



EU REGULATION ON DEFORESTATION-FREE SUPPLY CHAINS: HOW CAN THE PALM OIL INDUSTRY COMPLY?

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Presentation Outline

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2. DUE DILIGENCE REQUIREMENTS
3. TIMELINE FOR COMPLIANCE
4. TRACEABILITY REQUIREMENTS FOR EUDR COMPLIANCE
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WHAT IS EUDR?



- EUDR - EU Deforestation Regulation
- Part of 2019 Commission Communication on Stepping up EU Action to Protect and Restore the World's Forests
- Approved on 6th December 2022 and EU will adapt prior becoming into force
- Upon in-force: 18 months for implementation and micro/ small business units will enjoy longer period
- Will be in force 2nd quarter of 2023



THE NEW EU APPROACH

At the core of the proposal is a set of information requirements for operators (& non SMS traders) to demonstrate compliance through a mandatory due diligence mechanism.

- ❑ Only products that are both deforestation-free and legal - need to be covered by a due diligence statement;
- ❑ Strict traceability linking the commodity to the plot of land where it was produced;
- ❑ Information system: Host due diligence statements and related information to facilitate enforcement by Member States



COMMODITIES COVERED



PROHIBITION

Commodities that are eligible to enter in or exported from EU market:

Deforestation-free

Produced in accordance with the relevant local (country) regulatory requirements

Covered by a due diligence statement

Fulfil the cut-off date - commodities that produced from deforestation and forest degradation after 31st december 2020 shall considered as not-eligible.



DUE DILIGENCE

1. Gathering information

Collecting data on your product's supply chain, including the geo-localization and time period of primary production.

2. Risk assessment

Assessment of the information collected to determine the risk of deforestation, forest degradation and illegality associated with the product.

3. Risk mitigation

Actions to reduce non-negligible risks to negligible levels. Actions could include requesting further information, independent surveys, scientific product testing or audits.



Key Findings:

26%

26% of importers say they are fully prepared for incoming deforestation regulation.

42%

42% feel that supply chains are suppressed by a lack of traceability

56%

56% have misplaced fears that using traceability technology such as blockchain could lead the loss of trade secrets.

83%

83% spend half or more of their working hours tracking down information requested by customers.

53%

53% fear being left behind by more digitally adept organisations adopting traceability solutions.

72%

72% are keen to get ahead of the incoming regulation

WORLD IS

CHANGING IN 2025

- *US is expanding its biofuel productions(Soy oil)*
- *We will import 30%-40% of our soyprotein from US/Canada*
- *60-70% is already from no risc areas in Brasil, Paraguay and Argentina*
- *Next step human rights and land rights*

NEXT CHALLENGE IS THAT IT IS ONLY EU THAT IS PUSHING THE AGENDA.



HOW DO WE WAKE UP THE REST OF THE WORLD!!!



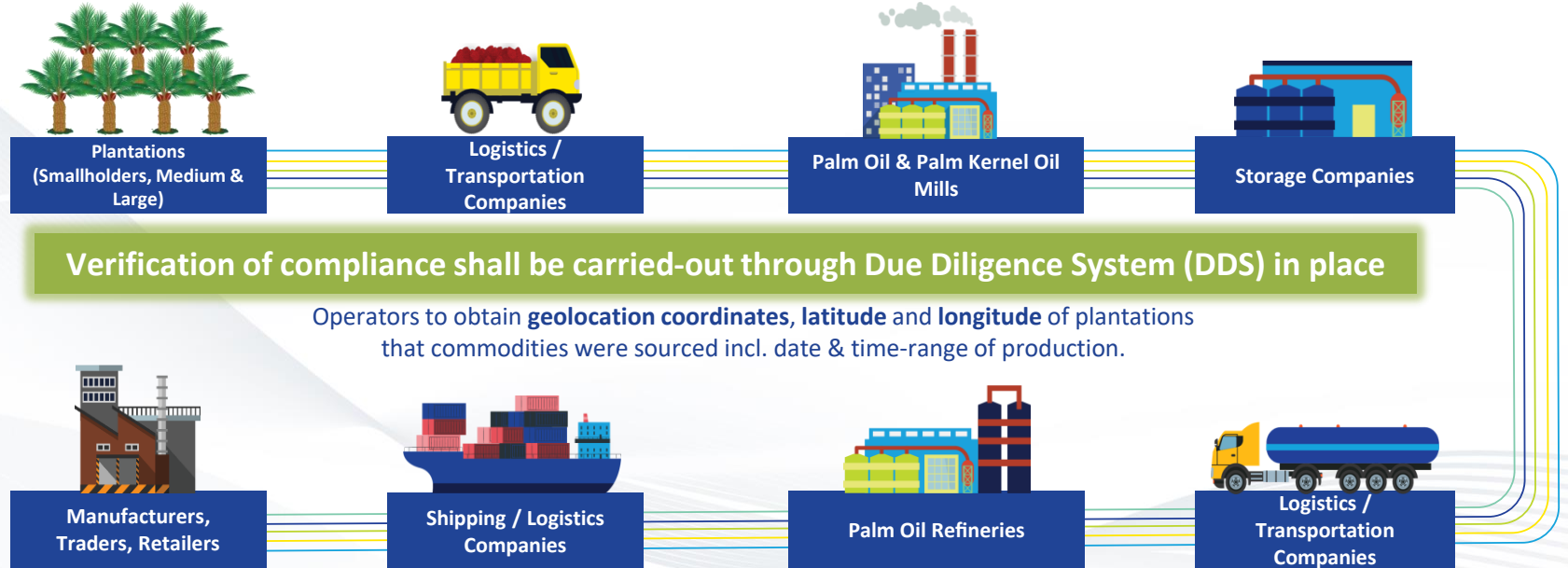
Timeline for compliance

A LAW IS ONLY GOOD IF IT IS APPROPRIATELY ENFORCED

- ❑ Benchmarking system that will assign risk to countries or regions according to risk of deforestation standard (by default), low and high
- ❑ Specific obligations for operators – simplified due diligence for low-risk (still required to collect information, but not assess and mitigate risks)
- ❑ Minimum level of inspections for Member States authorities to perform (9%, 3% and 1%, depending on the level of risk)
- ❑ Entry into force: 18 months - December 2024 (tentative) for operators (24 months for small companies - June 2025)



TRACEABILITY REQUIREMENTS FOR EUDR COMPLIANCE



EVERYONE HAS TO COMPLY!

OPERATORS

Companies who first place products in the single market) will be required to implement the due diligence on their supply chains to ensure they are deforestation and forest-degradation-free.

Responsibilities:

- Prohibition of exporting non-compliance products.
- Exercise due diligence system

TRADERS

Will be responsible for storing and sharing information on their supply chain to operators. Traders that not SMEs (large traders) shall be required to comply the “operators” requirements.

Responsibilities:

- Ability to identify the sellers and buyers (complete traceability)
- 5 years information retention period
- Relay the information to the authorities



Why smallholder inclusion is critical

- ❑ Nearly 40% of palm oil is produced from smallholder plantations
- ❑ Including farmers in modern value chains has been one of the central goals of development over the last 20 years.
- ❑ Improving the incomes, opportunities and capacities of smallholders in an environmentally sustainable way is critical for achieving multiple UN SDGs
- ❑ For farmers and their organizations, inclusion promises to bring higher incomes, improved access to finance and services.
- ❑ Supplying goods to formal buyers, such as global brands or their suppliers, has the potential to give small-scale farmers access to higher-value markets and better prices than traditional – often informal – markets for staples.



OBLIGATIONS OF OPERATORS & TRADERS

Article 4: Obligations of operators - operator is responsible for the compliance of the relevant commodity or product and may not place commodities/products on or export from the market if:

- No due diligence statement was submitted
- the commodities/products are found to be non-compliant
- the exercise of due diligence revealed that the risk of non-compliance is non-negligible (e.g. for lack of information on the origin of the commodities or products)
- the operator was unable to complete a due diligence procedure as required information is not available.



OBLIGATIONS OF OPERATORS & TRADERS

Article 6: Traders that are not SMEs shall be considered operators –
SMEs traders simplified procedure for the information required.

Article 7: If operator is based outside the EU, first buyer within the EU
is considered operator (new clause vis a vis EUTR to avoid loopholes)



NEW REQUIREMENT - 1

DDS ELEMENTS

Information Requirement

- Step one of due diligence Art 9 of the new proposal

**DEFORESTATION
PROPOSAL
(ADDITIONAL TO
EUTR)**

- Name, email and address of any business or any person to whom relevant commodities or products have been supplied; Adequate and verifiable information: the relevant commodities and products are deforestation-free & in accordance with relevant legislation, law and standards of the country (including human rights);
- Disclosing the views of any indigenous peoples, local communities and other groups that claim tenure rights in respect of the area used;
- Obtained via independent audits and appropriate consultation processes



NEW REQUIREMENT - 2

DDS ELEMENTS

Information Requirement

- Step one of due diligence

DEFORESTATION PROPOSAL

- Geo-localization : coordinates latitude and longitude for all plots of land where the relevant commodities and products were produced, or the geolocation coordinates, latitude and longitude of all points of a polygon for the plots of land where the relevant commodities and products were produced;
- any deforestation or degradation in the given plots of land shall automatically disqualify all products and from being placed and made available on the market or exported therefrom;
- operators shall provide the date or time range or harvesting season of production of the commodity or product;



NEW REQUIREMENT - 3

DDS ELEMENTS

Risk assessment and risk

- Steps two & three of due diligence

**DEFORESTATION
PROPOSAL
ART 10**

- The presence of forest in the country, region and area of production
- Prevalence of deforestation or forest degradation (or forest conversion);
- The source, reliability, validity and links to other available documentation;
- Concerns in relation to the country of production and origin;
- Complexity of the relevant supply chain and in the traceability of the plot and land of production;
- The risk of mixing with products of unknow origin or produced areas;
- The conclusions of the relevant Commission expert group meetings;
- Substantiated concerns (as per Art 29);
- Complementary supplied by certification or other third party-verified schemes, including voluntary schemes.

EXEMPT

LOW RISK COUNTRIES



ENFORCEMENT, IMPLEMENTATION & PENALTIES

Checks

According to Article 10

- The competent authorities shall carry out checks to verify if operators comply with the requirements set out in the EUTR.
- Checks shall be conducted in accordance with a periodically reviewed plan following a risk-based approach.
- May be conducted when a competent authority is in possession of relevant information, including on the basis of substantiated concerns provided by third parties.
- Spot checks, including field audits.

DEFORESTATION PROPOSAL ART 14

- Checks shall be conducted in accordance with a periodically reviewed plan following a risk-based approach
- Member states shall ensure that the annual checks carried out by their competent authorities cover at least **5% (10%)** of the operators as well as **5% (10%)** of the quantity of each relevant commodities and products placed on the market
- Right to perform checks without prior warning of the operator or trader

Penalties

The penalties provided for shall be effective, proportionate and dissuasive. Penalties shall include as a minimum:

1. The maximum amount of such ***finances shall be at least 4 % of the operators or trader's annual turnover in the Member State or Member States concerned;***
2. Confiscation of the relevant commodities and products concerned from the operator and/or trader;
3. Confiscation of revenues gained by the operator and/or trader from a transaction with the relevant commodities and products concerned;
4. Temporary exclusion from public procurement processes.



MAJOR ISSUES IN THE PALM OIL SUPPLY CHAIN:

Palm Oil industry already spends millions of dollars to produce sustainability yet accused of “Green Washing”

Lack of supply chain digitization amongst SMEs and Smallholders - thus no digital collaboration between stakeholders

Lack of immutable data across the supply chain to demonstrate traceability



CHALLENGES IN IMPLEMENTING END-TO-END TRACEABILITY



High Cost of siloed SCM



Inefficient Manual & paper based processes



Lack of collaboration



Difficulty in exchanging digital data due to different ERP and Accounting Systems



Security and Privacy of Data



Lack of trust in exchanging trade information



SILOED EFFORTS BY FEW LARGE ENTERPRISES **CANNOT SOLVE** THE INDUSTRY PROBLEM

These 3 step process is recommended for compliance



Traceability alone is insufficient....!

- Transactions are to be generated from day-to-day work activities and not just input on a web form
- Value beyond traceability is a must; digital records can help monitor production and productivity of personnel
- Data can provide checks & balances within the manufacturing plant/plantations thus identifying pilferages, if any!
- Improving performance, Yield & productivity can result in high ROI to empower the industry to continue producing sustainably

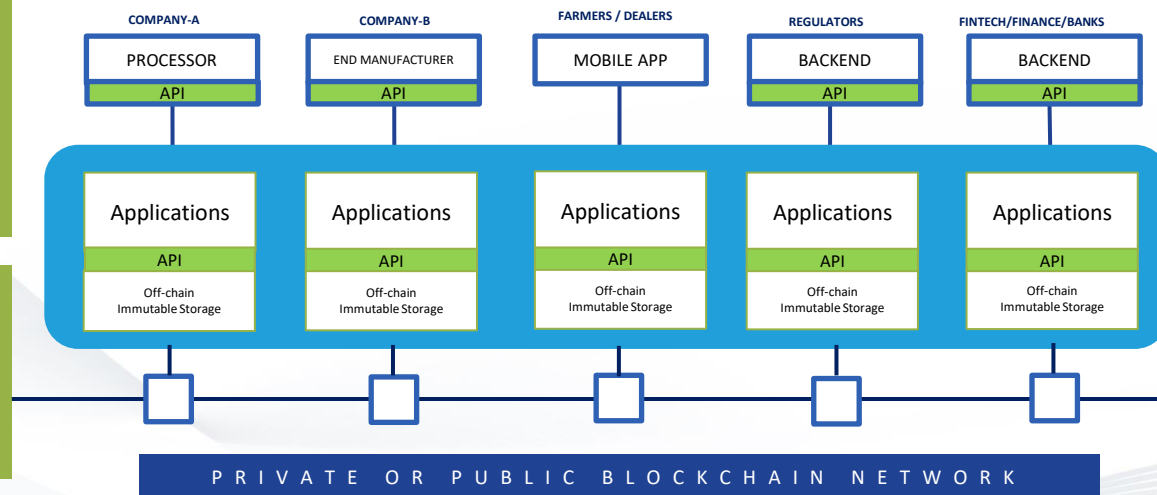


What can be a typical technology solution?

Everybody needs data privacy!

For a successful adoption, the blockchain network needs to ensure privacy of sensitive data

Data has to be validated by a CB or Competent Authority



- Document digitization
- Intelligent Trade Workflows
- Production Management
- Batch Management
- Inventory Management
- Certification Management
- Auto Audit Reports
- Geo-Spatial Analytics
- API gateway ERPs



NEXT STEPS: ONLY COLLABORATIVE EFFORTS CAN WIN!

- Instant implementation of Industry-Wide Real-time Digital Traceability System at Lowest Cost
- Digitization can improve human efficiency and avoid costly errors
- Digital supply chain can help enhance collaboration
- Privacy & Security of Sensitive Supply Chain Data can be achieved by adopting a blockchain based solution
- Regional Government Agencies/Regulators can adopt technology platforms to help the industry comply at the lowest cost and immediately



SUMMARY

- ❑ EUDR - EU Deforestation Regulation is already in place and compliance is mandatory
- ❑ Palm Oil is one of the key 6 commodities included in the EUDR.
- ❑ Existing Certification systems alone can meet EUDR compliance
- ❑ Inclusion of smallholders who produce 40% of the palm oil output is critical.
- ❑ The proposed Blockchain technology solution is readily available, cost-effective (completely free for smallholders) and can be readily adopted for EUDR compliance.
- ❑ Time is of the essence and early preparation and adoption would be key to protect market access to the EU.



THANK YOU

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