

EUDR Compliance Costs

**Economic analysis of cost implications for
companies and consumers**

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Profundo

Profundo: an independent not-for-profit company

- Analysis of international commodity chains, the financial sector, policy developments and the **impacts of businesses and financiers on all sustainability aspects**: from human rights to deforestation, from climate change to tax and from armed conflicts to water scarcity
- Working for NGOs, governments, research institutes, investors and businesses, but accepting no conflict of interest

Focus commodity chains and sectors

Mining



Forestry



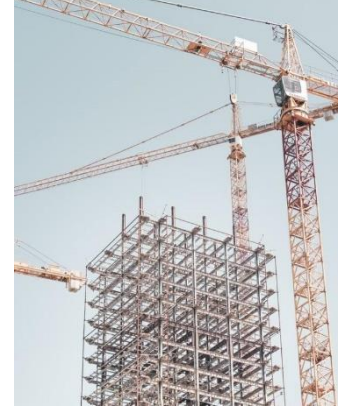
Agriculture



Arms



Construction



Electricity



Fisheries



Oil & gas



Manufacturing



Livestock



Profundo – equity working group

Calculation of ‘sustainability events’ / investment risk

- Market access risk, operating margin risk, and legal risk impact
- Financing risk
- Reputation risk/opportunity
- External risks – climate damage, biodiversity damage, health damage
- ‘Relative’ costs of 1) compliance, 2) better labor conditions, 3) certified commodities etc.

Methodologies

- Scenario-analysis for revenues/profits at risk/opportunity
- External damage/opportunity valuation
- Profit distribution model – “who is earning what”? / pricing-up
- Accountability calculation

EUDR Compliance Costs report

Step 1 - Commissioned by Tierra Pura Foundation

- Absolute and relative costs of EUDR compliance

Step 2 - Activities and methodologies

A. What does EUDR compliance cost for a company

- I. A **selection of 12 large companies and SMEs** (small and medium-sized enterprises) active in palm oil, soy, cocoa, coffee, beef, leather
- II. **Data collection** of tonnages, profit & loss accounts, employee costs, top management remuneration
- III. **Five methodologies** were applied to calculate costs

B. What does compliance really cost for the consumer






- i. Based on Profit distribution model = “who is earning what?” ...
- ii. ...but applied to : “how (embedded) commodity prices increase through ALL stages of a supply chain” = pricing-up

Selection of 12 companies – large and SME

Company	Country	Commodity	Origin	Annual EU volume (est., mt)	Comment
Barry Callebaut	CH	Cocoa	Global	350,816	Est. based on total processed cocoa volume; average 35.04% global grindings in Europe.
Touton	FR	Cocoa	Global	116,112	Est. based on total processed cocoa volume; average 35.04% global grindings in Europe.
ED&F Man	UK	Coffee	Global	146,746	Est. based on 30.7% of global coffee consumption in Europe.
Melitta	DE	Coffee	Global	135,660	Est. based on 71.4% revenues in Europe.
Bunge	US	Soy	Brazil	1,334,340	Est. based on shipment data; soybeans and- meal.
Amaggi	BR	Soy	Brazil	337,700	Est. based on shipment data; soybeans and- meal.
AAK	SE	Palm oil	Global	1,316,260	Est. based on palm oil share in total volume processed.
Olenex	NL	Palm oil	Global	658,978	-
Intervlees	BE	Beef	Brazil	2,794	Est. based on shipment data.
Frostmeat Fleischhandelsges.	DE	Beef	Brazil	1,035	Est. based on shipment data.
Ad Hulst	NL	Hides	Brazil	407	-
Eagle Ottawa (Lear Corp.)	US	Hides	Brazil	1,661	Est. based on imports by Eagle Ottawa Hungary.




Compliance cost model – 5 methodologies

Table 1 EUDR compliance cost model

	% of revenues	Package price (€)/million revenues	€ (million)	€ per ton*
Annual costs (€ million)				
EC report 2020 - Large	0.009%			
EC report 2020 - SME	0.139%			
Data and service suppliers - Large			450	
Data and service suppliers - SME			2,389	
WWF UK - Large	0.005%			
WWF UK - SME	0.074%			
CRR - Large			1.2	
CRR - SME			0.05	
CRR - All				
Set-up costs (€ million)				
WWF UK - High	0.014%			
WWF UK - Low	0.005%			

Source: Profundo based on European Commission, WWF, CCR, and interviews; *) applied to all commodities.

Example - AAK – Palm oil - Sweden

	% of revenues	Package price (€)/€ million revenues	€ million	€ per ton	Outcome
Input					
Revenues (€ million)					4,040
EU share (metric tons)					350,816
Annual costs (€ million)					
EC report 2020	0.009%	450	1.2		0.38
Data and service suppliers					1.82
WWF UK	0.005%				0.20
CRR					1.20
CRR				30	10.52
Average	0.070%				2.82
Low					0.20
High					10.52
Set-up costs (€ million)					
Average, based on WWF UK	0.010%				0.39
Low	0.005%				0.21
High	0.014%				0.57

Example - AAK – Palm oil - Sweden

EUDR Compliance average costs in relative context



%	Setting-up	Ongoing	Total year-1
Average costs as % of:			
Revenues	0.01%	0.07%	0.08%
Operating profit	0.11%	0.79%	0.89%
Net profit (25% tax rate)	0.11%	0.82%	0.94%
Personnel costs	0.13%	0.95%	1.08%
of which wages/salaries	0.16%	1.14%	1.30%
Remuneration of executives*	2.55%	18.56%	21.10%

Summary of 'relative' costs

%	Company size	Category	Revenues	Operating profit	Net profit	Personnel costs	Top remuneration
Large							
AAK	Large	Palm oil	0.07%	0.79%	0.82%	0.95%	18.56%
Amaggi (Brazil)	Large	Soy	0.04%	0.72%	0.78%	260.98%	821.51%
Barry Callebaut (CH)	Large	Cocoa	0.04%	0.50%	0.56%	0.45%	11.47%
Bunge (US)	Large	Soy	0.03%	0.52%	0.54%	NA	101.03%
ED&F Man (UK)	Large	Coffee	0.03%	1.18%	1.73%	1.15%	NA
Melitta (DE)	Large	Coffee	0.07%	1.83%	3.27%	0.42%	NA
Olenex (NL)	Large	Palm oil	0.14%	4.01%	4.12%	12.46%	104.02%
Touton (FR)	Large	Cocoa	<u>0.08%</u>	<u>4.16%</u>	<u>7.24%</u>	<u>6.76%</u>	<u>NA</u>
Average Large		All	0.06%	1.71%	2.38%	3.70%	58.77%
SME							
Ad Hulst (NL)	SME	Leather	0.32%	1.59%	1.41%	3.06%	NA
Frostmeat (DE)	SME	Beef	0.24%	0.45%	0.48%	9.03%	NA
Intervlees (BE)	SME	Beef	0.12%	1.63%	1.76%	9.03%	NA
Lear Corp (US)	<u>SME</u>	<u>Leather</u>	<u>0.00%</u>	<u>0.01%</u>	<u>0.01%</u>	<u>0.00%</u>	<u>NA</u>
Average SME		All	0.17%	0.92%	0.91%	5.28%	NA
Average total			0.10%	1.45%	1.89%	4.33%	58.77%
SME divided by Large (x)			2.75	0.54	0.38	1.43	NA

Pricing-up in supply chains

- Prices of (embedded) commodities move up in every stage of the supply chain...
- ...up to 4X

	Soy	Beef	Leather	Palm	Coffee	Cocoa	Sugar-cane	Average
Producer	100	100	100	100	100	100	100	100
Processor		123	123					123
Exporter					115			115
Traders	111			114	123	119	117	117
Importer	111	264	233					203
FMCG	181			160	212	207	318	215
Retail/wholesale	302	337	332	194	277	270	398	302

The impact on consumer price...if passed on

- Prices of (embedded) commodities move up in every stage of the supply chain, so that compliance costs as % of revenue are (should be) smaller at retail price/consumer level (C) ...
- However, they are only a small part of the end-products (D)

	Factor	Cocoa	Beef	Coffee	Soy	Palm Oil	Leather
EUDR CC as % of revenues	A	0.06%	0.18%	0.05%	0.03%	0.11%	0.16%
Adjusted pricing-up index	B	2.70	2.74	2.41	2.72	1.70	2.70
Impact on retail price	$C = A/B$	0.02%	0.07%	0.02%	0.01%	0.06%	0.06%
Embedded proportion	D	30%	100%	90%	10%	10%	5%
Impact on retail price of 'whole' product	$E = C \times D$	0.007%	0.066%	0.018%	0.001%	0.006%	0.003%

Limitations + further research

- Non-EU producers and exporters bear additional costs as they need to gather data in the field
 - As % of EU consumer price, these are still tiny
- Companies importing the EUDR commodities wood and rubber, including related products, are not included in the cost calculation
 - Due to available data and choices of funder
- Small companies: the smallest company included has still yearly revenues of € 10.6 million

Thank you!

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