevant products are non-compliant. Only when the risk assessment reveals no or a negligible risk of non-compliance may the products be placed on the market or exported*** (Article 9, Article 10-1 and Article 2-26).
- Two important pieces of information required for the risk assessment include:
 - a. geolocation data for all forests where timber was harvested (Article 9-1d)
 - b. A risk assessment based on the level of risk assigned to the country of origin (Article 10-2a)

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Main Components of the EUDR

a. Geolocation of forests where timber is harvested

- ***‘geolocation’ means the geographical location of each plot of land is described using latitude and longitude coordinates to at least six decimal digits; for plots of land of over four hectares used for the production of the relevant commodities other than cattle, this shall be provided using polygons with sufficient latitude and longitude points to describe the perimeter of each plot of land*** (Article 2-28).
- any deforestation or forest degradation detected on a plot of land shall automatically disqualify all relevant products from that plot of land from being placed on the EU market or being exported from the EU (Article 9-1d)

Main Components of the EUDR

a. Geolocation of forests where timber is harvested

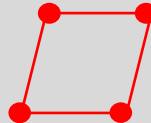
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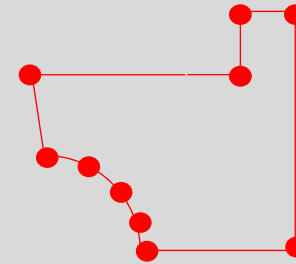
- a. Number of geolocation points needed to determine a polygon.
- For a single plot of land within a single real estate property less than 4 hectares (10 acres) in area, a single geolocation point will suffice *(Article 2-27, 28)*
 - For areas over 4 hectares, a geolocation polygon must include sufficient geolocation points to accurately describe the perimeter of each plot of land from which the product was derived. *(Article 2-28)*



Plot < 4 hectares of any shape:
1 geolocation point



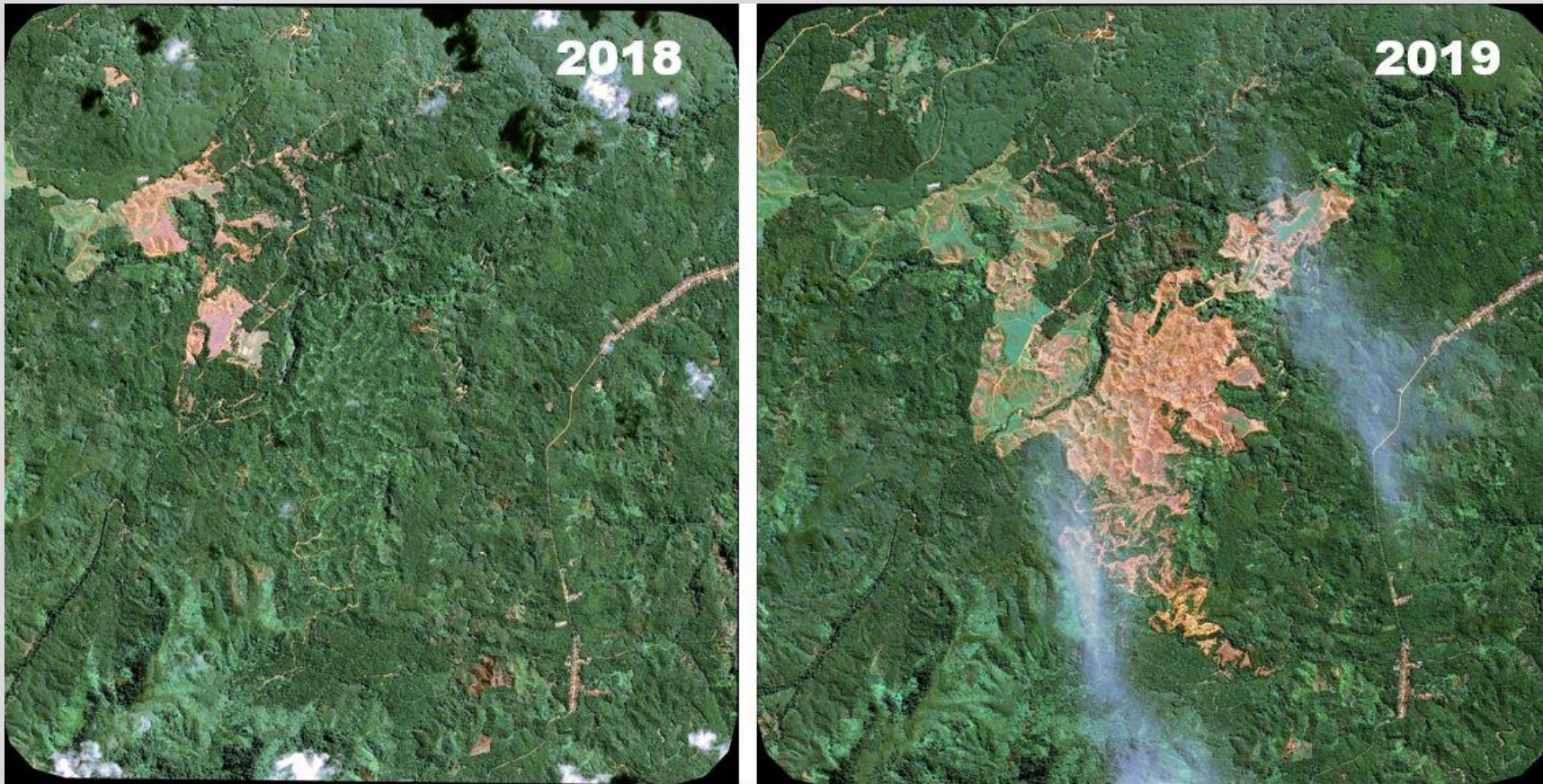
Basic Polygon
> 4 hectares:
4 geolocation points



Complex, irregular polygon
> 4 hectares:
as many geolocation points
as needed to accurately
define the property

Main Components of the EUDR

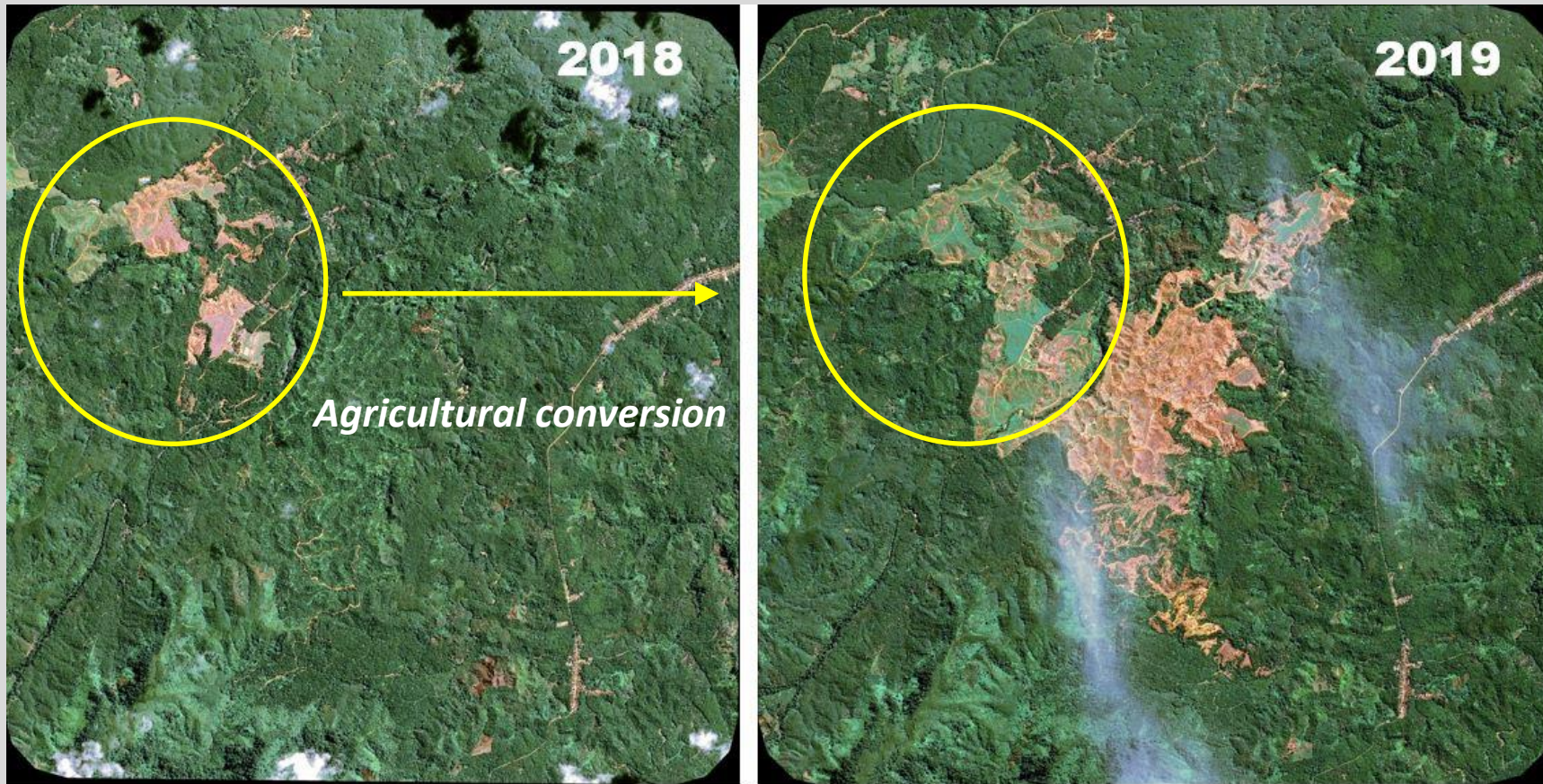
Knowing the geolocation points of a forest plot facilitates the determination of whether or not the forest plot has been deforested, converted to agriculture or degraded on a real-time basis using satellite imagery.



<https://www.foodnavigator.com/Article/2020/03/10/Satellite-mapping-s-future-Can-space-tech-halt-deforestation#>

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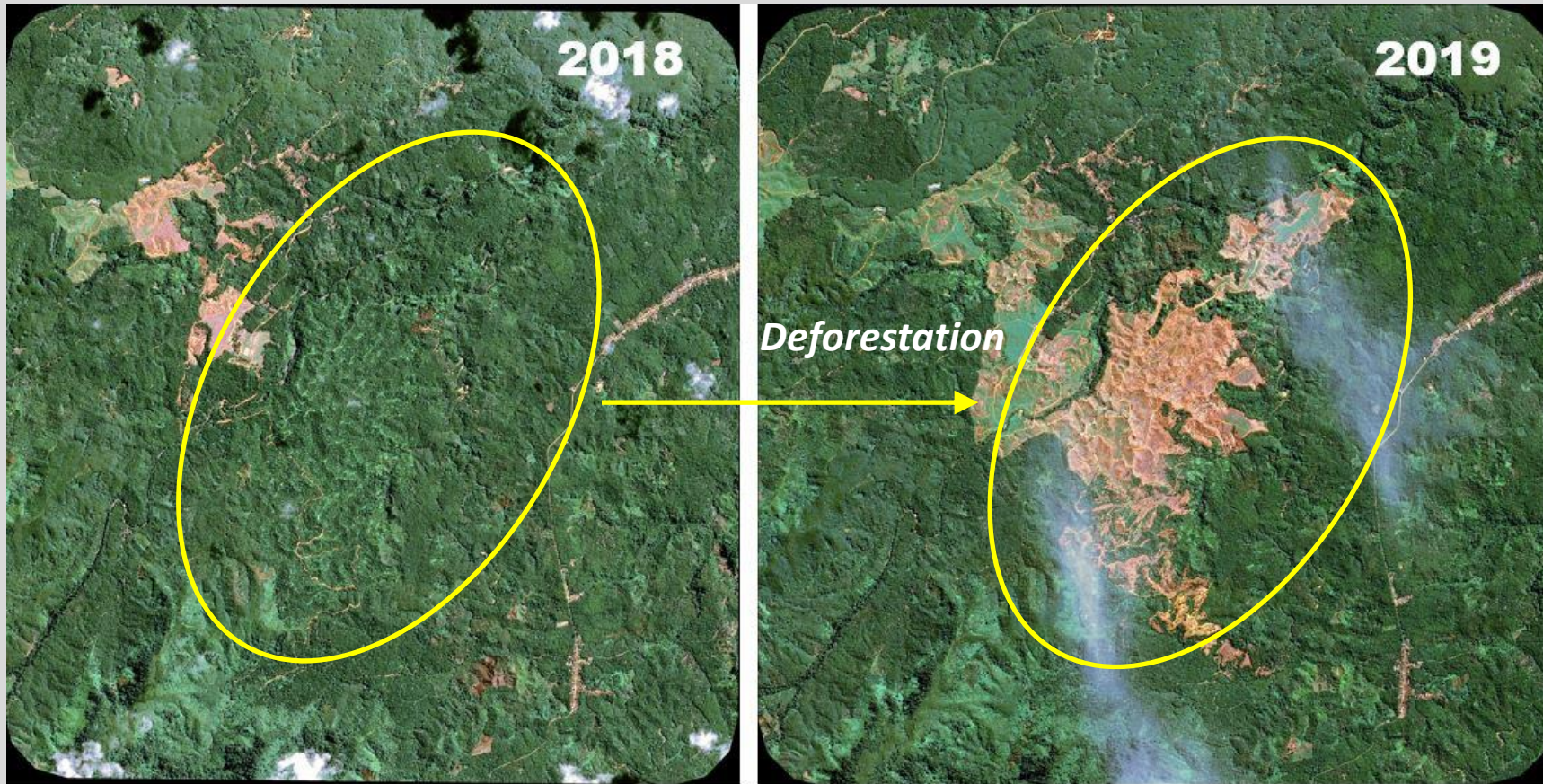
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Main Components of the EUDR

b. The EUDR “establishes a three-tier system where Member States and third countries shall be classified into one of three risk categories” for the purposes of developing a risk assessment: *(Article 10-2a)*

‘high risk’ refers to countries where there is a high risk of producing relevant products that do not comply with Article 3, point (a);

‘low risk’ refers to countries where there is a low risk of producing relevant products that do not comply with Article 3, point (a);

‘standard risk’ refers to countries that are not ‘high risk’ or ‘low risk’

On 29 June 2023, all countries were assigned a ***standard*** level of risk. By no later than 30 December 2024 the Commission shall reclassify countries that have been determined to present a low or high risk *(Article 29-1,2)*

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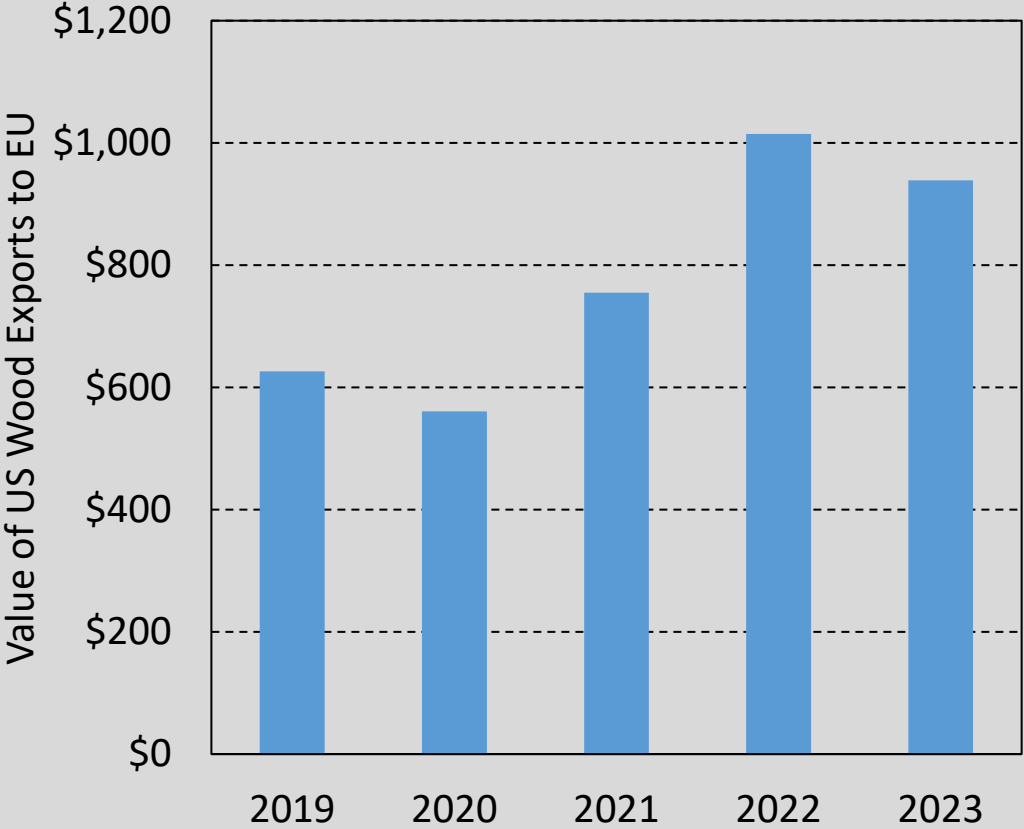
Main Components of the EUDR

3. **Simplified** Due Diligence statements for low-risk countries

b. Assignment of risk to the relevant country of origin *(Article 10-2a)*

When products have been produced in countries classified as being low risk... the operator shall make available to the competent authority upon request relevant documentation demonstrating that there is a negligible risk of circumvention of the EUDR or of mixing with products of unknown origin or origin in high-risk or standard-risk countries or parts thereof
(Article 13)

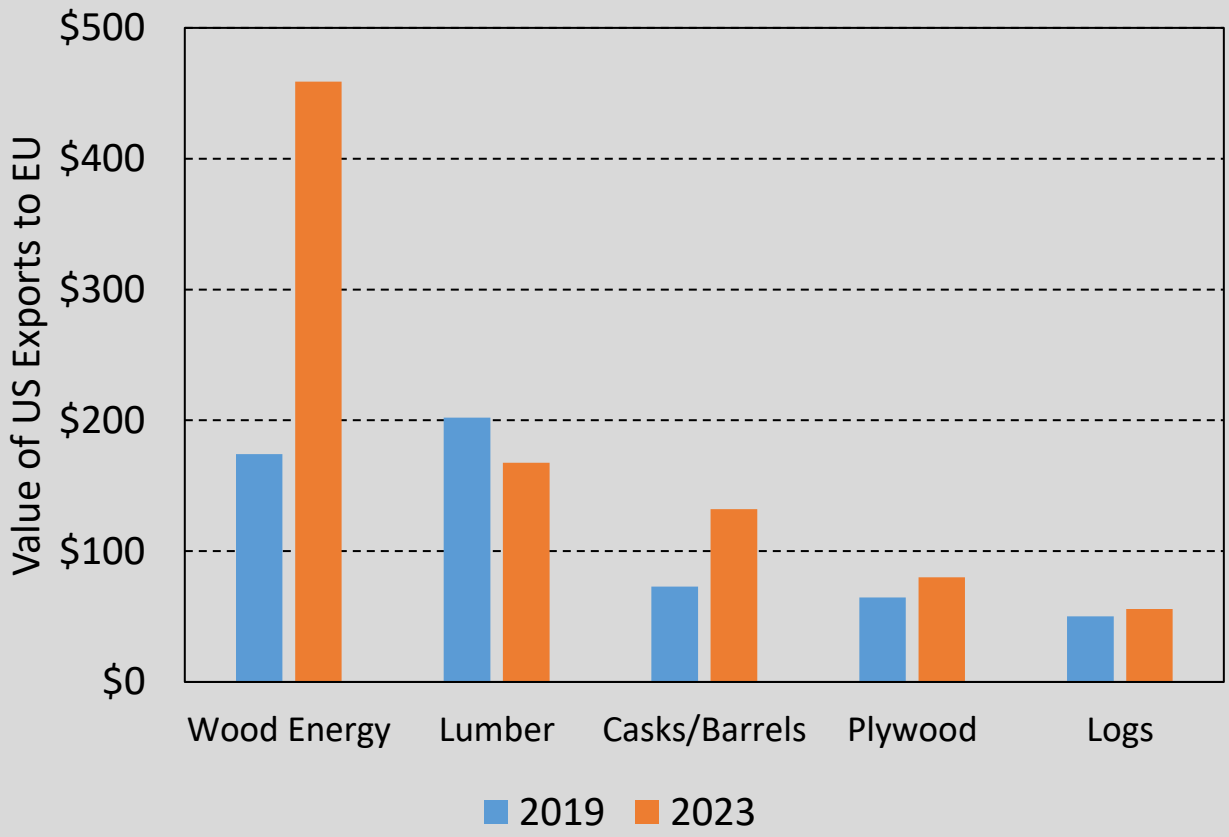
US Wood Trade with the EU



US wood exports to the EU have grown by almost 50% since 2019, reaching almost \$950 million in 2023...

Source: USITC DataWeb, 2024

...with the largest increase in US exports being in wood chips and pellets



EU Observatory on Deforestation & Forest Degradation, EC Joint Research Centre (JRC)

Data for the United States

Year	Deforestation (1000 hectares)	% of all forest "disturbance"	% US forest area (347 million has)
2016	17.99	0.19%	0.0052%
2017	21.28	0.21%	0.0061%
2018	18.85	0.19%	0.0054%
2019	23.50	0.29%	0.0068%
2020	14.09	0.15%	0.0041%
2021	17.75	0.15%	0.0051%
2022	17.22	0.20%	0.0050%

Between 2016 and 2022, deforestation in the US ranged from 14,000 ha (.0041% of total forest area) to 23,500 ha (.0068 of total forest area) while forest growth exceeded forest removals by more than 500 million m³

Source: American Hardwood Export Council 2023

Strategic Considerations for the US

- ***Based on the forest inventory data, it would be reasonable to expect that the US will be classified as a “low risk” country and subject to the “simplified due diligence” criteria.***
- BUT, even a low risk classification does not exempt US wood products from the geolocation requirement and all US wood exports must be accompanied by a list of geolocations of the individual properties from which the wood was sourced.
- This requirement will be particularly problematic for the US hardwood industry given the fragmented supply chains used by sawmills to source logs.
- Bipartisan US FOREST Act sponsored by Senators Schatz and Braun and Representatives Blumenauer and Fitzpatrick is designed to stop *illegal* deforestation around the world and slow climate change.
 - *First introduced in October 2021 (currently referred to committee)*
 - *Legality standard rather than a zero-deforestation standard*

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Strategic Considerations Relative to the EUDR

- ***Is the EUDR WTO compliant?***
- Will high risk countries abandon the EU market and simply export noncompliant products to other countries with less stringent environmental controls, a practice known as leakage? There is already evidence that this has happened with illegally harvested in response to the EUTR and US Lacey Act.
- ***Can this type of legislation be effective in stopping leakage from high risk countries given the huge demand for wood in China, India and other countries with strong domestic demand and little concern about sustainable wood? If leakage occurs and results in lower prices, can we expect to see higher harvest volumes in High Risk countries to offset lower market prices in the less environmentally sensitive markets?***

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Expert Concerns Regarding the EUDR

“But even if the EUDR policy is a good try, I am not sure it will be that effective. Countries with massive deforestation will just sell their wood somewhere else cheaper (and less regulated) like China or India.”

“The EUDR is too much, too soon. Although well intentioned, it moves far beyond the EUTR. Moreover, it is trying to swim against the global tide of less discerning trade arrangements, as we have seen with Russian gas, oil and wood exports switching from Europe to Asia.”

Updates on the EUDR

EU attempts to smooth South American complaints over deforestation policy

Reportedly “EU elections this year would delay rolling out the risk ratings until 2025, as the methodology would need to be set by the next EU Commission. The EU law banning the import of goods linked to deforestation would go into effect at the end of 2024 anyway, with all countries initially being granted a “standard” level of risk” rather than the high, standard and low risk levels described in the EUDR. Reuters 13 March 2024

Strategic Implications: Annual checks by the national competent authorities will need to cover at least 3% of the operators placing or making available on the market or exporting relevant products versus the 9% level required for high risk countries and 1% level required for low risk countries. This percentage will still need to be met separately for each of the relevant commodities.

Updates on the EUDR

A majority of EU countries asked the EC to scale back the EUDR. “Agriculture ministers from 20 of the EU's 27 member countries supported a call by Austria to revise the EUDR law which applies equally to European farmers. The call requests that the burden for certifying products as deforestation-free should be "drastically reduced" within the EU and that the Dec. 30 deadline for countries to start complying with the law should be delayed. *Source: Reuters 26 March 2024*

Similarly, a consortium of eight U.S. wood-related trade groups signed a letter requesting the European Commission to push back the mandatory compliance deadline of the EU Deforestation Regulation (EUDR) by 24 months to help both regulators and producers to understand, evaluate, and prepare for substantial, sector-wide changes required to comply with the law. The U.S. consortium includes the American Hardwood Export Council, American Forest & Paper Association, American Wood Council, Decorative Hardwoods Association, Forest Resources Association, Hardwood Federation, National Alliance of Forest Owners, and U.S. Industrial Pellet Association. *Source: Woodworking Network 2 May 2024*

The EC is resisting national calls to delay the EUDR saying that there is little room to delay the EUDR, according to leaked transcripts.” *Source: ENDS Europe 1 May 2024*

Thank you.
Questions?

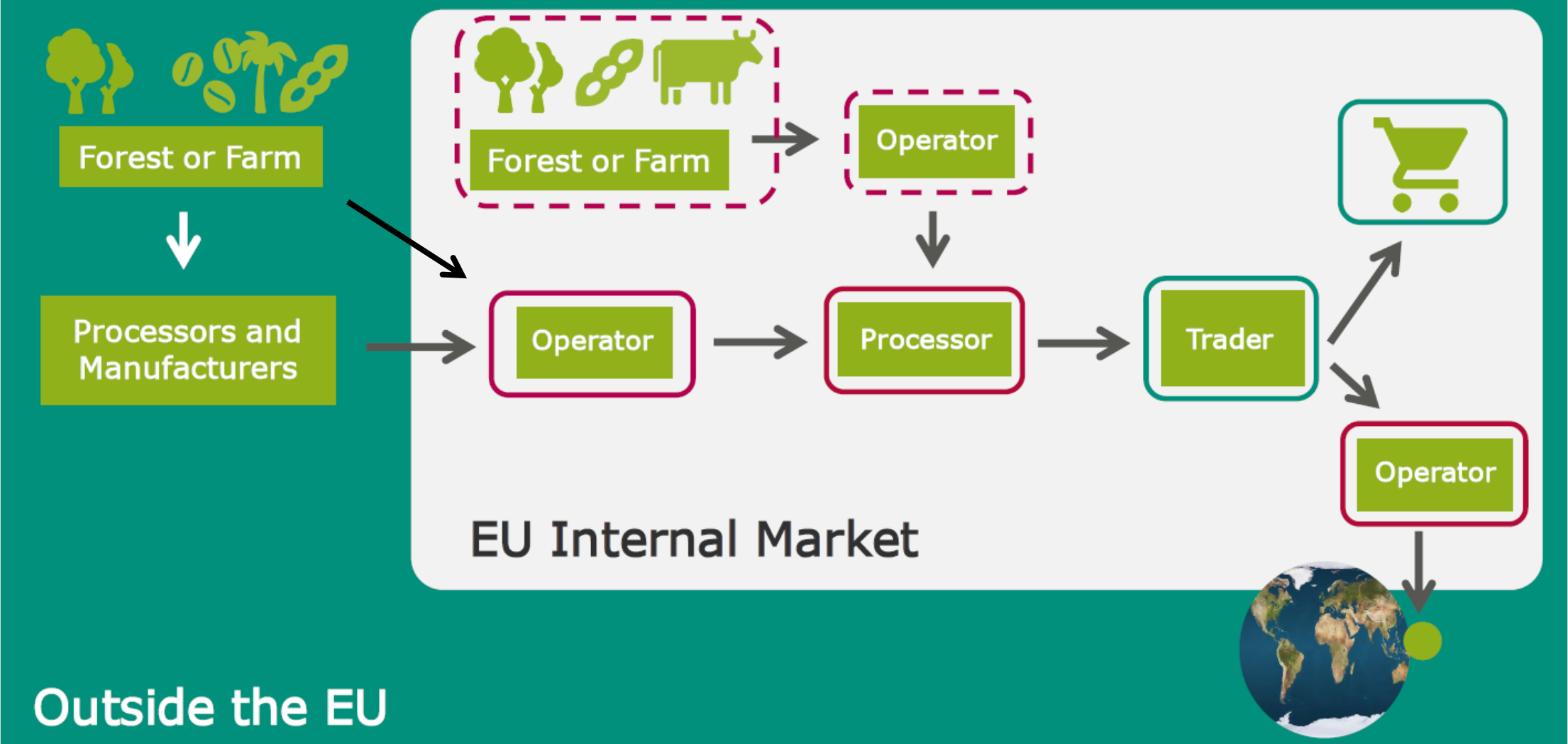
Main Components of the EUDR

EUDR Regulation *(Article 3)*

The EUDR applies to both operators and traders (except for SME traders):

1. Operators are any entity which in the course of a commercial activity, **places relevant commodities and products on the EU market or exports them from the EU market.**
2. Traders are those entities that trade relevant products that have already been placed on the EU market.

Main Components of the EUDR



Source: Preferred by Nature 2024

Next Steps for the EUDR

- The EUDR will be reviewed by 30 June 2024 and could be expanded to include “other wooded land”
- The EUDR will be reviewed again by 30 June 2025 to consider expanding scope to include:
 - Other natural ecosystems with high carbon stocks and high biodiversity value (Grasslands, wetlands, peatlands)
 - Other commodities (esp. maize)

Strategic Considerations Relative to the EUDR

- Will other countries who concerned about forest loss, forest conversion and forest degradation (including the US) adopt legislation similar to the EUDR to prevent leakage from high risk countries into their countries?
 - Bipartisan US FOREST Act sponsored by Senators Schatz and Braun and Representatives Blumenauer and Fitzpatrick is designed to stop *illegal* deforestation around the world and slow climate change.
 - *First introduced in October 2021 (currently referred to committee)*
 - *Legality standard rather than a zero-deforestation standard*

Next Steps for the EUDR



Majority of EU countries ask bloc to scale back deforestation law

BRUSSELS, March 26, 2024 (Reuters) - Some 20 members of the European Union asked Brussels to scale back and possibly suspend the bloc's EUDR law on Tuesday, saying the policy would harm farmers, in the latest blowback against Europe's environmental agenda.