

An aerial photograph showing a palm oil plantation in the upper left and middle sections, with rows of palm trees separated by narrow paths. The lower right section shows a dense, lush green forest, illustrating the transition from deforestation to reforestation.

# Deforestation

Potential Impact of the EU Regulation  
on Deforestation-Free Products

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font, with a yellow triangle pointing upwards to the right of the 'Y'.

**EY**

Building a better  
working world



# The EU no longer wants to contribute to deforestation in the world

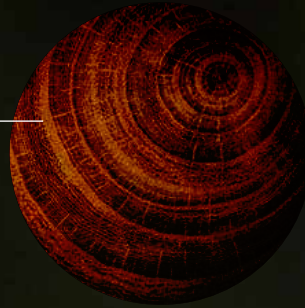
Deforestation and forest degradation are important drivers of climate change and biodiversity loss. Between 1990 and 2020, an estimated 420 million hectares of forest were lost to deforestation. In addition, an estimated 23% of all greenhouse gas emissions can be linked to deforestation or agricultural production.

In May 2023, the EU Parliament and the Council agreed on a new regulation on deforestation-free supply chains. Under this new regulation, importers will have to prove that the production of their imported goods has not led to deforestation or forest degradation. The products covered by this Regulation are listed on the right. These products are particularly associated with deforestation or forest degradation and have therefore been selected.

## Retroactive consequences

Although the new rules just have been approved, they may have retroactive consequences. Goods imported after the entry into force of this regulation (expected in 2025) will not be allowed to be imported into the EU if they have been produced on land deforested between 31 December 2020 and the date of their importation. This means that documentation from satellite monitoring is already required to secure future imports.

Wood, wood furniture, pulp and paper



Cosmetics containing palm oil



Palm oil, nuts and kernels

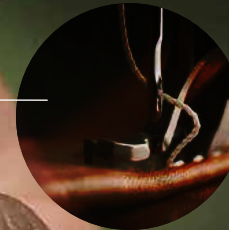


Rubber and rubber products

Soybeans, bean meal and bean oil



Cattle, beef and leather



Cocoa beans, shells, mass and butter and chocolate



Coffee beans, shells



## Are you prepared for the potential impact of the new EU regulation on deforestation-free products on your business?

The new regulation sets strict mandatory due diligence requirements for companies wishing to continue to sell these goods on the EU market. Companies must collect accurate geographical information on the areas under cultivation and prove that the products have been planted/produced both deforestation-free and legally (i.e. in accordance with all relevant applicable laws of the country of production).



## Impact assessment

The new Deforestation Regulation focuses on certain goods that are commonly associated with deforestation. In addition, it only applies to deforestation of natural forests, which means that the regulation does not apply to areas designated as “other forested areas”, such as savannahs, wetlands or grasslands. Other commodities and other land (e.g. peatlands) could be included in the regulation at a later stage.

As a first step, companies are advised to simulate the potential impact of the new deforestation regulations on historical supply chains based on commodity codes and countries of origin.

## Careful scrutiny

Due diligence requires operators to record the geographical coordinates or geolocation of all parcels on which the commodities and products concerned have been produced. For these parcels, satellite monitoring must be carried out to verify that no deforestation has occurred after 31 December 2020. Finally, the importer must be able to prove that the goods declared for import originate from the satellite-monitored parcels, which is known as “geotagging”.

While geotagging is already part of normal business operations according to the EU, the EU Commission assumes in its impact assessment that the additional costs for companies' due diligence could amount to a total of between 158 million and 2.4 billion euros per year.

## Penalties

The penalties for non-compliance with the new deforestation regulation are significant. The EU Member States have a margin of discretion when it comes to their amount. The penalties should be proportionate to the environmental damage found and may include:

- ▶ at least 4% of an undertaking's annual turnover across the Union
- ▶ Seizure of the goods concerned
- ▶ Confiscation of related revenue
- ▶ Exclusion from public procurement
- ▶ Exclusion from public funding
- ▶ Exclusion from the use of reduced due diligence regulations

# Questions to consider

- ▶ Are you importing any of the goods covered by the new regulation into the EU (Annex I of the regulations)?
- ▶ Do you source some of the goods covered by the scope from countries with a risk of deforestation?
- ▶ What are the due diligence requirements for your company?
- ▶ Do you have a complete view of the supply chain?
- ▶ Do you have precise geographical information about the areas from which raw materials are sourced or are you able to record them?
- ▶ What other laws are in force in the country of sourcing/manufacture?
- ▶ How might different business scenarios or changes to products or sourcing locations affect compliance with deforestation regulations?
- ▶ How do you comply with the reporting obligations?
- ▶ Are changes in your supply chain required as a result of the new deforestation regulation?



# EY teams can help you navigate and respond to the complex global trading landscape

## Why EY?

EY teams have the knowledge, experience, and networks to support you and understand how your products will be taxed or regulated today and in the future, and how this may impact your business model. We use our regularly updated, market-leading database for taxes and regulations related to sustainability.

EY teams have already helped companies and governments with a wide range of tax policy challenges in the areas of sustainability. This includes keeping track of current global developments, rethinking business models, managing recycling and reuse opportunities, and helping corporate/government affairs teams understand and respond to upcoming legislation.



## How can EY teams help you?

- ▶ Monitoring the changing regulatory landscape.
- ▶ Understanding deforestation and related regulations.
- ▶ Modeling and assessing the impact of regulations based on historical data submitted to customs authorities in selected EU countries.
- ▶ Supporting business cases.
- ▶ Assessing and analyzing risks, taking into account relevant business factors.
- ▶ Supporting long-term cost management of the supply chain.
- ▶ Assisting in identifying potential incentives and raising funds.
- ▶ Ensuring compliance with new rules and regulations and timely IT implementation.
- ▶ Assisting with regulatory audits, controversies, and providing ongoing advice.
- ▶ Supporting the implementation of appropriate risk management in accordance with the regulation's requirements for deforestation risks.
- ▶ Seamlessly and efficiently integrating deforestation risk management into existing compliance management systems (CMS).
- ▶ Identifying mandatory legal requirements to be observed in production countries according to the regulation (e.g., in areas such as land use rights, environmental and biodiversity protection, labor and human rights, rights of indigenous peoples, tax, anti-corruption, trade, and customs regulations), as well as providing support in interpreting the relevant regulations.



# Your contact persons

---



**Richard J. Albert**  
Partner/Principal  
Global Trade und Sustainability Taxes

+49 211 9352 17756  
[richard.j.albert@de.ey.com](mailto:richard.j.albert@de.ey.com)



**Sebastian Wurzberger**  
Partner  
EY Law - Supply Chain Due Diligence

+49 621 4208 16842  
[sebastian.wurzberger@de.ey.com](mailto:sebastian.wurzberger@de.ey.com)

## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

In this publication, "EY" and "we" refer to all German member firms of Ernst & Young Global Limited. Each EYG member firm is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). For more information about our organization, please visit [ey.com](https://ey.com).

In Germany, EY has 20 locations.

© 2023 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft  
All Rights Reserved.

Creative Design Germany | BKR 2306-577  
ED None

This publication has been prepared for general informational purposes only and is therefore not intended to be a substitute for detailed research or professional advice. No liability for correctness, completeness and/or currentness will be assumed. Neither Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft nor any other member of the global EY organization can accept any responsibility.

[ey.com/de](https://ey.com/de)