



SUPPLY
CHANGE

in partnership with



Accountability
Framework

Trends in the Implementation of Ethical Supply Chains

A 2020 Snapshot of the Cocoa Sector

February 2021

image credit: CAIT (CC BY-NC-SA 2.0)

AUTHORS

Philip Rothrock, Program Manager

Laura Weatherer, Associate

Kate Ellis, Associate

Leah Samberg, Scientist

*(Global Programs, Rainforest Alliance
& Accountability Framework initiative)*

CONTRIBUTORS

Ciro Calderon, Research Assistant

EDITORS

Stephen Donofrio, Director

Report contact: info@supply-change.org

Table of Contents

Table of Contents1

Glossary2

Introduction3

The *Supply Change* Cocoa Companies4

Key Findings on Trends in Corporate Implementation of Ethical Cocoa Best Practices5

 Key Finding 1: Greater Uptake of Best Practices Guidelines to Set Cocoa Commitments is Needed 6

 Key Finding 2: Majority of Companies Selectively Address Cocoa Production-driven Deforestation 7

 Key Finding 3: Company Reporting on Risk Assessment Approaches Lacks Sufficient Details 9

 Key Finding 4: Traceability is a Growing Company Focus to Understand Environmental and Human Rights Risks 10

 Key Finding 5: The Scope and Scale of Corporate Engagements Fails to Meet Supplier Needs 12

 Key Finding 6: A Minority of Companies Report Providing Consistent Implementation Incentives for Suppliers 13

 Key Finding 7: Over Half of Companies Monitor Suppliers, albeit with Inconsistent Approaches 14

Conclusion 17

Methodology 18

Acknowledgements 19

Disclaimer..... 19

Citation and Use..... 19

About Forest Trends’ *Supply Change* Initiative 20

About the Accountability Framework Initiative 20

Glossary

Cocoa Supply Chain Levels:

Producers: Almost all cocoa (90%) is grown by smallholders. Smallholders grow cocoa and carry out post-harvest processing (splitting, drying, and fermenting). Cocoa is either sold directly to small traders or sold to intermediaries who transport it to cooperatives.¹

Processors: Cocoa processors are called “grinders.” Cocoa beans are either ground into cocoa liquor in the producer country or (more commonly) exported and ground abroad in facilities in North America or Europe.²

Traders: An importer, exporter, and/or seller of non-finished products within the country of production. Many traders and processors are vertically integrated and carry out both the export/import and grinding operations.³

Manufacturers: Manufacturers purchase cocoa powder, butter, and other derivatives from traders and/or grinders, and use these derivatives to make chocolate and other cocoa-containing products.

Retailers: Retailers include supermarkets and restaurants, which sell cocoa-containing products, either under the retailer’s brand (“own brand”) or under the manufacturer’s brand.

Commitment: Any corporate statement that targets: procurement or production of certified (or otherwise “sustainable”) commodities, procurement of sustainable commodity certificates/credits, supply chain traceability, supplier certification, bilateral purchase agreements, any other organizational target of low/zero deforestation or ecological degradation.

Coarse Grained Risk Assessment: As defined by the Accountability Framework: “An initial screening (generally conducted across all geographies and supply chains) whereby risk of non-compliance is assessed at national or sub-national scales based on the nature of the commitment and general information about the sourcing areas.”⁴

Fine Grained Risk Assessment: As defined by the Accountability Framework: “A more detailed analysis that utilizes additional data about the sourcing area, is based on more precise location and boundary data for suppliers, and/or considers other supplier characteristics that may affect risk levels.”⁵

Certification: Company commits to purchasing commodities audited by an independent third party to adhere to widely used sustainability standards (e.g., Rainforest Alliance certification) and in certain cases, to proprietary internal certification systems.

Ethical Supply Chains: Commodity production, trade, and finance that are free from recent deforestation or ecosystem conversion and that fully respect human rights, including the rights of indigenous peoples, local communities, and workers (as defined by the Accountability Framework Initiative).⁶

Traceability: A company’s ability to determine the origin or intermediate source of a commodity within its supply chain (e.g., 100% of cocoa is traceable to the plantation).

Zero Deforestation: A company commits to “zero deforestation,” “no-deforestation,” “deforestation free” or similar language that implies “no deforestation anywhere,” whether the company has defined the term or not.

Zero Net Deforestation: Forest loss is offset by forest restoration and afforestation on degraded land. This can be achieved through direct restoration or the purchase of forest carbon offsets, biodiversity offsets, or other environmental currencies.

Zero Gross Deforestation: No loss of forest area over time caused by conversion to non-forest.

¹ International Cocoa Organization. “Harvesting & Post-Harvest Processing.” Accessed 28 Jan 2021. www.icco.org/harvesting-post-harvest-new/

² International Cocoa Organization. “Processing Cocoa.” Accessed 28 Jan 2021. www.icco.org/processing-cocoa/

³ International Cocoa Organization. “Trading and Shipping.” May 2015. www.icco.org/about-cocoa/trading-a-shipping.html

⁴ “Accountability Framework Operational Guidance on Supply Chain Management.” accountability-framework.org/operational-guidance/supply-chain-management/

⁵ *ibid*

⁶ Accountability Framework Initiative. “FAQs about the AFI”. Accessed 08 Feb 2021. accountability-framework.org/about/about-the-initiative/faqs-about-the-afi/

Introduction

Cocoa production is an important driver of land use change, particularly in West Africa, where 70 percent of the world's cocoa is grown.⁷ In addition to its significant contributions to historical and current deforestation,⁸ cocoa production has also faced intense public scrutiny due to human rights violations, especially the use of child labor in major cocoa growing regions like Côte d'Ivoire and Ghana.

In response to growing global attention to these negative consequences of cocoa production, there has been a recent surge in public-private partnerships and public commitments by consumer-facing companies and their suppliers to eliminate deforestation and protect human rights within their cocoa supply chains. Sustaining broad scale improvements in addressing these cocoa-related impacts requires an understanding and evaluation of company actions across the sector.

After several years of partnership, *Supply Change*, an initiative of Forest Trends, partnered with the Accountability Framework Initiative (AFi) to produce this report on current trends in implementing AFi's best practices for achieving ethical supply chains in the cocoa sector. For this analysis,

Supply Change researched and analyzed company sustainability commitments, production and procurement policies, and progress reporting against the common approaches for pursuing ethical supply chains outlined in the Accountability Framework.

The report examines the activities of 69 of the world's largest chocolate manufacturers, candy companies, and cocoa exporters, with a focus on those sourcing from Ghana and Côte d'Ivoire, the top two cocoa producing countries. These companies included most of the corporate signatories to the Cocoa and Forest initiative (CFI) (25 out of 35), which together trades, sources, or uses up to 85 percent of cocoa globally.⁹ For each company, *Supply Change* reviewed all publicly available commitment data and information sources from 2017 to 2020 that are company-managed (e.g., websites, commodity-specific dashboards, sustainability reports)¹⁰ to identify key components of implementation of no-deforestation commitments and policies, specifically on the companies' use of risk assessments, supply chain mapping and traceability, management of non-compliant suppliers, and monitoring practices.

⁷ World Bank Group. *Cote d'Ivoire Economic Update: Executive Summary (English)*. Washington, D.C. 2019.

documents.worldbank.org/curated/en/898811564687854478/Executive-Summary

⁸ Ninety percent of West Africa's primary forests have been destroyed. In Cote d'Ivoire 80% of forests have disappeared since 1970, in part due to cocoa production. Source: Antonie Fountain and Friedel Huetz-Adams. "Cocoa Barometer 2018." VOICE Network. 2019. www.voicenetwork.eu/wp-content/uploads/2019/07/2018-Cocoa-Barometer.pdf

⁹ The Cocoa & Forests Initiative. "The Cocoa & Forests Initiative is an active commitment of top cocoa-producing countries with leading chocolate and cocoa companies." Accessed 25 Jan 2021.

www.idhsustainabletrade.com/initiative/cocoa-and-forests/

¹⁰ Note: there are no third-party managed public disclosure platforms for cocoa as there are for other commodities (e.g., Roundtable for Sustainable Palm Oil Annual Communications of Progress for palm oil, or Roundtable for Responsible Soy's Annual Reports for soy)

The Supply Change Cocoa Companies

Forest Trends' Supply Change Initiative draws from publicly available data to track a global set of companies, representing all levels of the supply chain from producers to retailers, and their commitments to address commodity-driven deforestation related to cocoa and the "big four" commodities – palm, soy, timber & pulp, and cattle.

In an effort to support stakeholders' decision-making and, ultimately, to drive transformational change, this tracking also includes associated commitment goals and procurement policies, as well as the progress companies have made in achieving their commitments over time.

The 69 Supply Change (SC) cocoa companies researched [see Table 1 below] for this report include some of the largest cocoa exporters from Ghana and Cote D'Ivoire, as well as many of the largest chocolate manufacturers and candy companies in the world. Company research covered mostly downstream US- and Europe-based companies, as these markets drive current global demand for cocoa, with the

United States being the largest importer of cocoa by total volume.¹¹ Many of these companies operate in Consumer Goods sectors,¹² with 61 Consumer Staples and eight Consumer Discretionary. These sectors include industries and sub-industries like Food Retail, Food Products, Restaurants, and Personal Care Products.

This research includes a smaller proportion of upstream companies because small-scale farmers produce most of the world's cocoa, while a handful of influential commodity traders (e.g., Cargill, Olam, and Barry Callebaut) dominate cocoa processing and international trade. Most of the 69 companies manufacture (40) and/or retail (29) chocolate products, while just one (Kuapa Kokoo, a cocoa farmers' cooperative in Ghana) produces cocoa, 13 process cocoa, and 12 trade cocoa or chocolate products. Most companies had headquarters in North America (28) or Europe (27), with a minority in Asia (9), South America (2), Oceania (1), and Africa (2). There was an even split between publicly traded (34) and privately held (35) companies.

TABLE 1: COCOA COMPANIES TRACKED BY SUPPLY CHANGE

AHOLD DELHAIZE	GODIVA CHOCOLATIER	NESTLÉ
ALBERT HEIJN	GRUPO NUTRESA	OLAM INTERNATIONAL
ALFRED RITTER GMBH & CO. KG	GUITTARD CHOCOLATE COMPANY	PBC LIMITED
BARRY CALLEBAUT GROUP	HERSHEY COMPANY	PEPSICO
BLOMMER CHOCOLATE	HORMEL FOODS	PLADIS
CARGILL	INDCRESA	RESTAURANT BRANDS INTERNATIONAL
CARREFOUR	J H WHITTAKER & SONS	SAINSBURY'S
CASA LUKER	J.M. SMUCKER COMPANY	STARBUCKS COFFEE COMPANY
CÉMOI	JUSTIN'S	STRAUSS GROUP
CHOCOLATS HALBA	KELLOGG COMPANY	SUCDEN
COCOANECT	KESKO CORPORATION	SUPERUNIE
CONAGRA FOODS	KROGER	TARGET
COOP SWITZERLAND	KUAPA KOKOO	TESCO
COSTCO	LIDL STIFTUNG & CO.	TONY'S CHOCOLONELY
CROWN CONFECTIONARY	LINDT & SPRÜNGLI	TOOTSIE ROLL INDUSTRIES
CVS HEALTH	LOTTE CO.	TOUTON GROUP
DARDEN RESTAURANTS	MARS	UNILEVER
DIVINE CHOCOLATE	MAYORA INDAH	UNIVERSAL ROBINA CORPORATION
DUNKIN' BRANDS	MCDONALD'S	VALRHONA
ECOM AGROINDUSTRIAL	MEIJI HOLDINGS	WALMART
EZAKI GLICO	MIGROS	WENDY'S
FERRERO TRADING	MONDELÉZ	WHOLE FOODS MARKET
GENERAL MILLS	MORINAGA & CO.	YUM! BRANDS

¹¹ The Observatory of Economic Complexity. "Chocolate." Accessed 25 Jan 2021. oec.world/en/profile/hs92/chocolate

¹² As classified by the Global Industry Classification Standard (GICS) Standards 4

Key Findings on Trends in Corporate Implementation of Ethical Cocoa Best Practices

- ➔ **Although none of the cocoa companies tracked by SC are following the Accountability Framework Initiative (AFI) completely and the depth of corporate transparency is spotty and in many places lacking**, a little more than half of companies (38/69) had at least one commitment or policy to source sustainably produced cocoa. Of these 38 companies, just over a quarter (18/38) reported the percent of their supply in compliance.
- ➔ **Only eight companies set zero gross deforestation (ZGD) commitments for their cocoa supply chains in alignment with the Accountability Framework** and 14 companies included aspirational statements on ZGD (i.e., not connected to progress reporting) within other types of sustainable cocoa commitments (e.g., commitments to certification).
- ➔ **Many of the risk assessment approaches companies report using are insufficient to account for the full scope of environmental and social risks present across cocoa supply chains.** Despite 40 percent (28/69) of companies conducting risk assessments for deforestation in their cocoa supply chains, few provided sufficient details on their approach to assess its effectiveness.
- ➔ **Over half of the companies reviewed are implementing traceability systems, suggesting a growing company focus on understanding their cocoa supply chains.** Thirty-nine companies report that they intended to trace their cocoa volume back through the supply chain, with most intending to trace cocoa volumes back to the farm level (32/39). However, only nine of those companies report the percent of volumes traceable back to the farm. Many companies appeared to favor certification chain of custody systems (20) as a means to ensure their cocoa supply is sufficiently known and/or controlled, as opposed to or in addition to tracing the supply to the farm level.
- ➔ **Although most tracked companies reported engagement with suppliers, the support does not necessarily reach cocoa smallholders.** The report found that 40 of the 69 companies reviewed reported engaging with their suppliers on sustainability and human rights issues. Of the 38 with at least one cocoa commitment or policy, 25 companies reported engaging with suppliers at all supply chain levels, including to smallholders, while 16 companies reported engaging only with their direct suppliers.
- ➔ **Only a minority of companies disclose policies for managing non-compliant suppliers.** Only 11 companies had a clear policy governing their engagements with non-compliant suppliers and approaches for how to help them resolve their issues and return to compliance.
- ➔ **More than half of the companies (39/69) have systems to monitor and verify general environmental and social supplier standards, though most do not assess commitment compliance at the production level.** Of these, 18 companies used surveys or audits, 11 used geospatial monitoring, five used ground-based monitoring, and five used other methods.
- ➔ **While a third of companies (24) noted that they addressed non-compliant suppliers, only 11 disclosed clear policies governing non-compliance and approaches for resolution, highlighting a greater need for more transparency.** Eighteen companies disclosed the criteria for supplier suspensions, exclusions, or reversals, and ten companies disclosed that their response to non-compliant suppliers differed depending on the severity of the non-compliance and the willingness or capacity of the supplier to address the issue.

Key Finding 1: Greater Uptake of Best Practices to Set Cocoa Commitments is Needed

The Accountability Framework ("the Framework") provides companies with guidance to strengthen their commitments to eliminating deforestation, ecosystem conversion, and human rights abuses in their supply chains. Out of the 69 companies reviewed, close to a quarter (16/69) disclosed that they were using the Framework to develop commitments to eliminate deforestation in at least one commodity supply chain. However, only six of these companies (Barry Callebaut, Cargill, Mars, Olam, Mondelēz, and Unilever) disclosed that they were applying the Framework to a cocoa commitment to strengthen their definitions, supply chain management, and/or progress disclosure.

In all six instances, companies reported using the Framework in commitment/policy documents that covered deforestation-related sourcing requirements for multiple commodities, including cocoa. For example, Barry Callebaut's policy on forests – entitled "Our commitment to

ending deforestation and restoring forests," cites the Framework as the source of its definition of deforestation, saying: "Whilst there is no global definition of deforestation, we refer to the Accountability Framework's definition of "natural forest", irrespective of its protection status."¹³ This policy focuses primarily on deforestation from cocoa (which is central to their business as a cocoa processor, trader, and manufacturer) but also mentions other commodities with significant environmental footprints, like palm oil, soy, and sugar.

In addition, a growing number of certifications schemes (e.g., Rainforest Alliance) and disclosure platforms (e.g., CDP's 2020 Forest Disclosure) are aligned with the Framework, which could increase awareness, incentivize its use in commitment setting and implementation, and support effective and Framework-aligned reporting and disclosure.

¹³ Barry Callebaut. "Our commitment to ending deforestation and restoring forests." Accessed 13 Jan 2021. [www.barry-callebaut.com/en/group/forever-](http://www.barry-callebaut.com/en/group/forever-chocolate/forever-chocolate-strategy/commitment-ending-deforestation-and-restoring-forests)

[chocolate/forever-chocolate-strategy/commitment-ending-deforestation-and-restoring-forests](http://www.barry-callebaut.com/en/group/forever-chocolate/forever-chocolate-strategy/commitment-ending-deforestation-and-restoring-forests)

Key Finding 2: A Majority of Companies Fail to Comprehensively Address Cocoa Production-driven Deforestation

Strong and time-bound corporate commitments to ethical commodity production, sourcing, and financing are essential for action and accountability. Just over half (38/69) of SC companies have made at least one commitment to source sustainably produced cocoa. Of those, only eight had zero gross deforestation (ZGD) commitments in their cocoa supply chain (in alignment with the Accountability Framework) and three had commitments for zero net deforestation (ZND). Out of the companies with ZGD commitments, the majority were privately owned and headquartered in Europe.

Despite these companies having at least one commitment, there is much progress to be made as none of the SC companies had commitments that fully aligned with the Accountability Framework's recommendations. While seven of the eight companies with ZGD commitments had time-bound targets, only Mars and Chocolats Halba specified a cutoff date for forest conversion for 2008 and 2018, respectively. All eight companies with ZGD commitments restricted those commitments to specific geographies (e.g., cocoa originating from certain countries, like Cote d'Ivoire and Ghana) and only half specified that the commitment applied to all direct and indirect suppliers. This contrasts with the Framework, which advocates for a commitment scope that covers companies' entire supply chains and/or clear rationales for excluded segments.

Many of the SC companies lacked no-deforestation commitments but did have commitments to achieve certification for some or all of their supply chain volumes. While certification-based commitments can address

deforestation, their production standards may not protect all types of ecosystems and may or may not include elements to ensure transparency and accountability across company subsidiaries, joint venture operations, and supply chains. In addition, the no-deforestation aspirations in these commitments are not identified by companies as primary goals and lack time-bound targets or deadlines. Out of the 38 companies with cocoa sustainability commitments, 14 included such ZGD aspirations embedded in commitments to certification.

For companies seeking to strengthen their certification commitments and accompanying ZGD goals, developing stand-alone deforestation commitments, with time-bound targets and cut-off dates, can help drive meaningful action.¹⁴ Common certification systems can also be used to identify appropriate cut-off dates for no-deforestation commitments, as the Accountability Framework encourages companies to align with existing cutoffs. For instance, the Rainforest Alliance incorporates a 2014 cut-off date as a criterion for no-deforestation and no-conversion.¹⁵

Out of the 22 companies aiming for no-deforestation by way of a commitment or aspiration, only Mars and Lindt & Sprüngli applied their commitments to their full supply chain (all geographies, all products, and all suppliers). The wide scope of commitment coverage suggests companies like Mars and Lindt & Sprüngli have greater control to monitor and verify compliance with their commitments. Most (18) of the 22 companies report quantitative progress made toward achieving their cocoa commitment in 2020.

¹⁴ Accountability Framework. "How to write a strong ethical supply chain policy." accountability-framework.org/how-to-use-it/resources-library/how-to-write-a-strong-ethical-supply-chain-policy/

¹⁵ Rainforest Alliance. "Additional Details on Requirements for No conversion." 2020. Accessed 25 Jan 2021. www.rainforest-alliance.org/business/wp-content/uploads/2020/06/Annex-12-Additional-Detail-On-Requirements-For-No-conversion.pdf

TABLE 2. BREAKDOWN OF COCOA COMPANIES TRACKED BY SUPPLY CHANGE AND THEIR COMMITMENT(S)

COMPANIES REVIEWED BY SUPPLY CHANGE	COMPANIES	
	NUMBER	
COMPANIES ACTIVE IN COCOA SUPPLY CHAINS	69 (100%)	
COMPANIES WITH COCOA COMMITMENT(S)	38 (55%)	
COMPANY COVERAGE OF ZERO NET DEFORESTATION (ZND) & ZERO GROSS DEFORESTATION (ZGD)	COMPANY(IES) - (OUT OF 38)	
COMPANIES WITHOUT ANY ZND OR ZGD COCOA COMMITMENTS/ASPIRATIONS	12 (32%)	
COMPANIES WITH ZND COCOA COMMITMENT(S)	3 (8%)	
COMPANIES WITH ZND ASPIRATIONS UNDER OTHER TYPE OF COCOA COMMITMENT*	1 (3%)	
COMPANIES WITH ZGD COCOA COMMITMENT(S)	8 (21%)	
COMPANIES WITH ZGD ASPIRATIONS UNDER OTHER TYPE OF COMMITMENT*	14 (37%)	
ELEMENTS OF COMMITMENTS OR ASPIRATIONS	# OF COMPANIES WITH ZGD COMMITMENT(S) / (OUT OF 8)	# OF COMPANIES WITH ZGD ASPIRATION** (UNDER OTHER COMMITMENT) / (OUT OF 14)
TIME-BOUND	7 (88%)	N/A***
CUTOFF DATE	2 (25%)	0 (0%)
ALL GEOGRAPHIES	0 (25%)	5 (36%)
ALL COMPANY PRODUCTS	8 (100%)	11 (78%)
FULL SUPPLY CHAIN	4 (50%)	8 (58%)
FULL ACCOUNTABILITY FRAMEWORK ALIGNMENT ****	0 (0%)	0 (0%)

NOTE: Companies can have multiple commitments.

Other commitment types focus on certification or other types of commitments.

** Companies are considered to have a zero gross/zero net deforestation commitment if the main (quantified) target of their commitment is for zero gross or zero net deforestation. Companies are considered to have a zero gross/zero net deforestation aspiration if they have unspecific language, an improvement process without a specific outcome, and incorporate it as a goal of their commitment, but the main target may be for something else (e.g., procuring certified commodity volumes). This number does not include companies that also have zero gross deforestation commitments.

*** Some of the commitments associated with the ZGD aspirations may have been time-bound, but those targets did not apply for ZGD and aspirations by definition are not time-bound. Therefore, this was not applicable.

**** Commitments with "Universal Coverage" are time-bound, have a cutoff date, cover all geographic sourcing/operating locations, all products the company sells, and all suppliers.

Key Finding 3: Company Reporting on Risk Assessment Approaches Lacks Sufficient Detail

Many companies conduct risk assessments to identify risks of non-compliance with company commitments across different segments of the supply-base. The Accountability Framework advocates that risk assessments should cover a company's entire supply and management systems related to commodity production and use accepted methods and clearly defined metrics.¹⁶

Of the 69 companies reviewed, 28 reported conducting risk assessments in their cocoa supply chains. Within their risk assessments, two companies reported using materiality (Ahold Delhaize and Hershey Company) assessments,¹⁷ one used risk ratings (Superunie), one used Life Cycle Assessments (Chocolats Halba), and 10 did not provide details about their risk assessment approaches. A quarter of the companies (18) disclosed procurement requirements for cocoa that drew from the results of risk assessment for deforestation. This included prioritized engagement with high-risk suppliers (5), monitoring of cocoa suppliers in high-risk areas (3), and sourcing from jurisdictions demonstrating improvements in deforestation-related metrics (1). Only one company disclosed its risk assessment was "course-grained" (broad), while four disclosed their risk assessment was "fine-grained" (specific).

In comparison to other methods, companies using fine-grained assessments are better able to understand and mitigate potential risk. Out of the four companies (Cémoi, Indcresa, Tony's Chocoloney, and Valrhona) that disclosed their risk assessment as fine-grained, all were privately owned manufacturers and/or retailers headquartered in Europe. Most other companies provided little detail on the scope of their risk assessments.

To mitigate potential risk, companies like Barry Callebaut conduct annual risk assessments and engage with high-risk suppliers. To measure risk across different regions, Barry Callebaut implements country-specific risk assessments. The company also has a robust third-party assessment tool for assessing human rights abuses, such as child labor.

Overall, findings suggest that company disclosure on risk assessment is patchy and, in most cases, insufficient for external parties to evaluate risk across a company's entire supply chain. Many companies are falling short in providing the specific methods for their risk assessments and procurement requirements based on the results of their deforestation risk assessment.

¹⁶ "Accountability Framework Operational Guidance on Supply Chain Management." accountability-framework.org/operational-guidance/supply-chain-management/

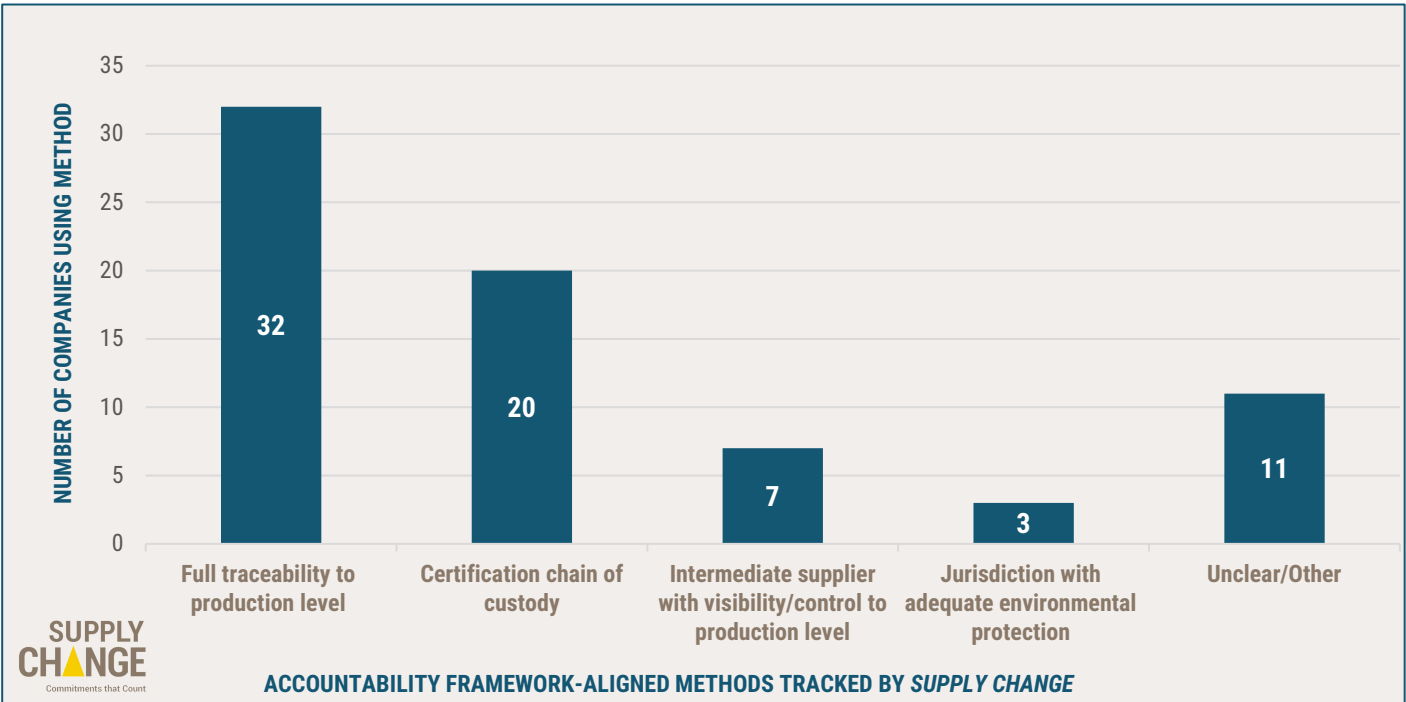
¹⁷ Materiality assessments are assessments that companies undertake to identify and prioritize actions to address environmental, social, and corporate governance-related issues that might affect the company's financial performance.

Key Finding 4: Companies Are Increasingly Focusing on Traceability to Understand Environmental and Human Rights Risks

Companies purchasing agricultural products, like cocoa, often seek to identify all their direct and indirect commodity suppliers (supply chain mapping) and trace commodity volumes back to the point where sources are known and/or controlled. These two steps are essential to understanding environmental and human rights risks associated with commodity production, and for ensuring compliance among suppliers so that commitments are fulfilled. Traceability may present a particular challenge in cocoa supply chains, as most of the world’s cocoa is produced by smallholder farmers and trades hands between many intermediaries before even reaching the exporters.

The Framework identifies four approaches that companies can take to achieve acceptable levels of traceability that allow the company to be confident deforestation is not occurring in their commodity supply chains. These approaches include: (1) trace the commodity volume back to the source of production; (2) use certification chain of custody systems that track product origins and certifies that production did not contribute to deforestation; (3) trace the commodity volume to an intermediate supplier with visibility to the source of production and effective controls against deforestation; and (4) trace the commodity’s origin to a

FIGURE 1. DISCLOSED INTENTIONS FOR TRACEABILITY AND CONTROL OF COCOA SUPPLIES



NOTE: Some SC companies use multiple approaches

jurisdiction where it has been demonstrated that the area's performance with regard to specific social or environmental issues is adequate to fulfil the buyer's commitments.

The SC companies in this analysis overwhelmingly favored the first two approaches (Figure 1). Thirty-two companies specified that they intended to trace their cocoa volumes to the source of production, while at least 20 companies were

sourcing cocoa that had been physically certified by the Rainforest Alliance. Seven companies reported tracing to an intermediate supplier with adequate control/visibility of suppliers back to production, and three companies (Unilever, Valrhona, and Nestlé) reported tracing to a jurisdiction with adequate environmental protection. Eleven companies disclosed traceability intentions but did not provide information on specific approaches.

One potential driver of increased traceability efforts for many cocoa buyers is the Cocoa & Forest Initiative (CFI). Out of the 39 companies pursuing a traceability goal, 23 are members of the CFI. Through this initiative, the 35 major cocoa and chocolate companies (25 of which were analyzed for this report) are working with NGOs and the governments of Côte d'Ivoire, Ghana, Colombia, and Cameroon to eliminate cocoa-driven deforestation. As part of their participation agreements, cocoa companies and the producing countries have created action plans, which include farm mapping and smallholder farmer engagement.¹⁸ In addition, as part of the CFI, the governments of Côte d'Ivoire, Ghana, and Colombia are implementing institutional frameworks to address cocoa-driven deforestation. This includes establishing important baseline data on land cover and forest boundaries that signatory companies can use to identify areas at risk of deforestation and instances of deforestation in their direct supply chain.¹⁹

Though deforestation rates have slowed in West Africa since the CFI began, the initiative's success will depend on coordinated monitoring of progress and resolution of political, cultural, and economic drivers of deforestation. Some groups, such as Mighty Earth²⁰ and the VOICE Network,²¹ have also raised concerns about the CFI's lack of

inclusion of farmers and other NGOs, and CFI's limited geographic scope that does not cover at-risk forests in the Congo, Southeast Asia, and most of the Amazon. Out of the 39 companies pursuing a traceability goal, 23 are members of CFI.

Of those 39 companies disclosing traceability goals, only nine disclosed the percent traceable to the farm level, and just five disclosed that more than 75 percent of their supplies were traceable to the farm level. Six companies reported mapping individual cocoa farms and disclosed the number or percent of cocoa farms they had mapped.

Improvements in traceability and supply chain visibility will be crucial for companies to understand and address deforestation risks in their cocoa supply chain but it is often one of the largest obstacles for companies attempting to remove deforestation from their supply chain. Following on the heels of traceability is transparency. Corporate disclosures of supplier lists and locations, along with the proliferation of civil society accountability tools, like [Mighty Earth's Cocoa Accountability Map](#), could lead to wider transparency within the sector. Moreover, these developments will make it harder for companies to delay or avoid implementing sustainability risk measures.

¹⁸ World Cocoa Foundation. "Cocoa & Forests Initiative: Private Sector Progress Report 2018-2019." 2019. www.worldcocoafoundation.org/wp-content/uploads/2018/08/WCF_Report_14.6_051420.pdf

¹⁹ World Cocoa Foundation. "Cocoa & Forests Initiative Reports Progress, Aims to Expand Effort." 19 May 2020. www.worldcocoafoundation.org/press-release/cocoa-forests-initiative-reports-progress-aims-to-expand-effort/

²⁰ Higonnet *et al.*, 2019, Cocoa and African Deforestation: Assessing the Cocoa and Forests Initiative in Ghana and Côte d'Ivoire, Mighty Earth, www.mightyearth.org/wp-content/uploads/Problems-and-solutions-concerning-the-CFI-in-Ghana-and-Co%CC%82te.-final.pdf

²¹ Antonie C. Foundtain and Friedel Huetz-Adams, 2020, Cocoa Barometer 2020, www.voicenetwork.eu/wp-content/uploads/2020/12/2020-Cocoa-Barometer.pdf

Key Finding 5: Supplier Engagement is Increasingly Common, but May Not Reach Smallholders

Engaging with direct and indirect suppliers, including smallholder producers, is essential to fulfilling a company's supply chain commitments and to supporting producer livelihoods, increasing productivity, and ensuring stable commodity supplies. Between 1.8 and 2 million smallholder farmers produce cocoa in West Africa.²² Smallholder farmers' lack of resources and their vulnerability to climate change and other disturbances can undermine their ability to comply with sustainable practices. As a result, smallholders can significantly benefit from consistent engagement and support from companies. To ensure consistent engagement with suppliers, the Accountability Framework recommends that companies implement long-term purchase contracts, provide price premiums, and/or provide access to financial and technical support.

In trying to understand how companies address concerns at the source of production, this analysis identified 40 SC cocoa companies engaging with their suppliers on sustainability and human rights issues. Of the 38 companies with cocoa sustainability commitments, 29 engaged with suppliers on these commitments. Eleven of the companies that do not have a commitment to sustainable cocoa do engage with suppliers and smallholders on key issues such as preventing child labor violations, raising farmer incomes, and improving cocoa yields. Only 25 companies reported engaging with suppliers at all supply chain levels, back to the source of

production, while 16 companies reported engaging only with their direct suppliers.

Given that smallholders produce 90 percent²³ of cocoa in major growing regions and often need additional financial or technical resources to comply with the company's commitment, this is a missed opportunity for broad scale improvement, especially in West Africa.²⁴

Among the specific types of support companies use to aid their suppliers (not specifically smallholders), 37 (27 with commitments) provided their suppliers with technical support, 21 (15 with commitments) provided financial support, eight (six with commitments) provided community development support, and three (two with commitments) were providing other means of support. For smallholder suppliers specifically, 24 companies provided technical support and 10 provided financial support.

The CFI may play a role in influencing many of these companies to engage with direct and indirect suppliers throughout their supply chain, back to the source of production. The CFI's Action Plan template also suggests goals and targets for supporting cocoa farms, such as the distribution of native trees for agroforestry practices, payment for ecosystem services (PES) schemes, and awareness campaigns.²⁵

²² Thomson, A., Streck, C., Kroeger, A., Koenig, S. 2017. *Forest and climate-smart cocoa in Côte D'Ivoire and Ghana: aligning stakeholders to support smallholders in deforestation free cocoa*. Washington, D.C.: World Bank Group. documents.worldbank.org/curated/en/317701513577699790/Forest-and-climate-smart-cocoa-in-Côte-D-Ivoire-and-Ghana-aligning-stakeholders-to-support-smallholders-in-deforestation-free-cocoa

²³ Ingrid Schulte et al. *Supporting Smallholder Farmers for a Sustainable Cocoa Sector*. Climate Focus. 2020. Accessed 25 Jan 2021. www.climatefocus.com/sites/default/files/Supporting%20Smallholder%20Farmers%20for%20a%20Sustainable%20Cocoa%20Sector%20June%202020.pdf

¹⁹ Thomson, A., Streck, C., Kroeger, A., Koenig, S. 2017. *Forest and climate-smart cocoa in Côte D'Ivoire and Ghana: aligning stakeholders to support smallholders in deforestation free cocoa*. Washington, D.C.: World Bank Group. documents.worldbank.org/curated/en/317701513577699790/Forest-and-climate-smart-cocoa-in-Côte-D-Ivoire-and-Ghana-aligning-stakeholders-to-support-smallholders-in-deforestation-free-cocoa

[smart-cocoa-in-Côte-D-Ivoire-and-Ghana-aligning-stakeholders-to-support-smallholders-in-deforestation-free-cocoa](https://www.worldcocoafoundation.org/press-release/action-plans-to-end-deforestation-released-by-governments-of-cote-divoire-and-ghana-and-leading-chocolate-cocoa-companies/)

²⁵ World Cocoa Foundation. "Action Plans to End Deforestation Released by Governments of Cote d'Ivoire & Ghana and Leading Chocolate & Cocoa Companies." 4 Mar 2019. Accessed 25 Jan 2021. www.worldcocoafoundation.org/press-release/action-plans-to-end-deforestation-released-by-governments-of-cote-divoire-and-ghana-and-leading-chocolate-cocoa-companies/

Overall, despite demonstrating high engagement with direct suppliers, many companies are not going further to engage with their indirect suppliers. As a result, many companies are not accounting for significant portions of their supply chains, leading to decreased visibility of their operations and exposure to potential risks. To increase engagement with indirect suppliers, the Accountability Framework advocates active company engagement with direct suppliers to (1) push

commitments to the production level and (2) support their through effective control mechanisms and/or monitoring. Out of the 69 companies reviewed, a growing number of companies report supporting smallholders to incentivize sustainable production. Continued company engagement with suppliers and greater technical support will also help improve livelihoods in smallholder communities.²⁶

COMPANIES IN ACTION: NESTLÉ

Nestlé provides suppliers with agricultural training and access to financial services to incentivize sustainable cocoa production. Nestlé also distributes provisions to assist with community development, such as educational facilities and building local infrastructure. Additionally, Nestlé works to monitor and measure their progress toward their goals for supplier support, by establishing key performance indicators in accordance with the Nestlé Cocoa Plan.

Key Finding 6: A Minority of Companies Disclose Policies for Managing Non-Compliant Suppliers

When companies issue commitments or policies to eliminate deforestation, ecosystem conversion, or human rights abuses from their supply chains, achieving their goals depends on ensuring that the material they purchase from their suppliers are compliant with those policies. If a buyer determines that a supplier does not meet expectations for protection of ecosystems and human rights, that supplier would be considered non-compliant with the buyer's policies.

The Accountability Framework states that companies should have clear, consistent, and documented policies and procedures for how supplier non-compliance will be addressed. These should include systems through which the buyer will support suppliers in meeting supply chain goals, procedures for supplier engagement in the case of non-compliance, and ways in which buyers will consider supplier non-compliance in future purchasing decisions (including through exclusion). These policies and procedures should be

made public and communicated to current and potential suppliers.

Out of the companies reviewed, more than one third (24) disclosed that they addressed supplier non-compliance in their commitment or related procurement requirements. Only 11 companies had a clear policy governing their engagements with non-compliant suppliers and approaches for how to help them resolve their issues. Eighteen companies disclosed the criteria for supplier suspensions, exclusions, or reversals, and ten companies disclosed that their response to non-compliant suppliers differed depending on the severity of the non-compliance and the willingness or capacity of the supplier to address the issue.

The Framework also recommends companies publish non-compliance policies that prioritize supplier engagement and clearly require non-compliant suppliers to adhere to a time-

²⁶ World Cocoa Foundation. "Action Plans to End Deforestation Released by Governments of Cote d'Ivoire & Ghana and Leading Chocolate & Cocoa Companies." 4 Mar 2019. Accessed 25 Jan 2021.

www.worldcocoaoundation.org/press-release/action-plans-to-end-deforestation-released-by-governments-of-cote-divoire-and-ghana-and-leading-chocolate-cocoa-companies/

bound improvement plan to keep the company's business. Based on the data, a number of the companies operating in the cocoa sector have begun to develop such non-compliance policies that manage and incentivize adherence

to company deforestation-free pledges. This indicates a way forward for companies that have not yet disclosed such policies.

COMPANIES IN ACTION: UNILEVER

When non-compliant suppliers are discovered, Unilever works with the suppliers to identify the cause and develop a time-bound plan for corrective action. Their consistent annual third-party auditing process is a key asset for Unilever to validate supplier compliance with procurement standards and to drive greater visibility of supply chain operations.

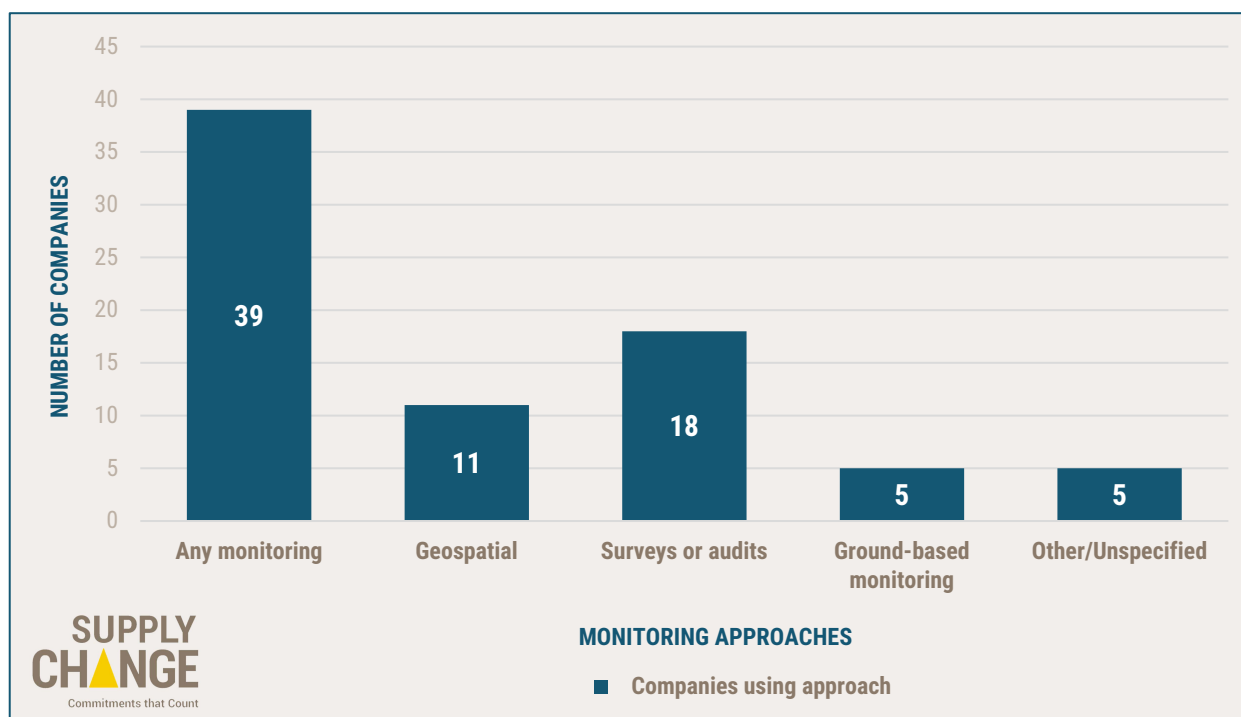
Key Finding 7: Over Half of Companies Monitor Suppliers, albeit with Inconsistent Approaches

Implementing effective monitoring and verification systems enables companies to assess risk and performance relative to supply chain goals, maintaining transparency, and evaluating and demonstrating progress over time. Monitoring commitment implementation and outcomes may be required at the level of production units, sourcing areas, and/or suppliers' management systems.²⁷

Out of the 69 companies reviewed, 39 reported monitoring supplier and/or supply chain operations for environmental and social impacts (Figure 2). The largest portion of companies (18) were using supplier surveys or audits to monitor their supply chain, with a considerable number (11) using geospatial monitoring tools to monitor forest conditions at the source of production. Five companies were using a ground-based monitoring approach (e.g., in person visits) and five companies did not specify their approaches.

²⁷ Accountability Framework. "Operational Guidance on Monitoring and Verification." accountability-framework.org/operational-guidance/monitoring-and-verification/

FIGURE 2. COMPANIES DISCLOSING USE OF FRAMEWORK-ALIGNED STRATEGIES TO MONITOR SUPPLIER COMPLIANCE & COMMITMENT PROGRESS



NOTE: Some companies use multiple monitoring approaches.

COMPANIES IN ACTION: MARS

Mars' comprehensive approach to monitoring suppliers ensures it can measure supplier performance and mitigate potential exposure to deforestation. Mars' monitoring system combines satellite data and on-the-ground verification to examine their suppliers over time. For instance, as part of its Cocoa for Generations Strategy, Mars uses GPS mapping to monitor supplier exposure to deforestation and human rights. The company works closely with its suppliers and has published lists of its direct suppliers (tier 1) and indirect suppliers at the farm group level (tier 2).

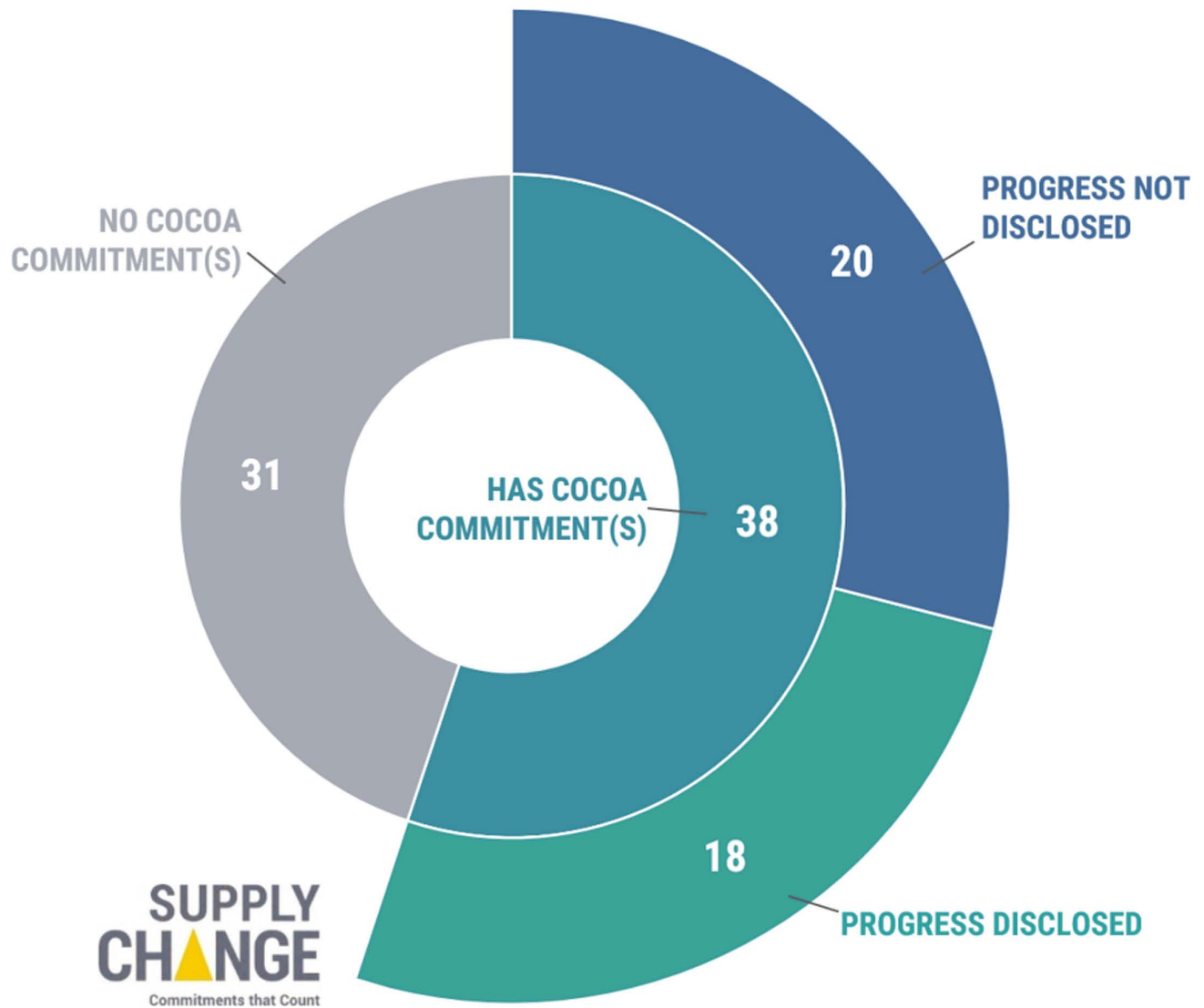
By monitoring their supply chains and/or performance at the source of production, 18 SC companies were able to quantify the percentage of their cocoa volumes in compliance with their commitment (See Figure 3). Twenty companies, including Barry Callebaut, Hershey Company, and Mondelēz, claimed they verified their commitment progress through a third party, with most verification conducted as part of the certification process. Hershey, for example, reports using independent auditors to verify that its certified cocoa supplies follow the environmental and social standards in their cocoa commitment specifications.^{28,29}

Most SC companies carried out monitoring and verification for their direct supply chains using surveys, audits, and, to a lesser degree, geospatial monitoring. Yet few companies have policies in place that address cocoa supply chain risks with indirect suppliers. Several companies rely only on third-party certifications to verify supplier compliance with deforestation-free standards. Overall, corporate reporting on monitoring and verification for both direct and indirect suppliers is inconsistent, revealing a clear opportunity for companies to manage forest risks in their cocoa supply chains.

²⁸ Hershey Company. "Hershey's Cocoa Certification Press Release." Accessed 25 Jan 2021. www.thehersheycompany.com/content/dam/corporate-us/documents/legal/source-100-certified-cocoa-2020.pdf

²⁹ It is not clear whether this refers to the standard audits facilitated by the certifying body as part of the certification process, or if Hershey's is applying additional scrutiny.

FIGURE 3: COMPANIES DISCLOSING QUANTITATIVE PROGRESS TOWARD COCOA COMMITMENT(S)



Conclusion

Companies face mounting pressure from investors, buyers, civil society, and consumers to ensure their cocoa supply chains are ethical. Nevertheless, *Supply Change* research found that few companies had zero deforestation commitments for their cocoa supply chains, and those that did were not fully aligned with the Accountability Framework.

- ➔ **Geographic Scope.** Most companies limit the geographic scope of their commitment(s) and/or fail to specify a cutoff date for deforestation.
- ➔ **Risk Assessments.** Many companies reported using risk assessments for their cocoa supply chains, but few disclosed sufficient details on their approach.

In contrast, many of the companies with sustainable cocoa commitments reported pursuing traceability and/or certification chain of custody approaches to ensure their supplies are known and controlled.

- ➔ **Measuring Traceability.** Despite many companies aiming to trace their supplies back to the farm, only a few companies, such as Mars, have demonstrated progress toward measuring traceability to the farming group and farm level.

Around half of all SC cocoa companies reported assisting their direct suppliers, most commonly through technical and financial support.

- ➔ **Smallholder Support.** Support for smallholder farmers was much less common and often did not center on forest protection.
- ➔ **Supplier Non-Compliance.** A majority of companies with cocoa commitments reported addressing non-compliant suppliers, but few disclosed clear policies detailing action plans for remedying non-compliance.
- ➔ **Monitoring Compliance.** To check for commitment compliance, most companies employed surveys and audits, with fewer companies relying on satellite monitoring and only a handful pursuing ground-based monitoring.

Overall, the cocoa sector is making progress toward the best practices for ethical supply chains put forth in the Accountability Framework, but there is still much work to do.

Looking forward, the ability of companies and their investors to implement policies that effectively identify and address risks – including ecosystem conversion, human rights violations, and climate change – will be paramount to ensuring greater sustainability and stability of cocoa supplies. With cocoa produced mostly by smallholders, often under tree cover, companies face unique challenges in creating more ethical supply chains. Obstacles to assessing and addressing forest risks from cocoa have led many cocoa buyers to engage with multi-stakeholder partnerships, most notably the CFI, which brings together cocoa buyers, governments, and environmental groups to address deforestation and other issues in cocoa production. Supply chain transparency and governance may continue to improve as existing public-private partnerships like CFI mature and new alliances emerge in other cocoa producing countries.

These developments, combined with the greater availability and widespread use of increasingly precise monitoring and mapping tools, will make it easier to compare and connect corporate supply chain practices with on-the-ground impacts. For example, many companies are already using mapping tools, like Mighty Earth's Cocoa Accountability Map, which allows them to monitor changes in forest cover associated with cocoa cooperatives in their supply chains. Moreover, companies across the supply chain can look to resources like the Accountability Framework for guidance on designing strategies for effectively implementing cocoa sustainability commitments.

Ultimately, progress in the cocoa sector will be unattainable for companies unless smallholder farming communities that produce the majority of the world's cocoa can receive sufficient incentives and support. Only then will they be able to overcome financial and technical barriers to implement the sustainable production practices necessary to comply with company commitments to ethical supply chains.

Methodology

Data Sources

Forest Trends' *Supply Change* Initiative draws from publicly available data sources to track a global set of companies, representing all levels of the supply chain from producers to retailers, and their commitments to address commodity-driven deforestation. These companies are some of the most influential players in global cocoa supply chains. The review included a majority of companies that are signatories to the CFI, many of which are manufacturers of well-known chocolate brands that use large volumes of cocoa. This report examined associated commitment goals and procurement policies, as well as the progress companies have made in achieving their commitments over time. Company reviews covered all publicly available corporate commitment data and information sources from 2017 to 2020, including corporate sustainability or social responsibility reports, mandatory financial disclosures (such as 10-K filings or proxy statements), press releases, and information on company websites.

Company Selection

The 69 companies selected for the report represent large global buyers and sellers of cocoa products. The dataset also incorporates many publicly traded and US-based companies. These companies were reviewed based on range of environmental and social performance indicators. This included companies' exposure to cocoa, their commitments, deforestation policies, and disclosure on monitoring and verification practices, traceability status, supplier engagement, and transparency. The data collection process underwent multiple rounds of research and review.

Acknowledgements

Forest Trends offers thanks to the Accountability Framework initiative, including support from NICFI and the Gordon and Betty Moore Foundation, for funding support to answer new research questions on corporate approaches to managing deforestation-related risks in cocoa supply chains. We also appreciate contributions from the following individuals: Cheyenne Coxon for copyediting support and Ciro Calderon for research assistance. We extend appreciation to the dozens of businesses and investors that lend their expertise and insights to this project, and to those companies that are making and disclosing their achievements against meaningful commitments to reducing ecosystem degradation in their supply chains.

Disclaimer

Supply Change is an initiative of Forest Trends. It is the sole responsibility and obligation of readers to satisfy themselves as to the accuracy, suitability, and content of the information contained herein. Forest Trends makes no warranties and has no liability to the reader for any inaccuracy, representation, or misrepresentation set out herein. The reader further agrees to hold Forest Trends harmless from and against any claims, loss, or damage in connection with or arising out of any commercial decisions made based on the information contained herein. The reader is strongly advised not to reference report contents in isolation, but to consider it alongside other market information and to formulate his/her own views, interpretations, and opinions thereon; and seek appropriate legal and professional advice before entering into commercial transactions.

Citation and Use

The contents of this may be used by anyone, providing acknowledgment is given to *Supply Change* and AFI for any material (e.g., data points, tables, and/or figures) sourced from this report *Trends in the Implementation of Ethical Supply Chains, 2021*, the Supply-Change.org website, and/or any associated publicly available materials; and to CDP Worldwide (CDP) for any data points that are specifically sourced from CDP.

This does not represent a license to repackage or resell any of the data reported to *Supply Change*, CDP, or the contributing authors, and presented in this report.

UNLESS OTHERWISE LABELED, CITE ALL FINDINGS AND FIGURES AS:

Source: Rothrock, Philip, Laura Weatherer, Kate Ellis, and Leah Samberg (2021) *Trends in the Implementation of Ethical Supply Chains, 2021*. Washington, DC: Forest Trends.

About Forest Trends' *Supply Change* Initiative

Supply Change, an initiative of the nonprofit organization Forest Trends, is a transformational resource for businesses and the various stakeholders that hold them accountable, including investors, governments, industry groups, not-for-profits, and the public, on the extent and value of corporate commitments related to commodity-driven deforestation. *Supply Change* continuously researches and aggregates available data, providing it via a centralized, free, and publicly available web platform (www.supply-change.org) that tracks companies, their commitments, corresponding implementation policies, and progress towards their commitments over time. More information on data sources is available in *Supply Change*'s full methodology: <http://www.supply-change.org/pages/full-methodology>

Forest Trends works to conserve forests and other ecosystems through the creation and wide adoption of a broad range of environmental finance, markets, and other payment and incentive mechanisms. Forest Trends does so by 1) providing transparent information on ecosystem values, finance, and markets through knowledge acquisition, analysis, and dissemination; 2) convening diverse coalitions, partners, and communities of practice to promote environmental values and advance development of new markets and payment mechanisms; and 3) demonstrating successful tools, standards, and models of innovative finance for conservation.

About the Accountability Framework initiative

The Accountability Framework initiative (AFi) is a collaborative effort to build and scale up ethical supply chains for agricultural and forestry products. Led by a diverse global coalition of environmental and human rights organizations, the initiative works to create a "new normal" where commodity production and trade are fully protective of natural ecosystems and human rights. To pursue this goal, the coalition supports companies and other stakeholders in setting strong supply chain goals, taking effective action, and tracking progress to create clear accountability and incentivize rapid improvement.

At the center of this work is the Accountability Framework, a practical, consensus-based set of principles and guidance for achieving and demonstrating progress toward ethical supply chains. The Framework brings together accepted international norms, best practices, and common expectations of commodity buyers, investors, and civil society into a single integrated resource for effective action to address the deforestation, conversion, and human rights impacts of supply chains.



Pioneering Finance for Conservation

Biodiversity Initiative

Promoting development of sound, science-based, and economically sustainable mitigation and no net loss of biodiversity impacts

Coastal and Marine Initiative

Demonstrating the value of coastal and marine ecosystem services

Communities Initiative

Strengthening local communities' capacity to secure their rights, manage and conserve their forests, and improve their livelihoods

Ecosystem Marketplace

A global platform for transparent information on environmental finance and markets, and payments for ecosystem services

Forest Policy, Trade, and Finance Initiative

Supporting the transformation toward legal and sustainable markets for timber and agricultural commodities

Public-Private Finance Initiative

Creating mechanisms that increase the amount of public and private capital for practices that reduce emissions from forests, agriculture, and other land uses

Supply Change

Tracking corporate commitments, implementation policies, and progress on reducing deforestation in commodity supply chains

Water Initiative

Promoting the use of incentives and market-based instruments to protect and sustainably manage watershed services

Learn more about our programs at www.forest-trends.org