



# “Sustainable” Sourcing: Drivers, Enablers, and Applications

June 8, 2016

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# In the Numbers



# HUFFPOST BUSINESS

## The Coffee Industry Is Worse Than Ever For The Environment

Posted: 04/29/2014 7:36 am EDT | Updated: 05/29/2014 12:59 pm EDT

### The Washington Post

Why your morning cup of coffee may not be as Earth-friendly as you think

### theguardian

Slavery and trafficking continue in Thai fishing industry, claim activists

### FORTUNE

Inside Big Chocolate's Child Labor Problem

### theguardian

Leading brands unsure if palm oil in products comes from rainforest land

### TIME

The Surprising Link Between Trans Fat and Deforestation

# Growing Motivation

Ethical consumption (will) “reach breakout proportions in 2016”

Economist (2015)

“People believe that corporate supply chains are a place to conceal skeletons. Corporate treatment of workers overseas is abominable. They plunder scarce resources and pollute the landscape. Companies are loyal only to profit. **70%** of our sample believe that **companies were not transparent about the goods they sell to the public.**”

Forbes 2015

“Many people have realized that the cost of inaction is often greater than the cost of action. Competitors need to say that it is in our own self-interest that we move to sustainable sourcing, stop illegal deforestation... If the consumer goods industry does not move to a more sustainable model, most of its profits will be wiped out in 30 to 50 years, and if you are in food even earlier.”

Paul Polman, CEO of Unilever



# Transparency & Traceability

- Traceability: the history, distribution, location, and use of products, parts, and materials
- Transparency: Process by which a company takes action on the insights gained through greater visibility in order to manage risks more effectively



# Evolution of Traceability

1930s	European countries wanted to prove the origin of high-quality food such as French champagne.
1990s	Food safety related issues and various food scandals in the agribusiness sector, such as mad cow disease or the Asian bird influenza, have highlighted the importance of traceability.
2000s	U.S. and EU implemented several directives and regulations on food safety.
Today	Consumers, NGOs, governments, suppliers and buyers increasingly demanding more information about origin of products. Increased demand for organic, fair trade and environmentally friendly products and materials.

Kemal, Armada, EPFL – MIT RSL Collaborator

# “Traditional” Supply Chain Management

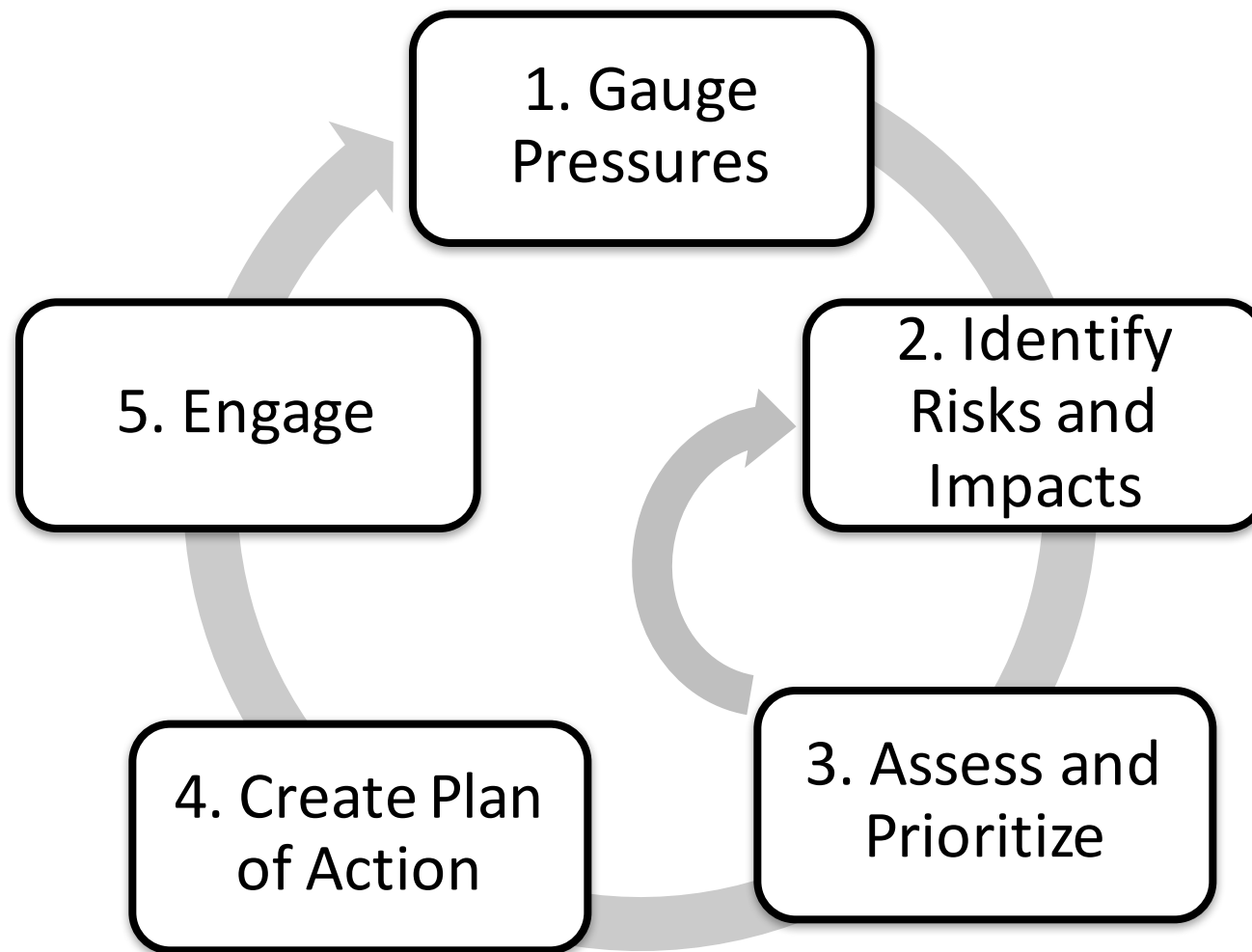
- All parties involved, directly or indirectly, in fulfilling a customer request



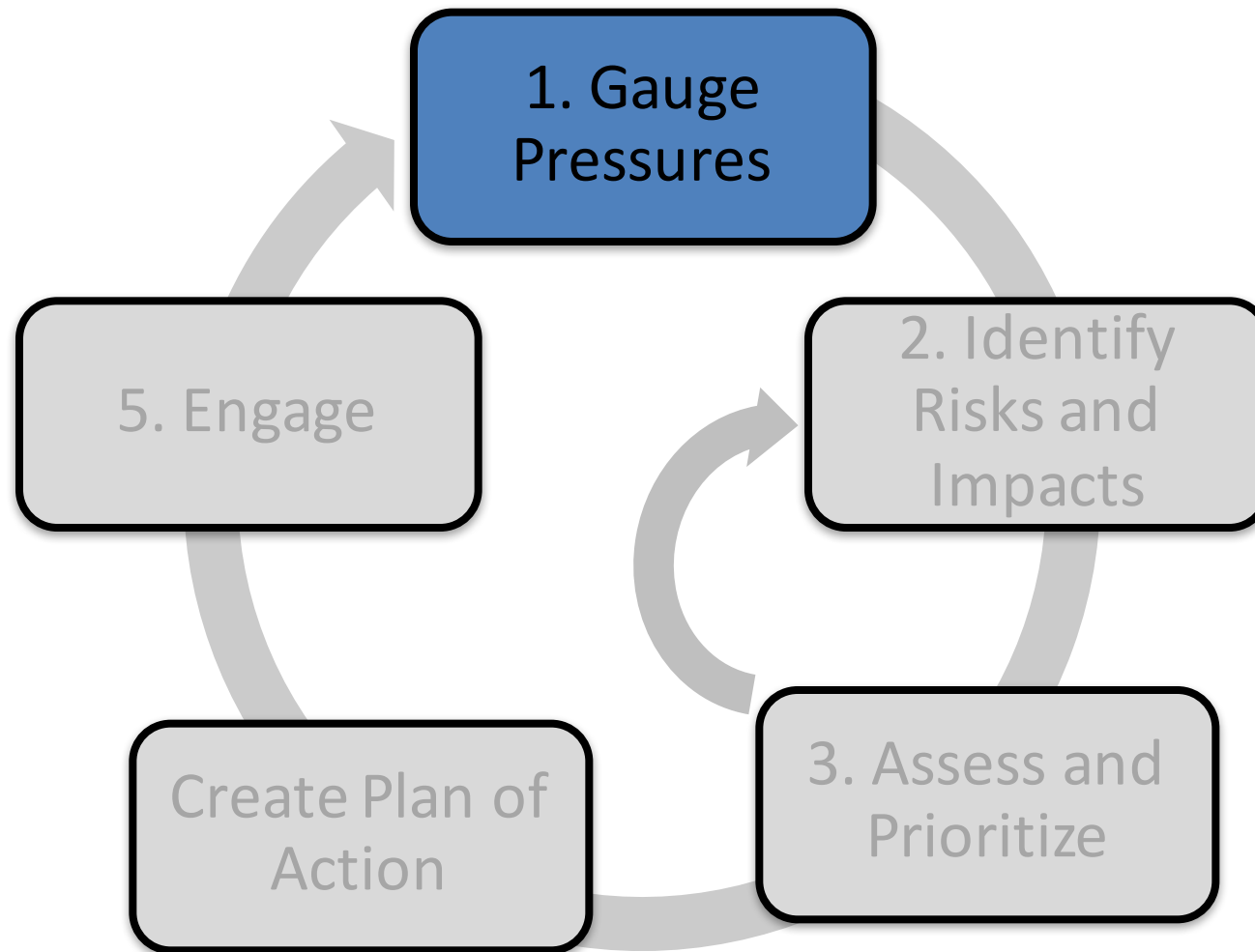
# The Reality

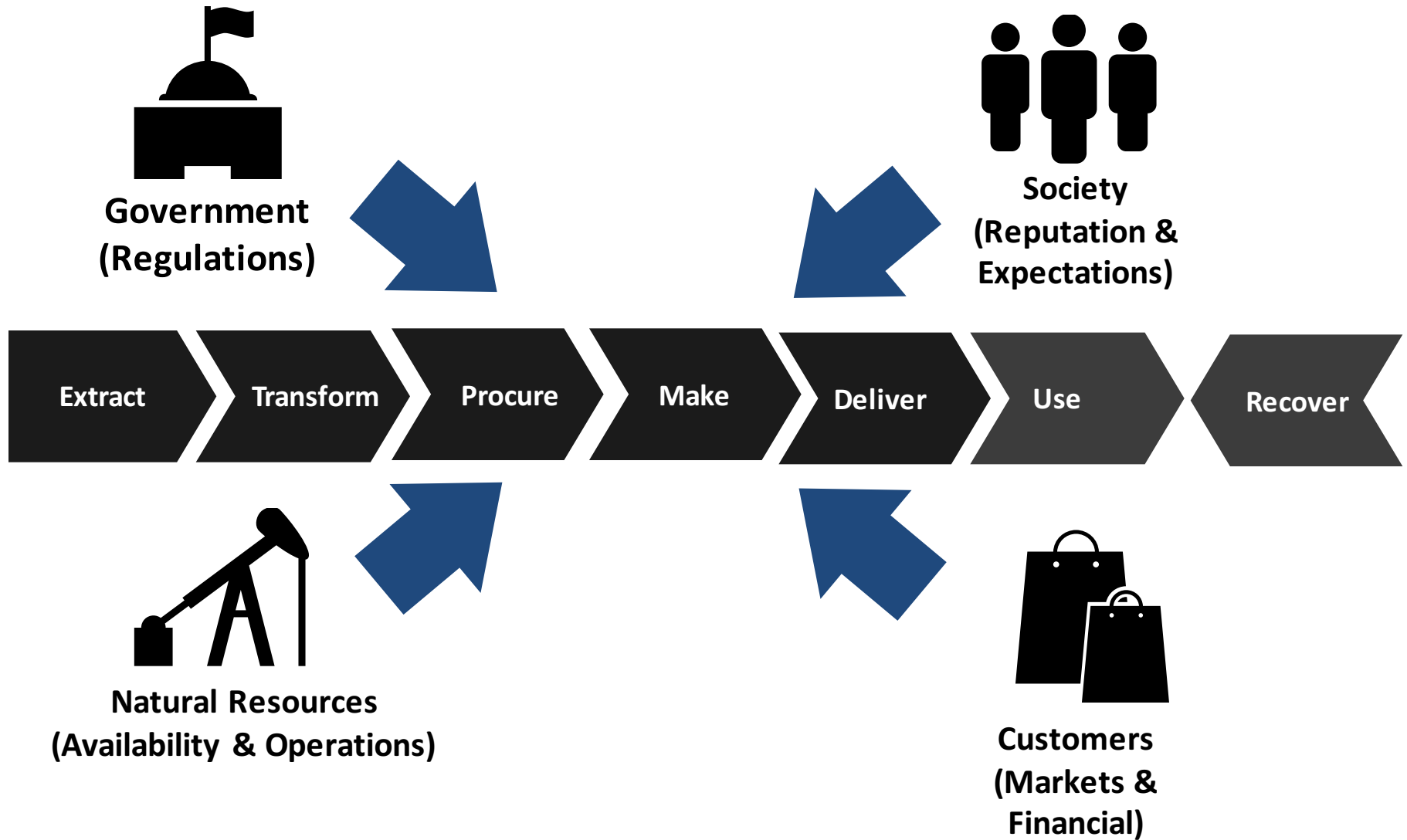


# Five steps to develop a sound **Sustainable Sourcing** Strategy



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Adapted from Paquette, MIT 2005

# Regulation

Regulation	Requirements
European Commission Food Regulation, U.S. Food Safety Modernization Act	Food traceability requirements through all stages of production, processing, and distribution
U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 1502	SEC registered companies must disclose their use of conflict minerals
EU Timber Regulation, U.S. Lacey Act	Prohibits illegal timber products on market, obligations to keep records for traceability of source
Genetically Engineered Food Right-to-Know Act (Introduced Legislation)	Disclosure of any food that is genetically engineered or contains one or more GE ingredients
California's Transparency Act in Supply Chains SB 657	Requires companies doing business in California to disclose efforts to combat slavery and human trafficking



# NGO Pressures

- Mitsubishi Corporation & RAN
  - Paper Sourcing

 Mitsubishi Corporation



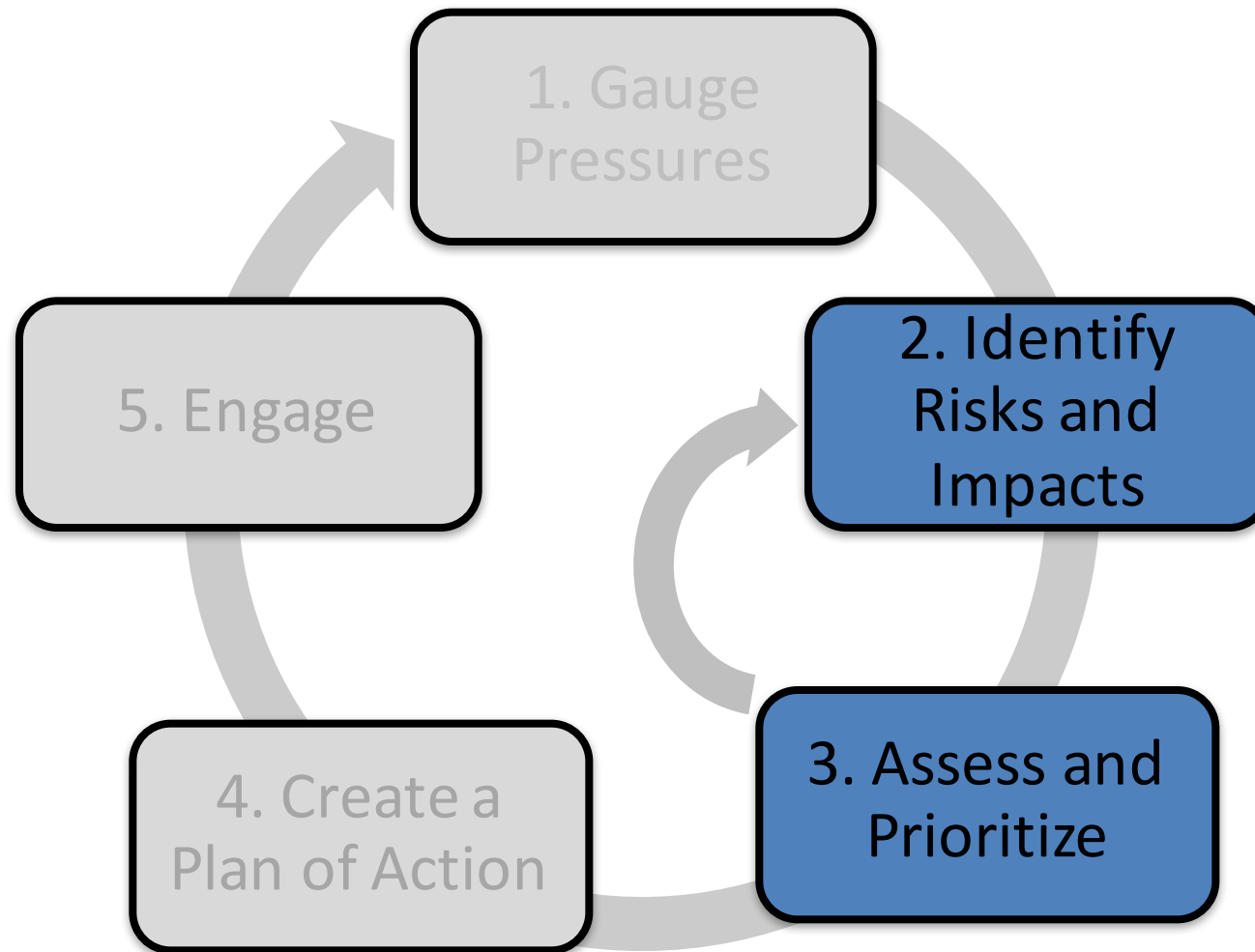
- Nestle & Greenpeace
  - Palm Oil suppliers

# Other Pressures

- Industry Competitiveness – early movers
- Social Media – brand value
- Risk Mitigation – materials
- Consumer awareness and preference
  - In, On, Around



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# World Cocoa Trade Map

Values are in Tons



- Exporters
- Importers

**Ecuador**  
to USA : 30,978  
to Netherlands : 18,647

**Dominican Republic**  
to USA : 18,026  
to Netherlands : 16,321

**Ivory Coast**  
to Netherlands : 234,461  
to USA : 167,767

**Ghana**  
to Netherlands : 174,955  
to Malaysia : 31,324  
to Japan : 26,925

**Cameroon**  
to Netherlands : 158,887  
to USA : 10,243

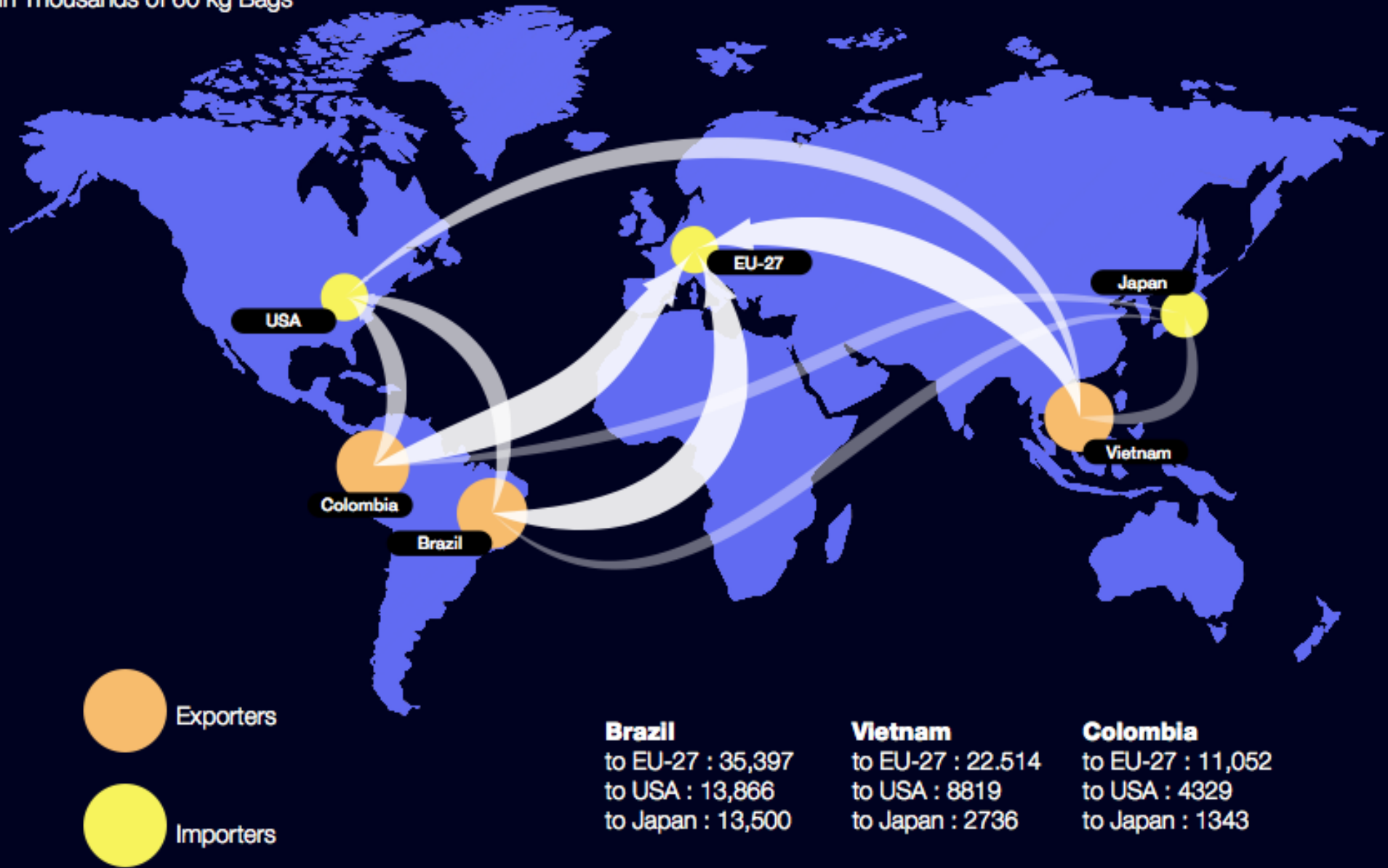
**Indonesia**  
to Malaysia : 201,823  
to USA : 61,609  
to Netherlands : 47,125

Kemal, Armada, EPFL – MIT RSL Collaborator



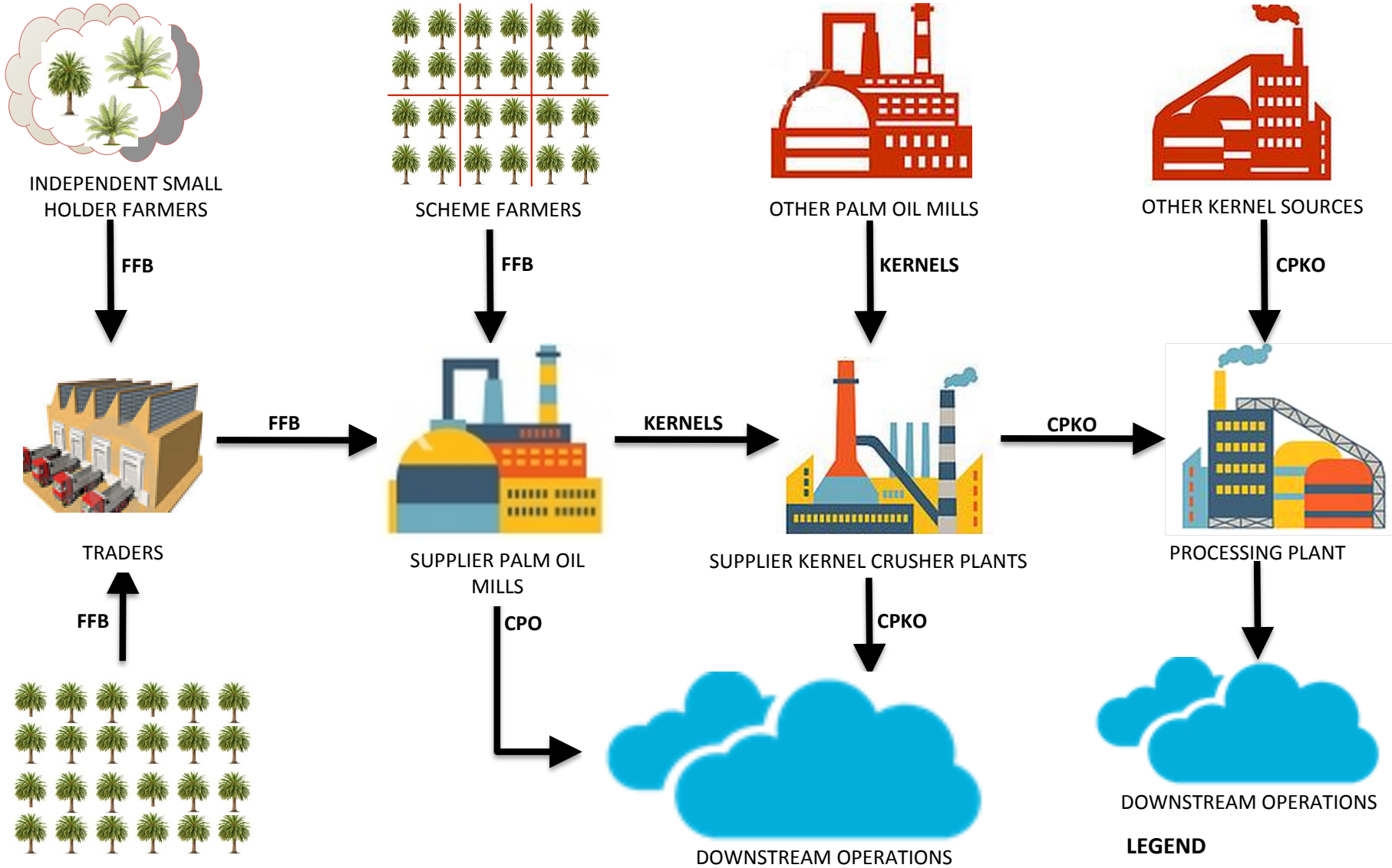
# World Coffee Trade Map

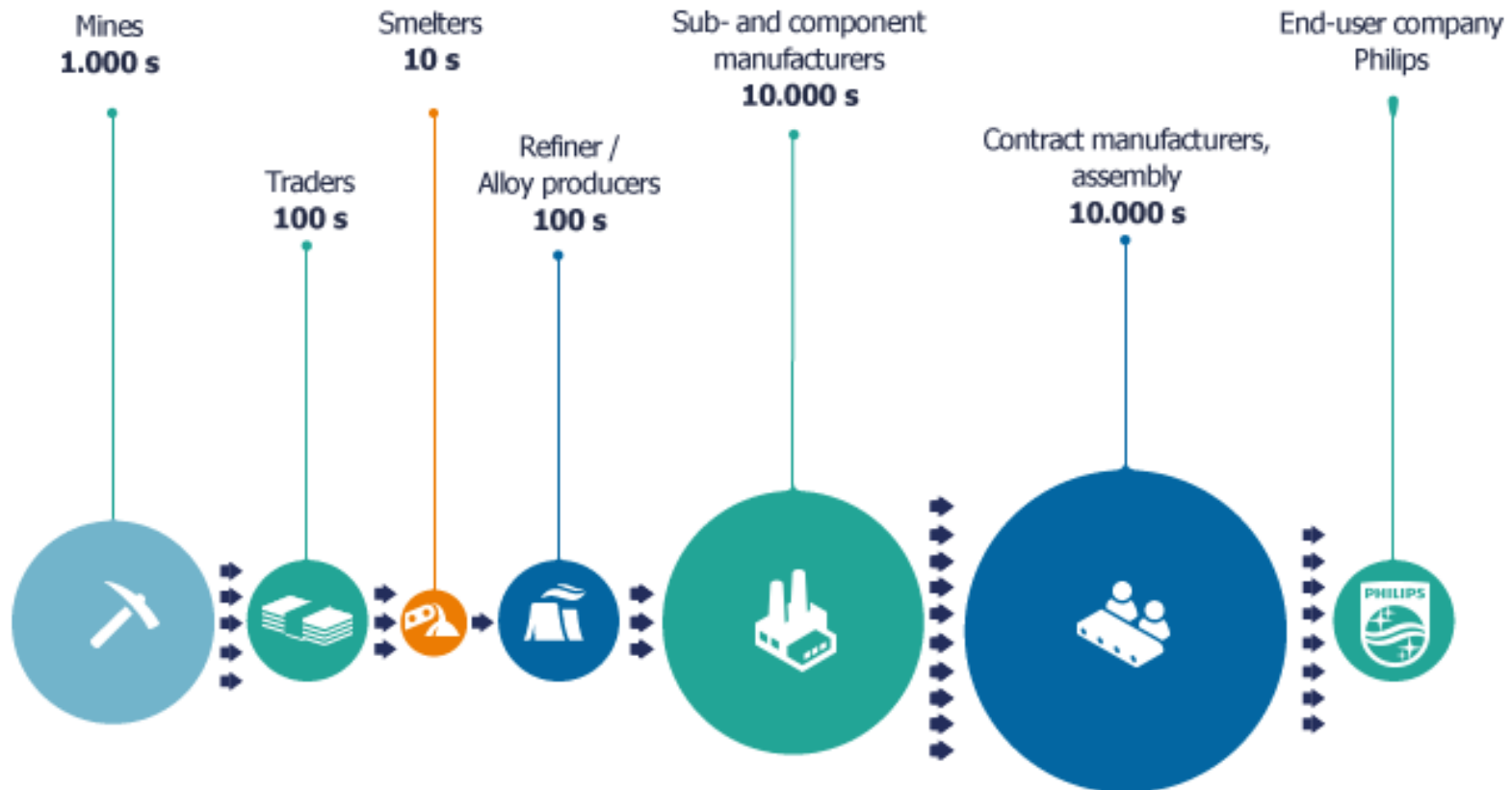
in Thousands of 60 kg Bags



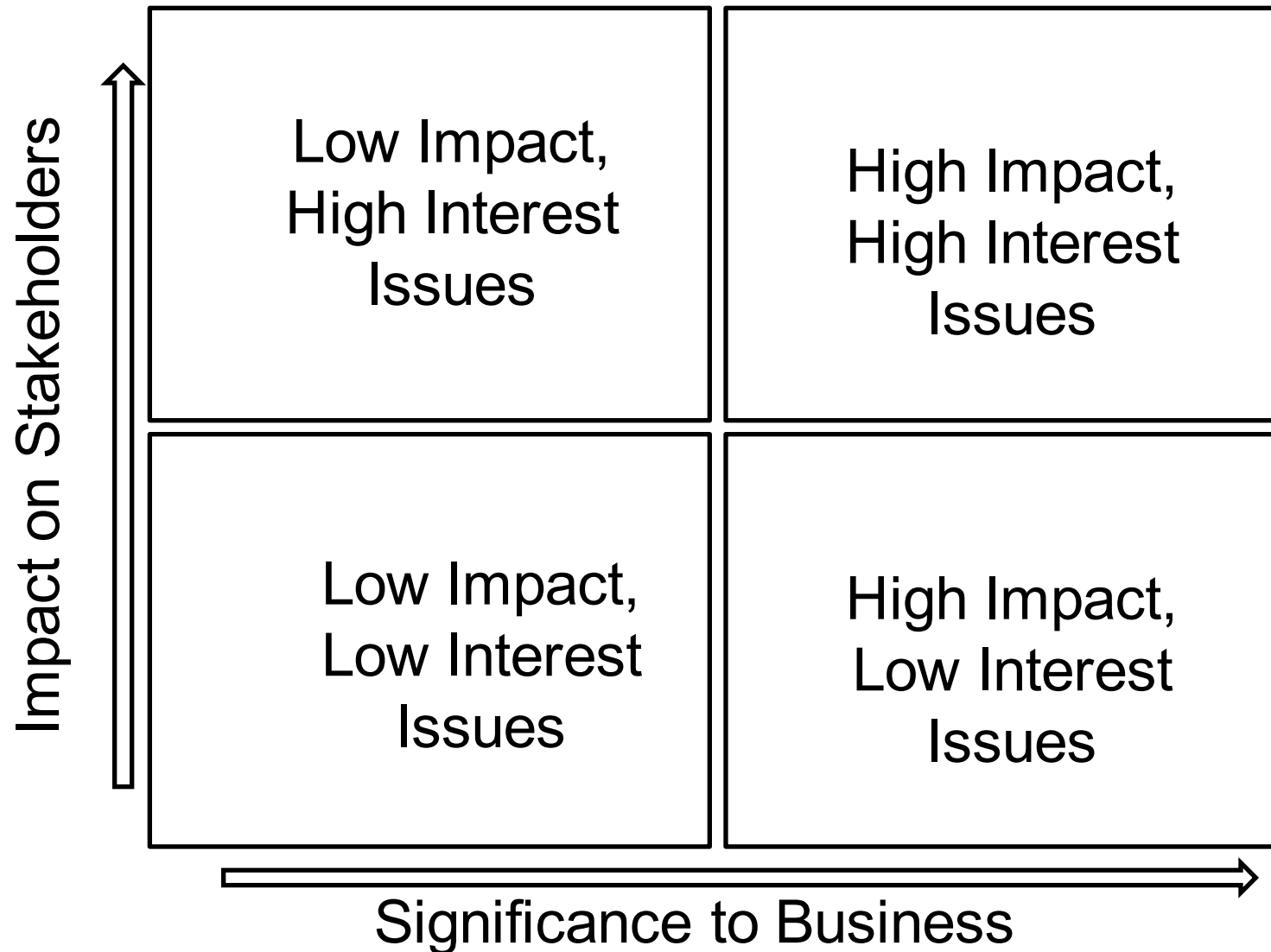
Kemal, Armada, EPFL – MIT RSL Collaborator

# Mapping the supply chain: Palm Oil



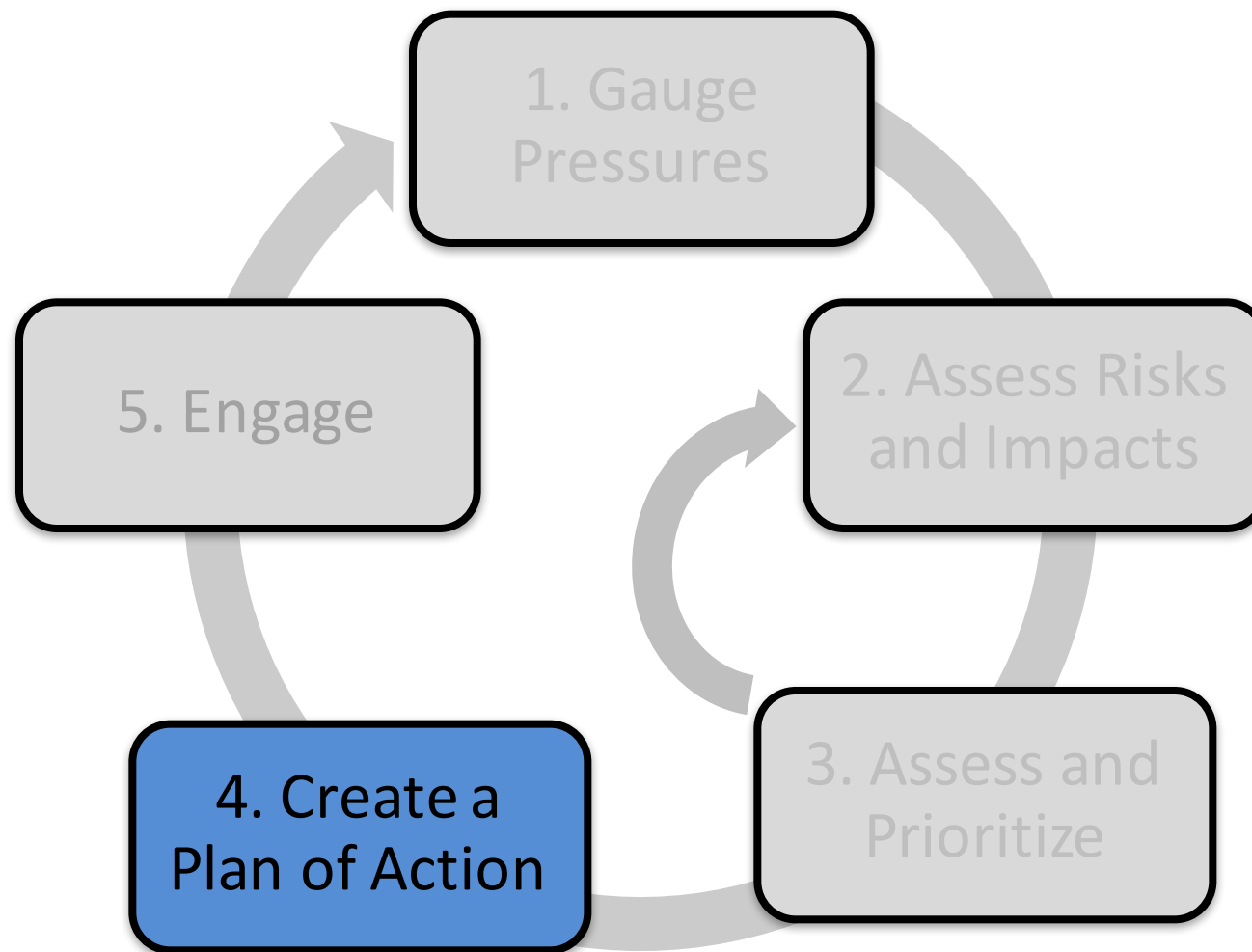


# Identifying Risks: Materiality Assessment

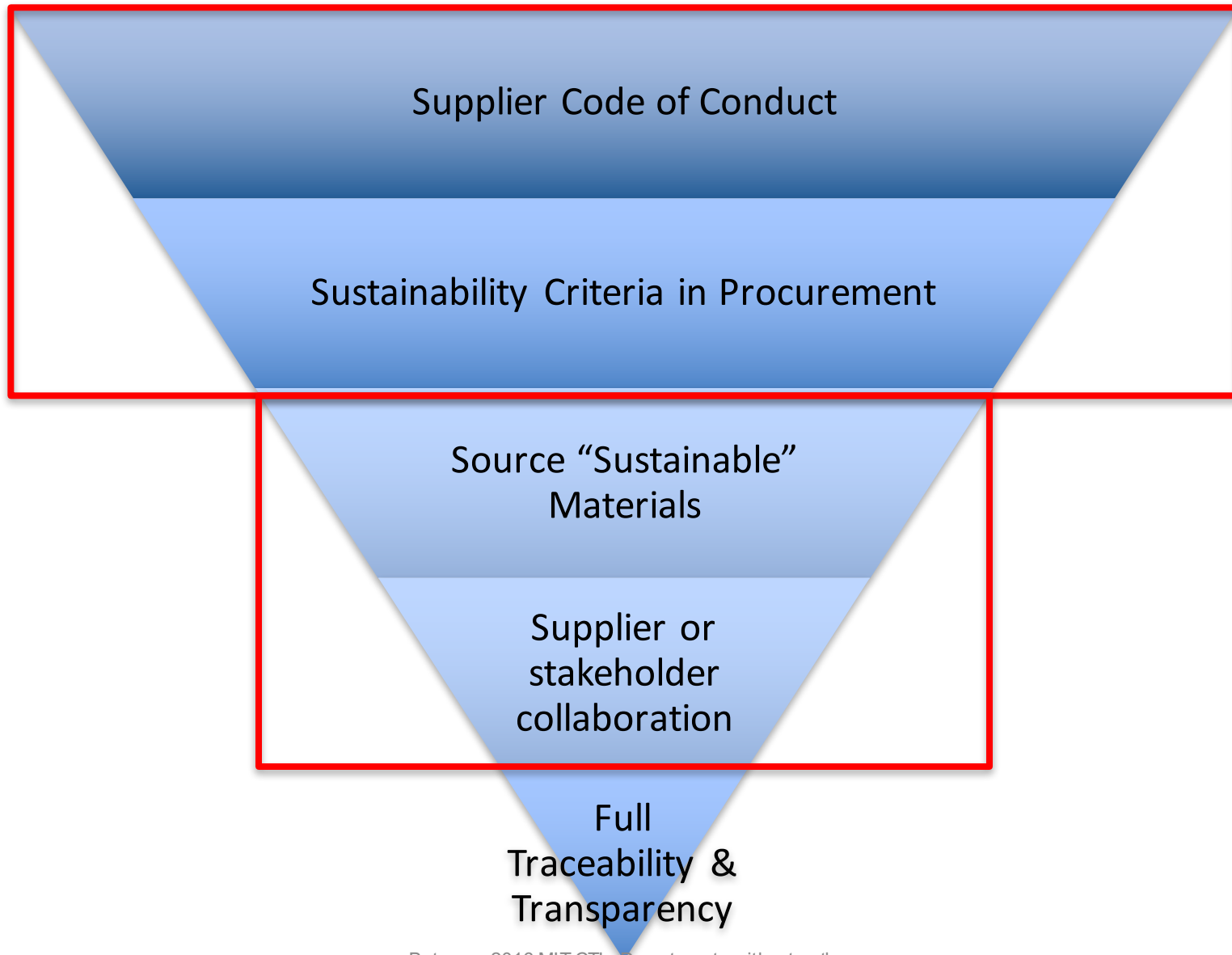




# Five steps to develop a sound **Sustainable Sourcing** Strategy



# Company Approach



# Supplier Transparency



## IWAY Standard

Minimum Requirements for Environment and Social & Working Conditions when Purchasing Products, Materials and Services.

Issued By:  
IKEA Supply AG

Approved By:  
INGKA Holding B.V.

Date:  
2008.06.04

Edition:  
4

### 1.3 Severe Environmental pollution

The IKEA supplier shall prevent severe environmental

### 1.1 Prevention of child labour






IKEA does not accept child labour. All

80 full-time auditors  
+  
auditors of auditors  
+  
Training of supply chain  
organization  
+  
Transparency Requirements

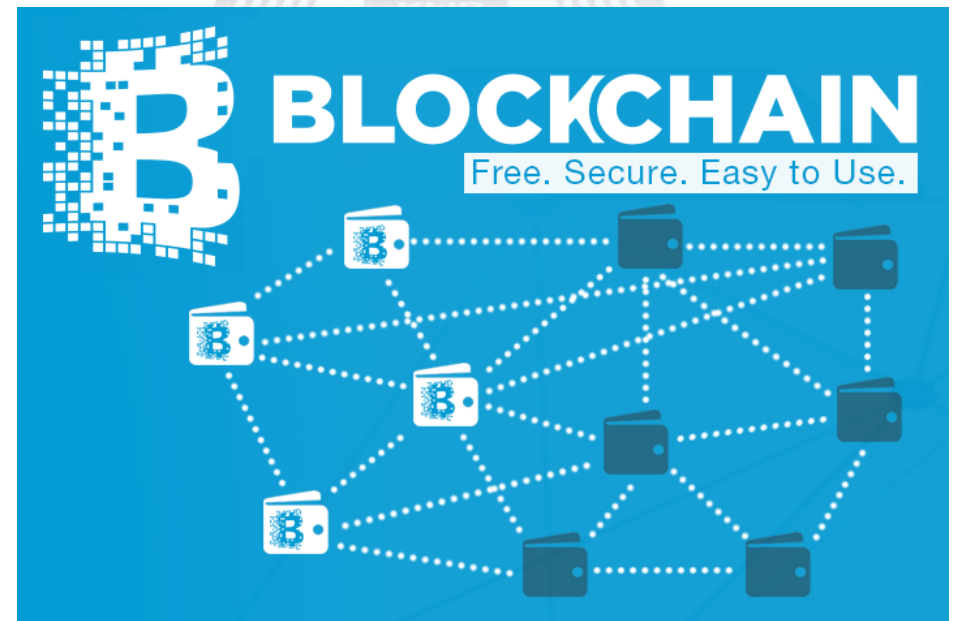


# Product Standards – Use and Value

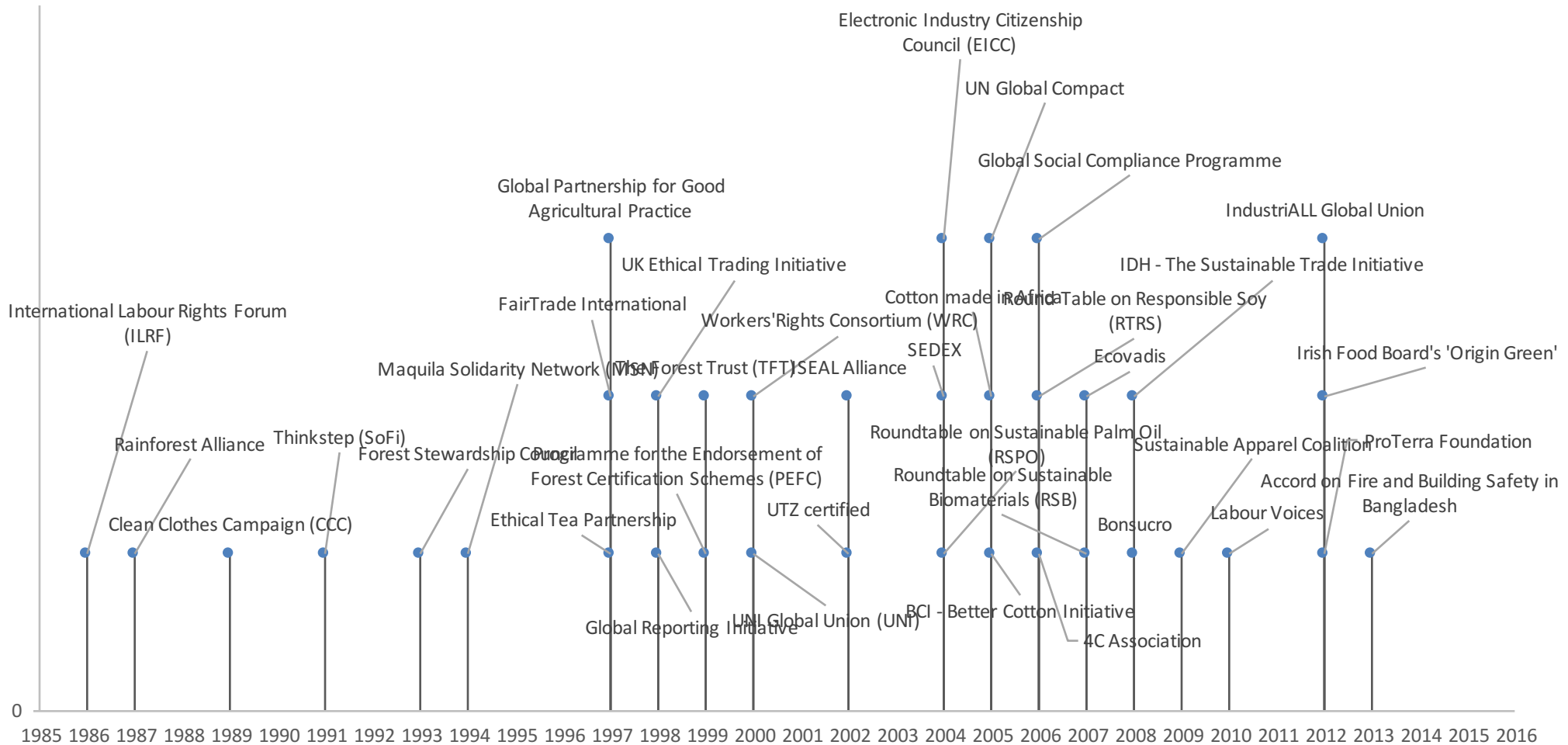
Veronica Leon Bravo, Milan, MIT RSL Collaborator

	Products	Scope	Codes	Focus
	<u>Multi product</u> : food and non food (flowers, gold, sports balls)	From producers to last handling buyer	4	Trading conditions. Premiums
	<u>Multi product</u> : food and non food (furniture, building materials, paper, kitchen, guitars...)	From producer to last processing buyer (no transport, no retail)	2 (+CB policy)	Labelling SAN certifying
	<u>Specific products</u> : coffee, cocoa, tea, (hazelnuts)	From producer to last handling buyer (no food service)	2 <sup>2</sup>	Monitoring, SCM approach
	<u>Multi product</u> : food	From farmer to processing	3 (+ National codes)	Agricultural practices, Value chain approach
	<u>Specific product</u> : Coffee	From producer to 1st trader	1	GAP, Cooperation, Verification & Impact

# Data Collection and Technology



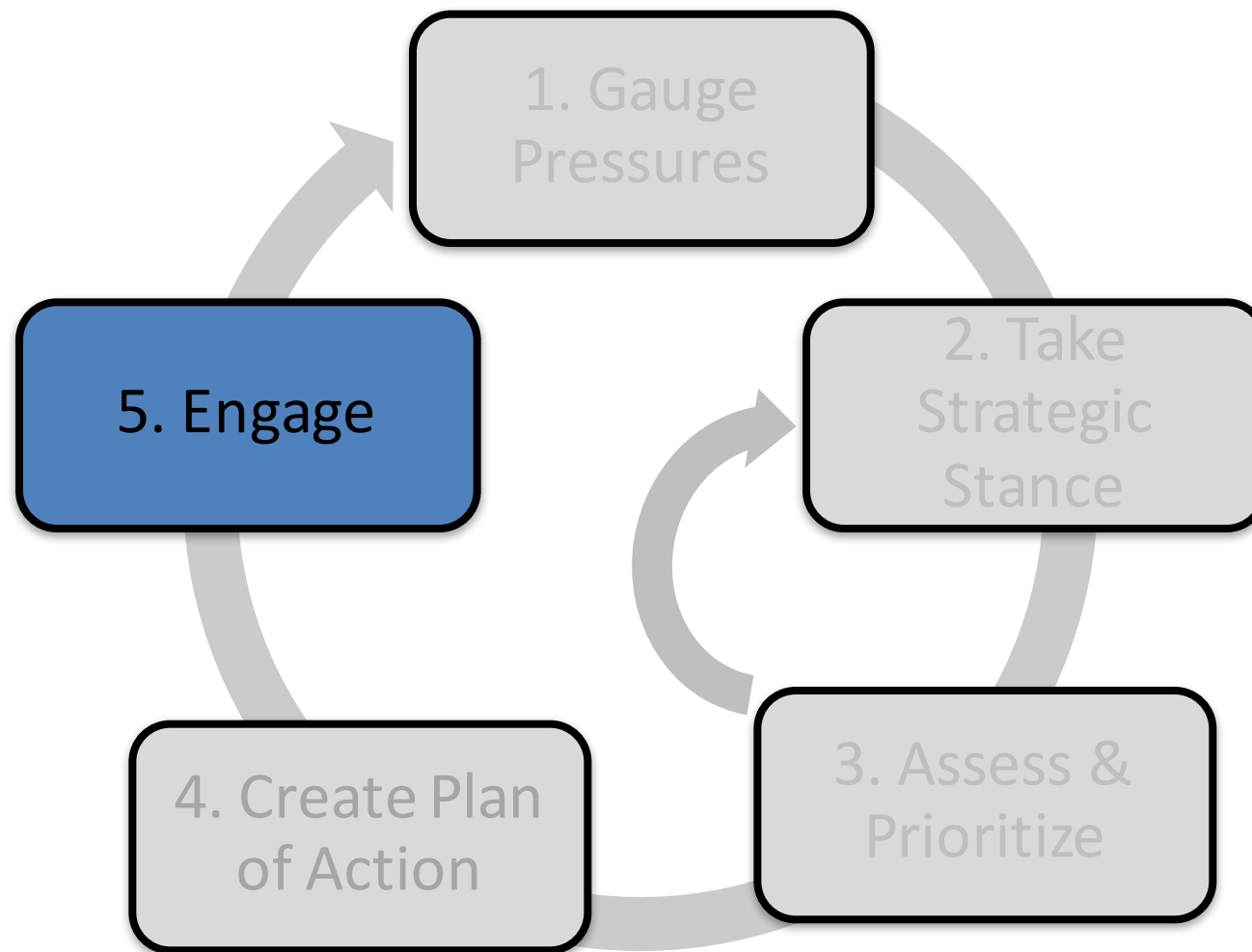
# Organizations for Supply Chain Transparency



# Types of Organizations Supporting Supply Chain Transparency

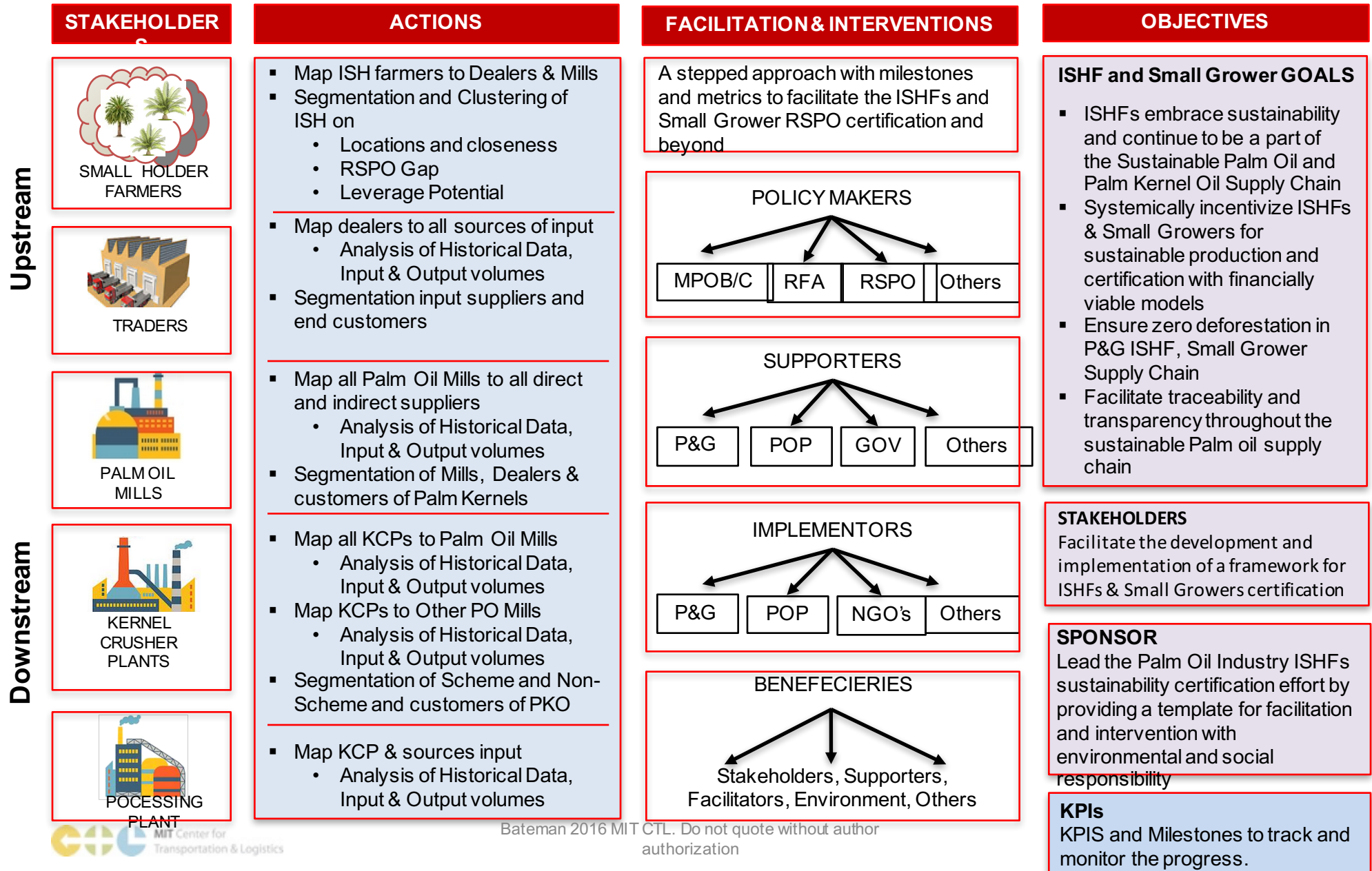
	Information Exchange	Standards/ Certifications	Governance Mechanisms
Description	Products and services for data collection and sharing	Voluntary and mandatory attributes for social supply chain compliance	Organizational infrastructure for information exchange and transparency
Solution for company	Software for data collection, supplier collaboration, supplier audit, more information for the company	License to operate minimum standards, guarantee of credence attributes, opportunity to inform consumer	Industry collaboration, external partnerships, shared responsibility
Supply Chain Scope	Dyadic, Supply Chain	Dyadic, Supply Chain, Network	Supply Chain, Network
Examples	Labour Voices, Ecovadis, Sourcemap, Geotraceability	Fair Trade, Rainforest Alliance, UTZ, RSPO, Better Cotton Initiative	IDH – Sustainable Trade Initiative, EICC, Sustainable Apparel Coalition, UN Global Compact

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# The P&G Sustainable Sourcing Framework



# Stonyfield Yogurt Supply Chain Map



# Starbucks C.A.F.E. Practices

## Components of C.A.F.E. Practices

### A Must meet these prerequisites

All coffee purchased from C.A.F.E. Practices suppliers must meet Starbucks standards of high quality. These are clearly defined in our *Green Coffee Quality Manual*.

Transparency is required of C.A.F.E. Practices suppliers. They must submit evidence of payments made at all levels along the coffee supply chain. This is a contractual requirement included in coffee-purchasing contracts with suppliers.



### B Evaluated by third-party verifiers

C.A.F.E. Practices suppliers – and other entities within their supply network – must have certain practices in place that ensure safe, fair and humane working conditions; the protection of workers' rights; and adequate living conditions. The minimum wage requirements and addressing child labor/forced labor/discrimination indicators are mandatory.

In the growing and/or processing of coffee, measures must be in place to manage waste, protect water quality, conserve water and energy use, preserve biodiversity and reduce agrochemical use.





90%

C.A.F.E. PRACTICES  
VERIFIED

STARBUCKS COFFEE COMPANY

15 YEARS

CONSERVATION INTERNATIONAL  
PARTNERSHIP

93%

ETHICALLY SOURCED  
COFFEE

\$16.9M

FARMER LOANS  
CONTRIBUTION

44M POUNDS

FAIRTRADE CERTIFIED COFFEE

6

FARMER SUPPORT  
CENTERS

(COSTA RICA, COLOMBIA, RWANDA, TANZANIA, CHINA, GUATEMALA)



# Potential Outcomes of Sustainable Sourcing

## Performance

- Reduce Risk
- Operational efficiencies and process consistency
- Securing Supply
- Supplier Selection and Supplier Relationships
- Reputational Benefits
- Meeting Legal Requirements

## Sustainability

- Meeting Stakeholder Demands
- Validating Sustainability Claims
- Security of Natural Resources
- Ability to Find and Address “Hot Spots” in Supply Chain

# THANKS! QUESTIONS?

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