OPTEL™
Traceability technologies for a better world

Certified
B
Corporation

# EUROPEAN UNION'S REGULATION ON DEFORESTATION-FREE PRODUCTS (EUDR)

## EUDR GUIDE

On June 29, 2023, the European Union's Regulation on Deforestation-Free Products (EUDR) came into effect. It will become applicable to many companies conducting business in the EU as of December 30, 2025 (or June 30, 2026, for micro or small businesses under certain conditions).

## WHAT IS THE EUDR?

Enacted to stop the rapid depletion of forested areas worldwide, the EU aims to ensure that consumer goods, such as soy, coffee, cocoa, wood, rubber, beef, and palm oil, entering the European market do not contribute to global deforestation. The regulation requires that these products:

**1** Do not come from land that was deforested or degraded after December 2020.

**2** Be produced in accordance with the relevant legislation of the country of origin, and

**3** Be covered by a due diligence process and statement

This means companies must conduct due diligence to verify the origins of certain imported or exported products, proving they have not contributed to deforestation or the degradation of natural ecosystems. The regulation defines a product as free from deforestation when the product itself, its ingredients, or its derivatives have not been produced on lands subject to deforestation or forest degradation after the December 31, 2020, cutoff.

## WHO IS REQUIRED TO COMPLY WITH THE EUDR?

The regulation will impact seven specific commodities:

| Soy | Palm oil | Cattle | Cocoa | Coffee | Rubber | Timber |

The Annex I specifies which HS Codes of products are relevant to EUDR, for example, Cocoa HS Code 1801 (Cocoa beans, whole or broken, raw or roasted) is in scope of EUDR.

If a product is not in Annex I, it does not have to meet the Regulation's requirements, even if it contains commodities covered by the Regulation. For instance, soap won't be affected by the Regulation, even if it contains palm oil. Products produced inside the EU are equally subject to the same requirements as products produced outside the EU.

Over the next two years, a review will be conducted, potentially adding additional products to this list. Within each commodity, the regulation defines which products fall within the scope of the law, in accordance with a list of EU customs codes. The list (found in an Annex of the regulation) also includes some derivative products, such as leather, chocolate, and furniture.

## HOW ARE COMPANIES CLASSIFIED?

The EUDR classifies companies into two primary categories:

**OPERATORS** — Entities responsible for placing commodities on the EU market, ensuring they meet legal requirements.

**TRADERS** — Entities that buy and sell commodities within the EU market, focusing on the transfer of goods.

Note that operators can also be companies lower in the supply chain who transform a product (already subject to due diligence) into another product. For example, if company A imports cocoa butter, and company B uses it to make chocolate and sells it, both company A and B are considered operators under the Regulation. However, if company C uses the same cocoa butter to make biscuits (not in Annex I), then company C is not considered an operator and isn't bound by the Regulation's requirements.

## EUDR REQUIREMENTS

To ensure compliance, companies will have to carry out a multi-step due diligence process: data collection, risk assessment, and risk mitigation.

# 1. EUDR DATA COLLECTION

At the data collection phase, businesses must acquire real-time information about their products. This includes everything from basic product descriptions and quantities to more in-depth details, like the geolocation of the farm or forest from which the product originates. Companies must also acquire conclusive evidence verifying that the product's production is free from deforestation practices and adheres to the laws of the country of origin.

Operators (or Traders that are not SMEs) will need to indicate this information each time they intend to place, make available or export a commodity on or from the EU market. Note that this geolocation tracing requirement has no exceptions, even if exporting from a low-risk country.

➡️ **HOW TO PERFORM EUDR DATA COLLECTION**

Optchain provides an efficient solution for EUDR data collection by connecting each commodity to its specific plot of land, using data capture tools designed to align with the complexities of your supply chain, operational processes, and the proficiency of your team. Here is how it works:

**Inbound Traceability (Multi-Tier Supply Chain Mapping and Onboarding):** Optchain maps and onboards suppliers across complex and multi-tiered supply chains. By capturing EUDR-compliant data—such as geolocation coordinates, supplier information, and detailed production records—Optchain ensures that every link in your supply chain is transparent and traceable.

**In-House Traceability (Linking Inputs with Outputs):** Within your operations, Optchain ensures that every input is accurately linked to its corresponding output. This involves capturing data on raw material sources, documenting production processes, and maintaining records that comply with EUDR regulations.

**Outbound Traceability:** Optchain enables you to track finished goods from your facility to your buyers. By linking Due Diligence Statements Reference Numbers with shipments, you can ensure that all outbound goods meet EUDR requirements. This end-to-end traceability guarantees that your products are compliant as they move through the supply chain.
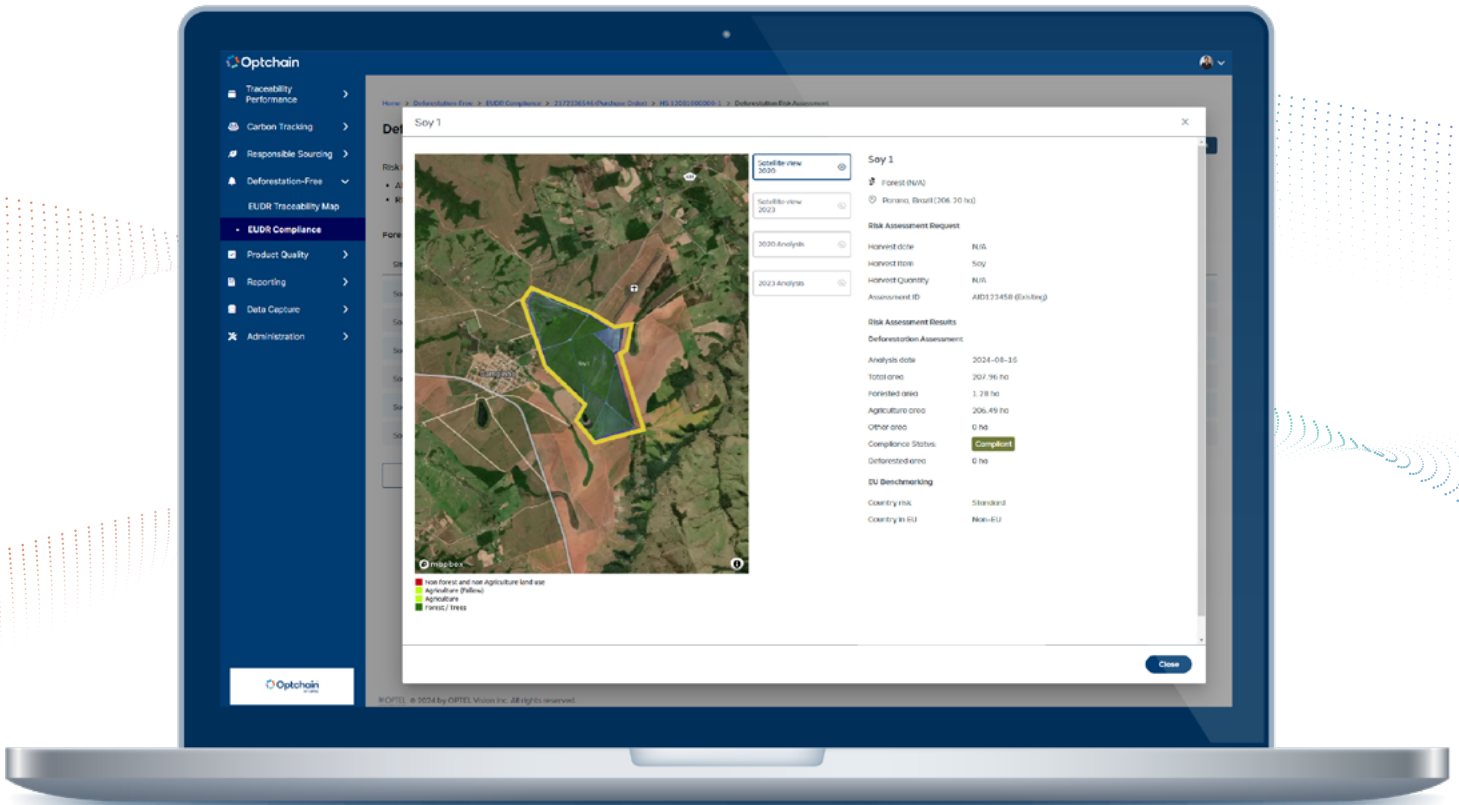
# 2. EUDR RISK ASSESSMENT

Once companies have completed the data collection, they must undertake a risk assessment. Risk levels are determined by various factors, such as the presence of forests and deforestation, conflicts over land rights with indigenous communities, mixing and circumvention, supply chain complexity, and even socio-political aspects, including corruption and lack of transparency. This analysis must be updated at least annually, serving as a living document that evolves based on ever-changing circumstances.

### HOW TO PEFORM EUDR RISK ASSESSMENT

Optchain can process all the collected data and pinpoint areas of heightened risk and demonstrate where interventions would have an impact, thereby providing the necessary information to perform the risk assessment report in accordance with the EU Deforestation Regulation's Risk Assessment section. Here is how it works:

**Deforestation Risk Assessment:** Optchain's AI-driven deforestation monitoring uses satellite imagery to evaluate the compliance of geolocations associated with your imported commodities. Recognizing that supply chain mapping can be complex and time-consuming, Optchain also provides regional analysis at the municipal or regional level, or around key processing and storage facilities, to quickly identify high-risk areas that may require immediate attention.

**Legality Risk Assessment:** Optchain's Legality Risk Assessment ensures compliance with EUDR by evaluating environmental, human rights, and anti-corruption standards. This is achieved through a three-level approach:

- Risk-based assessment using public indicators and EU risk mapping.
- Self-assessment questionnaires for a deeper evaluation of specific risks.
- On-field audits for any identified non-negligible risks.

# 3. EUDR RISK MITIGATION

If the risk assessment concludes there is zero risk, no further action is required. However, if risks are identified, companies must explore risk mitigation measures. This could involve collecting additional data, carrying out independent surveys, or undergoing audits. This process is subject to regular audits to monitor the effectiveness of the company's risk management policies.
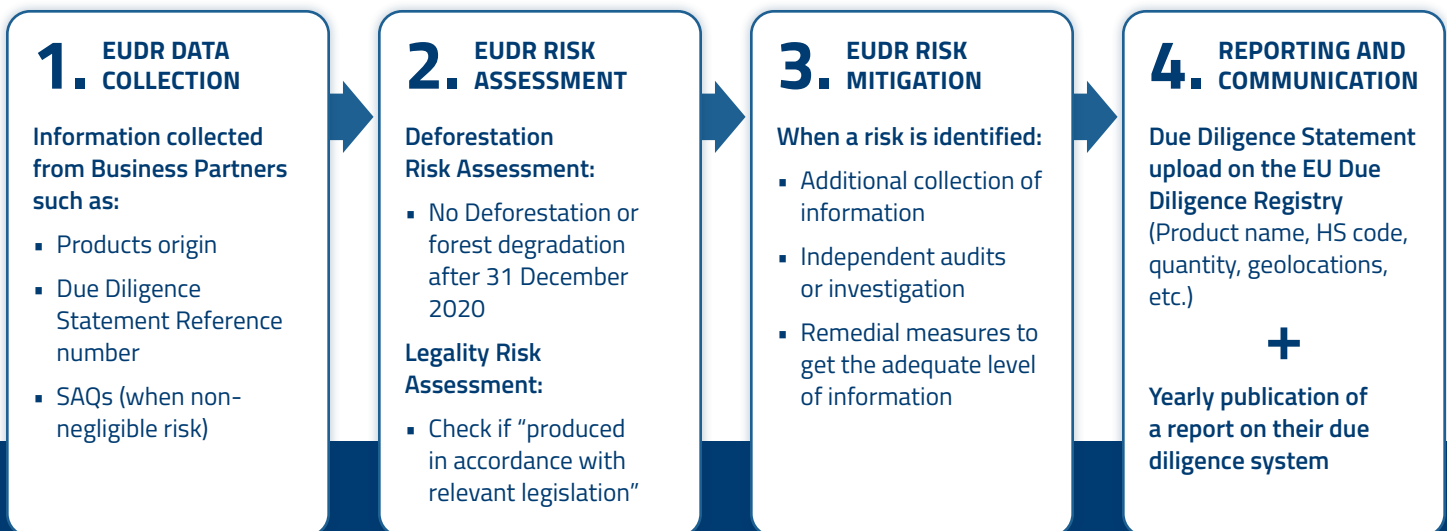
The EUDR also introduces the concept of "reasonable doubt." If there's even the smallest uncertainty about the origins of a product or commodity, businesses will be obligated to conduct a comprehensive risk assessment.

## ➤ HOW TO PERFORM EUDR RISK MITIGATION

To help address and mitigate risks, Optchain can track non-conformities, alerting relevant stakeholders, and analyzing potential impacts. It prioritizes these risks, formulates corrective action plans, and closely monitors their implementation. Importantly, these corrective actions can be shared both internally and externally with business partners, ensuring transparency and collaboration. The platform maintains audit-ready records at all times, enabling swift resolution of any issues, thereby keeping your operations compliant and minimizing risk.

Downstream Operators and Traders must lean on their suppliers to comply with the regulation. Optchain has been meticulously crafted to facilitate engagement with stakeholders and sharing data. Additionally, Optchain acts in collaboration with established audit firms for comprehensive compliance verification and access to expert evaluations and certifications to meet stringent regulatory requirements. The assurance of data integrity and precision is upheld through audit and verification procedures.

## DUE DILIGENCE

### 1. EUDR DATA COLLECTION

Information collected from Business Partners such as:

- Products origin
- Due Diligence Statement Reference number
- SAQs (when non-negligible risk)

### 2. EUDR RISK ASSESSMENT

**Deforestation Risk Assessment:**

- No Deforestation or forest degradation after 31 December 2020

**Legality Risk Assessment:**

- Check if "produced in accordance with relevant legislation"

### 3. EUDR RISK MITIGATION

When a risk is identified:

- Additional collection of information
- Independent audits or investigation
- Remedial measures to get the adequate level of information

### 4. REPORTING AND COMMUNICATION

Due Diligence Statement upload on the EU Due Diligence Registry (Product name, HS code, quantity, geolocations, etc.)

**+**

Yearly publication of a report on their due diligence system

## COUNTRY RISK ASSESSMENT DATABASE

The European Commission plans to create a database that rates countries based on how likely they are to contribute to deforestation when making products. Companies that buy products from countries with a "low risk" rating will be eligible for a "simplified due diligence", meaning they will be exempt from undertaking the second and third steps of the due diligence process, namely risk assessment and risk mitigation. The rules for checking and enforcing regulations will be tougher for countries at higher risk of deforestation, and less strict for low-risk countries.

Additionally, there will be a system for companies to submit paperwork to demonstrate they are complying to the rules when importing goods. This system will be accessible to EU authorities and will help identify companies and products that might pose a higher risk for deforestation.

# THE DEFORESTATION DUE DILIGENCE STATEMENT REGISTRY

The Deforestation Due Diligence Statement Registry is an online tool, published by the European Commission (EC), to assist with EUDR due diligence statements. The Registry allows operators, traders and their representatives to make electronic Due Diligence Statements, and submit them to the relevant authorities to show that their products did not contribute to deforestation. It's comprised of the following capabilities:

- **Submit Electronic DDS:**

  Operators, traders, and their representatives can submit due diligence statements directly to the relevant authorities through the Registry.
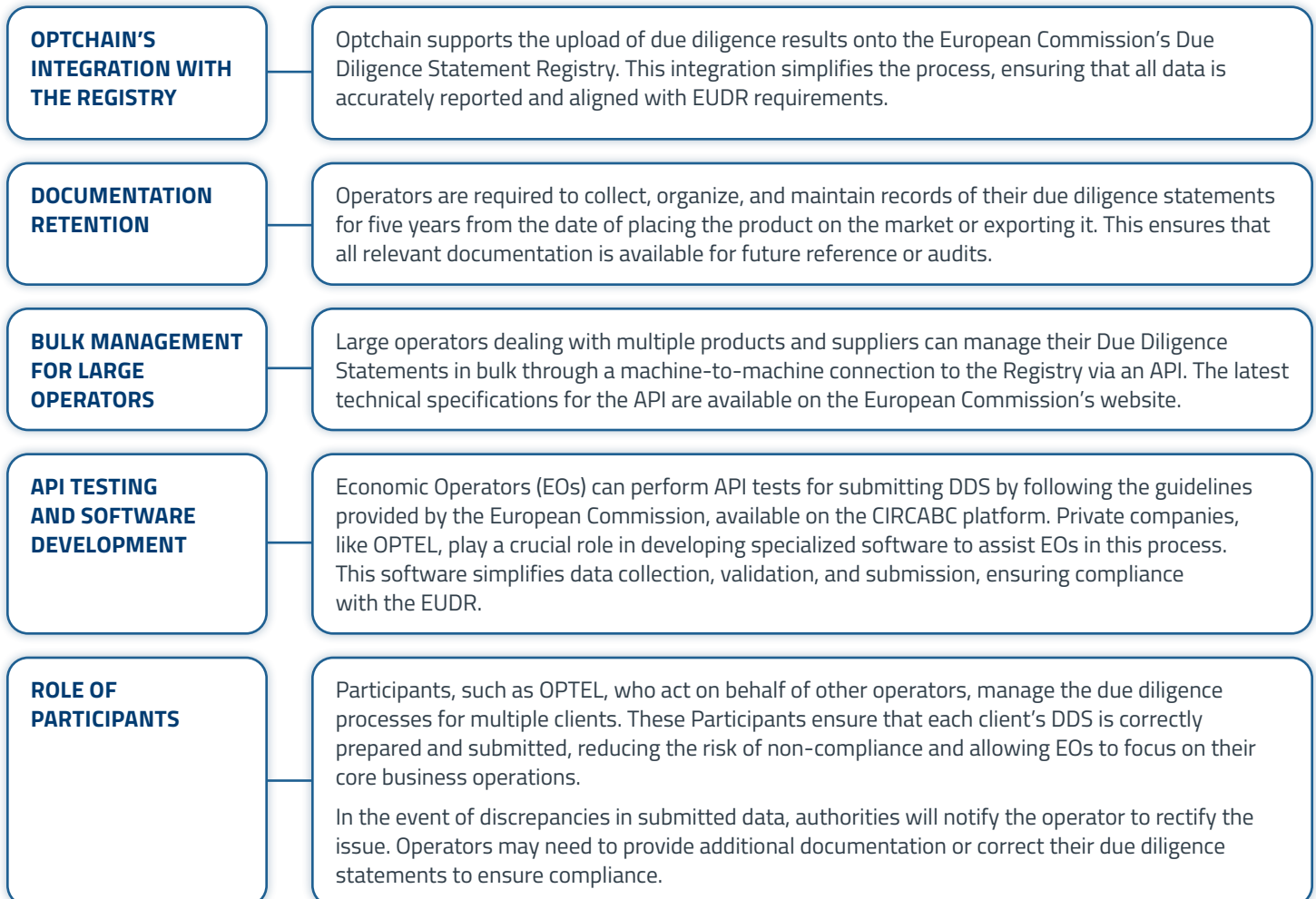
- **Indicate Product Origins:**

  The Registry enables users to draw areas on a map or provide geolocation coordinates in bulk using the GeoJson standard format. It also offers options for uploading, copying, or re-using location information to streamline the process.

- **Provide Product Details:**

  Users can select the product type and indicate key characteristics such as quantity and volume. Operators further down the supply chain can refer back to previously created statements, ensuring consistency and compliance throughout the supply chain.

- **Manage DDS:**

  The Registry includes a dashboard feature, allowing users to view and manage their due diligence statements. Status updates are provided as statements are processed by authorities.

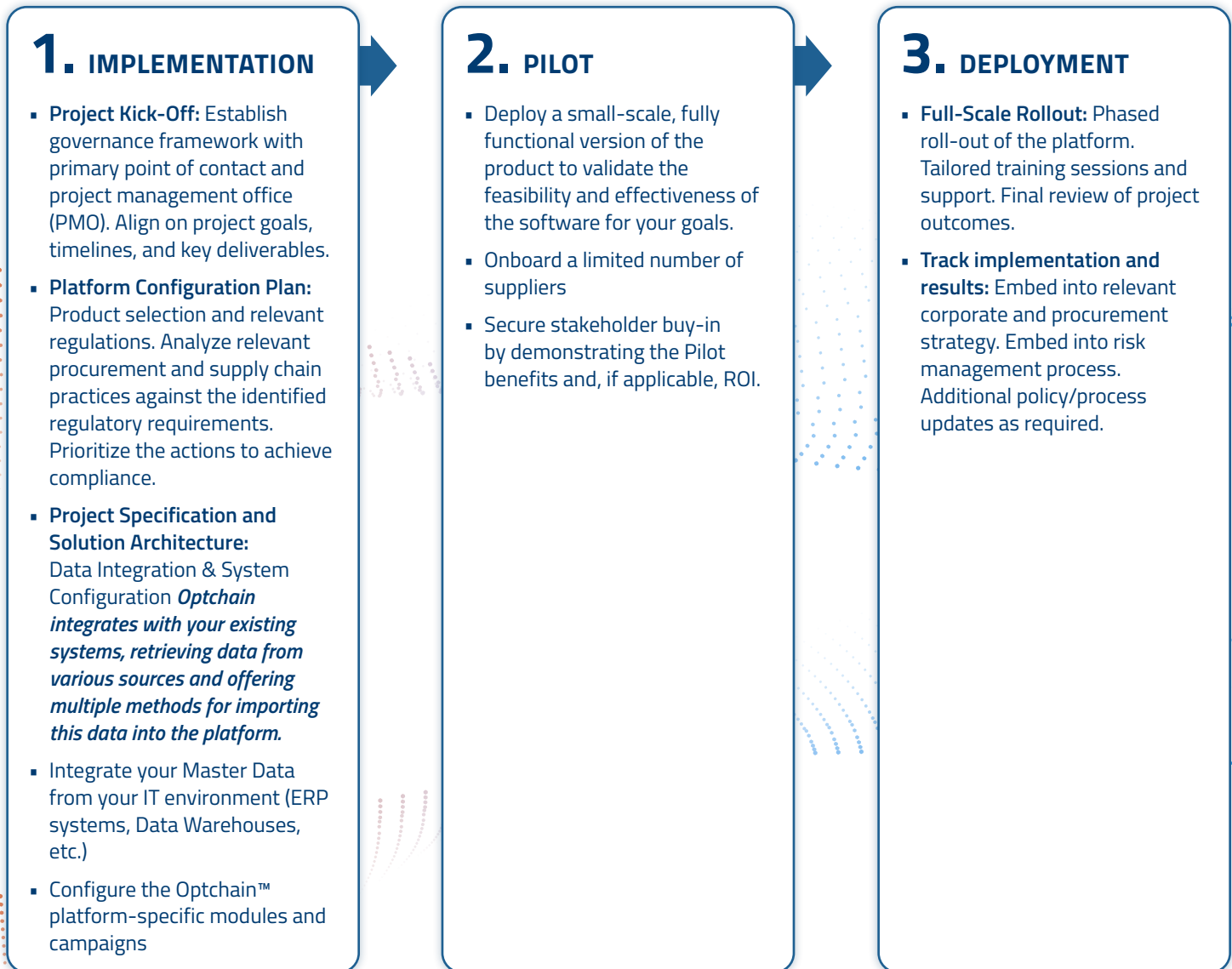| | |
|---|---|
| **OPTCHAIN'S INTEGRATION WITH THE REGISTRY** | Optchain supports the upload of due diligence results onto the European Commission's Due Diligence Statement Registry. This integration simplifies the process, ensuring that all data is accurately reported and aligned with EUDR requirements. |
| **DOCUMENTATION RETENTION** | Operators are required to collect, organize, and maintain records of their due diligence statements for five years from the date of placing the product on the market or exporting it. This ensures that all relevant documentation is available for future reference or audits. |
| **BULK MANAGEMENT FOR LARGE OPERATORS** | Large operators dealing with multiple products and suppliers can manage their Due Diligence Statements in bulk through a machine-to-machine connection to the Registry via an API. The latest technical specifications for the API are available on the European Commission's website. |
| **API TESTING AND SOFTWARE DEVELOPMENT** | Economic Operators (EOs) can perform API tests for submitting DDS by following the guidelines provided by the European Commission, available on the CIRCABC platform. Private companies, like OPTEL, play a crucial role in developing specialized software to assist EOs in this process. This software simplifies data collection, validation, and submission, ensuring compliance with the EUDR. |
| **ROLE OF PARTICIPANTS** | Participants, such as OPTEL, who act on behalf of other operators, manage the due diligence processes for multiple clients. These Participants ensure that each client's DDS is correctly prepared and submitted, reducing the risk of non-compliance and allowing EOs to focus on their core business operations. |
| | In the event of discrepancies in submitted data, authorities will notify the operator to rectify the issue. Operators may need to provide additional documentation or correct their due diligence statements to ensure compliance. |

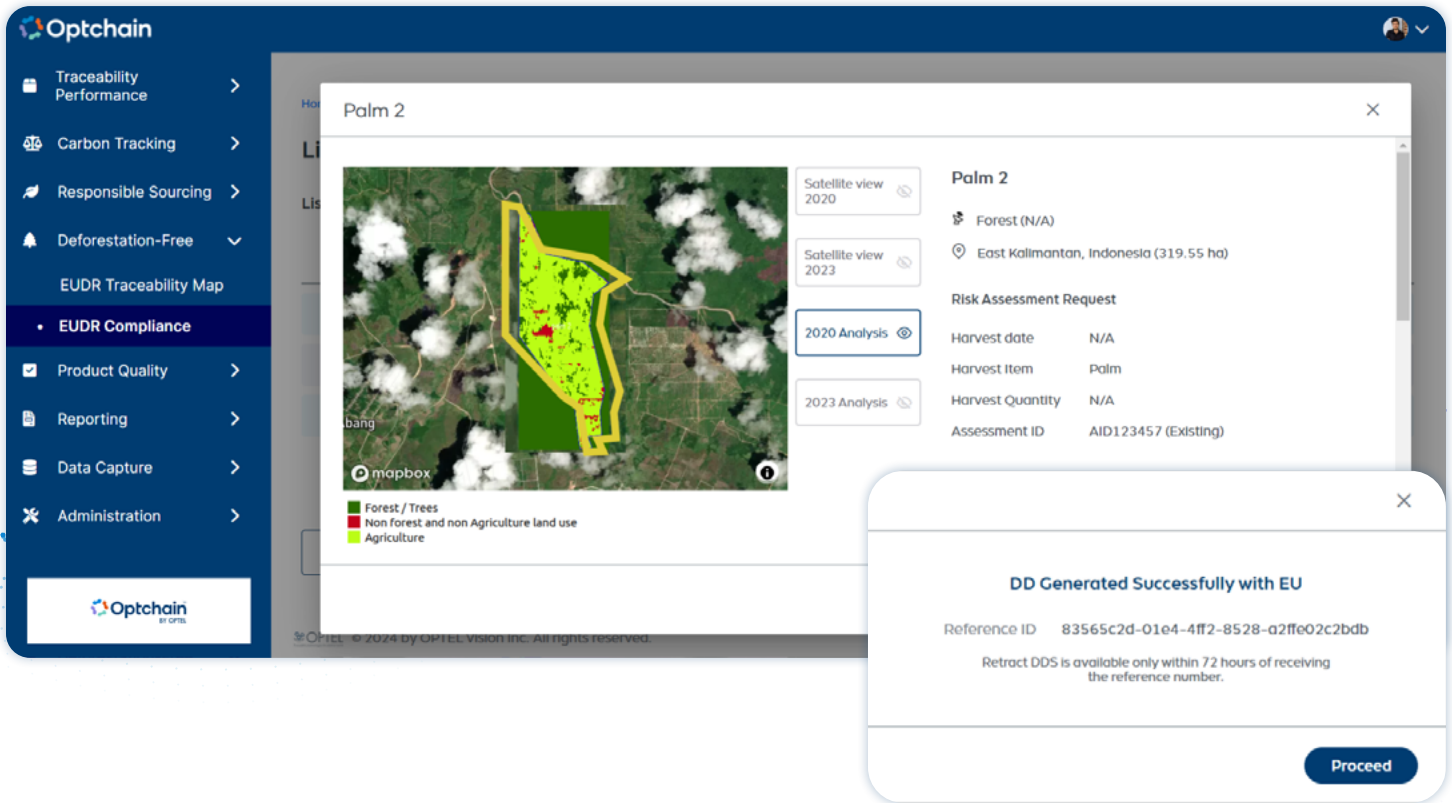## HOW EUDR COMPLIANCE WORKS IN PRACTICE WITH OPTCHAIN

Optchain's EUDR solution supports different stakeholders by helping them perform the following activities:

- **Operators and Traders:** Request and share data, conduct risk assessments, and prepare due diligence statements with ease.
- **Exporters:** Collect and communicate information across the supply chain, and perform thorough pre-shipment risk assessments.
- **Harvesters:** Accurately determine and report the geolocation of commodities.
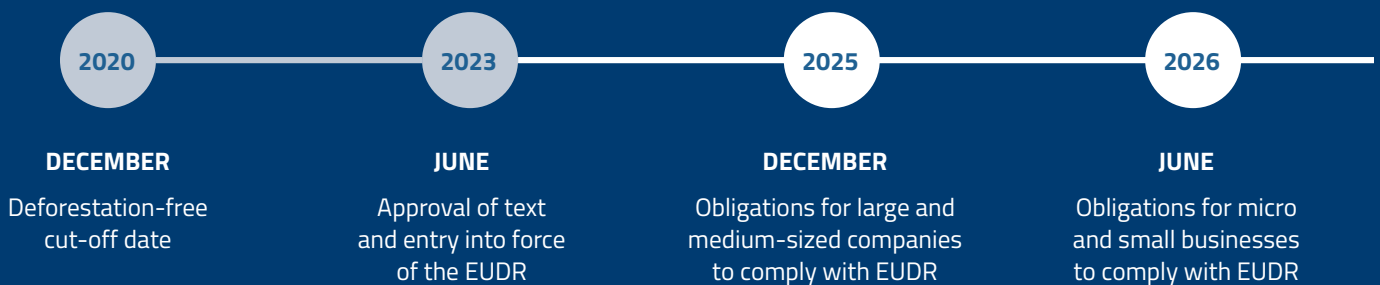
## OPTEL PROPOSES A 3-PHASE APPROACH

### 1. IMPLEMENTATION

- **Project Kick-Off:** Establish governance framework with primary point of contact and project management office (PMO). Align on project goals, timelines, and key deliverables.
- **Platform Configuration Plan:** Product selection and relevant regulations. Analyze relevant procurement and supply chain practices against the identified regulatory requirements. Prioritize the actions to achieve compliance.
- **Project Specification and Solution Architecture:** Data Integration & System Configuration *Optchain integrates with your existing systems, retrieving data from various sources and offering multiple methods for importing this data into the platform.*
- Integrate your Master Data from your IT environment (ERP systems, Data Warehouses, etc.)
- Configure the Optchain™ platform-specific modules and campaigns

### 2. PILOT

- Deploy a small-scale, fully functional version of the product to validate the feasibility and effectiveness of the software for your goals.
- Onboard a limited number of suppliers
- Secure stakeholder buy-in by demonstrating the Pilot benefits and, if applicable, ROI.

### 3. DEPLOYMENT

- **Full-Scale Rollout:** Phased roll-out of the platform. Tailored training sessions and support. Final review of project outcomes.
- **Track implementation and results:** Embed into relevant corporate and procurement strategy. Embed into risk management process. Additional policy/process updates as required.

# EUDR TIMELINE

The EUDR was adopted on June 29th, 2023. Large companies are required to implement the necessary compliance measures by December 30th, 2025, while small companies have an extended deadline of June 30th, 2026. Also note the deforestation cut-off date, set at December 31st, 2020, which mandates that the land from which a product originates must not have been subject to deforestation after this date.

| 2020 | 2023 | 2025 | 2026 |
|------|------|------|------|
| **DECEMBER** | **JUNE** | **DECEMBER** | **JUNE** |
| Deforestation-free cut-off date | Approval of text and entry into force of the EUDR | Obligations for large and medium-sized companies to comply with EUDR | Obligations for micro and small businesses to comply with EUDR |

# FREQUENTLY ASKED QUESTIONS

> **Are there any exemptions under the EUDR for certain products or companies?**

No general exemptions exist; however, the regulation allows for some flexibility in enforcement and support mechanisms for smallholders.

> **I use packaging, which is included in the EUDR (under HS code 4415), to transport my products. Do I need to comply with the EUDR?**

If packaging is used to 'support, protect or carry' another product, it is not covered by the regulation.

> **Can companies use existing sustainability certifications to demonstrate compliance?**

Certification schemes can be used by supply chain members to help their risk assessment. Companies will still be required to exercise due diligence and they will be held accountable for any breach.

> **How should the geographic coordinates of the plots of land where the commodities were produced be collected?**

For plots of land of more than 4 hectares used for the production of commodities other than cattle, the geolocation should be provided using polygons, meaning latitude and longitude points of six decimal digits to describe the perimeter of each plot of land. For plots of land under 4 hectares, companies can use a polygon or a single point of latitude and longitude of six decimal digits to provide geolocation. Establishments where cattle are kept can be described with a single point of geolocation coordinate.

> **Can a polygon cover several individual plots of land? Can polygons cover contiguous plots of land?**

Polygons are to be used to describe the perimeter of the plots of land where the commodity has been produced. Each polygon should indicate a single plot of land, whether contiguous or not. A polygon cannot be used to trace the perimeter of a random land area that might include plots of land only in some of its parts.

> **Is there a threshold volume or value of a relevant commodity below which the regulation would not apply?**

No, whatever their quantity, products under the EUDR are subject to the obligations of the regulation.

> **When should the due diligence on deforestation take place?**

The due diligence on deforestation should take place before the shipment reaches your warehouse or you accept the shipment. Fast and automated processing is crucial therefore.

> **If one manufactures a product which contains multiple EUDR-specific ingredients, do they need due diligence for each commodity?**

Yes.

**How can a commodity product be handled with around 40 forest sources to make up one load, when 750 loads are used to make 1 product - this could mean hundreds of DDS codes to make 1 product? Is that correct?**

Yes.

**What if there was deforestation previous to 2020, the company re-planted trees to deforest again? Is this allowed under the EUDR?**

The regulation is only concerned with old growth forest. If a planted forest is chopped down, it can be harvested again.

**Is the due diligence statement per shipment, per batch or can it include all possible geo-coordinates that the commodity could possibly come from?**

The due diligence statement is per batch, and it has to include all the actual coordinates.

**Is internal inbound-outbound traceability required?**

Yes, internal inbound-outbound traceability is crucial for effective risk management. By linking inbound batches to outbound product batches, you can conduct targeted recalls, minimizing the risk of compromising your entire storage or production over a given period if a non-compliant input batch inadvertently enters your storage due to an upstream supplier error.

**Do companies need to verify and prove that the geo-location is correct, or are they only expected to exercise due diligence on the risks associated with that location?**

Companies must collect information on a batch level and provide this information to the EU Single Window Portal (TRACES NT) and to downstream Operators and Traders. Traceability on a shipment level is therefore required to allocate the collected information properly. This includes inbound in-scope material and outbound in-scope material. Internal traceability is highly recommended by OPTEL. Optchain provides this level of traceability for EUDR through transaction based information collection starting with the PO to your supplier and ending with the shipment number of the outbound shipment to your customer.

**What can a company placing a commodity in the EU market do in case their upstream suppliers do not provide the required information?**

If companies are unable to obtain the information required by the regulation, they must refrain from placing the products on the market or evaluate changing suppliers, otherwise they are at risk of potential sanctions.

**What are the consequences of providing false information in due diligence statements?**

Providing false information can lead to severe penalties, including significant fines, criminal charges, and the suspension of the ability to sell products in the EU market.

## ABOUT OPTEL

For 35 years, OPTEL Group has developed traceability technologies for various industries. **Optchain**, our supply chain visibility platform, supports ESG compliance and transparent product life cycles. **TrackSafe** provides manufacturing solutions with serialization, aggregation, and AI vision systems, while **VerifyBrand** focuses on downstream traceability, government compliances  and counterfeiting prevention.

## CONTACT US

For more information, visit: **optelgroup.com**.

**NORTH AMERICA**
Canada — HEADQUARTERS
+1 418 688 0334

**EUROPE**
Ireland, Germany

**ASIA**
India
+91 832 669 9600

**SOUTH AMERICA**
OPTEL Brazil
+55 19 3113 2570

**optelgroup.com**

Certified
B
Corporation