

The EU-Japan Centre for Industrial Cooperation ZOOM webinar

What is the EU Deforestation Regulation (EUDR)?

~ Impact on industries and measures to prevent deforestation in Japan ~

Thursday, June 13 16:00-17:30 Tokyo (9:00-10:30 Brussels)

Mr. Manuel Hubert, Managing Director European Side, the EU-Japan Centre for Industrial Cooperation, made opening remarks:

The EUDR (EU Deforestation Regulation), expected to impact business and trade in Japan, is part of comprehensive measures in the EU to prevent deforestation. This regulation, set to start at the end of this year, is a highly timely topic for discussion. Mr. Diego Torres, involved in the creation and negotiation of this regulation at the European Commission, will speak, along with representatives from the French Ministry of Environment, Mr. Sugimura from Japan's Ministry of Agriculture, and speakers from Japan's industry. We appreciate the numerous questions already submitted by registrants and thank all viewers for their participation.

Mr. Diego Torres, International Relations Officer, DG Environment, European Commission delivered the presentation:

Overview of EUDR

Over the past 30 years, an area of forests larger than that of the EU has disappeared, despite various efforts, with deforestation continuing. This exacerbates global warming and negatively impacts biodiversity. The objective of this regulation is to minimize the EU's contribution to global deforestation and forest degradation, thereby reducing greenhouse gas emissions and biodiversity loss. Reports indicate that 11% of deforestation and forest degradation is caused by anthropogenic greenhouse gas emissions. Addressing this is crucial for achieving climate neutrality by 2050.

Regarding the timeline, the regulation entered into force in June 2023, with large enterprises obligated to comply starting from the end of this year. Small and medium-sized enterprises will have an additional 6-month transition period and will be subject to the regulation from mid-2025 onwards.

Key Features of EUDR

Companies are primarily responsible for their involvement in forest degradation and deforestation within their supply chains. They must report due diligence and ensure that products involved in forest degradation or deforestation since 2020 are not included in their supply chains. This is a fundamental principle of the regulation. The regulation applies equally to products produced within and outside the EU. The responsibility lies with the so-called 'operators'. For products produced within the EU, EU companies are the operators; for products produced outside the EU, importers become the operators responsible for customs declaration. Cooperation between operators and upstream actors in the supply chain is necessary in such cases. The regulated items are listed with their HS codes in Annex 1 of the regulation. Musical instruments and automobiles, which are questioned by webinar registrants, are exempt from these regulations.

Next, regarding requirements, companies must manage to ensure that products supplied to the EU market do not contribute to forest degradation or deforestation since 2020. They must also comply with regulations in the country of origin during production. Therefore, rigorous traceability of raw materials used in production is necessary. The definition of forest degradation follows that used by the FAO (Food and Agriculture Organization). As already mentioned, the seven items listed in Annex 1 are subject to the regulation, which applies equally to companies regardless of nationality. The regulation targets forest degradation and deforestation occurring since 2020.

Before its implementation, the European Commission (EC) is setting up necessary infrastructure and addressing questions and concerns from operators and stakeholders. As part of this effort, Q&A documents have been created, with two editions published so far and a third edition scheduled for release soon. Links related to this matter have been shared with the webinar organizers. In July, an eleven-chapter guidance document will be published covering due diligence, certificates, and other information. The EC is developing an IT system known as the EU Digital Base, crucial for implementing this regulation. Operators or importers must report a due diligence statement in the EU Information System before making customs declarations. This involves reporting detailed information such as the origin of raw materials used in imported goods, and the system issues a due diligence reference number required for customs declarations. These are the main requirements of the regulation.

Ms. Marine Reboul, Policy Officer on Imported Deforestation, French Ministry of Ecological Transition, made the presentation:

France is actively engaged in national-level measures to combat imported deforestation, alongside collaborative efforts with other countries. France welcomes European-level initiatives based on traceability and transparency. Regarding the EUDR, France is disseminating information through seminars, websites, and meetings, fostering discussions with stakeholders to address queries and necessary points for the regulation's implementation. France collaborates with the European Commission (EC) and other EU member states to provide detailed responses to questions. The shared objective is to establish a clear framework. The task of France's EUDR authorities includes comprehensive understanding of information systems related to regulation implementation as explained by Mr. Torres. France continues to support affected companies through dialogue and tools, facilitating risk analysis and due diligence, and cooperates on European-level initiatives.

Ms. Clemence Boullanger, Policy Advisor on Deforestation and Land, French Ministry of Ecological Transition, shared the presentation:

EUDR aims to promote value chains without unsustainable forest degradation. The European Commission and member states are advancing the implementation of this regulation in third countries to promote compliance and address the root causes of deforestation. To achieve this objective, the Team Europe Initiative (TEI) has been launched. This initiative coordinates various activities among EC and member states to maximize impact. TEI focuses on the Global South, providing access to information such as best practices under EUDR, coordinating functions, and conducting outreach activities with partners in each country. It also plans to provide technical assistance and foster capabilities in traceability and mapping. Through these efforts, we aim to successfully transition to EUDR and mitigate deforestation and forest degradation.

Mr. Hajime Sugimura, Deputy Director, International Strategy Division, International Bureau, Ministry of Agriculture, Forestry and Fisheries, delivered the presentation:

Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) is tirelessly making efforts towards building sustainable supply chains. Sustainability consists of three pillars: environment, society, and economy, all of which require equal consideration. Given Japan's limited resources in certain areas, it is crucial to enhance productivity alongside sustainability efforts. MAFF's "Green Food System Strategy," formulated in 2021, outlines the fundamental directions towards sustainable agriculture and food systems, emphasizing collaboration between government and private sectors. Through initiatives like the ELPS Initiative, MAFF collaborates with international organizations to facilitate sustainable procurement in rural areas of developing countries. Additionally, MAFF places importance on activities related to sustainable forest management and timber use, engaging in continuous efforts over the years. For instance, MAFF implemented a technical cooperation project through JICA aimed at timber-producing countries in 2023. The Clean Wood Act (CW) was revised in the same year to promote the circulation and use of legally harvested timber in timber-producing countries. CW aims to promote the use of legally harvested timber and is distinct from EUDR, which targets agricultural supply chains. MAFF believes that due to significant differences in regulatory approaches and objectives between CW and EUDR, a direct comparison between the two regulations is not appropriate. Japan addresses illegal logging in timber-producing countries through various methods, including CW, bilateral and multilateral agreements, collaboration with international organizations, and public-private partnerships.

Mr. Katsuyuki Kadota, *General Manager for International Affairs, Japan Paper Association*, made the comment:

The implementation of EUDR has raised significant concerns among various stakeholders, including the paper industry. The industry is already aligned with EUDR's objective of preventing deforestation and forest degradation. It practices sustainable forest management and responsibly sources raw materials, conducting due diligence and implementing measures against illegal logging. In Japan, 70% of paper materials come from recycled paper, and 30% from wood sources such as residue from timber processing and thinnings. Despite these efforts, pulp, paper, and paper board are subject to strict regulation under EUDR. Residues, which are by-products from processing logs and are sourced from multiple locations on different dates, pose a challenge for comprehensive geographic tracing. It is physically impractical to trace all materials that are inherently mixed and sourced from numerous forest parcels. To comply with EUDR, the paper industry may need to switch to traceable low-grade wood from residues. However, this could lead to increased global raw material and product prices and potentially further deforestation outside the EU—a worst-case scenario. We would request the European Commission (EC) to address these concerns by considering longer transition periods or phases until solutions are found. Adjustments should also be made for low-risk countries, companies, and products to ensure appropriate and effective responses.

Ms. Ayako Itoh, *General Manager, Social Value Strategy Department, Global Sustainability Strategy, Bridgestone Corporation*, shared the comment:

Bridgestone is a global tire rubber manufacturer operating in over 150 countries, with a significant portion of sales generated overseas, making Europe a crucial part of the business. Both tires and their primary material, natural rubber, fall under the scope of EUDR. Natural rubber is predominantly cultivated in Southeast Asia, with 90% sourced from small-scale farmers, highlighting its significant environmental and social impact. We collaborate with suppliers and farmers to support sustainable practices and agriculture, preparing them for EUDR compliance. While striving for full compliance with EUDR both internally and externally, we face significant challenges. For companies operating outside the EU, a lead time of at least two months before the start of EUDR is necessary to enter products into the EU market. It is perceived as unfair that companies within the EU can continue to sell products made with pre-regulation materials until

December 30th without regulation, provided they import raw materials by that date. Switching to compliant materials by October requires sourcing as early as July due to strict separation requirements, resulting in additional costs. Given that guidelines will be issued in July, this timeframe may be insufficient for companies outside the EU. We would request fair consideration for all enterprises, regardless of their location.

In the Q&A session, Moderator **Mr. Yasuo Tanabe**, *Managing Director Japan Side, the EU-Japan Centre for Industrial Cooperation*, covered the following questions:

- Questions raised by Mr Kadota and Ms Ito were asked to Mr Torres. In response to Mr Torres' answers, Mr Kadota said that he understood the difficulty of delaying the regulation, but there could be many problems with implementing it in six months, including difficulties in gathering information and the difference in transition periods between large and small companies. Ms Ito asked for thoughts on the fact that the regulation, which is supposed to be applied fairly to companies inside and outside the EU, is creating inequalities.
- It was explained that the main cause of deforestation is the conversion of forest to agricultural land, but is urban development such as for residential and commercial purposes defined as deforestation?
- What penalties are incurred for violating the regulation? Up to 4% of total turnover within the EU - is this a correct understanding? We feel this is too much. Because companies have many segments and even if only a small part of their business is related to the EUDR, would they still be penalised with a maximum of 4% of their total turnover in the EU?
- Implementation of the regulation starts on December 30. For companies importing Japanese products into the EU market, a due diligence statement is needed to clear customs. Does the manufacturing date of the product relate to customs clearance and due diligence requirements?
- Regarding traceability, the GNSS (Global Navigation Satellite System) can be used to identify specific land parcels. Can the public obtain location information with 6-digit precision by using the system?
- I'd like to confirm the scope of application. Are only the items and products listed and specified in Annex-1 subject to EUDR?
- There are certification systems for products like paper and palm oil. Is it possible to utilize these systems in due diligence? Also, can we integrate these systems into the due diligence framework in the future?
- It is stated in the regulation that the obligation arises when an operator places the subject product on the EU market, and I assume 'place' means sell on the market. If an importer only stores the product without selling it in the market, would it be exempt? Similarly, if partner companies receive the product only for inspection, would this also be exempt? Furthermore, for the repair or maintenance of existing products without selling them in the market, would this also be exempt?

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