

EXECUTIVE SUMMARY

Since 1990, humanity has lost approximately **420 million hectares** of forest—equivalent to over three times the area of France¹.

Commercial agriculture—especially **cattle ranching, soy, palm oil, wood commodities**—accounts for ~80% of tropical deforestation. These trends deepen financial risks by destabilising ecosystems, increasing climate exposure, and threatening biodiversity. But a new EU law **coming into force in December 2025** aims to tackle deforestation and forest degradation and can be leveraged by banks to promote forest-positive supply chain financing.

The EU Deforestation Regulation bans the import of seven “forest-risk” commodities to the EU—**cattle, coffee, cocoa, oil palm, rubber, soy, and wood**—unless they are accompanied by rigorous due diligence indicating that the products are **deforestation-free** and **legally sourced**.

Through this guide, developed by ZSL with philanthropic funding from HSBC, we explore how relationship managers can support client readiness for the coming **EU Deforestation Regulation (EUDR)** and protect banks from exposure to high-risk actors.

Whilst banks are not directly regulated by the EUDR, the regulation creates both risk exposure and strategic opportunity for banks financing clients in deforestation-linked sectors, including:

1. Financial Risk from Client Exposure

Deloitte estimates that **US \$4.5 trillion in global GDP is tied to nature-dependent sectors**, underscoring the systemic risk of nature loss and deforestation. Companies failing to comply with the EUDR risk fines, loss of EU market access, and reputational damage—impacting their cashflow and **increasing credit risk**. For banks, this raises the likelihood of **loan defaults, stranded assets, and reduced collateral value**.

2. Banking the new Green Economy

Demand for sustainable goods is increasing—studies by the Boston Consulting Group show **~70% of consumers are willing to pay ~5% more** for sustainably produced products. Exemplifying this in 2024, UK grocery store Waitrose raised prices on its ethically sourced cocoa range and reported a **34% uplift in sales**, proving that responsible sourcing can be good for business and a signal of long-term resilience.

3. Opportunities for Green Finance Innovation

Tackling deforestation and forest degradation also opens up new product offerings in sustainable finance, including: **sustainability-linked loans (SLLs)** linked to traceability and deforestation-free status of production; **blended finance facilities** providing derisking capital to mobilize commercial finance for deforestation-free markets; **sustainable trade finance and shipment credit lines** that link preferential terms to verified deforestation-free sourcing.

How Relationship Managers Can Support Clients

As trusted advisors, helping clients navigate financial products and services, Relationship Managers (RMs) can support clients as the EUDR comes into force. This guide provides an easy 5-step approach for RMs to support their client’s EUDR journey.

1. Raise awareness of EUDR

Many clients remain unaware of EUDR obligations. In a 2024 survey of 300 timber and forest-risk commodity operators across Europe, 18% were completely unaware of any deforestation-related legislation². Many of these may be directly affected.

Yet risks to EU market access will also impact producers and traders in Latin America, SE Asia and Africa as buyers will pivot to suppliers able to provide evidence of deforestation-free products.

2. Build the business case for tackling deforestation and/or forest degradation

Help clients understand the legal, financial, and reputational costs of inaction versus the opportunity to access green finance, enhance resilience, and maintain EU market access. Highlight to companies within scope of the EUDR that penalties include fines of up to 4% of the company’s EU market turnover, confiscation of products and revenue and potentially even suspension of EU market access. Clients outside the scope of the EUDR will face a market which prioritises suppliers willing and able to provide evidence of traceable supplies and deforestation-free sourcing.

3. Assess action by clients to address deforestation and/or forest degradation

Use relationship meetings to explore exposure and client progress towards tackling deforestation and/or forest degradation, covering issues such as:

- Is the client able to trace their product to the forest level?
- How is the client monitoring for deforestation and forest degradation risk?
- What risks concerning compliance with local laws are relevant in the location of production?
- How are deforestation/forest degradation and legality risks being mitigated?
- How are smallholder farmers being supported to ensure inclusion?

4. Promote collaboration

Deforestation drivers are not limited to a single company or sector. Clients could benefit from engaging with landscape initiatives and industry platforms to tackle forest loss³. For example, in the rubber sector the Global Platform for Sustainable Natural Rubber—with members such as Michelin, Goodyear and BMW—is investing in mass capacity building with rubber farmers to increase yields and reduce the incentives for forest clearance. Whilst the Consumer Goods Forum is delivering a \$5.2 million financing package in Brazil to upscale deforestation-free practices.

5. Monitor client deforestation and/or forest degradation risk

Embed EUDR considerations into periodic client reviews and credit assessments, focusing on high exposure and liaising with sustainability, risk and compliance teams.

- Map deforestation and forest degradation risk exposure based on client sector, geography, role in the supply chain and exposure to deforestation and/or forest degradation.
- Track client progress against questions highlighted in section 3 above.
- Share client-level insights with internal sustainability, risk and compliance teams.
- Create feedback loops to inform credit policy adjustments, sector strategies, or client engagement priorities.
- Aggregate data to track portfolio-wide trends and assess progress by clients.

The EUDR is sending a clear signal to supply chain companies and the financial sector that they must take action. With the onset of EUDR, banks face both a growing fiduciary responsibility and a strategic opportunity to tackle one of the world’s most systemic environmental risks. Proactively engaging clients, integrating deforestation and forest degradation risks into credit assessments, and incentivising traceable, deforestation-free sourcing are not only essential to protect portfolios—they also unlock new pathways for green lending, trade finance innovation, and reputation leadership. **RMs are key change-makers on this journey. This guide provides actionable steps, guidance and tools for RMs to raise awareness of the EUDR, support client preparedness and to play their part in eliminating deforestation** from financial portfolios.

Endnotes

- 1 Earth.org. “Deforestation Statistics: Key Facts and Figures.” <https://earth.org/statistics-deforestation/>
- 2 Interu. Report 2024: Deforestation Regulation Readiness. 2024. <https://www.interu.io/deforestation-regulation-readiness-report>
- 3 Clients should ensure that any initiatives which involve collaboration with competitors comply with relevant competition laws.