EUDR state of play: are companies ready?
Podcast transcript

Ian Welsh: Welcome to this Innovation Forum Podcast, part of a new series continuing our focus on corporate readiness for the European Union's deforestation regulation in collaboration with Deloitte and Touche LLP. I'm joined today by Evan Harvey, a Managing Director for Audit and Insurance at Deloitte and Touche LLP specialising in sustainable reporting, measurement, compliance and nature services. Welcome to the podcast, Evan.

Evan Harvey: Lovely to be here, Ian. Thank you for inviting us.

Ian Welsh: How the current state of EU DR as it is across different sectors?

Evan Harvey: Well, let's start for the listeners with what EU DR is. The EU deforestation regulation is an EU regulation that's trying to reshape global supply chains to provide information around key commodities and to make sure that they are deforestation -free and legally sourced. That's the intent of the regulation. US companies that import or export certain commodities in the EU, whether that's for trade or internal use, they should prepare to comply once enforcement begins. And we know that enforcement is coming to December 30th, 2025 for large companies, smaller companies based on certain other characteristics like turnover and employee count have more time to comply. So June 30th of 2026. Those definitions of large and small are following the guidance in the EU SME criteria and can vary by interpretation. So double check my language there, but that's basically the timeline that the companies that are subject to this regulation have to work with. The regulation isn't yet in effect for companies, but they should start preparing for compliance now. Deloitte is a big believer in preparing for future readiness. The current state of that readiness is variable across different industries based on the client interactions that we have had. Certain industries like food and agriculture, of the larger ones, large multinationals, are generally the more advanced and prepared as of now. Many of those companies have been investing in sourcing from deforestation free sources and installing traceability standards for a number of reasons in the past. Sometimes that's public pressure, sometimes voluntary commitments, and certainly an enhanced sense of scrutiny on supply chain. Where do the materials that end up in our homes and offices and our world start and where do they end? Other sectors, manufacturing, automotive come to mind, retail, pharmaceuticals, they're starting to take action on this, but their readiness levels tends to vary depending on how complex those supply chains are and how much data they have. Compliance with a scheme like this requires performance data and reportable information that companies are just now starting to reckon with.

Ian Welsh: You mentioned some of the sectors that seem better prepared, which sectors seem to be struggling and what can they learn from the leading sectors?

Evan Harvey: It's a good question. The sectors that are better prepared through experience they have had, like I said before, pressures from different parts of the market in order to provide more information. Technology, media companies, telecom, life sciences and health care, they seem to be less directly exposed to forest commodities, certainly high -risk forest commodities, So, they're still sort of navigating those pressures around supply chain and how to be more transparent in their operations. In the sense of the EUDR journey, they are a little bit earlier in the curve as opposed to food and ag. These systems tend to have less mature traceability systems in place. I'm throwing generalisations at you, Ian, but this is sort of sector by sector understanding as we have it now. Non -primary commodities that may still be captured under EUGR like paper, palm oil, the stuff that goes into personal care products, individual instances of more traceability that has been required, but generally the systemic traceability of supplies or commodities has not been in place. And it's important as we talk about sector and industry to recognise that readiness is not just a sector -based indicator, but it often has to do with the size of the company, the complexity of their supply chain. If you have a thousand suppliers, that's a different exercise than if you have a hundred or if you have 50 large ones and their procurement models smaller companies tend to be reliant on indirect sourcing they are facing greater challenges because they just have less resources to peer into those supply chains and Understand the performance and to get reportable data for the companies that have made progress We talk about food and beverage companies and consumer goods the things that we try to point out and the guidance that we give to the companies that are a little bit earlier on in their journey is to start embedding those traceability systems into their procurement, invest in supplier education, engage with your suppliers, get better information, create a healthy dialogue between the supplier and the end user, and then you can use certain technologies and tools like geospatial tools, risk heat maps to prioritise where you need to put action first. Focusing on those things will help you get from the beginning stage to the sophisticated reporter stage much faster.

Ian Welsh: What are the technological and operational challenges then that many companies are facing in achieving their EUDR compliance?

Evan Harvey: Tech certainly plays a vital role here. It enables companies to collect and integrate data across the value chain. And when I say value chain for your listeners, it's the upstream and the downstream. So the supply side and the end use side. That's often a difficult exercise for companies to undertake. And EUDR has very specific traceability and deforestation -free requirements built into it. Technology is going to be a vital accelerator when it comes to compliance. And you think about tools in the technology space here. We're talking about geolocation tools, so how you can actually look at where farms are, where forests are, adjacent seeded different sensitive areas. Compliance and evidence of compliance is often requires that kind of analysis, understanding where your operations are and how they might be adjacent to environmentally sensitive areas. And then there are certainly digital solutions that are going to accelerate the use and the processing of data. They're emerging in the market, but taking the sea of data that you get from geolocation technology and other inputs and turning it into a reportable system that you could use for compliance with EUDR and other channels. And I think that what we're finding in terms of hiccups with this process is the source data is sometimes poor in quality, incomplete. So if you're dealing with a lot of suppliers, it might be variable, the quality of the data that you get from them. Many companies are finding that the data itself that they might need to report is simply not there in the input side. It makes it especially difficult to comply. The other thing I might mention is availability of using cloud -based traceability platforms, API systems, things that are essentially, as we mentioned before, going to accelerate the processing of all this data. I have this giant multinational food and ag company that has sourced products and materials from all over the planet. I need to try to put that into a reportable framework that makes sense for somebody to interpret, especially if my supply chain might be multi-tiered, especially if I'm in heavily scrutinised commodities, as we mentioned before, palm oil, rubber, leather, et cetera, where there's a lot of attention, digging deep on where these products come from and how responsibly they are sourced is key.

Ian Welsh: Inevitably, with this sort of regulation, there are going to be some common misconceptions about compliance. So what in particular then are common misconceptions companies have about EUDR compliance?

Evan Harvey: Well, hopefully the first few minutes of this podcast has made clear that Our compliance is not particularly simple. It doesn't just apply to a small number of very large companies. Compliance may be complex, and it probably applies to a broad array of companies. So that would be the first bit of mythology that I would like to dismantle, that it's only for big companies and it's not for many of them. The other things that might be a common misconception are the timeline that we mentioned before, how soon this is coming. So end of this year 2025 for large companies, middle of next year for smaller companies. I think that that timeline might catch some listeners off guard in terms of how soon this regulation is coming into the market. I would also mention the availability of tools. Sometimes companies are looking at this space and thinking that they throw up their hands and it's just difficult or impossible to measure, but there are tools and there are certainly consultancies and partnerships and experts out there in the space who can help you get to compliance quickly.

Ian Welsh: What are the main data gaps preventing is traceability and nature impact assessments then when you're thinking about EUDR?

Evan Harvey: Yeah, the data record is spotty in some cases and there are a few things that I would highlight in terms of where we can make improvements to the data record. Certainly location specificity. In many sourcing regions, geospatial data like farm coordinates, plot coordinates, it's just missing or it's incomplete or it's unreliable or it's incomparable from data set to data set. So this is a real hurdle in terms of EUDR compliance, especially for those that are complying by the end of this year. So trying to prove or create the proof that commodities were sourced on non-deforested land or recently deforested land is vital. And so the specificity of those locations is sometimes hard to establish. There are transparency gaps in supply chains generally, as we mentioned before, tier one, tier two, how deep into your supply chain, can you go? Those high-risk commodities that we talked about, palm oil, cattle, soy, rubber, tracing those inputs all the way back to origin, to their forest origin, is still very difficult, even for large companies, even when indirect sourcing is, especially when an indirect sourcing is involved. And then how do you integrate all this stuff into one system? Suppliers often don't have the tools or the incentive or the capacity to share the required data with the procurer. That is a shortfall at this point. How do the systems from the supply side coordinate and communicate and integrate with the consumer side? And then, as we mentioned, just the knowledge and readiness gaps. This is happening. This affects a number of companies. There are steps you can take in order to comply, whether that is specifically looking at UDR compliance, but other standards and regulations that are emergent in this space as well. The TNFD, the Task Force on Nature Related Financial Disclosures, the Science Based Targets Network, there are a number of concurrent efforts that are underway to create more understanding around how companies perform in this space that are not necessarily EUDR specific.

Ian Welsh: What are the potential financial risks for companies that fail to adequately prepare for EUDR?

Evan Harvey: Certainly, the regulation builds in financial penalties. I believe it is something like 4% of the company's annual turnover within the EU. You can see just based on that number that it is potentially significant, perhaps far too significant to ignore. Market restrictions you might not be able to supply into or buy from certain markets based on your lack of compliance with this regulation. You could, and this is a case that we make with clients all the time, suffer supply chain or operational disruptions, a poorer understanding of how your supply chain works and where the risks and vulnerabilities are, means that you are more susceptible to disruptions, which can have cost and resourcing implications for the company. For years in this space, there's been a fairly robust sense of consumer sentiment, reputational value, brand loyalty that are associated with how we treat the environment and how we treat our forests. That can certainly create market disruption for the reporting company as well.

Ian Welsh: What reactions have you observed from sustainability practitioners in companies that have made early efforts to be EODR ready, particularly in response to delays in enforcement and guidance?

Evan Harvey: Some of the things we're hearing pretty consistently here, Ian, are the regulatory enforcement and the regulatory creation and perfection process. The delays there have caused a lot of uncertainty across the board. Some organisations, it means that their momentum is slowed down, internal investment slows down, resource allocation to comply or to prepare systems to comply with the UDR and other related disclosures is slowing as well. So, there's concern that the deadline will bloom without proper preparation. When the compliance deadlines are extended, and that has been the case in some places, it can risk signalling to the market that this regulation isn't important or it's not as urgent as it might seem and really it's more a matter of the regulation coming into a better state of readiness for the market. But it does cause the reporting company to sometimes deprioritise readiness for this particular regulation and just move those resources to something else. We have seen frustration from entities that are already investing in readiness. They were tracking to an original timeline or original deadline. And then when enforcement is delayed and guidance is revised or edited or slow to arrive, that is problematic for them, obviously, if they are making the case internally for compliance. We have seen this happen in other areas related to sustainability as well. What is happening with the corporate sustainability reporting directive in EU reporting directive that affects a lot of global companies around their sustainability performance. The direction, the delay, the enforcement timeline there has slipped significantly, and so the sense that the urgency of reporting against these particular directives has also slipped.

Ian Welsh: Yes, we have seen frustration as well, but how can such companies use early mover status to their advantage?

Evan Harvey: Certainly better preparation is better readiness if and when compliance comes. There are certain upsides to having already moved into an EUDR compliance mode, doing the heavy lifting in terms of outreach to suppliers, in some cases, changing sourcing for suppliers, getting the data, mapping the data from your suppliers. So all the groundwork that has to go into a sophisticated report around the EUDR, the more work you've done there, the better prepared you are to both understand it internally as a management tool but also report it out. The brand and reputation of being an early mover, a fast adopter, a compliant company is certainly not without merit. Customers tend to care about this. If you talk about your early mover status or your EUDR compatibility, as of this point, even ahead of the deadline, that's probably a value add. The well-rounded understanding of your supply chain, and this is a point that I make with clients all the time, essentially makes you a better steward of the company. You're better prepared to avoid risks. You are better prepared to take advantage of opportunities. Again, the supply chain disruptions that are somewhat common in the space that we talked about earlier, you are better prepared to deal with those if and when they show up. Cost savings in that model are pretty easy to prove in the long run. It's a broader, more diverse array of performance signals that come into your dashboard in terms of managing the company. And if EUDR sets a global standard, if that becomes the way that all companies report against deforestation, you'll be as ready or more ready than anyone else when it comes to regions and competitors.

Ian Welsh: It does feel like it's impossible for companies to be too well prepared. For now, Evan Harvey, thank you very much indeed. And listeners, do look out for the next podcast in this EUDR series, where we'll be looking at how to drive strategic value beyond compliance. But for now, Evan, thanks very much.

Evan Harvey: Thank you.