

# EU DEFORESTATION REGULATION GUIDE

## FOR RELATIONSHIP MANAGERS



# EXECUTIVE SUMMARY

Since 1990, humanity has lost approximately **420 million hectares** of forest—equivalent to over three times the area of France<sup>1</sup>.

Commercial agriculture—especially **cattle ranching, soy, palm oil, wood commodities**—accounts for ~80% of tropical deforestation. These trends deepen financial risks by destabilising ecosystems, increasing climate exposure, and threatening biodiversity. But a new EU law **coming into force in December 2026** aims to tackle deforestation and forest degradation and can be leveraged by banks to promote forest-positive supply chain financing.

The EU Deforestation Regulation bans the import of seven “forest-risk” commodities to the EU—**cattle, coffee, cocoa, oil palm, rubber, soy, and wood**—unless they are accompanied by rigorous due diligence indicating that the products are **deforestation-free** and **legally sourced**.

Through this guide, developed by ZSL with philanthropic funding from HSBC, we explore how relationship managers can support client readiness for the coming **EU Deforestation Regulation (EUDR)** and protect banks from exposure to high-risk actors.

Whilst banks are not directly regulated by the EUDR, the regulation creates both risk exposure and strategic opportunity for banks financing clients in deforestation-linked sectors, including:

## 1. Financial Risk from Client Exposure

Deloitte estimates that **US \$4.5 trillion in global GDP is tied to nature-dependent sectors**, underscoring the systemic risk of nature loss and deforestation. Companies failing to comply with the EUDR risk fines, loss of EU market access, and reputational damage—impacting their cashflow and **increasing credit risk**. For banks, this raises the likelihood of **loan defaults, stranded assets, and reduced collateral value**.

## 2. Banking the new Green Economy

Demand for sustainable goods is increasing—studies by the Boston Consulting Group show **~70% of consumers are willing to pay ~5% more** for sustainably produced products. Exemplifying this in 2024, UK grocery store Waitrose raised prices on its ethically sourced cocoa range and reported a **34% uplift in sales**, proving that responsible sourcing can be good for business and a signal of long-term resilience.

## 3. Opportunities for Green Finance Innovation

Tackling deforestation and forest degradation also opens up new product offerings in sustainable finance, including: **sustainability-linked loans (SLLs)** linked to traceability and deforestation-free status of production; **blended finance facilities** providing derisking capital to mobilize commercial finance for deforestation-free markets; **sustainable trade finance and shipment credit lines** that link preferential terms to verified deforestation-free sourcing.

## How Relationship Managers Can Support Clients

As trusted advisors, helping clients navigate financial products and services, Relationship Managers (RMs) can support clients as the EUDR comes into force. This guide provides an easy 5-step approach for RMs to support their client’s EUDR journey.

### 1. Raise awareness of EUDR

Many clients remain unaware of EUDR obligations. In a 2024 survey of 300 timber and forest-risk commodity operators across Europe, 18% were completely unaware of any deforestation-related legislation<sup>2</sup>. Many of these may be directly affected.

Yet risks to EU market access will also impact producers and traders in Latin America, SE Asia and Africa as buyers will pivot to suppliers able to provide evidence of deforestation-free products.

### 2. Build the business case for tackling deforestation and/or forest degradation

Help clients understand the legal, financial, and reputational costs of inaction versus the opportunity to access green finance, enhance resilience, and maintain EU market access. Highlight to companies within scope of the EUDR that penalties include fines of up to 4% of the company’s EU market turnover, confiscation of products and revenue and potentially even suspension of EU market access. Clients outside the scope of the EUDR will face a market which prioritises suppliers willing and able to provide evidence of traceable supplies and deforestation-free sourcing.

### 3. Assess action by clients to address deforestation and/or forest degradation

Use relationship meetings to explore exposure and client progress towards tackling deforestation and/or forest degradation, covering issues such as:

- Is the client able to trace their product to the forest level?
- How is the client monitoring for deforestation and forest degradation risk?
- What risks concerning compliance with local laws are relevant in the location of production?
- How are deforestation/forest degradation and legality risks being mitigated?
- How are smallholder farmers being supported to ensure inclusion?

### 4. Promote collaboration

Deforestation drivers are not limited to a single company or sector. Clients could benefit from engaging with landscape initiatives and industry platforms to tackle forest loss<sup>3</sup>. For example, in the rubber sector the Global Platform for Sustainable Natural Rubber—with members such as Michelin, Goodyear and BMW—is investing in mass capacity building with rubber farmers to increase yields and reduce the incentives for forest clearance. Whilst the Consumer Goods Forum is delivering a \$5.2 million financing package in Brazil to upscale deforestation-free practices.

### 5. Monitor client deforestation and/or forest degradation risk

Embed EUDR considerations into periodic client reviews and credit assessments, focusing on high exposure and liaising with sustainability, risk and compliance teams.

- Map deforestation and forest degradation risk exposure based on client sector, geography, role in the supply chain and exposure to deforestation and/or forest degradation.
- Track client progress against questions highlighted in section 3 above.
- Share client-level insights with internal sustainability, risk and compliance teams.
- Create feedback loops to inform credit policy adjustments, sector strategies, or client engagement priorities.
- Aggregate data to track portfolio-wide trends and assess progress by clients.

The EUDR is sending a clear signal to supply chain companies and the financial sector that they must take action. With the onset of EUDR, banks face both a growing fiduciary responsibility and a strategic opportunity to tackle one of the world’s most systemic environmental risks. Proactively engaging clients, integrating deforestation and forest degradation risks into credit assessments, and incentivising traceable, deforestation-free sourcing are not only essential to protect portfolios—they also unlock new pathways for green lending, trade finance innovation, and reputation leadership. **RMs are key change-makers on this journey. This guide provides actionable steps, guidance and tools for RMs to raise awareness of the EUDR, support client preparedness and to play their part in eliminating deforestation** from financial portfolios.

# CONTENTS

Executive Summary.....	i
About the Guide.....	1
Disclaimer.....	1
Background: The Problem of Deforestation.....	2
Understanding the European Union Deforestation Regulation (EUDR).....	3
Engaging Clients on EUDR and Deforestation.....	5
Step 1: Raise Awareness of the EUDR.....	7
Step 2: Build the Business Case for Action.....	10
Step 3: Incentivise Due Diligence and EUDR Compliance.....	13
Step 4: Collaborate to Tackle Deforestation and/or Forest Degradation.....	17
Step 5: Monitor Progress.....	20
Conclusion.....	22
List of Acronyms.....	23
References.....	24

## About ZSL

Founded in 1826, ZSL is an international conservation charity, driven by science, working to restore wildlife in the UK and around the world; by protecting critical species, restoring ecosystems, helping people and wildlife live together and inspiring support for nature. Through our leading conservation zoos, London and Whipsnade, we bring people closer to nature and use our expertise to protect wildlife today, whilst inspiring a lifelong love of animals in the conservationists of tomorrow.

ZSL's Sustainable Business & Finance programme works with commercial organisations, communities, NGOs and governments to address major global challenges to forest and biodiversity loss. We work with all actors in commodity supply chains—from producers to buyers and investors—to achieve supply chain transparency and sustainability, supporting practices which protect & enhance biodiversity.

## ABOUT THE GUIDE

This guide is tailored for Relationship Managers (RMs) in Financial Institutions (FIs) with clients exposed to deforestation-risk commodities covered by the EU Deforestation Regulation (EUDR). Whilst existing guides focus on company compliance, RMs need to understand the regulation's broader implications. This guide aims to raise awareness among RMs of issues related to deforestation and the EUDR. The guide aims to clarify potential impacts faced by clients and support RMs to both mitigate risk and identify forest-positive market opportunities.

### Disclaimer

This guide is not a legal checklist but a tool to help RMs understand the EUDR and its impact on clients' operations and supply chains. It supports RMs in identifying risks and opportunities, engaging clients on transitioning to Deforestation and Conversion-Free (DCF) supply chains, and promoting sustainable practices. The goal is to equip RMs to play a more informed advisory role that enhances risk management and business growth.

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The content was reviewed with legal input from Simmons & Simmons to ensure accuracy and alignment with current regulatory requirements.

## BACKGROUND: THE PROBLEM OF DEFORESTATION

Forests are vital to planetary health, covering 30% of Earth's land and serving as critical carbon stores and sinks that help mitigate climate change.

They support 80% of land-based biodiversity<sup>4</sup> and provide livelihoods for more than 1.6 billion people, including 300 million living directly within them<sup>5</sup>. Yet deforestation, mainly driven by agricultural expansion, is accelerating, with 420 million hectares lost between 1990 and 2020<sup>6</sup> and 28.3 million hectares cleared in 2023 alone<sup>7</sup>. Tropical primary forest loss released 2.4 gigatonnes of CO<sub>2</sub> between 2019 and 2021, underscoring the climate impact, equivalent to the annual emissions of around 520 million cars<sup>8</sup>. Agriculture accounts for almost 90% of forest loss, primarily for commodities including cattle, soy, and palm oil, with cattle alone driving five times more deforestation than any other commodity<sup>9,10</sup>.

Deforestation has devastating effects on biodiversity, with Latin America seeing a 95% drop in wildlife populations since 1970<sup>11</sup>. Forest degradation also poses serious risks for businesses and financial institutions linked to agricultural supply chains. Protecting forests is not only essential for climate and biodiversity but also for economic resilience. Regulations like the EU Deforestation Regulation (EUDR) are pushing companies to identify and address deforestation risks, underscoring the need for responsible and sustainable business practices.



# UNDERSTANDING THE EU DEFORESTATION REGULATION (EUDR)

## AIMS OF THE EUDR

To **minimise consumption** of products coming from supply chains associated with deforestation or forest degradation



and **increase EU demand** for and trade in legal and 'deforestation free' commodities and products



## WHICH COMMODITIES ARE REGULATED?



Cattle



Coffee



Cocoa



Palm Oil



Rubber



Soy



Wood

Derived products (leather, chocolate, furniture, paper, etc.)

## WHAT EUDR MEANS FOR COMPANIES

Products cannot be placed on the EU market unless they are:

### 1. Deforestation-free

Produced on land that has not caused deforestation after 31 December 2020

### 2. Produced legally

Compliant with relevant legislation in the country of harvest, including land-use rights, environmental protections, third parties' rights, and labour and human rights

### 3. Covered by a Due Diligence Statement

## WHO IS REGULATED?

Companies placing regulated products on, or exporting regulated products from, the EU market. Regulated companies may be classed as Operators or Traders and have different obligations. When the regulation is coming into force...

### Operators & large traders must:

- Conduct due diligence on relevant products
- Not place non-compliant products on the EU market

### SME traders must:

- Be able to identify suppliers and buyers
- Keep information for >5 years
- Provide evidence to authorities if requested

## WHAT DUE DILIGENCE IS REQUIRED FOR THE EUDR?

Obtain information, data and documents about the supply chain and source.

### INFORMATION COLLECTION

Includes geolocating the plot of production and time of production.

Evaluate the risks of illegal and deforested materials entering the supply chain.

### RISK ASSESSMENT

For example, assessing permits and other documentary evidence, as well as satellite monitoring for deforestation.

Mitigate any identified risk.

### RISK MITIGATION

For example, by conducting field audits, consulting local communities, etc.

### DUE DILIGENCE STATEMENT

**DUE DILIGENCE MUST BE EXERCISED FOR ALL PRODUCTS PLACED ON THE EU MARKET AFTER 30 DECEMBER 2026**



## STEP 1: RAISE AWARENESS OF THE EUDR

Support client understanding of the regulation's scope, who it applies to, and its requirements. Raising awareness early ensures companies begin preparing their supply chains and assigning roles for compliance.

## STEP 2: BUILD THE BUSINESS CASE FOR ACTION

Help clients understand the risk of non-compliance, and the benefits of proactive engagement.

## STEP 3: INCENTIVISE DUE DILIGENCE AND EUDR COMPLIANCE

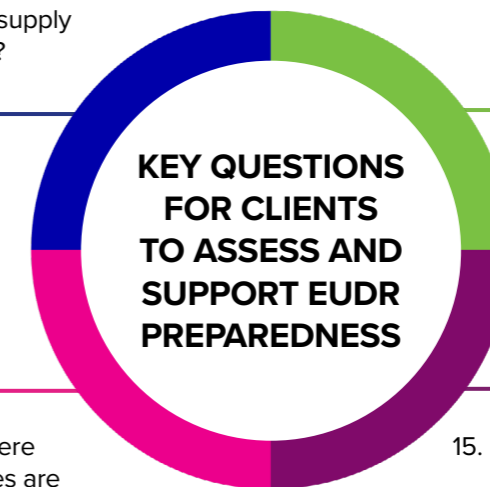
Assess how far clients have progressed towards EUDR compliance to identify risk areas and to focus support.

## STEP 4: COLLABORATE TO TACKLE DEFORESTATION AND/OR FOREST DEGRADATION

Encourage clients to explore collective initiatives beyond their own supply chains to help build resilience and demonstrate preparedness for the regulation, insofar as permitted by competition law.

## STEP 5: MONITOR PROGRESS

Work with clients to track progress over time, assess improvements in traceability and risk mitigation, and respond to evolving risks and regulatory updates.



1. Are you directly regulated by the EUDR, or indirectly affected because your EU buyers must comply?
2. How are you preparing your supply chains to meet compliance requirements?
3. Have you assigned responsible leads for tackling deforestation in your supply chains and for EUDR compliance?
4. Have you assessed the financial impact of EUDR compliance on your operations?
5. Are you aware of the potential legal and reputational risks if your products are found to be non-compliant?
6. Do you require financial or technical support to implement necessary traceability and compliance systems?

7. Do you have location data for where your EUDR-regulated commodities are produced? If so, is this data available for all or only some of your supply base?
8. Do you have a due diligence system in place to verify that suppliers are not linked to deforestation after December 31, 2020?
9. Have you mapped supply chains to determine which may be at higher risk of non-compliance with the EUDR?
10. What monitoring system do you have in place to ensure the commodities you are handling are deforestation-free?
11. How do you monitor legality risks throughout your supply chain?
12. What steps have you taken—or do you plan to take—to mitigate identified risks, including contingency plans, if suppliers cannot meet EUDR requirements?
13. How are you supporting suppliers, including smallholders, to build capacity and ensure sustainable production?
14. How are you preparing for potential audits or due diligence checks from buyers or regulatory bodies?
15. Are you involved in any landscape or jurisdictional initiatives to address deforestation risks at scale?
16. How are you working with peers, governments, or NGOs in key sourcing regions to improve traceability and monitoring, particularly for smallholder producers?
17. Are you contributing to shared infrastructure or data initiatives that enhance transparency across the supply chain, including smallholder inclusion?
18. Have you engaged with industry groups, certification bodies (e.g., RSPO, FSC, PEFC, RTRS), or trade associations to understand the EUDR's requirements and support smallholder inclusion?

# STEP 1: RAISE AWARENESS OF THE EUDR

Many companies still have limited awareness of the EUDR and how it may impact their business. In a 2024 survey of 300 timber and forest-risk commodity operators across Europe, 18% were completely unaware of any deforestation-related legislation<sup>12</sup>. Consequently, RMs should prioritise raising awareness of the EUDR's requirements within their client organisations to help companies understand their obligations and the risks of non-compliance.

The EUDR is a law primarily aimed at reducing global deforestation<sup>13</sup> (and forest degradation<sup>14</sup> for wood-based products) by restricting the sale of seven key forest-risk commodities: **cattle, coffee, cocoa, palm oil, rubber, soy, and wood**, as well as “derived products” (e.g. beef as a cattle product, chocolate as a cocoa product, and furniture as a wood product) within the EU.

The EUDR requires companies to conduct ‘**due diligence**’ on supply chains to indicate that products imported or exported from the EU market are likely to be ‘**deforestation-free**’ and to have been produced in accordance with ‘**relevant legislation of the country of production**’.

## Box 1: EUDR Due Diligence at a Glance

Under the EUDR, Operators and Large Traders (non-SME traders) must be able to demonstrate that forest-risk commodities used in their products are deforestation-free and legally produced.

Due diligence involves four key steps, which RMs should be aware of when engaging with clients. Regulated companies must:

- 1. Collect Information** – including type of EUDR-regulated material, country of production, and precise farm or plot geolocation (mandatory for all EU imports by 31 Dec 2026; for plots larger than four hectares, location must be captured as polygons describing the perimeter), quantities (volume or weight), supplier and buyer details, and evidence of legality and deforestation-free status<sup>15</sup>.
- 2. Assess Risk** – evaluate whether deforestation and/or forest degradation has occurred on the plot of land after 31 December 2020. This evaluation should consider a number of factors, including the likelihood and prevalence of deforestation and/or forest degradation in a particular country, supply chain complexity, and credibility of information<sup>16</sup>.
- 3. Mitigate Risk** – by gathering additional supplier information, conducting audits or field visits, using satellite monitoring, and supporting smallholders to comply<sup>17</sup>.
- 4. Declare Compliance** – by submitting a Due Diligence Statement via the EU registry before placing goods on the EU market<sup>18</sup>.

## Timelines:

Requirements to conduct due diligence will be phased. The following timelines indicate when regulated companies must be able to demonstrate compliance with the regulation:

- 30 December 2026 – Large Operators and Traders (non-SMEs)
- 30 June 2027 – Micro and small enterprise

*Note for RMs: This box is a high-level overview. For detailed regulatory guidance, refer to official EU sources.*

Under the EUDR, clients trading in the commodities listed above within the EU are classed as either ‘Operators’ or ‘Traders’. Large Traders (non-SMEs) must meet the same due diligence rules as Operators, while SME Traders have lighter obligations and do not need to submit compliance statements.

- Operators are those who first place these products on the EU market or export them—typically importers or exporters.
- Traders buy, sell, or distribute these products within the EU but don’t import or export them.

The EU is introducing these requirements to minimise the environmental footprint of entities within the scope of the EUDR and curb the loss of forests, which also aligns with its broader goals on biodiversity, climate action, and sustainability, including Target 3 of the Kunming-Montreal Global Biodiversity Framework<sup>19</sup>. The regulation also places a strong emphasis on respecting the rights of Indigenous Peoples and Local Communities (IPs and LCs) in production areas by requiring companies to ensure their products are legally produced, including compliance with land tenure and human rights laws<sup>20</sup>.

## Box 2: What about companies outside the EU?

RMs dealing with clients outside the EU, like a palm oil producer in Indonesia or a rubber factory in Thailand, should also raise awareness of how the EUDR will impact their client’s business. Although the regulatory requirements only apply to companies that place relevant regulated products into (or export regulated products from) the EU, accessing detailed supply chain information, identifying the plot where products were grown, and assessing deforestation and legality (i.e., compliance with local and international laws) risks are all tasks that will require information and support from suppliers outside the EU. Suppliers that are willing and able to provide detailed information and assurance that their products can meet the requirements of the EUDR will, at a minimum, avoid clients being cut out of EU markets, and may provide a competitive advantage allowing access to a greater share of EU trade.

When engaging with clients, it is important to first understand how the EUDR will affect their business, before assessing their preparedness. As a first step, RMs should ask about their business activities (whether they trade the commodities in scope) to determine potential exposure, before following up with an assessment of their awareness:

### 1. Are you directly regulated by the EUDR, or indirectly affected because your EU buyers must comply?

If a client operates in the EU, they may be classed as an Operator or non-SME Trader and be required to conduct due diligence. Clients who do not themselves place regulated products into the EU are not directly regulated, but will likely receive information requests from EU buyers and will be key to providing evidence of supply chain traceability and legal compliance. For example, Ghana exports around 60% of its cocoa to the EU, alongside other major producer countries Côte d'Ivoire and Cameroon<sup>21</sup>. For companies operating in these sectors, neglecting to provide information to downstream buyers may see them edged out of the EU market by competitors.

### 2. How are you preparing your supply chains to meet compliance requirements?

Companies need to start preparing as early as possible to meet the compliance requirements. They must collect detailed proof that commodities within their supply chains (a) have been produced in accordance with the relevant legislation of the country of production, and (b) are deforestation-free. The EUDR's requirement to gather geolocation coordinates for all plots of land where their commodities are produced is a huge task, requiring traceability from the EU importer back to the forest or farm level—a scale of detailed evidence that many companies will not previously have been required to collate (see Step 3 for more information on traceability and compliance requirements).

### 3. Have you assigned responsible leads for tackling deforestation and/or forest degradation in your supply chains and for EUDR compliance?

A designated lead can help coordinate supplier engagement, data collection, risk assessment, and mitigation, helping ensure compliance whilst also supporting the internal business case.

#### Case Study 1: Barry Callebaut – Preparing for the EUDR

Barry Callebaut, one of the world's largest chocolate manufacturers, is proactively adapting to meet regulatory and market expectations through its "Forever Chocolate" strategy by:

- Targeting 669,000 mapped cocoa plots by 2024/25 to build farm-level traceability across Côte d'Ivoire and Ghana<sup>22</sup>.
- Achieving 80% cooperative-level traceability and 60% farm-level traceability since 2019<sup>23</sup>.
- Piloting indirect-supplier traceability covering ~18,000 farmers and 45,000 hectares to expand upstream data<sup>24</sup>.
- Building systems around satellite-based forest monitoring, risk mapping (High Carbon Stock maps), and real-time alerts.

Although specific project budgets aren't disclosed, Barry Callebaut has invested millions in system development, as well as scaling agroforestry and compliance programs across cocoa landscapes ahead of 2025 regulatory deadlines.

## STEP 2: BUILD THE BUSINESS CASE FOR ACTION

Building a business case for action on deforestation and/or forest degradation is important because it moves the conversation from being purely a moral or environmental imperative to one that also resonates with financial, legal, reputational, and strategic priorities. RMs can support clients to identify opportunities as well as risks posed by deforestation and/or forest degradation and specifically as a result of the EUDR's requirements (Table 1).



Deloitte estimates that **US \$4.5 trillion in global GDP is tied to nature-dependent sectors**, underscoring the systemic risk of nature loss and deforestation. Companies failing to comply with the EUDR risk fines, loss of EU market access, and reputational damage—impacting their cashflow and increasing credit risk. For banks, this raises the likelihood of loan defaults, stranded assets, and reduced collateral value. Demand for sustainable goods is increasing—according to Boston Consulting Group, ~70% of consumers are willing to pay ~5% more for sustainably produced products<sup>25</sup>. Exemplifying this in 2024, UK grocery store Waitrose raised prices on its ethically sourced cocoa range and reported a **34% uplift in sales**<sup>26</sup>, proving that responsible sourcing can be good for business and a signal of long-term resilience. Tackling the issue of deforestation and/or forest degradation also opens up new product offerings in sustainable finance, such as:

- **Sustainability-Linked Loans (SLLs)** that offer lower interest rates for achieving ESG milestones. In 2022, Olam Food Ingredients secured a US \$1,975 million SLL facility with KPIs tied to traceability and deforestation-free sourcing<sup>27</sup>.
- **Blended finance facilities** that can provide derisking capital to mobilize commercial finance for deforestation-free markets. In October 2023, Rabobank, in collaboration with AGRIS Fund, Banco Santander, and UK retailers, launched the ~US \$47 million Responsible Commodities Facility, providing low interest loans to smallholder farmers contingent on tackling deforestation in Brazil's Cerrado biome<sup>28</sup>.
- **Sustainable trade finance and shipment credit lines** that link preferential terms to verified deforestation-free sourcing. For example, Standard Chartered executed a US \$500 million export Letter of Credit program for ADM in 2022, requiring certification of soybean supply chains to Roundtable on Responsible Soy (RTRS) standards<sup>29</sup>.

RMs should help clients assess how the EUDR may affect their business operations, supply chains, and overall strategy. Table 1 below summarises some of the risks and opportunities associated with inaction and early compliance with the EUDR's requirements.

**Table 1: Risks and Opportunities Associated with EUDR Compliance**

Category	Risks of Inaction	Opportunities Arising from Early Action
Compliance	<ul style="list-style-type: none"> <li>Regulatory penalties</li> <li>Exclusion from EU markets</li> <li>Product seizure</li> <li>Legal liability</li> <li>Less prepared for other market regulation (e.g. UK, US etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Maintain access to EU markets</li> <li>Preferred supplier status</li> <li>Early risk mitigation systems</li> <li>More prepared for other market regulation (e.g. UK, US etc.)</li> </ul>
Financial	<ul style="list-style-type: none"> <li>Revenue loss</li> <li>Supply chain disruption</li> <li>Loss of access to EU markets</li> <li>Reduced investment appeal</li> </ul>	<ul style="list-style-type: none"> <li>Access to green finance</li> <li>Cost savings through efficiencies</li> <li>Enhance financial resilience</li> <li>Better risk-adjusted performance</li> <li>Align with banks' Net Zero Transition Plans by addressing land-use change</li> </ul>
Reputational	<ul style="list-style-type: none"> <li>NGO and media backlash</li> <li>Consumer distrust</li> <li>Investor divestment</li> <li>Value chain exclusion</li> <li>Misalignment with climate and nature targets</li> </ul>	<ul style="list-style-type: none"> <li>Brand leadership</li> <li>Positive stakeholder perception</li> <li>Competitive recognition</li> </ul>
Governance	<ul style="list-style-type: none"> <li>Weak internal controls</li> <li>Poor data systems</li> <li>Governance gaps</li> </ul>	<ul style="list-style-type: none"> <li>Stronger oversight</li> <li>Improved data governance</li> <li>Clear accountability</li> <li>Integrated ESG strategy</li> </ul>
Economic Inclusion & Livelihoods	<ul style="list-style-type: none"> <li>Smallholder exclusion</li> <li>Supply chain instability/lack of suppliers</li> <li>Human rights scrutiny</li> </ul>	<ul style="list-style-type: none"> <li>Inclusive sourcing model</li> <li>Supplier resilience</li> <li>Social impact leadership</li> </ul>

Companies classed as Operators and Traders are liable for non-compliance and may incur the following penalties outlined in the regulation:

1. Fines proportional to environmental damage and value of commodity (up to 4% of the Operator's or Trader's total annual EU-wide turnover in the financial year preceding the fining decision)
2. Confiscation of commodities and revenues from the sales of non-compliant products or commodities
3. Temporary exclusion from public procurement and access to public funding for maximum 12 months
4. Temporary prohibition to place on or export from the EU market
5. Prohibition to use simplified due diligence procedure, in the event of a serious infringement or of repeated infringements

Individual EU member states will define appropriate levels for penalties with more information available to companies within each jurisdiction. Mitigating reputational and financial impacts is best

tackled through proactive engagement to ensure preparedness. Equally, ensuring non-EU clients proactively tackle deforestation and/or forest degradation risk and traceability in supply chains will also reduce their reputational and market access risk.

To build the business case for action on the EUDR, RMs should ask clients:

**4. Have you assessed the financial impact of EUDR compliance on your operations?**

Compliance with the EUDR can require significant investment in traceability, due diligence, and supplier engagement, particularly for companies with complex supply chains. Understanding whether a client has begun to assess the cost implication helps RMs gauge both awareness and the likelihood of compliance delays. It also provides an early opportunity to offer financing solutions, such as sustainability-linked loans or capacity-building support.

**5. Are you aware of the potential legal and reputational risks if your products are found to be non-compliant?**

Some clients may not fully understand the consequences of non-compliance, particularly if they operate outside of the EU. Highlighting the risks such as market exclusion, fines, and reputational damage can prompt deeper engagement. The question can help surface risk blind spots and highlight a stronger case for action.

**6. Do you require financial or technical support to implement necessary traceability and compliance systems?**

Many clients, especially SMEs and suppliers in high-risk geographies, lack the resources to meet EUDR requirements on their own. By asking this, RMs can better understand the level of support required and match clients with the appropriate financial solution or technical guidance. It also enables FIs to identify common needs across their portfolios, informing the development of targeted products or advisory services.

RMs can also encourage clients to adopt a structured approach to managing EUDR-related risks. For example, some companies are using recognised frameworks like the Taskforce on Nature-related Financial Disclosures (TNFD) LEAP (Locate, Evaluate, Assess, Prepare) Approach<sup>30</sup> to help identify nature risks and dependencies in their supply chains and prepare for deforestation-related compliance. Encouraging clients to think in these terms can support both regulatory readiness and long-term resilience, especially where there may be future credit or reputational risks.



## STEP 3: INCENTIVISE DUE DILIGENCE AND EUDR COMPLIANCE

It is essential for RMs to assess client preparedness for the EUDR and incentivise due diligence and compliance with the regulation. Three critical areas to focus on are:

- **Information Collection**, which includes geolocation data collection, supplier mapping, and documentation of product origin.
- **Risk Assessment**, including contingency sourcing plans, deforestation-free commitments, and strategies for smallholder inclusion.
- **Risk Mitigation**, detailing how identified risks are being actively managed and reduced.

Understanding the strength of a client's systems in these areas will help gauge their readiness for the regulation and pinpoint where additional scrutiny or advisory support might be required. This assessment should be part of ongoing relationship discussions and escalated if significant compliance gaps or reputational risks are identified.



To support this process, RMs should ask targeted questions in the following areas:

### Information Collection

7. Do you have location data for where your EUDR-regulated commodities are produced? If so, is this data available for all or only some of your supply base?

Without geolocation data, clients may not be able to import into the EU. RMs should check whether clients are investing in the necessary data infrastructure to maintain market access and manage regulatory risk. RMs should focus on whether clients can provide data for the portion of commodities sold to the EU. Some companies, like Michelin, which sells tyres containing natural rubber, have decided to ensure that EUDR requirements are applied to all its sourcing and sales globally, not just those sales going to the EU market<sup>31</sup>.

8. Do you have a due diligence system in place to verify that suppliers are not linked to deforestation after December 31, 2020?

A robust due diligence system consists of procedures for information collection, risk assessment and risk mitigation. A client's due diligence system should enable detailed supply chain risk assessment to verify the deforestation-free status of commodities, their compliance with local and international laws, and associated compliance, financial, and reputational risks.

9. Have you mapped supply chains to determine which may be at higher risk of non-compliance with the EUDR?

Risk can be associated with the origin of commodities—e.g. issues with compliance with local and international laws, deforestation and/or forest degradation, and related human rights abuses associated with their harvest—and their transport and trade. Wood produced in a source country where there are known issues of illegal timber harvest and high levels of corruption would be an example of this. However, international supply chains for commodity products are often complex, with processing at multiple steps in the supply chain. Supply chain complexity and risk of mixing known and legally sourced materials with those from unknown sources should therefore be evaluated.

For example, China and Vietnam are major manufacturing hubs in wooden furniture supply chains where the risk of mixing the sources of materials should be assessed to ensure factories have sufficient procedures in place to demonstrate traceability. Clients can use their due diligence system to identify major risk types associated with suppliers, countries of origin, supply chain complexity and other factors to prioritise for more detailed risk assessment and mitigation action. This question helps gauge how strategically the client is managing exposure, which informs credit and reputational risk for the bank.

### Risk Assessment

10. What monitoring system do you have in place to ensure the commodities you are handling are deforestation-free?

The core aim of the EUDR is to ensure the deforestation-free status of the commodities covered by the regulation. The EUDR provides a clear definition for what a 'forest' is<sup>32</sup>, to support the monitoring of forest cover change, as well as establishing a clear 'cut-off' date (31st December 2020) after which deforestation and/or forest degradation is unacceptable. Satellite remote sensing is commonly used in deforestation monitoring, and the number of providers has expanded since the onset of the regulation. For clients closer to the supply chain source, direct field monitoring or drones can be used instead. For wood supply chains, the risk of forest degradation must also be monitored, for example through satellite remote sensing or field audits, to ensure sustainable forest management.

#### Box 3: Satellite Remote Sensing

Satellite remote sensing uses high-resolution imagery to detect forest loss, often in near real time, within commodity supply chains. By combining satellite data with supplier maps, companies and investors can:

- Identify deforestation events swiftly
- Verify compliance with zero-deforestation commitments
- Take timely action to address risks

Example providers include Global Forest Watch, Satellintelligence, Starling, LiveEO, Nadar, Rezatec, Space Intelligence, and Planet Labs.

For information on key terms, including detail on how 'forest' and 'deforestation' are defined according to the EUDR, see Reference no. 32.

### 11. How do you monitor legality risks throughout your supply chain?

Under the EUDR, companies must demonstrate that products have been legally produced according to the laws of the country of origin (see Box 4 for related types of legislation). Verifying legality can be time-consuming and administratively demanding as it requires detailed documentation, understanding of local and international legal frameworks, and may require consultation with legal experts. It can be particularly challenging for supply chains such as cocoa and rubber, where production often depends on smallholders in countries with low rates of formal land registration. Early conversations can flag support needs and encourage companies to begin gathering evidence as soon as possible.



#### Box 4: Types of Legislation for Legality Risk Monitoring

The EUDR references a broad set of national and international laws that companies must comply with. These cover:

1. Land use rights
2. Environmental protection
3. Forest-related rules (including forest management and biodiversity conservation where directly related to wood harvesting)
4. Third parties' rights
5. Labour rights
6. Human rights protected under the Universal Declaration of Human Rights
7. The principle of Free, Prior and Informed Consent (FPIC), as set out in the UN Declaration on the Rights of Indigenous Peoples
8. Tax, anti-corruption, trade, and customs regulations

Example risk assessment and mitigation actions:

- Mapping supplier locations against official land registries and protected area maps
- Reviewing permits, licences, and related official documentation
- Using satellite imagery to detect land use changes
- Conducting audits, site visits, and stakeholder interviews
- Screening for legal disputes, fines, or sanctions involving suppliers

### Risk Mitigation

#### 12. What steps have you taken—or do you plan to take—to mitigate identified risks, including contingency plans, if suppliers cannot meet EUDR requirements?

Risk assessments should translate into concrete mitigation steps. In cocoa and rubber supply chains, where production often depends on smallholders in countries with low rates of formal land registration, clients may face traceability and legal verification challenges. RMs should check whether the client is addressing these, such as by collecting formal tenure evidence, and note if their approach is proactive or only reactive. Proactive risk management indicates a stable, forward-looking business model and strengthens the case for long-term lending.

#### 13. How are you supporting suppliers, including smallholders, to build capacity and ensure sustainable production?

Supporting suppliers to meet compliance requirements helps reduce risk and build supply chain resilience. This includes identifying capacity-building needs and providing support or alternative sourcing options if non-negligible risks of non-compliance arise. Smallholder inclusion is critical in many sectors, such as cocoa and rubber as noted above, and helps mitigate social and reputational risks. The EUDR should be used to foster engagement rather than exclusion.



#### 14. How are you preparing for potential audits or due diligence checks from buyers or regulatory bodies?

Preparation for external audits or regulatory reviews reflects operational maturity. Well-prepared clients are less likely to face enforcement actions, which protects FIs' financial and reputational interests. Equally, clients who do not themselves place relevant commodities or products onto the EU market can play their part by demonstrating strong chain of custody systems and supporting factory audits of their premises to demonstrate effective segregation systems and product tracking to EU buyers.

## STEP 4: COLLABORATE TO TACKLE DEFORESTATION AND/OR FOREST DEGRADATION

Although the EUDR does not require companies to tackle issues beyond their own supply chains, the drivers of deforestation and/or forest degradation often transcend individual supply chains. Therefore, client action to collaborate with producers in the same landscape as well as governments, communities, and other stakeholders is key to tackling deforestation and/or forest degradation. Participation in collective initiatives, particularly in high-risk sourcing regions, can demonstrate long-term resilience, mitigate reputational risk, and signal stronger readiness for regulatory compliance. Clients will need to ensure that any initiatives which involve collaboration with competitors comply with relevant competition laws<sup>33</sup>.

RMs should understand whether and how clients are engaged in these wider efforts to help identify potential compliance gaps, assess risk exposure, and spot opportunities to provide strategic support. RMs should look for concrete examples such as:

- Supplier engagement programmes
- Participation in sustainability reporting initiatives
- Partnerships with NGOs, industry groups, or public-private collaborations

Measurable outcomes—like reductions in regional deforestation rates or sourcing high percentages of certified materials or deforestation-free commodities—are strong indicators of proactive action.

In contrast, vague commitments or siloed approaches may reflect being unprepared for the systemic demands of the EUDR. Active involvement in multi-stakeholder platforms and jurisdictional or landscape-level approaches suggests stronger compliance readiness.

These initiatives are usually led by sustainability, procurement, or corporate responsibility teams, though in smaller companies executives or operational leads may take responsibility. RMs should identify who is leading these efforts on the client side and also share insights internally to align engagement strategies across teams.

To support these conversations, RMs can ask clients the following questions:

### 15. Are you involved in any landscape or jurisdictional initiatives to address deforestation risks at scale?

RMs should ask if the client participates in collective initiatives that address deforestation and/or forest degradation across entire regions or landscapes, beyond individual supply chains. These efforts often signal long-term planning, shared accountability, and alignment with evolving regulatory and market expectations.

### 16. How are you working with peers, governments, or NGOs in key sourcing regions to improve traceability and monitoring, particularly for smallholder producers?

Traceability challenges are greater in regions with weak governance or limited infrastructure. RMs should assess whether the client is collaborating with others to improve oversight and develop shared systems—both of which are increasingly important for meeting EUDR due diligence requirements. Industry platforms like the Global Platform for Sustainable Natural Rubber (GPSNR) offer a strong example of collective action to enhance traceability and support smallholder inclusion at scale through mass capacity building with smallholder farmers.

### Case Study 2: Consumer Goods Forum Forest Positive Coalition (FPC)

**Collaboration Focus:** The FPC brings together major retailers and manufacturers to tackle deforestation at the landscape level. Members work collectively with local stakeholders, governments, and NGOs to transform key sourcing regions.

**Commodities Covered:** Cattle, palm oil, soy, wood (pulp & paper)

**Alignment with EUDR objectives is supported through several ways:**

**Forest Definition & Cut-off Date:** FPC encourages alignment with industry-standard cut-off dates and forest definitions, in line with EUDR benchmarks.

**Geolocation & Monitoring:** Members use satellite monitoring and traceability platforms (e.g., Trase, Global Forest Watch) to support landscape monitoring and risk mitigation.

**Legal Alignment & Governance:** Landscape initiatives support alignment with local and international laws and environmental governance, indirectly supporting EUDR legality requirements.

**Traceability & Shared Action:** The coalition promotes shared traceability tools, smallholder support, and engagement in public-private partnerships—all key to the EUDR's systemic approach.

**Higher-Risk Region Focus:** Work is concentrated in sourcing regions widely recognised for higher deforestation risks (e.g., Indonesia, Brazil), supporting EUDR due diligence by addressing areas where deforestation risk is most significant. Example: In Indonesia's Siak-Pelalawan Landscape, FPC members (e.g., PepsiCo, Nestlé, Unilever) partner with local actors to improve traceability, conserve forests, and support smallholders.

**Limitations:** Membership of FPC does not guarantee EUDR compliance. Whilst it supports EUDR-aligned practices, companies must still independently assess whether they are in compliance with their obligations.

### 17. Are you contributing to shared infrastructure or data initiatives that enhance transparency across the supply chain, including smallholder inclusion?

This question seeks to understand if the client is involved in shared initiatives that enhance transparency, such as digital traceability platforms, that can also include smallholder producers. Smallholder inclusion in these initiatives ensures their practices are tracked and verified for sustainability, which is crucial for EUDR compliance. These efforts also contribute to improving overall supply chain transparency and mitigating deforestation risks.

RMs should assess whether the client is actively supporting smallholders located in high deforestation regions. Support can include training, financial aid, mapping support, or inclusion in verified supply chains. Without such measures, clients may face challenges in sourcing sufficient deforestation-free commodities and maintaining EU market access.

18. Have you engaged with industry groups, certification bodies (e.g., RSPO, FSC, PEFC, RTRS), or trade associations to understand the EUDR's requirements and support smallholder inclusion?

Participation in industry platforms can indicate awareness of evolving standards and access to tools for compliance. RMs should check if the client is actively using these channels to prepare for the EUDR and align their supply chain practices.

### Box 5: Pre-Competitive Collaborations

Pre-competitive collaborations are partnerships where companies tackle shared sustainability challenges like deforestation and/or forest degradation, supplier engagement, or monitoring, without competing commercially.

These partnerships pool resources and develop common solutions to benefit the entire sector<sup>34</sup>, such as to support EUDR compliance. Whilst these partnerships have clear advantages, care should be taken to ensure that participants are in compliance with all relevant competition laws.

Key activities:

- Establishing common traceability or monitoring systems
- Sharing non-confidential data or research
- Co-funding supplier training and capacity-building programs
- Creating industry-wide guidelines or best practices

These partnerships can help companies reduce costs and address complex issues like deforestation and/or forest degradation risk more effectively than working alone.

Examples:

- Palm Oil Collaboration Group (POCG)<sup>35</sup>:
  - ◊ Brings together companies across the palm oil supply chain to implement No Deforestation, No Peat Expansion, No Exploitation (NDPE) commitments
- Consumer Goods Forum (CGF) Forest Positive Coalition<sup>36</sup>:
  - ◊ Coalition-wide action groups on supplier engagement and landscape investment
  - ◊ Develops actionable Roadmaps and KPIs for key commodities
  - ◊ Supports structured, collective action to reduce deforestation risk

## STEP 5: MONITOR PROGRESS

By Step 5, client engagement should shift from awareness-raising and building the business case to embedding deforestation and/or forest degradation monitoring into an ongoing client relationship. Given it is neither practical nor necessary to monitor every client in detail, RMs should focus on a targeted sample of clients with the highest exposure to the forest-risk commodities covered by the EUDR. This allows for meaningful oversight, informed credit decisions, and timely intervention where risks are identified.

**Suggested Key Actions for RMs:**

### 1. Identify and Prioritise Clients for Monitoring

- Use earlier conversations (Steps 1–4) and risk assessment findings to select a sample of clients with potential deforestation and/or forest degradation exposure, such as agribusinesses, commodity traders, or manufacturers.
- Prioritise clients operating in higher-risk sectors or regions (e.g., palm oil in Southeast Asia, rubber in West Africa, soy in Argentina).
- Aim for a sample that is representative of your portfolio but still feasible to monitor regularly.



### 2. Leverage Risk Monitoring Tools

- Align internal risk policies and due diligence protocols to include systematic reviews of relevant risk signals e.g., negative media coverage, NGO reports, or other publicly available information related to deforestation or land-use concerns.
- Where significant risks are identified, consider engaging with group sustainability or external partners to explore the use of satellite or remote sensing data to verify potential forest loss or degradation in connection with a client's operations or sourcing areas.

### 3. Integrate Monitoring into Client Engagement

- Where data is available to review ahead of client meetings, utilise it to prepare targeted questions. Discussions could focus on:
  - ◊ How clients are addressing identified deforestation and/or forest degradation risks
  - ◊ Progress on EUDR compliance measures
  - ◊ Capacity-building needs, particularly for suppliers, with a focus on those involving smallholders.
- Finally, it is important to position monitoring as a collaborative tool to support compliance, not just as a risk-control measure.

### 4. Collaborate Internally and Externally

- Share the results from monitoring with internal sustainability, risk, and compliance teams and work together to ensure consistent messaging, as well as coordinated client engagement.
- Align on support needs, escalation triggers, and any implications for credit decisions or client risk ratings.
- Where relevant, collaborate with RMs from other financial institutions who engage the same client to ensure consistent messaging and expectations.

### 5. Report and Track Progress

- Summarise monitoring outcomes in periodic internal reports.
- Track improvements and flag recurring or emerging risks.
- Work with sustainability and risk teams to aggregate data and use insights gained from monitoring to plan targeted follow-ups with clients and strengthen portfolio-level risk management.



## CONCLUSION

The EUDR marks a significant step in combating deforestation and forest degradation. It emphasises due diligence, traceability, and compliance with local and international laws, requiring companies in forest-risk commodity industries to manage deforestation risks, meet sustainability criteria, avoid penalties, and protect their reputation. Addressing deforestation and forest degradation is increasingly seen as not only crucial for the environment and mitigating the effects of climate change, but also long-term supply chain resilience. Companies embracing these regulations and taking proactive steps to ensure deforestation-free sourcing will be better positioned to navigate market uncertainties and strengthen supplier relationships. It is undeniable that the EUDR will set a clear precedent for global regulation and drive major improvements in supply chain transparency.

For FIs, the EUDR presents both challenges and opportunities. Whilst not directly covered by the regulation, their role in financing deforestation-linked supply chains and activities make them key players in addressing these issues. By helping companies in implementing actions to meet the EUDR, FIs can mitigate financial and reputational risks, strengthen governance, position themselves as leaders and unlock sustainable finance opportunities. Moreover, preparing for the challenges and opportunities brought by the EUDR can provide long-term commercial benefits. As the European Commission may expand the scope to include FIs, proactively aligning with emerging deforestation legislation will ensure regulatory readiness and support long-term growth.

## LIST OF ACRONYMS

**CGF** – Consumer Goods Forum

**DCF** – Deforestation and Conversion-Free

**EU** – European Union

**EUDR** – European Union Deforestation Regulation

**FI** – Financial Institution

**FPIC** – Free, Prior and Informed Consent

**FPC** – Forest Positive Coalition

**FSC** – Forest Stewardship Council

**GDP** – Gross Domestic Product

**GPSNR** – Global Platform for Sustainable Natural Rubber

**IPs & LCs** – Indigenous Peoples and Local Communities

**KPI** – Key Performance Indicator

**LEAP** – Locate, Evaluate, Assess, Prepare

**NDPE** – No Deforestation, No Peat, No Exploitation

**NGO** – Non-Governmental Organisation

**PEFC** – Programme for the Endorsement of Forest Certification

**POCG** – Palm Oil Collaboration Group

**RM** – Relationship Manager

**RSPO** – Roundtable on Sustainable Palm Oil

**RTRS** – Roundtable on Responsible Soy

**SLL** – Sustainability-Linked Loan

**SME** – Small and Medium-sized Enterprise

**TNFD** – Taskforce on Nature-related Financial Disclosures

**UN** – United Nations

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