

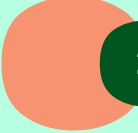
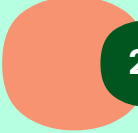
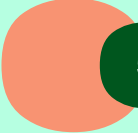
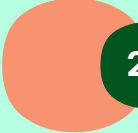
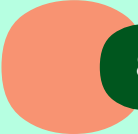
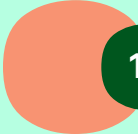
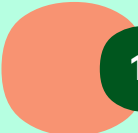
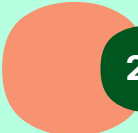
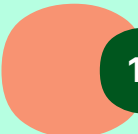
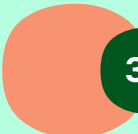


Your Path to EUDR Compliance:

A Focus on Traceability

interu

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The European Union Deforestation Regulation (EUDR) represents a pivotal milestone in environmental protection and sustainable trade practices. Enacted in June 2023, this regulation mandates increased due diligence from companies that place goods linked to deforestation and forest degradation onto or from the EU market.

This guide provides a detailed overview of the EUDR, its implications, and practical steps to improve traceability to meet compliance.

We cover everything from key dates, geolocation requirements, the difference between certification and verification, how to protect commercially sensitive information, the role of Distributed Ledger Technology in building trust, how to save time and cut costs, as well as how to use increased traceability to your commercial benefit beyond compliance.



Understanding the EU Deforestation Regulation (EUDR)

What is the EUDR?

The EUDR is a legislative framework designed to combat global deforestation and promote sustainable forestry practices. For timber Operators, it replaces the EU Timber Regulation (EUTR) and includes a comprehensive set of rules to enforce deforestation legislation across EU member states. The regulation aims to curb unsustainable practices that contribute to deforestation and degradation, thereby safeguarding vital ecosystems and biodiversity.

Forests play a crucial role in regulating the global climate, acting as carbon sinks, maintaining soil fertility, and providing habitats for countless species. Deforestation undermines these functions, leading to soil erosion, increased flood risks, diminished carbon storage capacity, and habitat loss. The EUDR embodies a commitment to combating the adverse effects of global deforestation and reducing greenhouse gas emissions.

Key Compliance Deadlines

Enacted in June 2023, organisations had an 18-24 month implementation period depending on the size of compliance, with the two key compliance deadlines being:

- For Enterprises: 30th December 2024
- For Micro and Small Organisations: 30th June 2025

These deadlines underscore the urgency of adopting sustainable forestry practices to protect our forests and mitigate the adverse impacts of deforestation.

Commodities Covered by the EUDR

The EUDR applies to several key commodities with significant impacts on deforestation:

Wood: Including timber products and wood-based materials.

Rubber: Products like tyres, shoes, and manufacturing seals.

Palm Oil: Used in food, cosmetics, and biofuel industries.

Soy: Utilised in animal feed, food processing, and biofuels.

Beef: Including leather production.

Coffee: Globally consumed commodity linked to deforestation.

Cacao: Essential for chocolate production.

These commodities are scrutinised due to their significant environmental impact, particularly in terms of deforestation and habitat loss.



The Due Diligence Process

Increased traceability plays a pivotal role in ensuring compliance with the EUDR. By implementing robust traceability systems, businesses can introduce increased due diligence so they can accurately monitor and verify the origins of their raw materials. This not only aligns with the regulatory requirements but also promotes transparency and accountability throughout the supply chain.



The EUDR outlines a structured due diligence process that companies must adhere to in order to comply effectively.

Here are the key steps recommended by the European Commission:

1 Collect Information:

Article 9 specifies the need to collect detailed information, including a description of the commodity, the country of production, and geographical coordinates of the cultivation area. This step is crucial for establishing transparency and traceability within the supply chain.

2 Conduct Risk Assessment:

Companies must verify and evaluate the risk of non-compliant products and processes entering their supply chain. The risk assessment is conducted based on criteria outlined in Article 10, including factors such as the presence of protected areas, deforestation rates, and compliance with relevant sustainability standards.

3 Implement Risk Mitigation:

After the risk assessment, companies must implement mitigation efforts to address identified risks. These efforts may include sourcing from certified sustainable suppliers, implementing sustainable farming practices, or establishing traceability mechanisms. Article 11 mandates that these efforts be documented in the due diligence statement.

4 Submit a Declaration:

Companies must submit a declaration to the European Union's Information System confirming that they have successfully completed their due diligence. This declaration serves as formal acknowledgment of compliance with the EUDR and demonstrates the company's commitment to responsible sourcing and environmental stewardship.

Impact on Companies

The EUDR extends its reach beyond European borders, impacting companies globally that produce, market or export products linked to deforestation into or from the EU market. Non-compliance could result in penalties of up to 4% of European revenues, translating into potential fines amounting to hundreds of millions of euros for some of Europe's largest organisations.

Challenges Faced by Companies

Adapting to Regulatory Changes:

Companies must have built or be in the process of building implementation plans and due diligence processes for their supply chains to meet regulatory changes, incorporating new sustainability standards and adjusting practices accordingly.

Supplier Cooperation:

A significant number of suppliers may be reluctant or incapable of enhancing traceability efforts, posing a major obstacle to compliance and operational transparency as well as raising questions for business sustainability and the resilience of livelihoods in producer nations.

Selecting a System:

Companies must also decide which solution is right for them, whether they should build their own, or reconfigure an existing system. That is why interoperability and integrations are so important, so systems can work together to achieve the desired outcomes.

Differences Between Certification and Verification

Within the context of regulatory due diligence, the distinction between certification and verification is crucial. Although the terms may seem interchangeable, they have distinct differences:

Certification

Granted to entities that meet the requirements of a standard. For example, a trading company might be certified to trade in sustainable material by meeting a set of audit criteria covering management systems and record-keeping requirements.

Certification is performed by third-party Certification Bodies (CBs), which assign qualified auditors to determine if a company meets the certification requirements.

Certification provides a consistent standard and a valuable point of differentiation but may not meet all regulatory requirements for traceability and transparency.

Verification

The act of verifying documents or claims to ascertain their authenticity or accuracy. For instance, if a consignment of coffee is claimed to be of the highest grade, an inspection may be undertaken to verify that claim before shipping.

Verification can be conducted by the company itself or by a third party. Third-party verification provides greater assurance and credibility.

Verification ensures compliance with regulations, regardless of certification status, and can be tailored to meet specific regulatory requirements.

Read the original [blog post](#) from our verification partners at DoubleHelix, where they further explain the difference between certification and verification.

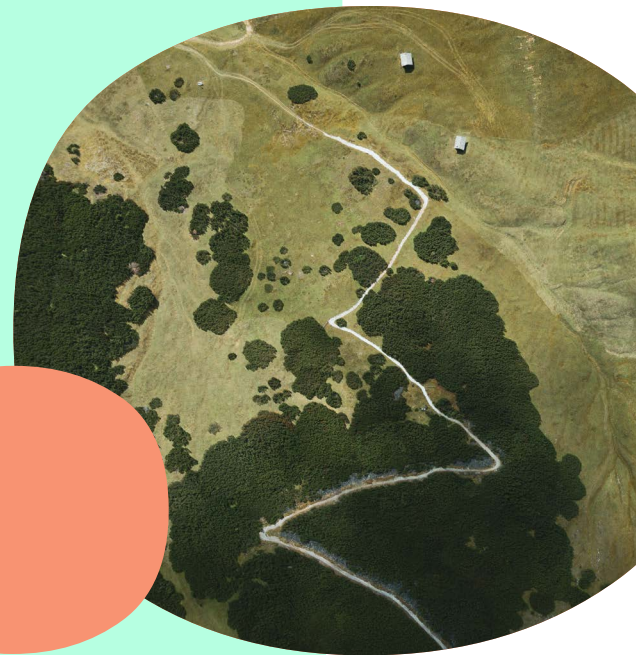


Geolocation Collection and Analysis

Importance of Geolocation

The EUDR requires companies to perform due diligence on the origin of all forest risk commodities. This means collecting geolocation coordinates for all land where relevant commodities are produced. Geolocation data can be in the form of GPS coordinates or polygons, depending on the size of the plot of land.

- **Geolocation Coordinates:** Companies must collect geographical coordinates of all land where relevant commodities are produced. This includes the latitude and longitude coordinates, described by at least six decimal digits.
- **Polygons for Larger Plots:** For plots of land larger than 4 hectares, geographical location must be provided using polygons, which include sufficient latitude and longitude points to describe the perimeter of the land.



There are three steps relating to geolocation for EUDR compliance:



We know that all three steps are challenging, particularly given the requirement to follow them per shipment. In fact, according to CEPI (the European Confederation of Paper Industries), a single paper notebook could have 300,000+ forest sources.

*We have recently partnered with Orbify who provide the tools to help aid this satellite imagery analysis. Read more about our integration [here](#).





Challenges and Solutions

One of the primary challenges is the reluctance or inability of suppliers to share geolocation data. In fact, our 2024 Deforestation Regulation Readiness report revealed 52% of suppliers are unable or unwilling to support EU Timber Operators traceability efforts.

This reluctance can stem from a lack of understanding, not having the upstream information, or concerns about being disintermediated.

So what can businesses do to encourage supplier cooperation?

Build Trust:

Legal contracts and solutions like iov42's traceability solution, Interu, can protect privacy and build trust.

Redact Data:

Users of Interu can also redact specific data, such as invoice amounts, which ensures only necessary information is shared within the supply network.

Privacy Measures:

The European Commission has stated that commercially sensitive information will only be shared with authorities in EU Member States for enforcement purposes and will not be disclosed publicly.

Incentives:

Operators may need to support and incentivise their suppliers to provide due diligence information before goods are shipped, ensuring smooth market access and compliance.

Balancing Transparency with Privacy

Privacy Tools

Interu offers multiple privacy tools to protect commercially sensitive information while ensuring traceability. These tools include permissioned access and third-party verification, allowing only authorised participants to access certain information.

Permissioned Access:

Participants are allowed to access certain information, ensuring control, security, and privacy.

Third-Party Verification:

Third-party verifiers endorse claims made, ensuring that the verified document holds its integrity even when information is removed or hidden.



Addressing Supplier Concerns

Educating suppliers about the privacy measures in place can build trust and facilitate compliance. Ensuring that only necessary information is shared can alleviate fears about the loss of trade secrets.

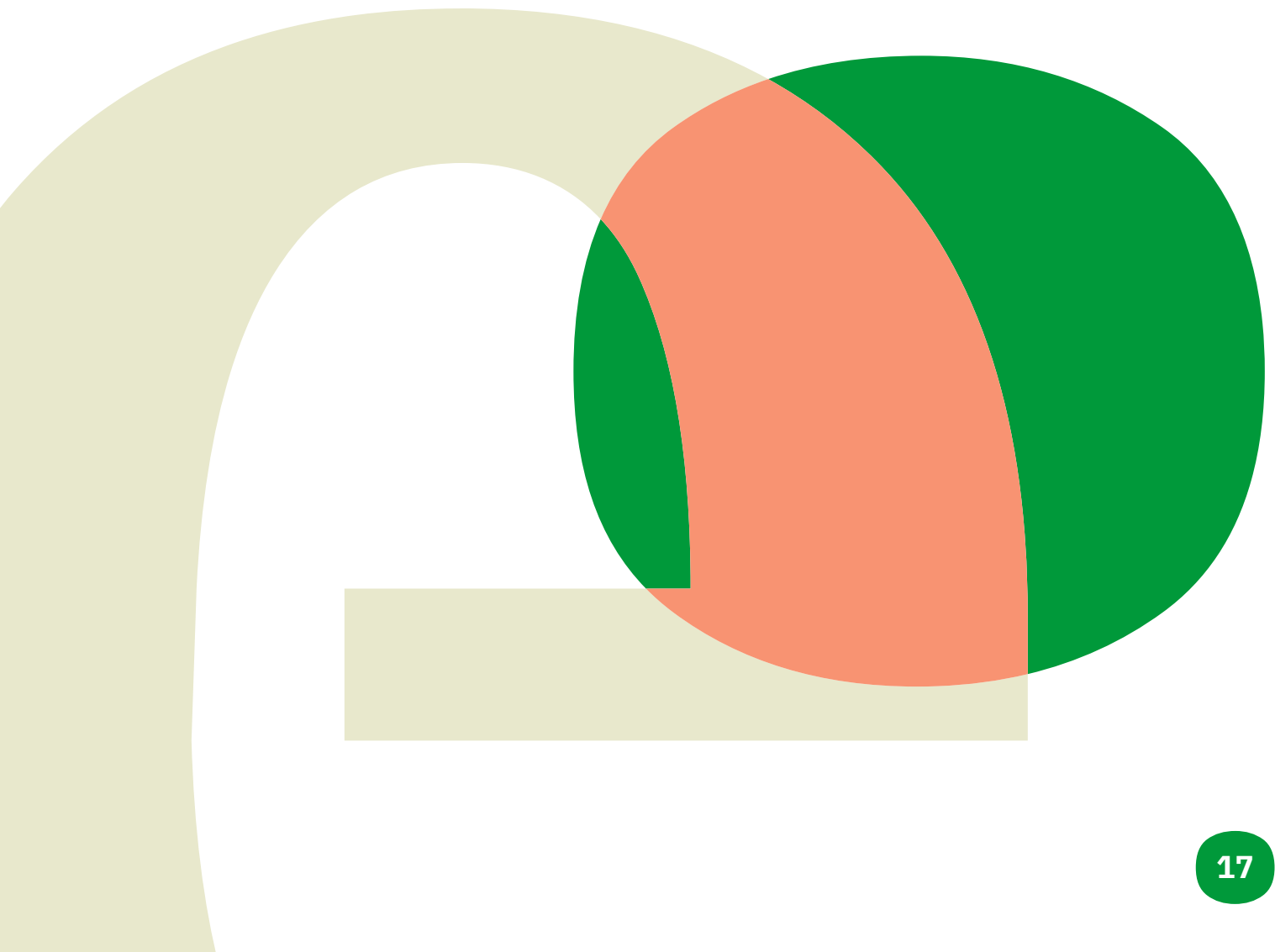
Misplaced Fears:

Many suppliers have misplaced fears that using traceability technology could lead to the loss of trade secrets.

Privacy Approach:

Interu's identity-centric approach ensures that private and confidential information can be protected, with each platform user having a unique identifier and the ability to make relevant claims about their identity.

Learn more about how Interu improves transparency without compromising privacy, [here](#).



Engaging Suppliers for Compliance

Importance of Supplier Cooperation

According to our recent survey which looks at the awareness, preparedness and attitudes of 300 European timber Operators when it comes to deforestation regulations, 52% said their suppliers are unwilling or unable to support their traceability efforts.

Suppliers play a critical role in providing due diligence documentation. The lack of cooperation can result in delayed shipments and increased costs due to demurrage charges, which are fees levied when cargo remains at a port longer than the allotted free time.

Proactive Compliance:

Unlike the EU Timber Regulation (EUTR), which allowed for a reactive approach to due diligence, the EUDR mandates proactive compliance, requiring importers to submit comprehensive due diligence statements with each shipment.

Demurrage Charges:

Fees levied when cargo remains at a port longer than the allotted free time, representing a potential financial risk under the EUDR. Delays in submitting due diligence documentation can trigger demurrage charges.

Strategies for Engagement

Education:

Educate suppliers about EUDR requirements and the importance of due diligence. Suppliers must understand the regulatory landscape and their role in compliance.

Simplification:

Simplify the compliance process, perhaps by designating a single point of contact within supplier operations responsible for gathering and providing necessary documentation.

Technology:

Leverage technology platforms like Interu to streamline the due diligence process, making it more efficient and less prone to errors.



The Role of Distributed Ledger Technology (DLT)



Enhancing Traceability and Security

Interu enhances traceability by allowing users to securely collect, prove, and share information across complex supply chains without compromising privacy.

It is built on iov42's Distributed Ledger Technology (DLT), which provides a decentralised, immutable system that enhances traceability and accountability, and ultimately, helps to prove compliance with regulations like the EUDR. This is due to its:

Comprehensive Traceability:

DLT enables comprehensive traceability throughout the supply chain, allowing companies to track the origin and journey of products from source to market.

Secure Storage:

DLT provides secure storage of due diligence information, ensuring data is time stamped and tamper-proof.

Digital Records:

DLT creates digital records of transactions, making it easier to demonstrate compliance and provide evidence of sustainability and legality.

Enhanced Security:

DLT ensures data integrity through immutability, preventing changes, and cryptography, protecting data from unauthorised access.

Secure Access:

Easy access to relevant information for competent authorities.

Improved Transparency:

Improved visibility and accountability in supply chains, reducing the risk of falsified documents or fraudulent claims.

Leveraging AI for Enhanced Traceability

AI Applications in Traceability

We are dedicated to working with best-of-breed technology to benefit our users, and that also means exploring how Artificial Intelligence (AI) can enhance the due diligence process by automating document translation, classification, and data extraction. AI can also perform fraud detection and security checks, ensuring the integrity of due diligence processes.

Document Classification:

AI can classify various document types, such as invoices or logs, and suggest optimal ways to split large PDFs into individual documents, enhancing file management.

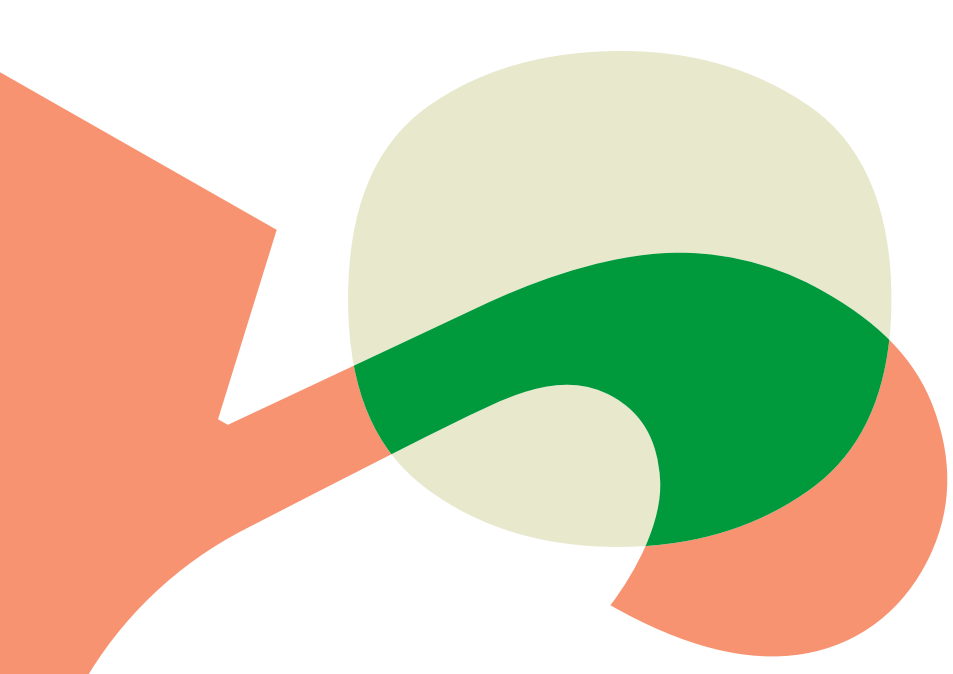
Automated Translation:

AI-driven translators offer mature translation capabilities essential for global operations. Users can view translated versions of foreign-language documents with the click of a button.

Optical Character Recognition (OCR):

AI's ability to interpret printed and handwritten text transforms data entry, making it faster and more accurate. This is particularly useful in processing forms and extracting crucial data.





Benefits of AI

Efficiency:

Streamlines data handling and risk assessment, reducing the time and effort required for due diligence.

Accuracy:

Minimises errors in data entry and document processing, ensuring more reliable and accurate compliance.

Security:

Enhances fraud detection and data protection, safeguarding sensitive information and reducing the risk of non-compliance.

Advanced Data Handling:

AI can parse complex document layouts and extract meaningful information, adding a layer of security and integrity to transactions.



Challenges and Considerations

While the benefits of AI are significant, deployment must be approached thoughtfully:

Quality of Outputs:

AI outputs can vary based on the data it has been trained on, necessitating continual learning and adaptation to specific business environments.

Human Judgement:

AI should support, not replace, human judgement. The responsibility for due diligence ultimately lies with the user.



The Role of Integration to Aid EUDR Compliance

System integration refers to the seamless interaction between different systems, software, or hardware to exchange and utilise information efficiently. In industries like timber, coffee, cocoa, or rubber, it ensures that various systems and databases communicate and operate harmoniously. Typically, integration occurs via an Application Programming Interface (API), which defines the language and protocol for data exchange. It's important to distinguish integration from interoperability, which involves systems doing the same tasks exchanging information.

Why is Integration Important?

Integration offers several key benefits:

1

Handling Data Volume:

Helps manage large data volumes, reducing discrepancies and errors.

2

Efficiency:

Reduces manual data entry, saving time and minimising human error.

3

Cost-Effectiveness:

Extends the functionality of existing systems without the need for entirely new implementations.



Examples of Integration:

EU Information System:

Allows submission of due diligence statements directly from internal systems, enhancing efficiency and accuracy.

FSC Blockchain Project:

Promotes transparency and secure certification processes.

Standards Certificate Databases (PEFC & FSC):

Streamlines the validation of certifications.

Third-Party Verification:

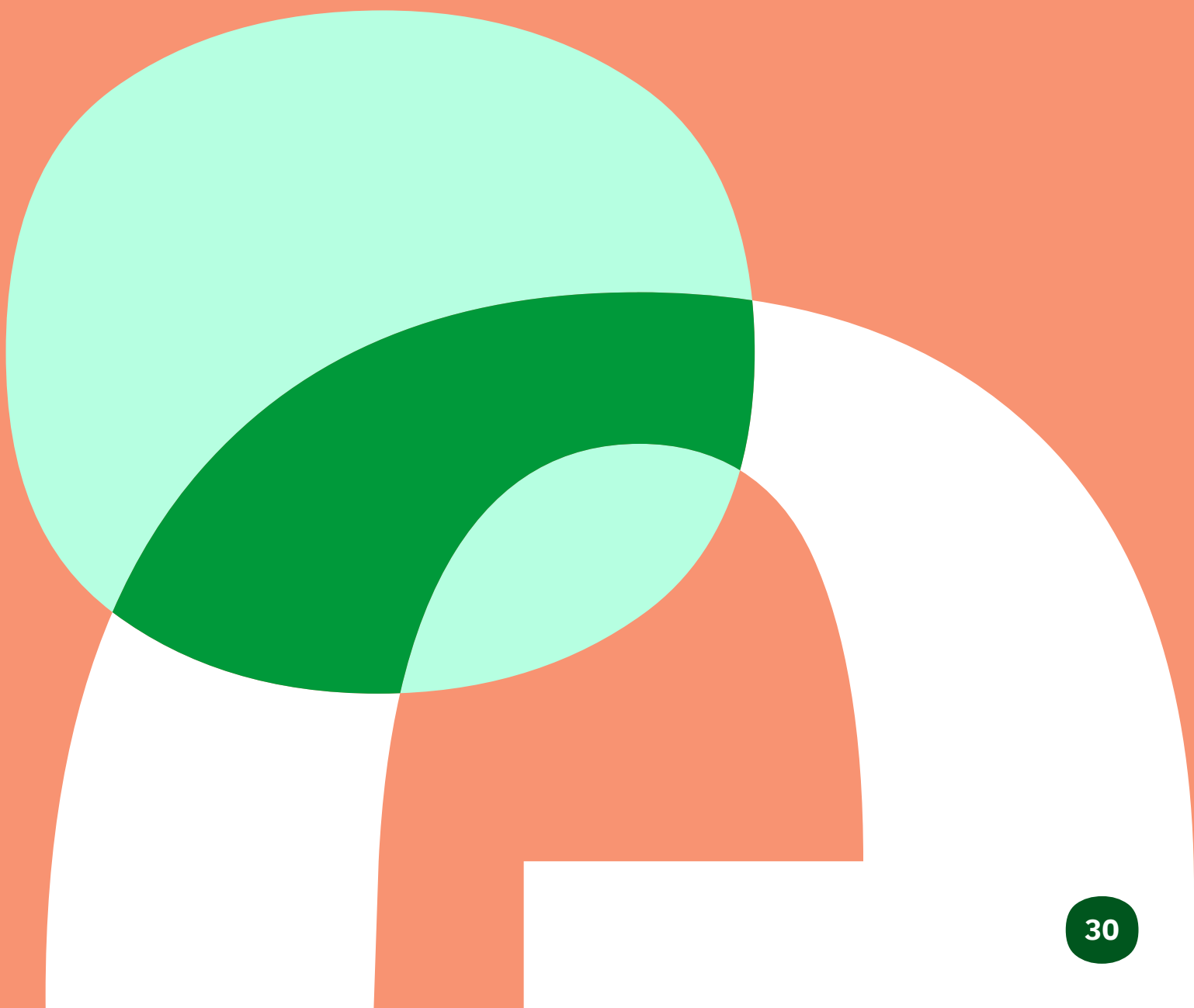
Integrations with services like WFID and Orbify add credibility and ensure data accuracy.

ERPs:

Integrating traceability systems with ERP systems provides a comprehensive view of operations.

With a team experienced in leading API-first projects, iov42 emphasises integration from the start, ensuring robust and adaptable systems. This focus on integration helps combat deforestation and improve due diligence processes.

Benefits Beyond Compliance



The EUDR marks a significant step towards combating deforestation and promoting sustainable trade practices and compliance requires thorough due diligence, effective supplier engagement, and the use of advanced technologies like DLT and AI.

By understanding and implementing these measures, companies can not only meet regulatory requirements but also:

Contribute
to global
sustainability
efforts

Improve their own
organisational
efficiency

Gain better
market
access

Save time
and money

Use it to their
competitive
advantage

Build consumer
trust and loyalty

Get in touch today to
learn how Interu can help
you on your journey to
compliance and beyond.

interu

powered by iov42

About iov42

iov42 is a technology company specialising in digital identity, trust, and data integrity. Our purpose built technology helps organisations, governments and societies coordinate confidently by enabling proven, transparent and secure transactions in a decentralised and immutable manner. Launched in February 2024, iov42's traceability product, Interu, demonstrates how the fundamentals of this technology can be applied to enhance traceability across a range of commodities, countries, and use cases.

Contact us at contact@iov42.com.