

How EUDR compliance can create business value

Podcast transcript

Ian Welsh: Welcome to this Innovation Forum podcast, the second in the new series continuing our focus on corporate readiness for the EU's deforestation regulation, in cooperation with Deloitte. I'm joined today by John O'Brien, a managing director at Deloitte and Touche LLP. Welcome, John.

John O'Brien: Great to be here, Ian.

Ian Welsh: So, we're going to be talking about how to drive strategic value beyond compliance. How can companies transform EUDR requirements into a strategic opportunity?

John O'Brien: It's an interesting moment. So EUDR compliant deforestation regulation, there's clearly a time frame on that. Companies are running towards that. How do companies then think about the synergies in reporting that piece of sustainability regulation? There's a whole lot of other regulation that they're reporting on as well. It's about making sure that you're aligning your data processes and your management. Stakeholder engagement needs to happen repeatedly, so there are opportunities to combine that – along with reporting and strategy development.

So, it's making sure that you're being consistent along all those reporting areas.

That's especially important for companies facing reputational risks—particularly when their supply chains involve high-risk geographies, like regions linked to deforestation.

And I think what we're seeing also is that trust with consumers (whatever product you happen to be doing) consumers are getting more conscious about this. They're starting to think about it. And well, the price of a product is always the main thing, but the consumer base is really starting to think about what the quality of that product is. So that obviously is an advantage if you're ahead of that game.

My view in compliance in general, but in the EUDR specifically, it's more than just ticking a box. This is a visibility challenge. How do you really understand your suppliers and how do you build resilience into your supply chain? And if companies think hard about this, then it's really an opportunity hiding in plain sight. And companies can start thinking through their broader nature and forest strategy, starting here, and really thinking about how that data and those insights from maybe just EUDR compliance can start thinking about other opportunities and where they could go next.

Ian Welsh: What are the types of innovative strategies that can turn EUDR compliance into a business advantage?

John O'Brien: Where I think this gets interesting is the collection of new kinds of data. Once you have that new data, the question is, how do you start using it? Making sure you monitor and verify it but also making sure that you really have a better understanding of supply chain. With

that information, where are the opportunities and risks? Where are the material financial risks emerging from, for example ecosystem degradation, and understanding where that might be the case before it becomes a reality and being able to sort of mitigate that supply chain risk and build resilience.

And then also thinking beyond sort of emissions and carbon, and what else do stakeholders really care about? They have an important impact as we're going forward. So, things around social quality, pollination, forest stability, again understanding what the risks and the opportunities are around that. And that can continue to look at land use changes and biodiversity shifts. How is that going to impact supply chain resilience? How are you going to be able to get the products? But what are the costs or the insurance premiums that might be linked to that? So, understanding that new data and potentially using it to access new markets, increase market share, maybe even drive premium prices. With that sort of enhance quality, is there a willingness to pay from some of the customer groups for a premium product? Maybe there's an area there that you can have a small premium product that has a higher level of specification because of all this data you've now got. So, there's all sorts of interesting opportunities, I think, for companies to work through.

Ian Welsh: For the commodities within EUDR scope, what does a good, future-ready strategy look like?

John O'Brien: To some extent, the process of defining and implementing strategic value and what this future-ready strategy looks like, it's these EUDR commodities, including soy, cattle, and palm oil. To some extent, it applies to all groups, and so whilst companies are starting to work on the specific products covered under EUDR, it will enable a process and some thinking to then be used for all commodities. That's the opportunity from EUDR is to start the process of how do we actually think more broadly and understanding the reliance and impact on nature, whether it's deforestation or beyond, provides an insight on how does the business work. How resilient your assets and your operations and your supply chains, is there a risk and what is the value of that? So really starting to think how every business in some way relies on and has an impact on nature, some more than others. Starting to have an understanding of that is understanding your business. It's no different to any other effective business strategy. Where am I going to create value in the short term and the longer term? And then what are the trade-offs in that? In some ways, it's no different to the rest of business, but it's starting with a new set of data and looking a bit deeper at that to have a greater understanding of your business.

Ian Welsh: Thinking more about nature impacts then, how can supply and chain traceability for nature impacts translate into tangible business value, do you think?

John O'Brien: You have to actually have the data. We're talking about all this data, and it has to be reliable data. Traceability and tracking of commodities through the full value chain takes this to the next level. It really makes sure you understand the data all the way through. And that allows you to get into the detail of nature-related risks and opportunity. It also allows you to have confidence when you're selling a product to say where it came from and understand the impacts it had along the way. And where there are claims being made on that final product, it

allows you to make those claims with confidence. The technology becomes really important to make sure that the data is right. So, it applies to the commodities under EUDR, but again it goes across all sorts of other products, and I've worked lots with minerals into mining commodities and it's the same challenge just tracing all of that data through the supply chain. There's lots of different technologies being developed. Some are early stage, some are being developed by the large technology companies, and it's an area that we're seeing our clients looking at as a really interesting area that they're going to need to pick up on. To be able to do this well, that supply chain traceability is going to be important for companies to think through.

Ian Welsh: How do you see nature-related regulation evolving there? What should businesses be doing now to keep pace with future developments?

John O'Brien: So, the nature-related regulation is pretty early, EUDR being one of the first. I think it's highly likely to increase its coverage over time. As the financial risks become a lot clearer, both to the financial markets and to the financial regulators, there is going to be a requirement for more disclosure and an understanding of those risks and opportunities a bit more. Companies that have a better clarity of their own reliance and impact on nature are going to be in a better spot, because the regulation will come in some form. So being ready for that is essential. But I think justifying that internally can be hard. The angle for companies is really, once you start understanding that this is about material risks and opportunities that maybe are currently unrecognised, then the company really should care about that, you know, regardless of where the regulation is going. And the regulation will come, may come, for a good reason because of that financial risk. But if the financial risk is there, the company should care. So, I'd say compliance and reporting is maybe the starting point. But it's about how do you really understand the true value. And that can only be done by understanding the ecosystem in which you work in. Compliance is critical, of course. But for the business' sake, understanding and getting ready and being nature ready, I think it's sensible for all businesses.

Ian Welsh: Coming back to the EUDR, companies are obviously at various stages of being EUDR ready. Let's think of things through companies at different stages then. So, what's the advice you would give to companies still at the start of the process?

John O'Brien: There are some deadlines coming up. Companies do need to get on top of this. So, if you're just getting started, probably get some advice and get some help and understand where your exposure is and what you need to be doing. Just get up and running. So, I think that's probably the answer for those who are just at the start is get someone who knows what they're doing to help you with that.

Ian Welsh: What about companies that are working through the process?

John O'Brien: So, working through the process, I think it then becomes around this data collection and making sure that you're confident with the level of data that is being used. I might be understanding what technologies are available, how do we make sure that this is done in a way that is reliable and repeatable. So, looking at that tech stack and again, maybe that's something that you talk to other people about but making sure that as you're working through

what you're doing this year is repeatable next year and using technology to help you think through that.

Ian Welsh: And what about companies that are pretty much there?

John O'Brien: This is the fun bit. How do you turn compliance into competitive advantage for those companies. You got through the hurdles, feeling okay on the EUDR. And it's now, how do you start using that data and really using it for more and using it for strategic advantage to understand your supply chains and your assets and your operations and their resilience. And where can we start building opportunity? That's where the conversation within a company moves from, this is just about compliance to this is about building strategy and building value for the company. What's the one thing that companies should be thinking about? There are some deadlines coming up. It's important to understand the exposure to those and what you're going to be needing to be doing. It's not just those that have obvious exposures. You need to understand where in your supply chain this might link with one of those seven products that are covered. But, more importantly, is treat this as the start of a journey. Understanding the reliance upon nature and the impact on nature is something that is going to be critical for so many businesses, and it is something that has the potential to drive real business value. Don't just stop at compliance. Make sure that it's being driven into business strategy and to drive business value.

Ian Welsh: John O'Brien, thanks very much.