European Union Deforestation Regulation briefing and implications for the Leather Industry

July 2023
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclaimer</td>
<td>2</td>
</tr>
<tr>
<td>1. Regulation Background</td>
<td>3</td>
</tr>
<tr>
<td>2. Scope</td>
<td>3</td>
</tr>
<tr>
<td>2.1 How companies in scope are defined</td>
<td>3</td>
</tr>
<tr>
<td>3. What is required</td>
<td>4</td>
</tr>
<tr>
<td>3.1 Regulation criteria</td>
<td>4</td>
</tr>
<tr>
<td>3.2 What due diligence is required?</td>
<td>4</td>
</tr>
<tr>
<td>3.3 How is ‘Geolocation’ defined for cattle?</td>
<td>4</td>
</tr>
<tr>
<td>3.4 What is the benchmarking process?</td>
<td>5</td>
</tr>
<tr>
<td>3.5 Reporting requirements</td>
<td>5</td>
</tr>
<tr>
<td>4. How do the regulations apply to feed for cattle?</td>
<td>6</td>
</tr>
<tr>
<td>5. How will the regulation be enforced?</td>
<td>6</td>
</tr>
<tr>
<td>5.1 Penalties</td>
<td>7</td>
</tr>
<tr>
<td>6 Further information expected and what is planned next</td>
<td>7</td>
</tr>
<tr>
<td>7 Summary of implications and challenges</td>
<td>8</td>
</tr>
<tr>
<td>Appendix A: Due diligence statement</td>
<td>10</td>
</tr>
<tr>
<td>Appendix B: Definitions</td>
<td>11</td>
</tr>
</tbody>
</table>

## Disclaimer

This document refers to the following EU Regulation, referred to in this document as the European Union Deforestation Regulation (EUDR). If in doubt, always refer directly to the regulation.


The information provided in this document is intended as guidance for Leather Working Group (LWG) stakeholders and the use of this information is entirely at the user’s own risk. Professional legal advice should be sought where appropriate to the user.

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1. Regulation Background

As part of the European Green Deal and the 2030 EU Biodiversity Strategy, the European Commission adopted on May 16 a new regulation to curb EU-driven deforestation and forest degradation, REGULATION (EU) 2023/1115.

The new rules seek to guarantee that products sold into the EU do not contribute to global deforestation and forest degradation covering both legal and illegal deforestation.

The key driver for this move has been the identification of agricultural expansion and associated deforestation and its links to climate change and biodiversity loss. See the EU’s previous FAQ on rules for deforestation-free products for further context regarding research and statistical justifications for the regulation.

2. Scope

The regulation sets rules for operators (companies and traders) producing products for the EU (or for export from the EU) linked to the commodities of soy, beef, palm oil, wood, cocoa, coffee, and rubber and specific derived products including leather, chocolate, and furniture (Article 1).

Leather products in scope of the regulation are detailed in Annex I by their customs codes. From the ‘Cattle’ section those referring to Leather are as follows:

<table>
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<tr>
<th>CN Code</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>ex 4101</td>
<td>Raw hides and skins of cattle (fresh, or salted, dried, limed, pickled, or otherwise preserved, but not tanned, parchment-dressed, or further prepared), whether or not dehaired or split</td>
</tr>
<tr>
<td>ex 4104</td>
<td>Tanned or crust hides and skins of cattle, without hair on, whether or not split, but not further prepared</td>
</tr>
<tr>
<td>ex 4107</td>
<td>Leather of cattle, further prepared after tanning or crusting, including parchment-dressed leather, without hair on, whether or not split</td>
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Therefore only companies purchasing raw, part processed, or finished leather for processing or trading are in scope NOT companies producing, purchasing, or retailing finished products containing leather.

2.1 How companies in scope are defined

The regulation requirements will apply to operators and traders however obligations for each of these groups will differ. Operators are companies who first place the product on the EU market; traders are companies further along the supply chain. The regulation applies to operators and traders of any size however the period set for companies to comply will vary. All larger companies will have 18 months to comply (by 29th Dec 2024), SMEs: medium companies (defined as those <250 employees and turnover of <€50), small companies (defined as those with <50 employees and a turnover of <€10 million) and micro-enterprises (defined as those with <10 employees and a turnover of <€2million) will have 24 months to comply (by 29th June 2025). Traders will also have a reduced scope of obligations (see below).
3. What is required

3.1 Regulation criteria

The Regulation sets mandatory due diligence rules for operators that place relevant products on the EU market associated with deforestation and forest degradation. To ensure that:

a) products must be deforestation-free and have not been produced on land deforested or degraded after 31 December 2020; (Article 3(a))

b) they have been produced in accordance with the laws of the country of production (Article 3(b))

c) they are covered by a due diligence statement (Article 3(c))

Not meeting any of these three requirements will result in a prohibition to place those products on the EU market.

3.2 What due diligence is required?

‘Operators’ (companies first placing products on the EU market) will be required to sign a due diligence statement (see Appendix A) and keep all related documentation for at least 5 years (Article 4 (3)). The statement will require the following steps to have been taken:

Step 1: Provide access to data on relevant commodity, quantity, supplier, and country of production. Including geolocation for plots of land where commodities they place on the market were produced (Article 9).

Step 2: Conduct at least annually a risk assessment to determine the level of non-compliance associated with the product in accordance with the benchmarking process (see below) (Article 10).

Step 3: Take adequate and proportionate mitigation measures (Article 11).

‘Traders’ must keep records of who they buy relevant products from and who they sell them to, along with details of their accompanying due diligence statements (Article 5). If the trader is an SME, this is its only requirement (apart from informing the competent authorities if new information becomes available regarding any non-compliance with their products). Traders that are larger than SMEs are subject to the same due diligence requirements as operators, including having to submit their own due diligence statements.

3.3 How is ‘Geolocation’ defined for cattle?

‘Geolocation’ means the geographical location of a plot of land described using latitude and longitude coordinates corresponding to at least one latitude and longitude point and using at least six decimal digits.

For relevant commodities other than cattle, for plots of land of more than 4 hectares, the geographical location shall be provided using polygons, meaning sufficient latitude and longitude points to describe the perimeter of each plot of land (Article 2(28).

For cattle products, the geolocation information covers all establishments where the cattle were kept (Article 9(1d)).
It is important to highlight that to determine a farm’s compliance full property boundaries are required which would mean the use of polygons. Further guidance from the EU on this is expected.

3.4 What is the benchmarking process?

A country benchmarking system will categorise countries according to deforestation patterns linked to the relevant commodities (Article 29).

There will be three categories of countries:

- Low
- Standard
- High risk.

Obligations for operators and member states authorities will vary according to the level of risk of the country of production, with simplified due diligence duties for low-risk and enhanced scrutiny for high-risk countries.

The EU has advised it will assess risk levels for producer countries or parts of them and publish details within 18 months of the regulation coming into force.

It is critically important to highlight that all countries are assumed to be standard risk to start with meaning the data on the product and geo-location of the origin of production is required for all in-scope products (Article 29 (2)).

As noted above, companies sourcing products from low-risk countries will be subject to a simplified due diligence procedure, including only the information collection requirements (including the geolocation requirements) of the due diligence procedure and not the risk analysis or risk mitigation steps.

3.5 Reporting requirements

Operators and non-SME traders are required to have a due diligence system in place that delivers the procedures set out above, and to review it at least once a year (Article 12(3)).

Operators and traders apart from SMEs must report publicly at least annually on their due diligence system and the steps taken by them to implement their due diligence obligations (Article 12(2)). The reports must include details of the information gathered on the products in the company’s supply chains, the conclusions of the risk assessment process, and the processes of consultation with indigenous peoples and local communities in the area of production of the relevant commodities and products.

This reporting obligation is intended to be wrapped into any relevant reports companies are required to make under any other EU due diligence requirements; this is most obviously relevant to the proposed EU Corporate Sustainability Due Diligence Directive which incorporates a much broader approach to due diligence, not specific to any product or sector and not linked to any requirements for placing products on the market.

The regulation also includes a provision for the Commission to issue guidance to operators in fulfilling their requirements (Article 15); whether this happens and in what form, is proving of considerable interest to companies.
4. How do the regulations apply to feed for cattle?

The regulation also applies to embedded deforestation linked to feed for cattle being produced from in-scope commodities which would primarily relate to soy.

**The regulation states (point (39)):**

‘To ensure that this proposal meets its objectives, it is important to ensure that feed used for livestock falling under the scope of this Regulation does not lead to deforestation. Therefore, operators placing on the Union market or exporting from the Union market relevant products that contain or have been made using cattle, which have been fed with relevant products that contain or have been made using other relevant commodities or products, should ensure, as part of their due diligence process, that the feed is deforestation-free.

In that case, geolocation requirements under this Regulation should be limited to referring to the geographical location of each of the establishments where the cattle were raised, and no geolocation information should be sought for the feed itself.

If the competent authority obtains or is made aware of relevant information, including based on substantiated concerns submitted by third parties, that the feed might be at risk of not being in compliance with the requirements of this Regulation, the competent authorities should immediately request detailed information on such feed. When the feed has already been subject to due diligence in a previous step of the supply chain, operators should use as evidence the relevant invoices and/or reference numbers of relevant due diligence statements or other any other relevant documentation that the feed is deforestation-free and may be required to make it available to competent authorities upon request. The evidence should cover the lifetime of the animals, up to a maximum of five years.’

Collaboration with slaughterhouses will be critical to establishing data required where feed lots have been involved in the production and therefore risk of soy being used for feed to be established. In turn work with the soy sector will be required to establish levels of compliance.

5. How will the regulation be enforced?

The authorities from member EU states are to carry out their own risk analysis of companies, based on the countries, or parts of countries, they source from, the characteristics of the supply chain (such as the risk of mixing with non-compliant products), the company’s history of compliance with the regulation, the risks of circumvention, and any other relevant information.

The regulation specifies the minimum levels of checks the authorities must carry out each year to cover at least 3% of operators (Article 16 (8)), with minimum percentages of the numbers of operators linked to each risk category:

- 9% of operators sourcing from high-risk countries, which must also cover >9% of the quantity of the relevant product (Article 16 (9))
- 3% for standard risk (Article 16 (8))
- 1% for low-risk. (Article 16 (10))

Checks on operators and non-SME traders shall include (Article 18 (1)):
• Examination of the due diligence statements, operators associated system, and documentation/records kept, including risk assessment/mitigation procedures;

• Examination of documentation and records that demonstrate the compliance of a specific product or commodity that the operator has placed, intends to place on, or export from the EU

In addition, checks may include (Article 18 (2)):

• On-the-ground examination of relevant commodities and products to ascertain their conformity to the documentation used for exercising due diligence;

• Technical and scientific testing to determine origin where relevant, e.g., isotope testing;

• Technical and scientific means of assessment to determine whether the relevant commodity or product is deforestation-free, including Earth/satellite observation data such as from the Copernicus program and tools;

• Spot checks, including field audits in origin countries

5.1 Penalties

EU Member States shall lay down rules on penalties applicable to infringements of the provisions of this Regulation by operators and traders and shall take all measures necessary to ensure that they are implemented.

Penalties shall include as a minimum (Article 25 (2)):

• Fines proportionate to the environmental damage and the value of the relevant commodities or products concerned;

• Maximum amount of such fines shall be at least 4 % of the operators or trader’s annual turnover in the Member State or Member States concerned;

• Confiscation of the relevant commodities and products concerned from the operator and/or trader;

• Confiscation of revenues gained by the operator and/or trader from a transaction with the relevant commodities and products concerned;

• Temporary exclusion from public procurement processes and access to public funding;

• Temporary prohibition from placing or exporting relevant products;

• Prohibition from the use of the simplified due diligence system.

6 Further information expected and what is planned next

There is an expectation that further information related to the implementation of the regulation will be given. Article 15 (1) notes: ‘Member States may provide technical and other assistance and guidance to operators.

Details of the country benchmarking system and classification of countries are critical pieces of information that will affect the level of information that in scope companies will be required to prepare, depending on where they are sourcing from.
There is also mention of an EU Observatory to provide details of land cover maps and to provide scientific evidence of global deforestation and forest degradation rates. It is anticipated this will be a general resource detailing post-2020 deforestation trends and regions.

There are some topics defined for review by the EU to potentially extend the scope of the regulation. Those most relevant to the leather industry are as follows:

- Review the scope to include ‘other wooded land’ (beyond forest degradation) within 1 year of the regulation coming into force. This means the conversion of natural ecosystems to be considered which is highly relevant for cattle production areas e.g., the Cerrado in Brazil.
- How the regulation might be applied to financial institutions
- After 2 years of the regulation coming into force the CN codes for products that are in scope will be reviewed

7 Summary of implications and challenges

It will be critical for leather industry stakeholders to work in close collaboration with slaughterhouses and the meat industry to align on requirements and standardise traceability systems and mechanisms to provide access to data.

The key challenges are:

- Cattle that will be slaughtered in 2025 are already being moved, so the faster action is taken, the better.
- Additional work will be required in terms of record-keeping, establishing full traceability, selecting compliant supply chains, and additional documentation. This will all have cost implications.
- Many regions of the world have ear tagging for cattle which means a lot of data about the animal exists, however, this is captured for sanitary health reasons and not environmental purposes – the traceability data needs to be made available for the leather industry through transferring the cattle data to the hide at slaughter. In some cases, changes in local laws and policies may be required for that information to be made available.
- Slaughterhouses need to ensure that monitoring systems are adopted that capture data to evaluate both their direct and indirect suppliers which will move the whole cattle sector toward reducing its impact on forests. When there is only batch-level traceability, rather than individual animal traceability, each product can be linked to up to thousands of farms, in Brazil in particular. While creating extra challenges due to the large amount of data, there are systems available that allow the collection, storage, and management of such information.
- Determining what is legal (for the production of in-scope commodities and products) across all countries is not clear or consistent. Countries need to take responsibility for this as it goes beyond cattle production (i.e., a plot of land is often used for more than one purpose, for example, cattle rearing initially, and later for soy production).
- Regarding the risk of feed coming from land linked to deforestation, a collaboration between the soy sector and slaughterhouses is needed to facilitate visibility of where feed has been supplied and what level of deforestation due diligence has taken place.
• There is a risk that companies purchasing leather will divest, which may undermine the ambition of the regulation, which is to halt deforestation and limit the leather sector’s capacity to leverage collective influence and positive change. Divesting from specific regions, can, in addition to limiting leverage, create distortions in other markets impacting raw material costs and affecting competitiveness.

• After 2 years of the regulation coming into force the CN codes for products that are in scope will be reviewed, and additional codes may be included, including finished products.
Appendix A: Due diligence statement

Copy of format of due diligence statement from EU Deforestation Regulation.

ANNEX II

Due diligence statement

Information to be contained in the due diligence statement in accordance with Article 4(2):

1. Operator’s name, address and, in the event of relevant commodities and relevant products entering or leaving the market, the Economic Operators Registration and Identification (EORI) number in accordance with Article 9 of Regulation (EU) No 952/2013.

2. Harmonised System code, free-text description, including the trade name as well as, where applicable, the full scientific name, and quantity of the relevant product that the operator intends to place on the market or export. For relevant products entering or leaving the market, the quantity is to be expressed in kilograms of net mass and, where applicable, in the supplementary unit set out in Annex I to Regulation (EEC) No 2658/87 against the indicated Harmonised System code or, in all other cases, expressed in net mass specifying a percentage estimate or deviation or, where applicable, volume or number of items. A supplementary unit is applicable where it is defined consistently for all possible subheadings under the Harmonised System code referred to in the due diligence statement.

3. Country of production and the geolocation of all plots of land where the relevant commodities were produced. For relevant products that contain or have been made using cattle, and for such relevant products that have been fed with relevant products, the geolocation shall refer to all the establishments where the cattle were kept. Where the relevant product contains or has been made using commodities produced in different plots of land, the geolocation of all plots of land shall be included in accordance with Article 9(1), point (d).

4. For operators referring to an existing due diligence statement pursuant to Article 4(8) and (9), the reference number of such due diligence statement.

5. The text: ‘By submitting this due diligence statement the operator confirms that due diligence in accordance with Regulation (EU) 2023/1115 was carried out and that no or only a negligible risk was found that the relevant products do not comply with Article 3, point (a) or (b), of that Regulation.’.

6. Signature in the following format:
   ‘Signed for and on behalf of:
   Date:
   Name and function: Signature.’.
Appendix B: Definitions

The definitions are taken from those used by the UN Food and Agriculture Organisation (FAO) in its regular Forest Resources Assessment publication. For the purposes of this Regulation, the following definitions apply:

(1) ‘relevant commodities’ means cattle, cocoa, coffee, oil palm, rubber, soya and wood;
(2) ‘relevant products’ means products listed in Annex I that contain, have been fed with or have been made using relevant commodities;
(3) ‘deforestation’ means the conversion of forest to agricultural use, whether human-induced or not;
(4) ‘forest’ means land spanning more than 0,5 hectares with trees higher than 5 metres and a canopy cover of more than 10 %, or trees able to reach those thresholds in situ, excluding land that is predominantly under agricultural or urban land use;
(5) ‘agricultural use’ means the use of land for the purpose of agriculture, including for agricultural plantations and set-aside agricultural areas, and for rearing livestock;
(6) ‘agricultural plantation’ means land with tree stands in agricultural production systems, such as fruit tree plantations, oil palm plantations, olive orchards and agroforestry systems where crops are grown under tree cover; it includes all plantations of relevant commodities other than wood; agricultural plantations are excluded from the definition of ‘forest’;
(7) ‘forest degradation’ means structural changes to forest cover, taking the form of the conversion of:
   (a) primary forests or naturally regenerating forests into plantation forests or into other wooded land; or
   (b) primary forests into planted forests;
(8) ‘primary forest’ means naturally regenerated forest of native tree species, where there are no clearly visible indications of human activities and the ecological processes are not significantly disturbed;
(9) ‘naturally regenerating forest’ means forest predominantly composed of trees established through natural regeneration; it includes any of the following:
   (a) forests for which it is not possible to distinguish whether planted or naturally regenerated;
   (b) forests with a mix of naturally regenerated native tree species and planted or seeded trees, and where the naturally regenerated trees are expected to constitute the major part of the growing stock at stand maturity;
   (c) coppice from trees originally established through natural regeneration;
   (d) naturally regenerated trees of introduced species;
(10) ‘planted forest’ means forest predominantly composed of trees established through planting and/or deliberate seeding, provided that the planted or seeded trees are expected to constitute more than 50 % of the growing stock at maturity; it includes coppice from trees that were originally planted or seeded;
(11) ‘plantation forest’ means a planted forest that is intensively managed and meets, at planting and stand maturity, all the following criteria: one or two species, even age class, and regular spacing; it includes short rotation plantations for wood, fibre and energy, and excludes forests planted for protection or ecosystem restoration, as well as forests established through planting or seeding, which at stand maturity resemble or will resemble naturally regenerating forests;

(12) ‘other wooded land’ means land not classified as ‘forest’ spanning more than 0.5 hectares, with trees higher than 5 metres and a canopy cover of 5 to 10 %, or trees able to reach those thresholds in situ, or with a combined cover of shrubs, bushes and trees above 10 %, excluding land that is predominantly under agricultural or urban land use;

(13) ‘deforestation-free’ means:
   (a) that the relevant products contain, have been fed with or have been made using, relevant commodities that were produced on land that has not been subject to deforestation after 31 December, 2020; and
   (b) in the case of relevant products that contain or have been made using wood, that the wood has been harvested from the forest without inducing forest degradation after 31 December, 2020;

(14) ‘produced’ means grown, harvested, obtained from or raised on relevant plots of land or, as regards cattle, on establishments;

(15) ‘operator’ means any natural or legal person who, in the course of a commercial activity, places relevant products on the market or exports them;

(16) ‘placing on the market’ means the first making available of a relevant commodity or relevant product on the Union market;

(17) ‘trader’ means any person in the supply chain other than the operator who, in the course of a commercial activity, makes relevant products available on the market;

(18) ‘making available on the market’ means any supply of a relevant product for distribution, consumption or use on the Union market in the course of a commercial activity, whether in return for payment or free of charge;

(19) ‘in the course of a commercial activity’ means for the purpose of processing, for distribution to commercial or non-commercial consumers, or for use in the business of the operator or trader itself;

(20) ‘person’ means a natural person, a legal person or any association of persons which is not a legal person, but which is recognised under Union or national law as having the capacity to perform legal acts;

(21) ‘person established in the Union’ means:
   (a) in the case of a natural person, any person whose place of residence is in the Union;
   (b) in the case of a legal person or an association of persons, any person whose registered office, central headquarters or a permanent business establishment is in the Union;

(22) ‘authorised representative’ means any natural or legal person established in the Union who, in accordance with Article 6, has received a written mandate from an operator or from a trader to act on its behalf in relation to specified tasks with regard to the operator’s or the trader’s obligations under this Regulation;
(23) ‘country of origin’ means a country or territory as referred to in Article 60 of Regulation (EU) No 952/2013;

(24) ‘country of production’ means the country or territory where the relevant commodity or the relevant commodity used in the production of, or contained in, a relevant product was produced;

(25) ‘non-compliant products’ means relevant products that do not comply with Article 3;

(26) ‘negligible risk’ means the level of risk that applies to relevant commodities and relevant products, where, on the basis of a full assessment of product-specific and general information, and, where necessary, of the application of the appropriate mitigation measures, those commodities or products show no cause for concern as being not in compliance with Article 3, point (a) or (b);

(27) ‘plot of land’ means land within a single real-estate property, as recognised by the law of the country of production, which enjoys sufficiently homogeneous conditions to allow an evaluation of the aggregate level of risk of deforestation and forest degradation associated with relevant commodities produced on that land;

(28) ‘geolocation’ means the geographical location of a plot of land described by means of latitude and longitude coordinates corresponding to at least one latitude and one longitude point and using at least six decimal digits; for plots of land of more than four hectares used for the production of the relevant commodities other than cattle, this shall be provided using polygons with sufficient latitude and longitude points to describe the perimeter of each plot of land;

(29) ‘establishment’ means any premises, structure, or, in the case of open-air farming, any environment or place, where livestock are kept, on a temporary or permanent basis;

(30) ‘micro, small and medium-sized enterprises’ or ‘SMEs’ means micro, small and medium-sized undertakings as defined in Article 3 of Directive 2013/34/EU of the European Parliament and of the Council (19);

(31) ‘substantiated concern’ means a duly reasoned claim based on objective and verifiable information regarding non-compliance with this Regulation and which could require the intervention of competent authorities;

(32) ‘competent authorities’ means the authorities designated under Article 14(1);

(33) ‘customs authorities’ means customs authorities as defined in Article 5, point (1), of Regulation (EU) No 952/2013;

(34) ‘customs territory’ means territory as defined in Article 4 of Regulation (EU) No 952/2013;

(35) ‘third country’ means a country or territory outside the customs territory of the Union;

(36) ‘release for free circulation’ means the procedure laid down in Article 201 of Regulation (EU) No 952/2013;

(37) ‘export’ means the procedure laid down in Article 269 of Regulation (EU) No 952/2013;

(38) ‘relevant products entering the market’ means relevant products from third countries placed under the customs procedure ‘release for free circulation’ that are intended to be placed on the Union market and are not intended for private use or consumption within the customs territory of the Union;

(39) ‘relevant products leaving the market’ means relevant products placed under the customs procedure ‘export’;
‘relevant legislation of the country of production’ means the laws applicable in the country of production concerning the legal status of the area of production in terms of:

(a) land use rights;

(b) environmental protection;

(c) forest-related rules, including forest management and biodiversity conservation, where directly related to wood harvesting;

(d) third parties’ rights;

(e) labour rights;

(f) human rights protected under international law;

(g) the principle of free, prior and informed consent (FPIC), including as set out in the UN Declaration on the Rights of Indigenous Peoples;

(h) tax, anti-corruption, trade and customs regulations.