Fox Consultancy Services Limited
Policy Advice

"Traceability along Cocoa Value Chains – An Introduction "

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World Cocoa Conference,

Abidjan

21st November 2012

Outline of Presentation on Traceability in Cocoa Value Chains

- **What is Traceability?**
- **Potential Needs of Traceability in Cocoa Value Chains: Some Scenarios**
- **Future expectations**
- **Conclusions**

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What is Traceability?

- EC Regulation No 178/2002 is "ability to trace a food, feed, food producing animal or substance intended to be, or expected to be, incorporated into a food or feed, through production, processing and distribution."

- Not just a cocoa issue

Is Traceability Possible in Cocoa Value Chains?

- Exists already in organic and some fine & flavour cocoa value chains
- Quite simple for niche users or single origin users; much more of a challenge for mainstream tonnage
- Short value chains assist in cost effective delivery of traceability

Is Traceability Possible in Cocoa Value Chains?

- Clearly cocoa value chain in Cote d'Ivoire is complex
- Has had many participants and a number of steps, but is being shortened by some operators
- Tracing cocoa from farm community to export is, and will continue to, add cost in the foreseeable future
- Can such a cost be justified? There maybe needs that have to be met........

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Potential Needs for Traceability in Cocoa Value Chains

- **Legal Requirements**
- **Conformance to International Expectations**
- **Effective Operation of Certification Schemes**
- **Flavour, Quality & Origin Needs**
- **For Administrative Purposes**

To Satisfy Legal Requirements

- The so-called EU "one step up - one step back" concept; keep records for 5 years

- USA (FMSA), Japan & elsewhere following

- With systematic approach not an onerous obligation but no company should ignore

- Simple adherence to this requirement may not satisfy critics of our industry

- Over time likely that more transparency will be expected

Conformance to International Expectations - 1

- **Report of UN Special Representative on "Guiding Principles on Business & Human Rights" (Ruggie, 2011) was adopted by UN in June 2011**

- **Publication of "OECD Guidelines on Multinational Corporations" in late 2011**

- **EU:**
  - **Issued "A Renewed Strategy 2011-14 for Corporate Social Responsibility"**
  - **Is now developing a CEN standard for "Sustainable & Traceable Cocoa"**

Conformance to International Expectations - 2

- **These moves:**
  - Confirm that both states & businesses have responsibilities in this domain
  - Accept that implementations will differ
  - Expect businesses to
    - Make a policy statement
    - Undertake human rights due diligence along value chains especially for *crucial* ingredients
    - Hard to deny the *crucial* nature of cocoa in manufacture of chocolate

Conformance to International Expectations - 3

- **Pressure seems set to continue on multi-national food business operators to:**
  - **Make a policy statement on human rights**
  - **Understand their value chains back to the communities for their _crucial_ raw materials**

Effective Operation of Certification Schemes - 1

- **Fairtrade, Rainforest and UTZ Certified:**
  - Together now certify some 10% annual cocoa production
  - Have developed traceable value chains but at present methodology is not <u>always</u> used
  - Have tangible additional costs & often heavy administration of hard copy documentation etc
- **Product certified at community needs to be moved along chain to consumer; Mass balance useful interim solution**
- **Certified tonnages set to grow – through substantial commitments made by end users**

Effective Operation of Certification Schemes - 2

- **ICCO study shows improvements in productivity provide chief benefit to cocoa farmer of certification schemes**

- **As tonnage increases, so do the challenges in the value chain until certified cocoa becomes the norm**

- **Co-ordination of future system developments on traceability should bring advantages to all value chain operators**

- Certification does help cocoa farmers

For Flavour, Quality & Origin Needs - 1

- **Traceability could:**
  - **Avoid buyers paying premium for beans NOT of expected flavour, physical quality or origin**
  - **Allow tracing of beans back to growers that are:**
    - **Of poor quality**
    - **Contaminated with unwanted residues - pesticide, heavy metal etc**
  - **Allow specific recipes for bean preparation to satisfy buyer needs**

For Flavour, Quality & Origin Needs - 2

- Traceability could:
  - Offer opportunity for buyers to reward for production of good quality beans
  - Target support for sustainability initiatives
- Such traceability is easier in shorter supply chains, such as those for niche or fine & flavour cocoa markets

For Flavour, Quality & Origin Needs - 3

- Western consumers are showing much greater interest in the origin of many foodstuffs

- As an example, number of European supermarkets now offer on-pack QR codes with farm information

For Administrative Reasons - 1

- COCOBOD in Ghana grade & seal cocoa bags under system run by their Quality Control Division (QCD)
- User can trace back to grading point; grade re-checked on arrival at port
- Modest cost to run QCD that is included in (premium) price paid by buyer
- Increasing tonnage removed from bag at port and many '000's tonnes shipped in bulk; automatic unloading; saves cost
- Traceability potential is thus lost

For Administrative Reasons - 2

- **There has been publicity on quantity of exports from small origins re-chocolate tonnage produced from these origins**

- Transparent, reliable process & data needed??

- Would traceability in such small origins be of benefit?

For Administrative Reasons - 3

- **Serial abuse in one country of origin in SE Asia has led authorities to seal & tag all cocoa of their national crop to avoid mixing with cocoas of poorer quality from elsewhere**
- **Transparent, reliable process developed and now in regular use**
- **Cost accepted by that government to avoid reputational damage**

For Administrative Reasons - 4

- Much discussion about creation of National Cocoa Plans

- Paucity of reliable data on farms, farmers, size & yields makes this harder to achieve

- Potential for data collected under traceability initiatives to be used in the development of such plans

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Conclusions - 1

- Legislative pressures seem set to increase along the cocoa value chain
- Traceability seems likely to become increasingly important & may even become necessary as:
  - Governments increase demand for greater value chain transparency
  - More company investment programmes are rolled-out & companies want to use the cocoa produced in such programmes
  - Consumers continue to expect certified cocoa to be used in certified chocolate

Conclusions - 2

- Traceability could offer opportunity to buy beans:
    - Of improved preparation & quality
    - Produced to specific fermentation and drying requirements
    - Without potential of residue contamination
    - That are certified to one of the existing schemes

Conclusions - 3

- Companies have made substantial usage commitments to certified cocoa – if all their usage was to be certified could be as much as 1.75 m tonnes by 2020?

- To achieve cost effective traceability:
  - New ways of working will be needed
  - Should start at level of cocoa community or co-operative – not individual farm
  - Adoption of new technologies offers exiting opportunities that could include helpful value chain management tools & records on certification status, yield, input supplies etc

Conclusions - 4

- To achieve cost effective traceability, co-ordination & co-operation in new system development could bring advantages to all value chain operators

- Technologies to deliver traceability are at now at proof of concept stage or being rolled out

- Move to megabulk while saving cost, does cause loss of traceability

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- ## Future Expectations

Future Expectations - 1

- **Certified cocoa will become the "norm" when perhaps 30 – 40% global production certified**
- **Some observers believe that pressure for tracing back to the cocoa growing community:**
  - **Seems set to increase for reasons listed earlier**
  - **May even be inevitable for the reasons listed earlier**

Future Expectations - 2

- **Could pre-competitive, collaborative effort of ALL players along the value chain efficiently deliver best practice in traceability systems?**

- **Would mobilisation of significant donor funding be possible - to support such developments at least in part?**

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Policy Advice

Thank you for you kind attention

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