



Fairtrade & HREDD

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**Fairtrade
Risk Map**

Cocoa



Overview

It is estimated that 5-6 million smallholder households produce 90 percent of the world's cocoa. Some 50 million people worldwide are dependent on the cocoa supply chain for their income or employment.

The cocoa supply chain is a typical hourglass shaped supply chain with a large farmer base, only a few exporters and processors, and millions of consumers. Just nine traders and processors handle 75 percent of the world's cocoa trade and have a large influence on cocoa prices and the sustainability of the industry.

Cocoa farming is often labour-intensive and heavily reliant on hand labour with low financial rewards.

Salient issues

Many cocoa farmers and cocoa farm workers live in extreme poverty. In four out of the world's five biggest producing countries – Ghana, Côte d'Ivoire, Cameroon, Indonesia and Nigeria – the earnings of the majority of cocoa farmers are below the international extreme poverty line.

Low incomes threaten the future of cocoa: Around the world, youth are leaving cocoa farms for urban areas, while farmers and workers increasingly shift to other better-paying products, including illegal mining.

It takes concrete collaboration among cocoa and chocolate companies, governments and civil society to change these risks and root causes.

The salient issues in the cocoa sector (in the order of saliency):

Living Income, Living Wage +

Child Rights +

Climate and Deforestation +

Health +

Gender +



ESG

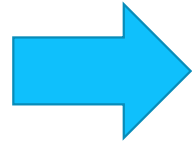
(Environmental, Social, Governance)

- Voluntary sustainability framework, **focus on risks to the company.**
- In capital markets, ESG criteria has for long been utilized when making investment decisions.

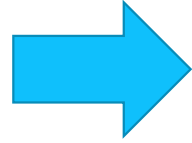
HREDD

(Human Rights and Environmental Due Diligence)

- **Due diligence steps:** 1. Commit, 2. Identify, 3. Take action, 4. Track and 5. Communicate.

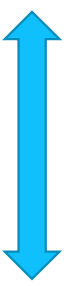


- Strengthening HREDD in Fairtrade standards to meet the new requirements
- Fairtrade's new due diligence services to support companies.



CSRD

(European Corporate Sustainability Reporting Directive)



- Double materiality: risks to company AND risks to people and planet
- Requires disclosure on due diligence steps
- Reports must be audited
- Reporting outlined in ESRS – what to report
(European Sustainability Reporting Standard)

CSDDD

(Corporate Sustainability Due Diligence Directive)

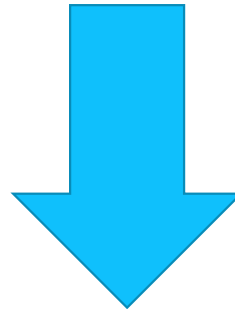
- Most companies in Europe will fulfil their due diligence related reporting duties by complying with CSRD.

UK Modern Slavery Act

1. Take action to identify, prevent and mitigate modern slavery in your operations and supply chains.

2. Publish an annual statement to report on these actions – within six months of your company's financial year-end.

Due Diligence in the UK?



The UK Environment Act

1. A regulated person **must not use a forest risk commodity** (palm oil, soya, **cocoa**, rubber, beef, and leather) **or a derived product.**

2. A regulated person must establish and implement a due diligence system in relation to the forest commodity used in his/her commercial activities:

- (1) identify and obtain information about the commodity,*
- (2) assess the risk of non-compliance with relevant local laws, and*
- (3) mitigate that risk.*



**Strengthening HREDD in
Fairtrade standards to meet
the new requirements**

**Fairtrade's new due diligence
services to support companies.**

Deforestation + FT cocoa standard

- ▶ Prevention and mitigation plan requirements
- ▶ **Farm geolocation mapping and for prevention and mitigation data to be collected by producer organizations for their own use, and reported to Fairtrade.**
- ▶ Producer organizations are required to prepare measures that include awareness campaigns for their members and apply production practices that have a positive environmental impact.

Fairtrade Releases HREDD Guides for Traders and Plantations



The two new publications offer tailored guidance on human rights and environmental due diligence (HREDD) to **large farms with a hired workforce** and **traders who buy directly from farmer cooperatives and plantations**. They follow the release of the first-ever **HREDD guide for farmer cooperatives** and will soon be complemented by another guide for Fairtrade licensees, so that all actors in global value chains can find orientation and practical advice for collaborating on their HREDD journeys.



Implementing Human Rights and Environmental Due Diligence (HREDD)

A Guide for Small- and Medium-sized “First-buyers”

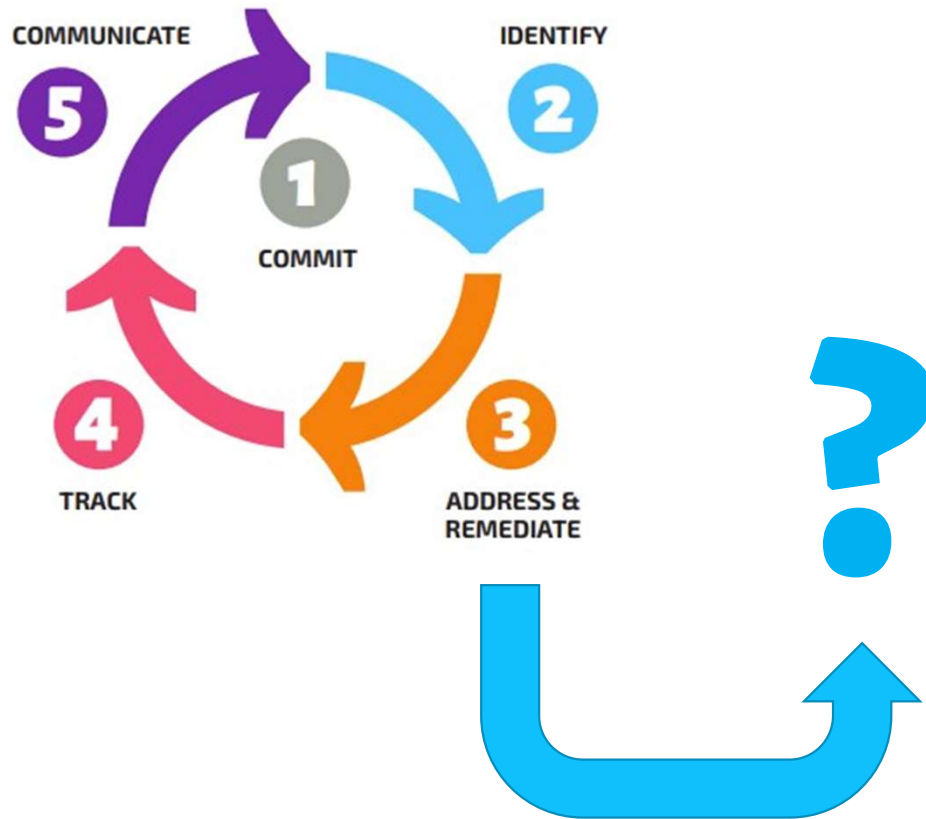
– Companies who make direct purchases from farmer or miner cooperatives, plantations or other primary producers



<https://www.fairtrade.net/>

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Steps of the HREDD process



How to prevent and mitigate human rights and environmental risks and harms?

Here are seven important measures for your company to consider – from less to more demanding:

1. STRENGTHEN YOUR POLICIES

Brainstorm possible improvements in your ways of working and capture them in new policies or procedures. You could, for example, develop a procedure for anonymous recruitment, a policy on sustainable purchasing practices or a mutual code of conduct.

2. BUILD INTERNAL EXPERTISE

Raise awareness and train your management and employees on your salient human rights issues and related solutions, the vulnerability of a specific group of people, or human rights principles in general. Support other companies in your value chains to do the same.

3. USE CREDIBLE CERTIFICATIONS

Certification schemes have established transparent standards for all participating companies, regular auditing, and monitoring that corrective measures get implemented. This can support your due diligence work with your suppliers.

The strongest certification schemes also utilize many other tools to strengthen human rights and environmental practices. For example Fairtrade maintains minimum prices and premiums, offers ongoing support to farmer cooperatives and plantations, operates a complaints mechanism and runs programme, advocacy and awareness raising work.

To find out more about Fairtrade's work on its salient issues, please visit the Fairtrade Risk Map on riskmap.fairtrade.net

But note: The use of certification cannot substitute for due diligence. You still need to take all the five steps – and if the human rights or environmental harms are very serious, you also need to do some other measures proposed on this spread, to prevent contributing to those harms.

4. JOIN FURTHER SUSTAINABILITY INITIATIVES

Complex issues can't be solved alone. There are many sustainability initiatives, roundtables and working groups that companies can join to contribute to different sustainability causes, from strategic to very specific issues. Many initiatives focus on a single product and single country.

5. SUPPORT YOUR SUPPLIERS

When risks are high in your supply chains, it's essential to assess why your suppliers are not addressing them better: Is it for lack of interest, incentives, knowhow or resources? In many global supply chains, very little value accrues to the first actors, which stifles their investments in more responsible business conduct.

Many smallholder farmer cooperatives, for example, would need higher prices for their crop and longer business relationships to have the means to invest in stronger due diligence measures.

When it's resources or know-how that is lacking, stronger requirements in supplier contracts or code of conduct are ineffective. They can even aggravate the problems if they cut suppliers' incomes.

6. LAUNCH OR JOIN A PROJECT

Targeted and tailored projects may be needed to support the affected people and tackle deeply embedded issues like climate change, migrant workers' vulnerability, or child labour, to just name a few examples.

7. RETHINKING YOUR BUSINESS MODEL

Due diligence thinking knows no "blacklist" of industries – but some ways of doing business may be pretty difficult to align with the due diligence approach. This is the case for example if your business depends on constantly revolving short-term business relationships, or if it causes health hazards, oppression or overconsumption, or uses an excessive amount of natural resources.

You may need to rethink your ways of doing business, product or service design, materials, type of clients or some other part of your business model.



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Thanks!

Any questions?

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