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Navigating the EU Deforestation Regulation

ESG Newsletter
2025

Implications for Global Supply Chains and Sustainable Business



Executive Summary

The EU Deforestation Regulation (EUDR), effective from June 2023 with enforcement starting December 2025, marks a pivotal moment in global sustainable sourcing policy. It mandates companies worldwide to ensure commodities entering the EU market are deforestation-free and legally produced. This newsletter unpacks the regulation's scope, due diligence requirements, and the critical implications for companies operating in Hong Kong, Mainland China, and the Asia-Pacific region. It also highlights how Baker Tilly Hong Kong can support businesses in navigating these complex compliance demands while leveraging sustainability as a competitive advantage.

Introduction: A New Era for Sustainable Sourcing

Deforestation is a leading cause of biodiversity loss, greenhouse gas emissions (GHG), and ecosystem degradation globally^[1]. In response, the EU adopted the EUDR (Regulation (EU) 2023/1115) to ensure that commodities linked to deforestation or forest degradation do not enter or leave the EU market unless strict due diligence requirements are met. This regulation forms part of the EU's broader climate and biodiversity agenda, including the European Green Deal and the Biodiversity Strategy for 2030, aiming to reduce at least 55% in net GHG by 2030, compared to 1990 levels^[2].

For companies in Hong Kong, Mainland China, and the wider Asia-Pacific region, the EUDR introduces significant compliance obligations and reshapes global supply chains connected to forest-risk commodities.



What is the EUDR?

The EUDR prohibits placing or exporting of certain commodities and products linked to deforestation or forest degradation on the EU market unless they meet strict due diligence requirements.

The regulation defines deforestation as the conversion of forest land to agricultural use after 31 December 2020 (cut-off date), regardless of whether the cause was natural (e.g., fire) or human induced.

The regulation applies to products made from or containing any of the seven covered commodities as listed in section “Commodities and Products Covered”, and requires companies to verify that these products:

- Are deforestation-free (no conversion of forest land after the cut-off date);
- Comply with the legal framework of the country of production;
- Are accompanied by a due diligence statement confirming compliance.

The regulation entered into force on 29 June 2023, with enforcement starting 30 December 2025 for medium and large operators and traders, and 30 June 2026 for micro and small enterprises.

Commodities and Products Covered

The EUDR targets seven key forest-risk commodities^[3] and their derived products, which are major drivers of tropical deforestation globally:

Commodity ^[1]	Examples of Derived Products
Cattle	Live animals, meat, leather
Cocoa	Beans, paste, butter, chocolate
Coffee	Roasted, unroasted, decaffeinated coffee
Oil Palm	Nuts, kernels, palm oil, derivatives
Rubber	Natural rubber, tires, clothing
Soya	Beans, meal, oil, residues
Wood	Logs, processed wood, furniture, paper

Only products explicitly listed in Annex I of the regulation are subject to the EUDR. For example, soap containing palm oil is not covered, but chocolate containing cocoa is.

Who Must Comply?

The regulation applies primarily to two categories of businesses:



Operators:

Entities placing covered commodities or products on the EU market or exporting them. Operators must implement full due diligence systems, including risk assessments and mitigation measures.



Traders:

Entities buying or selling these products within the EU market but not placing them on the market. Traders must collect and keep due diligence information from operators or upstream suppliers.

All companies regardless of size must comply, but micro and small enterprises have extended deadlines until mid-2026.

Due Diligence Obligations

The EU Commission classifies countries or regions into three risk levels to tailor due diligence^[4]:

- High risk: Significant likelihood of non-compliance with deforestation-free requirements;
- Standard risk: Default category for countries not classified as high or low risk;
- Low risk: Adequate assurance that non-compliance is rare.

At the heart of the EUDR is a comprehensive due diligence framework. Operators must:

- Collect detailed information on each product, including exact geolocation coordinates of the production site;
- Verify that the commodity was produced legally and is deforestation-free;
- Conduct risk assessments based on the country or region of origin's deforestation risk classification by the European Commission;
- Implement risk mitigation measures if any non-compliance risk is identified;
- Submit due diligence statements via the EU's Information System, either per shipment or annually for larger companies;
- Maintain records for at least five years for inspection by competent authorities.

Simplified due diligence applies to operators sourcing exclusively from low-risk areas but still requires vigilance against supply chain circumvention^[1].

While operators handle the initial due diligence, traders play a supporting role in maintaining compliance. All traders must collect and retain due diligence (DD) information provided by operators or upstream suppliers. However, obligations vary based on company size^[5]:

Non- Small and Medium-Sized Enterprises (SME) Traders:

These traders have the same full due diligence obligations as operators. This includes verifying the risk level of an operator's sourcing region (e.g., confirming if it's high risk or low risk for deforestation per the European Commission's classifications). They must conduct independent risk assessments, ensure legality and deforestation-free status, and implement mitigation if needed.

SME Traders:

SMEs benefit from a simplified role and are not obligated to conduct independent verifications of sourcing risk levels. Their primary responsibility is to collect and maintain the DD information received from suppliers, with records kept for at least five years.

This structure ensures that larger entities bear more responsibility for supply chain integrity, while smaller ones focus on record-keeping to avoid undue burdens.



Penalties for Non-Compliance with EUDR

Under the EUDR, both operators and traders face significant penalties and material risks for non-compliance. These entities can be subjected to substantial financial fines, which may be levied up to at least 4% of their total annual turnover within the EU^[6]. In addition to monetary penalties, authorities are empowered to impose operational sanctions, including the confiscation of non-compliant products and any revenues derived from their sale. Furthermore, serious or repeated infringements could lead to a temporary exclusion from placing goods on the EU market, suspension from public procurement processes, and considerable reputational damage that could impact stakeholder confidence and long-term business standing.



Impact on Supply Chains: Challenges and Strategic Responses

Challenge	Strategic Response
Data Collection & Traceability	Trace products to plot-level origin; adopt digital traceability platforms.
Digitalisation & Technology	Integrate with certification bodies (FSC, PEFC); use proprietary or third-party platforms.
Supplier Engagement	Collaborate with suppliers, including smallholders; build capacity for accurate data.
Operational & Financial Costs	Invest in audits, training, and supply chain restructuring; diversify sourcing if needed.
Legal & Market Risks	Avoid fines (up to 4% EU turnover), confiscation, and market bans through robust due diligence ^[7] .

The EUDR’s requirement for precise geolocation data fundamentally transforms supply chain transparency expectations, requiring companies to overhaul traditional systems and embrace digital solutions^[8].

How Baker Tilly Hong Kong Can Support Your EUDR Compliance Journey

Navigating the EUDR's complex requirements demands expert guidance. As a leading CPA and ESG advisory firm, Baker Tilly Hong Kong offers tailored services to help businesses comply effectively and leverage sustainability as a competitive advantage:



Integrate EUDR compliance into your ESG frameworks with transparent, credible reporting supported by independent assurance.



Conduct thorough risk assessments and design mitigation strategies aligned with EUDR and broader regulatory requirements.



Advise on best practices and technology solutions for supply chain mapping, geolocation data management, and digital traceability.



Provide expert interpretation of evolving regulations, ensuring your policies and controls meet all legal obligations.



Support supplier engagement and training to enhance compliance readiness across your supply chain.

Our global network and local expertise empower your business to meet regulatory demands confidently, reduce environmental risks, and demonstrate leadership in sustainable sourcing.

Conclusion

The EUDR represents a transformative shift in environmental governance, setting a global benchmark for deforestation-free commodity trade. For companies in Hong Kong, China, and the Asia-Pacific region, embracing the EUDR is vital to securing market access, enhancing ESG credentials, and contributing to global efforts to protect forests and biodiversity.

By fostering supply chain transparency, accountability, and collaboration, the EUDR aligns with core ESG values and supports a resilient, low-carbon future. Baker Tilly Hong Kong stands ready to guide your business through this evolving landscape, turning compliance challenges into strategic opportunities for sustainable growth.

[1] Forest Stewardship Council (FSC). How Deforestation Affects Climate Change. March 1, 2025. <https://fsc.org/en/blog/how-deforestation-affects-climate-change>

[2] European Commission. (2023). Deforestation Regulation Implementation. https://green-forum.ec.europa.eu/deforestation-regulation-implementation_en

[3] Agrinfo.eu. EU Deforestation Regulation (EUDR) – Impacted Products and Obligations. May 2025. <https://agrinfo.eu/book-of-reports/deforestation-free-commodities-and-products/>

[4] European Commission. Country Classification List – Green Forum. 2023. https://green-forum.ec.europa.eu/deforestation-regulation-implementation/eudr-cooperation-and-partnerships/country-classification-list_en

[5] European Commission. Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R1115>

[6] Linklaters. Deforestation regulation: EU imposes new due diligence duties on operators and traders. <https://sustainablefutures.linklaters.com/post/102ihnz/deforestation-regulation-eu-imposes-new-due-diligence-duties-on-operators-and-tr>

[7] White & Case. (2024). 10 key things you STILL need to know about the new EU Deforestation Regulation. <https://www.whitecase.com/insight-alert/10-key-things-you-still-need-know-about-new-eu-deforestation-regulation>

[8] AtlasZero. What are the due diligence requirements for the EUDR? April 2025. <https://www.atlaszero.earth/blog/article/what-are-the-due-diligence-requirements-for-the-eudr>

About BT Corporate Governance Limited

BT Corporate Governance Limited (BTCGL) established in 2004, at that point in time, we were one of six professional accounting firms which set up a separate risk advisory department in Hong Kong. BTCGL is well recognized in the Asia-Pacific region for our work in financial and risk advisory, such as pre-IPO internal control review, IT General Control and Application Control review, Cyber-security advisory services, ESG services, financial and resumption due diligence services etc.

BTCGL is an operating entity of Baker Tilly Hong Kong, which is a member of the global network of Baker Tilly International. Our service philosophy is to build long-term relationships with our clients through excellent client care.

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