LOGISTICS REPORT

THE WALL STREET JOURNAL.

http://www.wsj.com/articles/guest-voices-labels-aside-companies-need-transparent-supply-chains-1440690111

BUSINESS | LOGISTICS REPORT

Guest Voices: Labels Aside, Companies Need Transparent Supply Chains

In a commentary, MIT's Alexis H. Bateman says it is in the interest of businesses to shine a light on their supply chains before new GMO-labeling requirements are imposed

A Thai organic farmer at a protest over the introduction of genetically-modified organisms in food supplies.
PHOTO: BLOOMBERG NEWS

By **ALEXIS H. BATEMAN**
Aug. 27, 2015 11:41 a.m. ET

The U.S. House of Representatives recently passed legislation that would remove state-level authority to require companies to show when a food product contains genetically-modified organisms, or GMOs.

Officially called the Safe and Accurate Food Labeling Act, the bill is the result of a growing push by consumers for more information about the contents of the products they buy. Some companies have objected to the potential new requirements, arguing that it is not possible to capture the complexity and volatility of their supply chains on labels.

Yet supply-chain transparency and traceability are at the heart of these demands, and companies should be paying attention to labeling requirements and preparing to meet them because supply-chain traceability is in a company's own business interest.

This is particularly evident in food distribution. Recent examples aside from the GMO controversy include worries over fish-product mislabeling and the use of palm oil as an ingredient. And accusations that corporate wrongdoings are buried in supply chains are not limited to food labeling. Other recent transgressions include the use of slave labor, and the overuse of chemicals and wasted water.

> *'Businesses should understand that pressure to improve supply chain transparency will continue to increase.'*

Regulators also are becoming more active. One of the drivers behind the action in Congress is that more states are introducing their own GMO regulations. On a larger stage, the 2010 U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act and the European Union Timber Regulation are measures that require companies in various industries to report certain practices far upstream in the supply chain.

Up until now, many companies had scant information on suppliers in remote parts of their operations.

But as consumer awareness grows—and is pushed by activist groups—more product types are being pulled into the labeling quagmire, exposing the reputations of more companies to risk. Studies suggest that less than one-third of companies have practices within their supply-chain operations to address transparency issues, and those practices that are in place have a limited reach.

Meanwhile, uncertainty over the trustworthiness of supply chains erodes consumer trust, a trend that should concern any enterprise. Companies should recognize that greater supply-chain transparency can allay consumer fears and capture commercial benefits.

Our research suggests three ways in which a more transparent supply chain can become a benefit to companies.

First, transparency helps organizations meet demands for responsible practices. Companies can inform consumers about their products, and reinforce the integrity of their operations with verifiable data. This can come in the form of product ecolabels, corporate sustainability reports, reporting to organizations like the Global Reporting Initiative, and media outreach.

Consider recent controversies over the rapid depletion of fish stocks, the mislabeling of many fish species, and the practice of coloring salmon with pink dye. The Marine Stewardship Council enables companies to verify the integrity of seafood shipments through its fishery sustainability standards, the "Track a Fishery" program, and a certified label that informs customers of positive practices upstream.

Second, transparent supply chains reduce risk by ensuring supply, improving vendor relationships, and facilitating effective risk management.

For example, poor wages, high costs and low plantation productivity are forcing many farmers out of the cocoa business, causing an overall shortage of supply. Cocoa buyers are finding that introducing farmer training programs and pay increases are necessary to secure supplies over the long term.

Third, the costs of traceability initiatives often may be offset by operational efficiencies companies can gain from a closer look at their supply chains. Examples include eliminating steps and actors in the supply chain, verifying the efficiency of practices upstream and smoothing price volatility by working directly with suppliers instead of bulk commodity markets.

In the coffee and tea business, for instance, some buyers are bypassing middlemen and buying direct from producers. This streamlined supply chain has led to higher productivity and improved product quality.

Companies also can use technology to reach their traceability goals. Genetic food markers, RFID tags, and mobile phone compatible bar codes can be used to track product movements and verify sources and practices along the supply chain. This information can be stored with the product or sent to data storage systems, feeding software tools that integrate supplier data, rank areas of risk, and maintain records. Mobile phone assessment tools can further inform social practices upstream.

Organizations such as interest groups and industry associations can also play a part by providing support where supply chains are opaque or technologically limited.

Above all, however, businesses should understand that pressure to improve supply chain transparency will continue to increase. The legislation that the U.S. House approved in July now awaits action by the U.S. Senate. But companies that respond now can improve their operations and save themselves costly damage to their reputations and business prospects in the future.

Alexis H. Bateman is director of the Responsible Supply Chain Lab at the Massachusetts Institute of Technology's Center for Transportation & Logistics. She can be reached at hickmana@mit.edu