

# Sustainable Sourcing

#### Sustainable sourcing: Leading practices to manage sustainability risks and opportunities

Global Sustainability Summit

August 2013



#### Sustainable sourcing defined

#### **ENVIRONMENTAL IMPACTS**

Impacts of upstream, owned and downstream operations on living and non-living natural systems, including ecosystems, land, air, and water.

#### **ECONOMIC IMPACTS**

Impacts of upstream, owned and downstream operations on the economic conditions of its stakeholders and on economic systems at local, national, and global levels.

#### SOCIAL IMPACTS

Impacts of upstream, owned and downstream operations on the social systems within which it operates, including labor practices, human rights, society, and product responsibility.

#### ETHICAL IMPACTS

Impacts of upstream, owned and downstream operations on applicable laws, regulations, and moral systems.

A **sustainable supply chain (SSC)** improves resilience, reduces costs and drives growth through more positive environmental, social, economic and ethical impacts.

PwC 2

<sup>\*</sup>Definitions of sustainability impacts adapted from the Global Reporting Initiative and PwC sources.

## Broad range of agricultural supply chain sustainability issues pose material risks...and opportunities

#### **Sustainability issues**

Environmental	• Energy/greenhouse gases (GHGs)				
	<ul> <li>Water quality/quantity</li> </ul>				
	• Chemical input handling/storage				
	Physical climate risks				
	Biodiversity impacts				
	<ul> <li>Transportation/logistics</li> </ul>				
	Packaging				
Social	• Forced labor/ child labor/ trafficking				
	• Worker health & safety				
	• Freedom of association				
	• Overtime, wages & benefits				
	• Discrimination, diversity				
Economic	• Job creation / use of local suppliers				
	Fair pricing				
	Supplier diversity				
Ethical	Bribery and corruption				
	<ul> <li>Misrepresentation of product</li> </ul>				
	• Conflict minerals				

#### **Business performance**

usiness perior mance				
Risk	• Reputation risk – product, brand or enterprise level			
	• Maintain license to operate			
	<ul> <li>Supply disruption</li> </ul>			
	<ul> <li>Commodity price volatility</li> </ul>			
	• Loss of customers or market share			
Cost	• Raw material costs			
	<ul> <li>Transportation costs</li> </ul>			
	• Compliance costs			
	Supply chain management costs			
Growth	<ul> <li>Increase sales to existing customers, increase market share, enter new markets</li> </ul>			
	• Strengthen brand/ reputation			

• Differentiate

• Engage customers in new ways

PwC

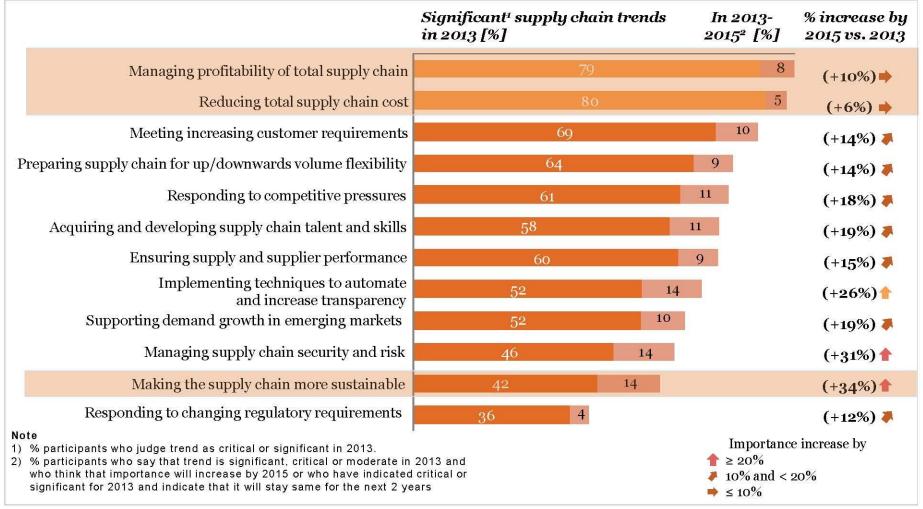
## Examples of sustainability risks and opportunities in agricultural supply chains



capturing market share from black

market alcohol producers.

# A recent global PwC survey shows that (1) cost is a major supply chain trend and (2) sustainability is the fastest growing supply chain trend



Source: "PwC Global Supply Chain Survey 2013"

PwC 5

#### 'Play not to lose' and 'Play to win' strategies

Play not to lose			Play to win		
Supplier standards	Sustainability criteria in procurement	Sourcing certified or alternative raw materials	Dedicated or integrated supply chain	Supplier and stakeholder collaboration	
Set minimum performance standards for suppliers on social, environmental and ethical issues	Integrate sustainability criteria alongside traditional procurement criteria of cost, quality and performance	Source 3 <sup>rd</sup> party certified raw materials or alternative raw materials to reduce reputation risk exposure	Take control of components of the supply chain through acquisition or long-term, dedicated supplier agreements	Collaborate with key suppliers and stakeholders to address pervasive environmental and social issues in the supply chain	

# Sustainable sourcing: Leading practices to manage sustainability risks and opportunities

Cope Willis, Director Sustainability Business Solutions

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#### Commodity Consumption Comparison

Coffee =  $\sim$ 1.4 mln tons

Cocoa and products = ~4,1 mln tons

Sugar = 10.7 mln tons raw value

Sources: USDA FAS 2012, Coffee World Markers and Trade; USDA ERS US Food Imports 3/29/2013;

# Can we Have Our Cake... AND EAT IT SUSTAINABLY, TOO?

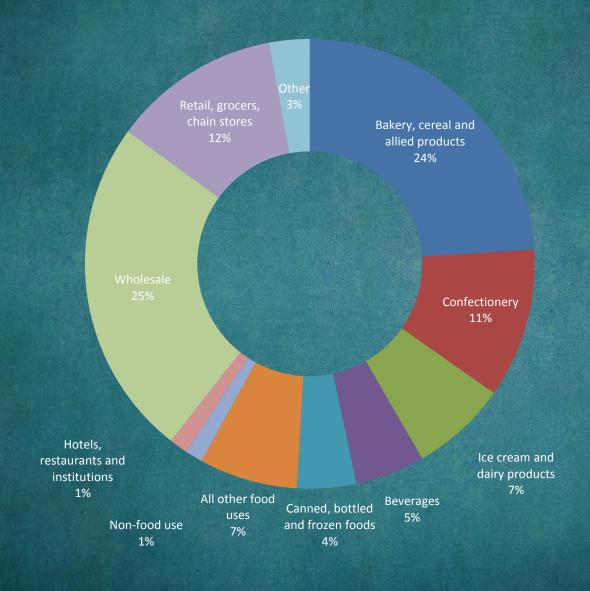
#### Sugar Is Everywhere

Yet it is not a high priority

AND

Has significant challenges that require multi-sector and government intervention.

## Sugar Use in the USA



# Where Does Your Sugar Come From?

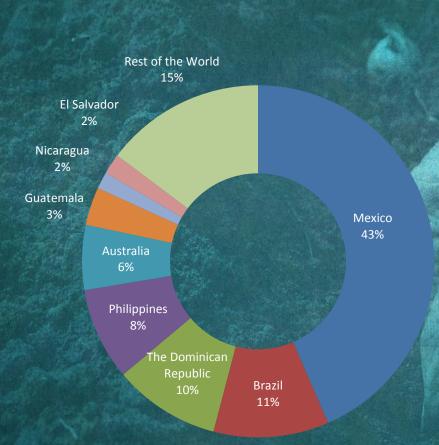
USA Sugar Sources (in metric tons from USDA)

Domestic Beet: 4,446,000 (40.4%)

Domestic Cane: 3,255,000 (29.6%)

Import: 3,295,000 (30%)

## **USA Import Sources (Source: USDA)**



### Sugar supply chain transparency?



#### Major Sugar Cane Sustainability Issues

**Water Pollution** 

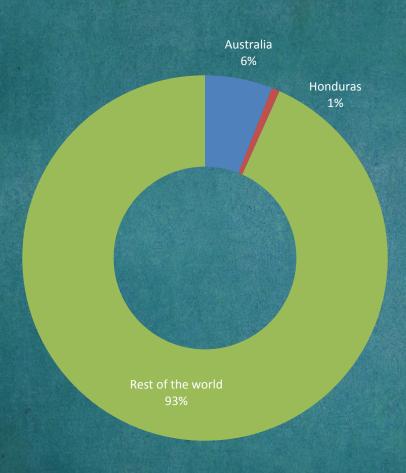
**GHG Emissions** 

**Human and Labor Rights** 

**Public Health Epidemic for Laborers** 

### **ENVIRONMENTAL CHALLENGES**

#### Imports from Australia, Honduras, and Belize







#### 72% of the Great Barrier Reef is Gone



#### Meanwhile in the Everglades...

- Water pollution from sugarcane and other agriculture severely damages our National Park and a globally unique grassland
- This is caused by the production of sugar cane, as well as other agriculture commodities.



#### Solutions

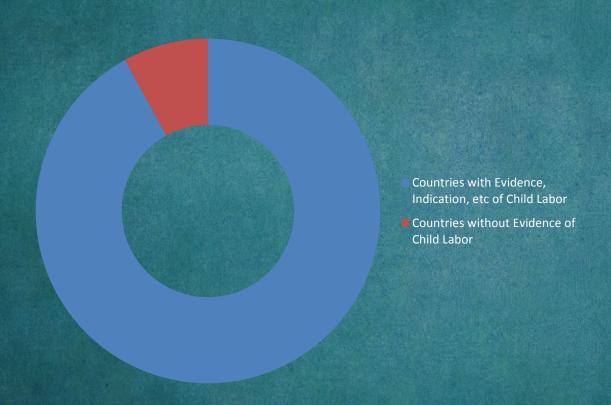
- Implementation of Better Management Practices
- Elimination of burning
- Foster cross value collaboration and farmer to farmer support

### **CHALLENGING LABOR ISSUES**

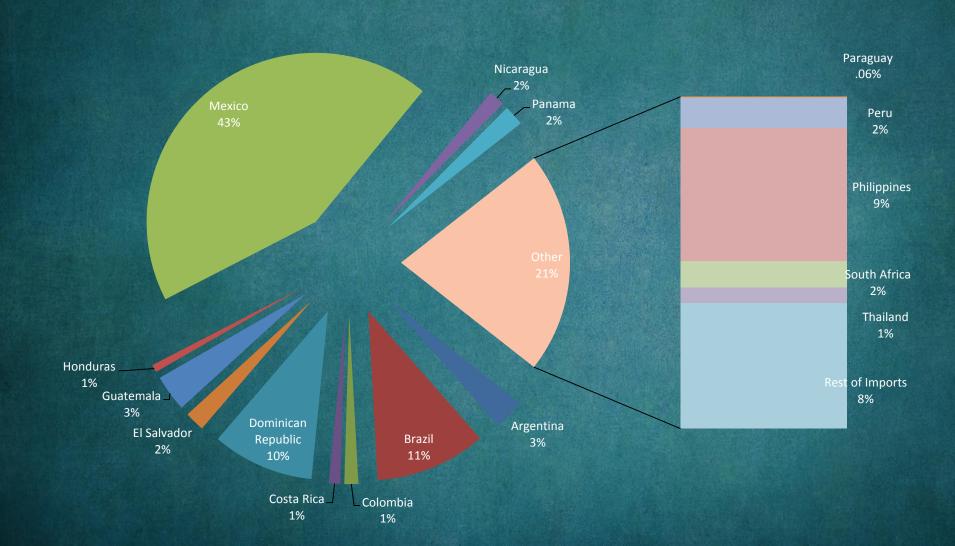
## US DOL/ILAB Worst Forms of Child Labor (2011 Report)

- 21 Countries Where The Worst Forms of Child Labor are Associated with sugarcane
- More evidence for some countries than others
- "As much as 25% of the labor force in Paraguay is from child labor"

# Imports from Countries Listed in DOL/ILAB Worst Forms of Child Labor (2011)



## Percent of Imports from Countries Listed by US DOL as Having Some Evidence, Indications, etc, of the Worst Forms of Child Labor



#### Interventions are Ongoing

- Mexico Commitment in Mexico to eliminate child labor.
- Bolivia The Guabira Sugarcane Cooperative launched its own initiative to eliminate child labor. Significant progress is being made.
- Dominican Republic USDOL \$10 million grant to support eliminating child labor along with some reported investments made by one production company.

### Imports from the Dominican Republic

218,908 tons of sugar

~10% of imports

~2.2% of all USA sugar

# Labor Issues Reported by Verite in the DR (a 2012 study commissioned by US DOL)

- Evidence of:
  - Physical confinement
  - Psychological compulsion
  - Induced indebtedness
  - Withholding and non-payment of wages
  - Physical violence against workers
  - Deprivation of food and shelter

# Dominican Sugar Cane Industry Commissioned Research That Disputes the Findings...

• "...whether forced labor is still present in the sugar industry in the Dominican Republic is highly doubtful...

#### **Continued Findings**

• ...Although we agree with the main finding on the prevalence of bad working and living conditions for sugar cane workers in the Dominican Republic, we strongly disagree with the main finding of the report that indicates the presence of forced labor in the sugar industry. Our main conclusion is that due to sampling and non-sampling errors, the survey results cannot be used to support policy." — Bednarzik and Kern 2012.

### CAFTA-DR Complaint Filed with the US DOL

- Alleging violations of Human and Labor Rights
- Currently under US Government Inter-agency review.
- Implications of the findings are unclear.

### Solutions

- Value chain engagement to assure that human and labor rights are assured.
- Government agency engagement to work on systemic issues.
- Assessment of living conditions and assurance that they are suitable.
- Certification and beyond.

# Sugar cane production - a public health epidemic for laborers The case of CKDu

Slides and data provided by La Isla Foundation (http://laislafoundation.org/)

Contact: hello@laislafoundation.org

### CHRONIC KIDNEY **DISEASE** and **CHRONIC KIDNEY UNKOWN CAUSE**

#### WHAT IS THE DIFFERENCE?

KIDNEY DISEASE

ALSO KNOWN AS CHRONIC RENAL DISEASE OR CHRONIC RENAL FAILURE. IS A DEGENERATIVE, PROGRESSIVE CONDITION MARKED BY THE GRADUAL LOSS OF KIDNEY FUNCTION

OF UNKNOWN ETIOLOGY

ASSOCIATED WITH HEAVY LABOR IN HOT TEMPERATURES, ESPECIALLY AMONG INDUSTRIAL AGRICULTURAL WORKERS PARTICULARLY THOSE THAT WORK IN SUGARCANE PRODUCTION.

#### WHO GETS IT?

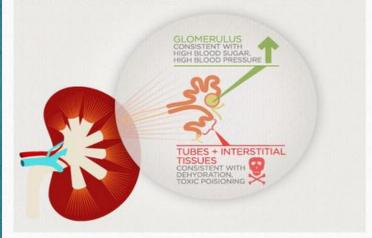








#### PARTS OF THE KIDNEY AFFECTED



#### RISK FACTORS











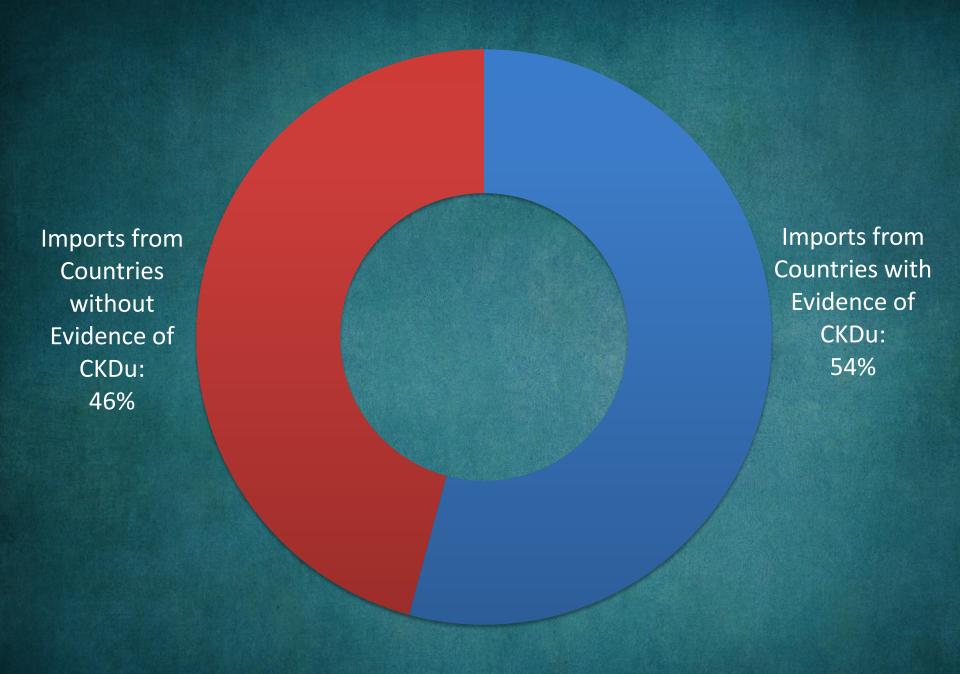
STRENUOUS







RESIDENCE IN HOT LOWLAND CLIMATES Average lifespan for cane cutters is 52



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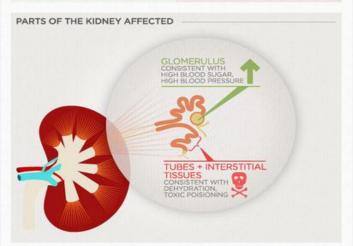
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#### WHO GETS IT?









#### RISK FACTORS

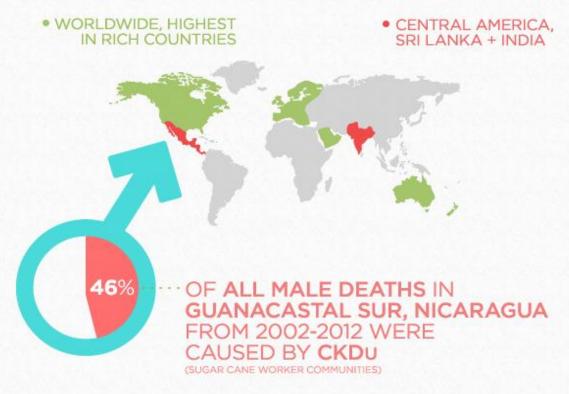




DIARETES







#### CKD PREVELANCE IN MEN

WORLD

USA

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NICARAGUA

NON-WORKER COMMUNITIES

LA ISLA

#### **Current Investigations and Theories**



CHRONIC ACUTE DEHYDRATION CAUSES
KIDNEY DAMAGE AND CAN INCREASE
DAMAGE FROM ENVIRONMENTAL EXPOSURES.

THE SOLUTION IS NOT AS SIMPLE PROVIDING SUFFICIENT WATER. IT IS DOUBTFUL THE BODY CAN ABSORB THE WATER NECESSARY FOR THE WATER TO HYDRATE THE BODY PROPERLY.

WORK CONDITIONS MUST BE ADDRESSED.

Plantation workers
eat sugar cane
throughout the day
and are provided 4-8
sugary electrolyte
drinks

American Heart
Association
recommends no
more than 45 grams
a day. Each
electrolyte drink has
18 grams

Worker Is Dehydrated

Tubular Kidney Damage Repeated
Acute Damage
Leads to
CKDu

Sugar Metabolism Triggered

Enzyme Reaction

New Research: Metabolism of Sugar Under Heat Stress and Dehydration Causes Damage The Way Forward **Civil Society** Treatment and Media Government Prevention There is a Industry solution

### Solutions review

- Improved transparency
- Company and third party audits to global certifications like Bonsucro
- Multi-sector engagement to deliver solutions

### Where does your sugar come from?

What's the impact?

How will you act?

What has been learned from coffee and cocoa that's applicable to sugar?

How will you be part of the solution?

UNCOVER THE POSSIBILITIES

Sourcing Sustainable Sugar: Challenges and Opportunities

Diane Stevenson
Director of Sustainability
CSC Sugar LLC, USA

## Global Sustainability Summit Trading Partne



• The current supply/demand balance features the largest surplus in the last 15 years. Rabobank's preliminary projections for 2013/2014 point to a fourth year of surplus, estimated to be around 3.7 million tonnes of sugar, suggesting no near-term respite for international sugar prices.





## Global Sustainability Summit THE VOICE OF TH



### Challenge:

# Mismatch of Geographical Supply with Sustainable Demand





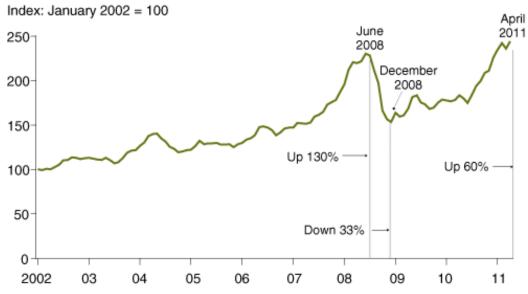




### Challenge: Food or Fuel?

The Renewable Fuels Standard, created by the 2007 Energy Independence and Security Act requires adding continually increasing volumes of renewable sources into the country's fuel supply – growing from nearly 49 billion liters in 2011 up to 136 billion liters by 2022.

#### World food commodity price index rose 60 percent between December 2008 and April 2011



Source: USDA, Economic Research Service using International Monetary Fund, International Financial Statistics.

## Global Sustainability Summit THE VOICE OF FOOD RETAIL TO TRADING PARTNER Alliance Al

# Challenge: Limited Supply of Certified Sugar

Bonsucro: 2.88% of global sugarcane surface certified.



More than 23.7 million pounds of cane sugar was certified Fair Trade in 2011,
OUT OF 175 MILLION TONS!!!



## Global Sustainability Summit Trading



# Challenge: Uncertain Demand





Fairtrade's share of the UK retail bagged sugar market is 42%, and will make sugar the biggest single Fairtrade product.







## Global Sustainability Summit THE VOICE OF FOOT



### The Challenge: Who Pays?

The Consumer?

The Retailer?

The Food Processor?

The Trader?

The Mill?

The Farmer?





## Global Sustainability Summit THE VOICE OF FOOD RETAIL TO TRADITION PARTIES



### The Solution: **Create Shared Value**





### Change Doesn't Just Happen









# A Changing World Created New Opportunities

Reduced energy usage by eliminating concentration and crystallization steps

Reduced waste water and effluent disposal by eliminating ion-exchange columns

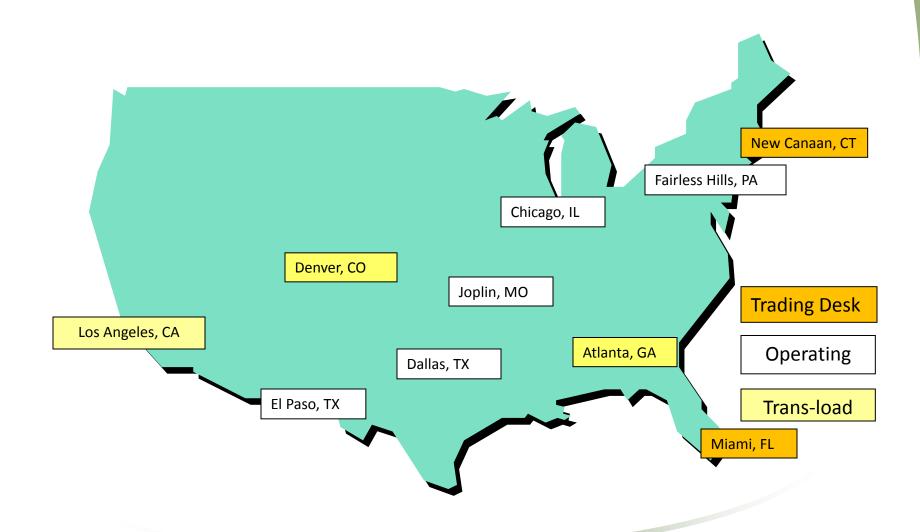




L100 L80 L60 L40 L10

What color do you need?

### CSC USA Liquid Sugar Operations - 2013







#### SMALL PRODUCER ORGANIZATIONS

Our mission is to connect disadvantaged producers and consumers, promote fairer trading conditions and empower producers to combat poverty, strengthen their position and take more control over their lives.

The Fairtrade Premium is paid on top of the agreed Fairtrade price, and producers decide democratically how to use it. Typically they invest it in education, healthcare, farm improvements or processing facilities to increase income.



# B NSUCRO®

#### The Mission:

Bonsucro fosters the sustainability of the sugarcane sector through a metric-based third-party certification scheme, and by supporting continuous improvement for members.

#### The Standard:

- PRINCIPLE 1. Obey the law.
- PRINCIPLE 2. Respect human rights and labour standards.
- PRINCIPLE 3. Manage input, production and processing efficiencies to enhance sustainability.
- PRINCIPLE 4. Actively manage biodiversity and ecosystem services.
- PRINCIPLE 5. Continuously improve key areas of the business

## GlobalSustainabilitySummit FM CONTROLL Trading Partner Alliance FMI and GMA

### Benefits of Buying Certified Sugar

- Protect brand reputation by reducing the use of forced or child labor in the cane sugar farms and mills
- Environmental benefits: land and water
- Continuous improvement maintains adequate supply and reduces poverty
- Brings transparency to the supply chain so we know how and by whom the sugar cane is grown, harvested and milled

## Global Sustainability Summit THE VOICE



### Challenge Breeds Opportunity



**Continuous Collaboration** 

**Growing Commitment** 



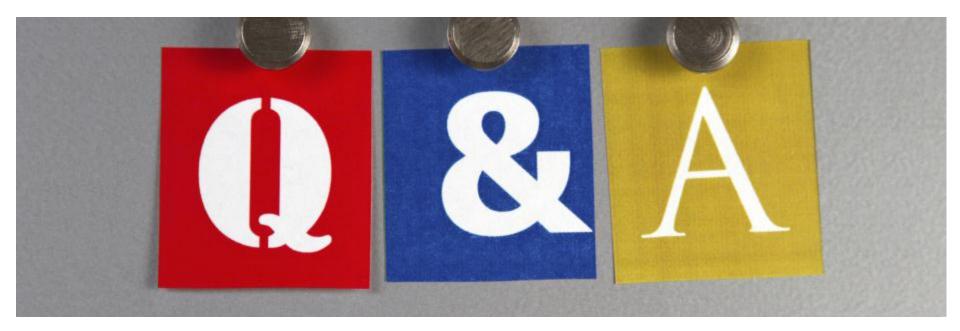
**Constant Improvement** 

**Clear Direction** 

Communication

## Global Sustainability Summit THE VOICE OF FOOD RETAIL TO TRADING PARTING





UNCOVER THE POSSIBILITIES



## Global Sustainability Summit Trading Partner











### **KEY FACTS**

- COCOALINK Mobile Technology Program to Improve Livelihoods of 200,000 West African Cocoa Farmers
- Côte d'Ivoire/Ghana and Leading Cocoa Companies
   Collaborate to Modernize Cocoa Growing In World's Top Export Markets
- COCOALINK Provides Knowledge and Productivity Tools to Increase Cocoa Farmer Yields and Incomes









### **WORKING PARTNERSHIPS**

























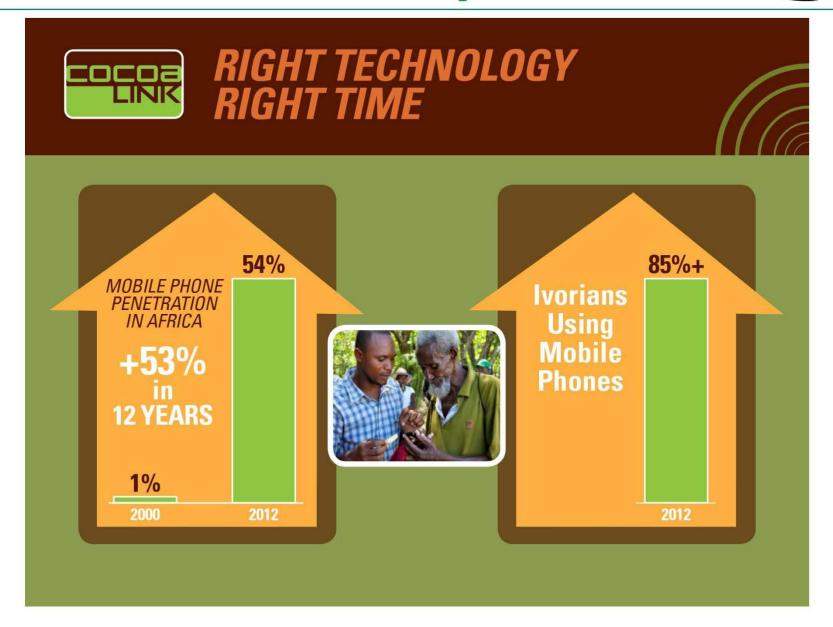






## Global Sustainability Summit Trading Parties













### TRANSFORMING **COCOA FARMING**



### COCOALINK

FIRST-OF-ITS-KIND TWO-WAY INFORMATION **EXCHANGE LINKED FARMERS WITH HELPFUL KNOWLEDGE ABOUT SUSTAINABLE COCOA FARMING** AND CHILD LABOR THROUGH THE USE OF **MOBILE PHONES** 

> COCOALINK CÔTE D'IVOIRE WILL ENROLL 100.000 COCOA FARMERS AND FAMILIES BY 2016 THROUGH THE SPONSORSHIP OF THE CONSEIL DU CAFÉ-CACAO

MOBILE TECHNOLOGY IS WIDESPREAD IN CÔTE D'IVOIRE



**FARMERS USE MOBILE PHONES** 

**ACCERATING DEVELOPMENT AND** OPPORTUNITY IN

RURAL WEST AFRICA

AND TECHNIQUES CAN INCREASE COCOA YIELDS BY NEARLY.

INCREASED COCOA **PRODUCTION** IN WEST AFRICA **CORRELATES TO A** 

IN SCHOOL ATTENDANCE

INCREASED FARMER YIELDS = IMPROVED FAMILY LIFE IN COCOA COMMUNITIES

## Global Sustainability Summit THE VOICE OF FOOD RETAIL TO TRADING PAIRTIES





### CREATING FARMER VALUE







## REAL TIME INFORMATION



- Remember to apply approved fertilizers such as COCOFEED once a year by broadcasting method.
- When breaking pods, the wooden mallet is a safe tool to use.
- Remember, pod breaking should be done by people only 18 years and above
- If pruning your young cocoa trees, cut off low-lying branches to maintain the first point of branching at a height of 1.5 m

### Messages Received From Farmers

- How many fillings (knapsack sprayer) of sidalco liquid fertilizer should I use on one acre of cocoa farm?
- What is the work of phosphorus as plant nutrient?
- What chemical is used to cure stem cancer?





### **MEASURING SUCCESS**



- Mobile ownership = 93% in 2012
- 68% of farmers called an extension agent at least once a month
- 35% registered users are women
- 1,000 communities in Ghana
- 29,000 registered users
- 500,000 free SMS messages



#### **LEARNING\***

- CAPACITY
  - Software and hardware
- INFRASTRUCTURE
  - How power outages affect mobile phone charging
- EXPANSION CHALLENGES
  - Training of field agents
  - Constant content development
- LITERACY



\*Ghana CocoaLink 2011-2013

## GlobalSustainabilitySummit Trading Parts





### **FUTURE APPLICATIONS**



**Pricing** & Market Information

Weather Services **Digital** Literacy **Financial Services** 







