



Whitepaper - 2024

The European Deforestation Directive (EUDR) – Background information and implementation

Deforestation regulations of the EU
understand and implement



Provided by
Integrated Worlds

www.integrated-worlds.com

Contents related to EUDR

In June 2023, the European Union (EU) sent an important signal with the EU Deforestation Regulation (EUDR) to combat deforestation and forest degradation. The EU Deforestation Regulation aims to ensure that a range of key goods placed on the EU market no longer contribute to deforestation and forest degradation in the EU and worldwide.

Deforestation and forest degradation are significant factors in climate change and biodiversity loss – the two greatest environmental challenges of our time. In order to implement the regulation, it is essential to understand the background to the European Deforestation Regulation (EUDR) and analyze its impact on affected companies and industries.

This document provides an insight into the EU Deforestation Regulation (EUDR) and shows how it affects companies and industries. It addresses questions such as: Who is affected by the regulation and what specifically needs to be done to meet the upcoming requirements? In addition, it highlights ways in which affected companies can efficiently implement the EUDR with the help of digital technologies, in particular through the use of solutions and services from Integrated Worlds.



Background to the EUDR

According to a report by the World Wildlife Fund, the EU was responsible for 16 percent of global tropical deforestation and nature destruction in 2021, ahead of India with nine percent and the US with seven percent. Only China, with 24 percent, was ahead of the EU. The EU is currently the second-largest importer of products linked to deforestation. Deforestation and forest degradation are major factors in climate change and biodiversity loss—the two greatest environmental challenges of our time. Despite many measures to reduce deforestation, it continues to increase at an alarming rate and contributes to over 10 percent of global greenhouse gas emissions.

The EU Deforestation Directive now aims to ensure that a range of key commodities placed on the EU market no longer contribute to deforestation and forest degradation in the EU and globally, unless they are deforestation-free and comply with the laws of the country of origin. The EU Deforestation Directive targets seven key agricultural goods that are primarily responsible for deforestation and forest degradation worldwide.

Soy accounts for almost a third of deforestation in tropical rainforests, closely followed by palm oil. In addition, cattle, wood products, rubber, cocoa, and coffee contribute to the destruction of forest areas. Between 2001 and 2015, these agricultural commodities claimed around 72 million hectares of forest worldwide – an area twice the size of Germany.

The directive stipulates that companies in the consumer goods industry, operators, and trading companies must exercise due diligence and ensure that their procurement practices do not contribute to deforestation or forest degradation.

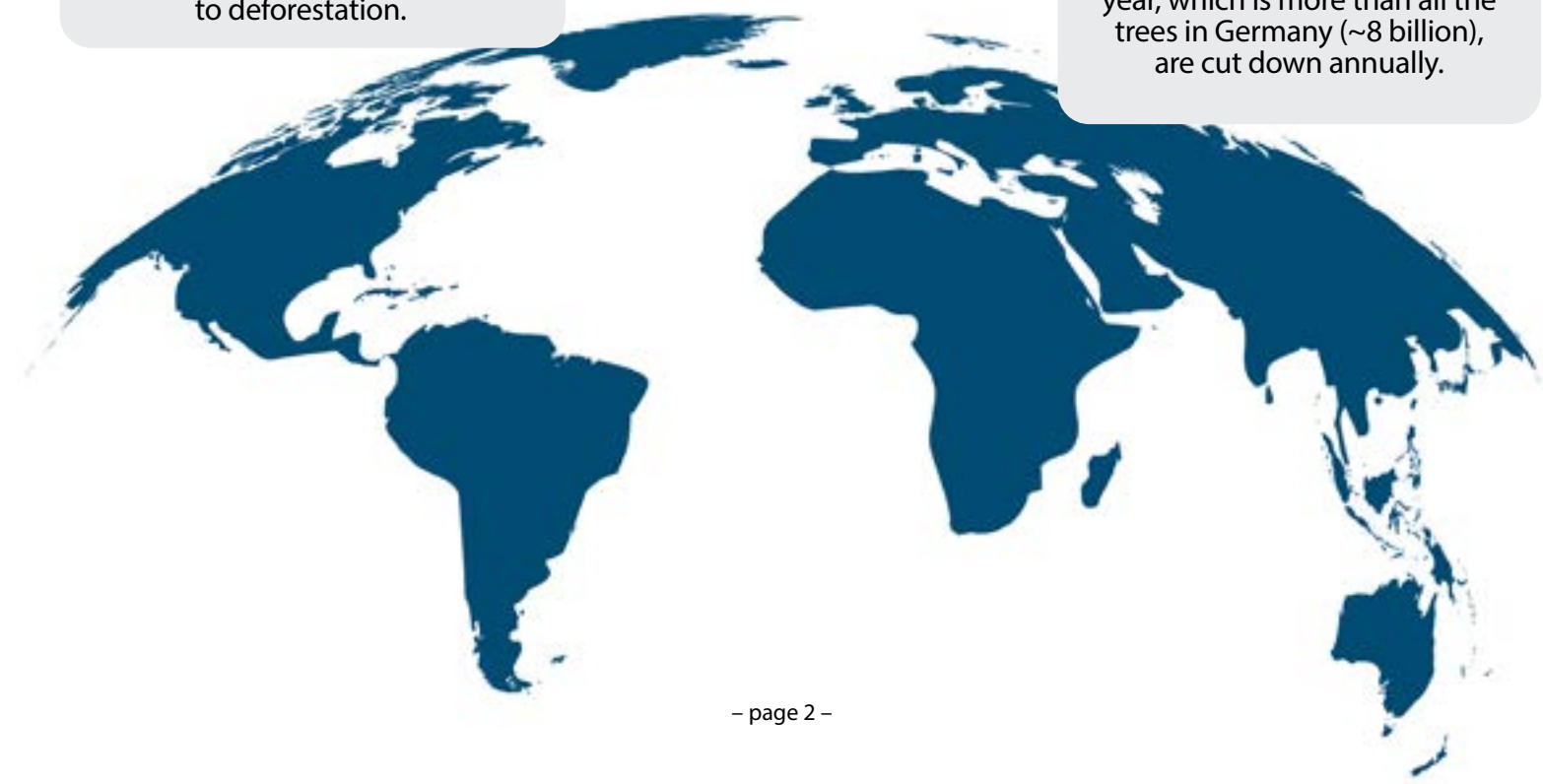
However, the EU Deforestation Directive is not just a regulatory hurdle; it also gives companies the opportunity to improve their sustainability standards, fulfill their responsibility to protect forests, and promote sustainable business models based on this—an opportunity to attract environmentally conscious consumers and achieve long-term market success.

Between 1990 and 2020, 420 million hectares of forest—an area larger than the European Union—were lost to deforestation.

Up to 170 million hectares of forest could be lost in just eleven regions of the world by 2030.

An average of 13 million hectares of forest disappear every year due to deforestation.

More than 10 billion trees per year, which is more than all the trees in Germany (~8 billion), are cut down annually.



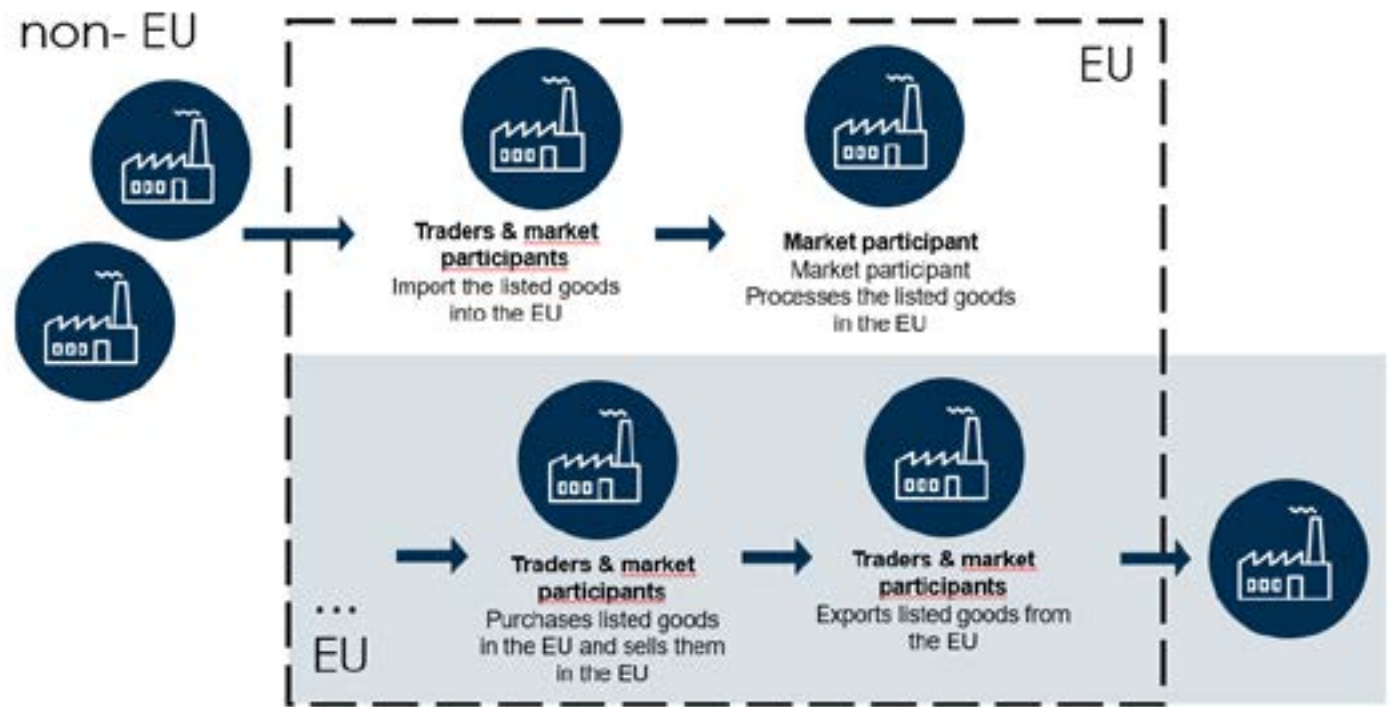
Who is affected by the EUDR regulation?

market participant

Market participants are natural or legal persons who place relevant products on the market or export them as part of their commercial activities. This definition also includes “dealers” who import relevant products independently. Market participants are therefore all actors who are actively involved in the import, production, distribution, or export of products and thereby influence the market.

Distributors

Distributors, on the other hand, are defined as persons within the supply chain – with the exception of market participants – who make relevant products available on the market in the course of their commercial activities. Companies that only resell products downstream also fall under the category of distributors according to this regulation. The term “distributor” thus includes all intermediaries and retailers who pass on products directly or indirectly to end consumers.



Depending on whether the company is an SME or a non-SME, different requirements apply to a company. According to the European Commission’s recommendation (2003/361/EC) on the definition of micro, small, and medium-sized enterprises (EU SME definition), a company is considered an SME if it employs fewer than 250 people and has an annual turnover of no more than €50 million. In 2022, 3.1 million companies in Germany accounted for the vast majority (99.3%) of small and medium-sized enterprises (SMEs). Of these, 2.6 million were considered micro-enterprises and only around 20,700 were considered large enterprises. This ratio is particularly true in sectors such as housing and furnishings, both in retail and in industry or the supply industry.

Recommendation from Integrated Worlds: SME industry participants involved in implementing the EUDR should consider whether it would make more sense to implement the regulations for non-SME companies right away. This would ensure that they are already prepared for any changes to the regulations or a change in classification.

Impact on affected companies

The EU Deforestation Directive came into force on June 29, 2023, and originally provided for an implementation period of 18 months (24 months for SMEs established before December 30, 2020). Based on feedback from various industries and EU countries, provided by stakeholders and political representatives, this period was extended by the EU Commission to 30 months to give affected companies more time for implementation.

Traders and operators along the relevant value chains must therefore comply with the due diligence requirements by the end of 2025. It should be noted that large supermarkets, retail chains, DIY stores, and furniture retailers that sell products under the EUDR must also comply with the requirements of the directive.



until December 31, 2025

...are required to carry out a full due diligence process. This includes gathering information and documents, assessing risks, implementing risk mitigation measures, and establishing and publicly reporting on a due diligence system. Existing due diligence certificates must be reviewed and updated if necessary

...must carry out a full due diligence check for those parts of the product that have not yet been covered by a due diligence procedure. For all other parts, they can refer to existing due diligence certificates. Small and micro-enterprises established before December 30, 2020, have until the end of June 2026 to do so.

...must keep records, such as supplier and customer information, for five years and make them available to the authorities upon request. Small and micro-enterprises established before December 30, 2020, have until the end of June 2026 to do so.

The due diligence obligations of the EUDR, EU Deforestation Directive

Scope: Due diligence obligations and risk assessment procedures

Both product-related and organizational obligations must be observed in order to fulfill the entire due diligence process. Various procedures must be carried out before a product or commodity is placed on the market or exported.

These include a comprehensive assessment of abstract risks at the country level and a specific risk assessment for business partners. Both assessments must be carried out regularly.

Due diligence - Checklist

1. Before entering the market or exporting:

- ✓ Perform risk assessment at country level
- ✓ Perform risk assessment for business partners
- ✓ Collect and document data on products and suppliers

2. Analysis of the production site:

- ✓ Verification of potential deforestation or forest degradation

3. Implementation of risk mitigation measures:

- ✓ Take preventive measures if risks are identified

4. Submission of the due diligence certificate:

- ✓ Submission to the EU information system
- ✓ Sharing information with operators and retailers along the supply chain

5. Establishment of robust due diligence and risk management:

- ✓ Documentation of decisions
- ✓ Provision of documentation for government inspections

Possible consequences of violations of the EUDR

Companies operating in the EU and affected by the EU Deforestation Directive must understand that the entry into force of the EUDR will have far-reaching consequences for those companies that do not comply with the directive.

In the event of non-compliance, companies will face not only financial penalties after December 31, 2026 (or June 30, 2027), but also more far-reaching measures such as the seizure of products or transaction proceeds and a ban on the sale of affected goods or products.

Consequences of non-compliance with the EU Deforestation Directive



Fines
Fines of at least 4% of their annual EU turnover.



Confiscation
Products or transaction proceeds from transactions may be confiscated.



Exclusion from public procurement
Possible temporary exclusion from public procurement procedures.



Access restrictions
Possible temporary restriction or loss of access to public funds.



Temporary bans
Temporary or long-term bans on the placement, provision, distribution, or export of relevant goods or products..



Prohibition of simplified due diligence
Possible loss of the right to use the simplified due diligence procedure.



Loss of reputation
Risk of significant loss of reputation, associated with damage to market position and impairment of customer and stakeholder trust.



Business restrictions
Possible long-term restrictions on the business model, such as loss of customers or negative effects on regular business activities.

Why implement EUDR with us?

Digitalization

Everyone is talking about the digitalization backlog in Germany. So it seems rather unsustainable to present “let’s do it manually first” as the initial solution. We focus on your current status in the digital transformation race and secure your investments by consistently aligning ourselves with your target vision.

Market penetration

The IWOfurn platform currently connects more than 1,000 companies – an ideal starting point for implementing new data content. We are at home in the system environments of industry participants, which is why connecting these environments through us is much faster, easier, and more comprehensive than with any other integrator.

Standardization

Integrated Worlds is a pioneer in the use of standards in the home and interior design industry and plays a key role in their further development.

Open to all market participants

Regardless of the type or size of your company or your technical requirements, we offer solutions at every stage of development with the potential for growth.

Process integration

In our view, EUDR information is another building block in the flow of information between companies. So why shouldn’t this information be integrated into existing processes and exchanged? More than 400 trading companies and 700 manufacturing companies are already connected to the order confirmation process. This means that quick wins are guaranteed for everyone involved.

Industry expertise

With its medium-sized structure and highly variable manufacturing processes, the furniture industry is unlike many other industries, and solutions therefore require industry expertise. For over 30 years, we have been contributing our industry knowledge to collaborations with software partners and organizations, and we lead a number of industry working groups.

Uniform process

Unlike individual software products and their individual functions, we offer solutions for uniform communication with all business partners.

Investment protection

Companies that are already IWOfurn customers and use the IWOfurn infrastructure as a data exchange platform can integrate EUDR information at no additional cost.

IWOfurn connects Europe’s furniture world!

IWOfurn is a brand of Integrated Worlds and has been known since 2008 as a driver of transformation, successfully promoting digitalization in the home and furnishings industry.

The IWOfurn platform enables more than 1,000 companies to network in the daily exchange of business data and process digitalization, with more than 85,000 documents being processed digitally every day.



Workflow

The graphic shows the basic process, which can be easily adapted to individual circumstances.

Compliance Tools

These systems can be integrated into the automated data flow via an additional interface. This significantly reduces the amount of work required for manual data entry.

Time of disclosure

Depending on the production processes and cycles, EUDR-relevant information is available to industrial partners at different times and must then be transferred in the upcoming EDI message.



How can you implement EUDR with us?



EDI (Cross-company data exchange)

EDI is the standard in business data communication, used today by well over 1,000 companies in the industry and countless companies in other industries. IWOfurn integrates the EUDR data from data suppliers into EDI processes, enabling high throughput from day one.



Interfaces

IWOfurn has interfaces to all merchandise management systems in retail and to countless ERP systems in industry. Use IWOfurn's onboarding tools to quickly expand your network without having to resort to complex individual projects or isolated solutions. We also supply several reception systems independently of each other with EUDR data – precisely tailored to your use cases.



Time of information

Companies are able to provide complete EUDR data at different times. We take this into account by allowing companies to do so at precisely the right moment and to transmit the information with the order confirmation, delivery notification, or electronic delivery note.

Outlook

Even though the EU Deforestation Directive poses significant challenges for many companies, the introduction of the European Union's efforts to combat deforestation (EUDR) is an important milestone on the path to a deforestation-free planet and the protection of the climate and the environment.

Some of the information requested and required to be reported is highly detailed, and companies will certainly have to make far-reaching adjustments or rethink their usual working methods and processes in dealing with their suppliers and customers.

Non-compliance can have far-reaching consequences that, unlike other compliance guidelines, go beyond fines. These include import bans and restrictions, which have a dramatic impact on the entire supply chain, making compliance with the EUDR an urgent necessity for companies.

Since every stage of the supply chain is involved, regardless of whether it is an SME or non-SME, there is no alternative to compliance with this directive. Ultimately, every supplier of goods covered by the EUDR will be affected by its impact. This means that it is imperative to address compliance with this EU deforestation directive.

Communication between the companies involved for the exchange of EUDR information should be standardized and digital in order to keep the effort for the companies involved as low as possible. In the housing and furnishing sector, among others, there is a clear strategy that this should be done on the basis of EDI data exchange.

Integrated Worlds GmbH

Let us introduce ourselves

We are a source of inspiration and a driving force in opening up new opportunities in digital transformation and market developments for our customers.

We design holistic and sustainable solution concepts – not isolated solutions. With our portfolio and expertise, our customers scale digital process integration with B2B partners by a factor of 10 or more.

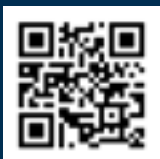
We understand the business needs and requirements that are necessary for our customers' success – whether it's flexibility, cost efficiency, scalability of solutions, or big data and AI! We can look back on many years of experience, but as an agile company, we constantly take on new challenges and continue to develop in line with our customers' needs and together with them to make them competitive and ready for the future.

Let's continue writing this success story together!



Contact

We would be happy to conduct a free EUDR check with you and accompany you on your journey toward digital transformation.



Integrated Worlds GmbH
Max-Eyth-Str. 38
71088 Holzgerlingen
Tel +49 7031 4617 30
service@integrated-worlds.com