



Certification as a Risk Mitigation Strategy

4C Standard – a Viable Tool for Conducting Supply Chain Due Diligence

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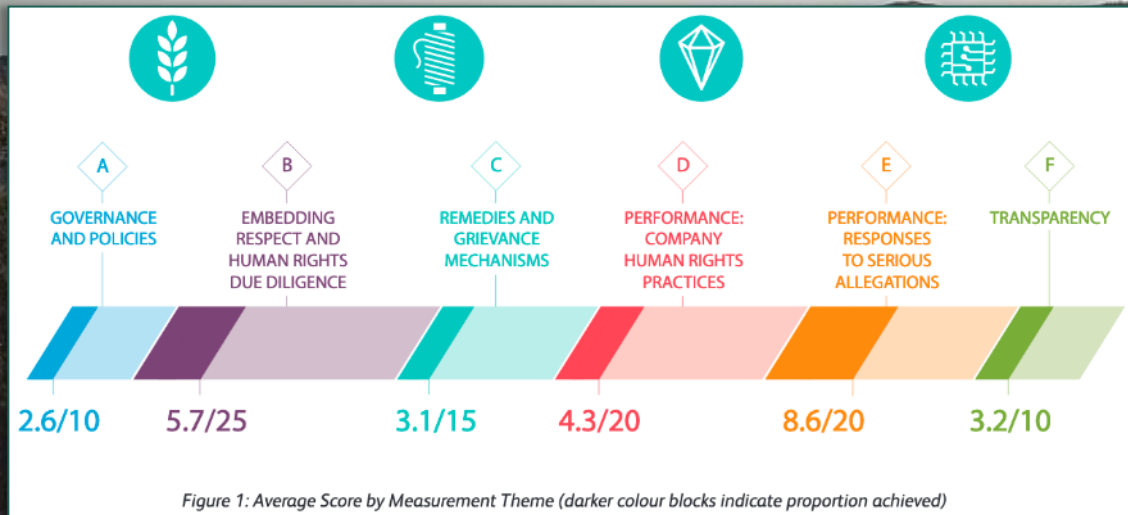
4C Online Seminar “Upcoming Due Diligence Requirements and Their Implications for Coffee Supply Chains ”

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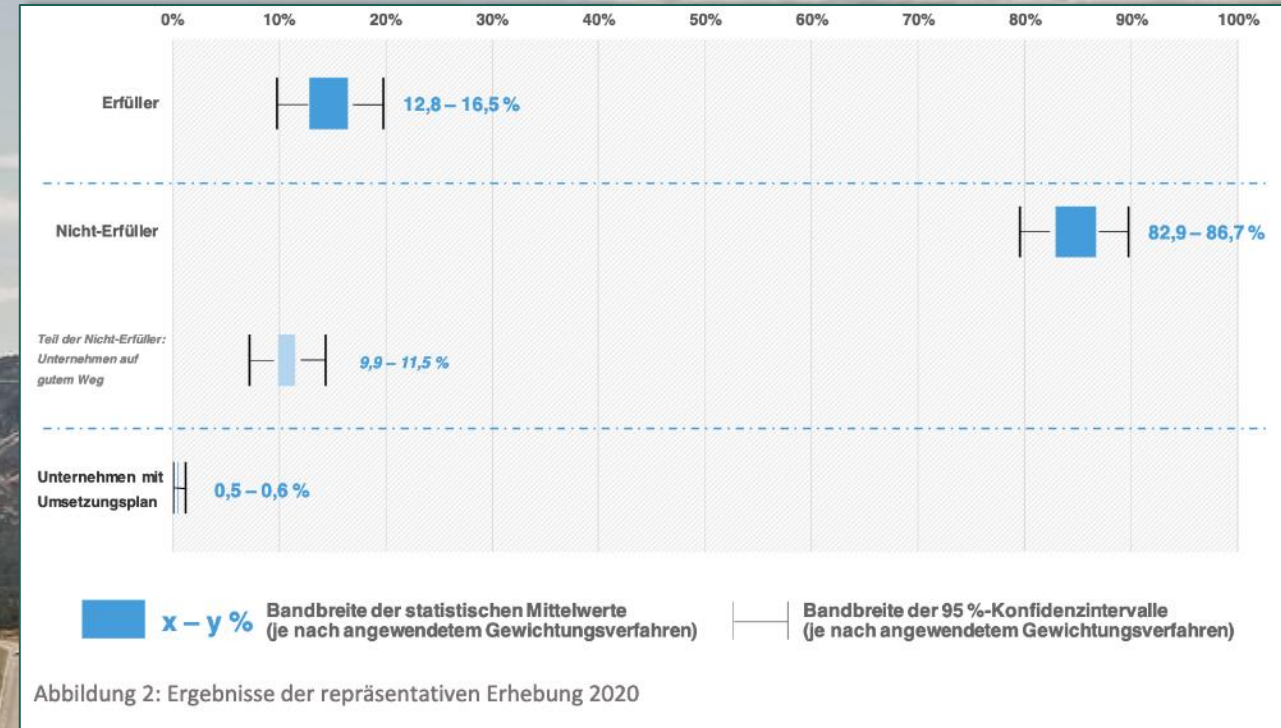


Background of due diligence regulations

- Recent reports show that a large number of companies in the world are **NOT taking effective steps to identify and address human rights and environmental issues** in their business and in their global supply chains



Source: Corporate Human Rights Benchmark (2019)



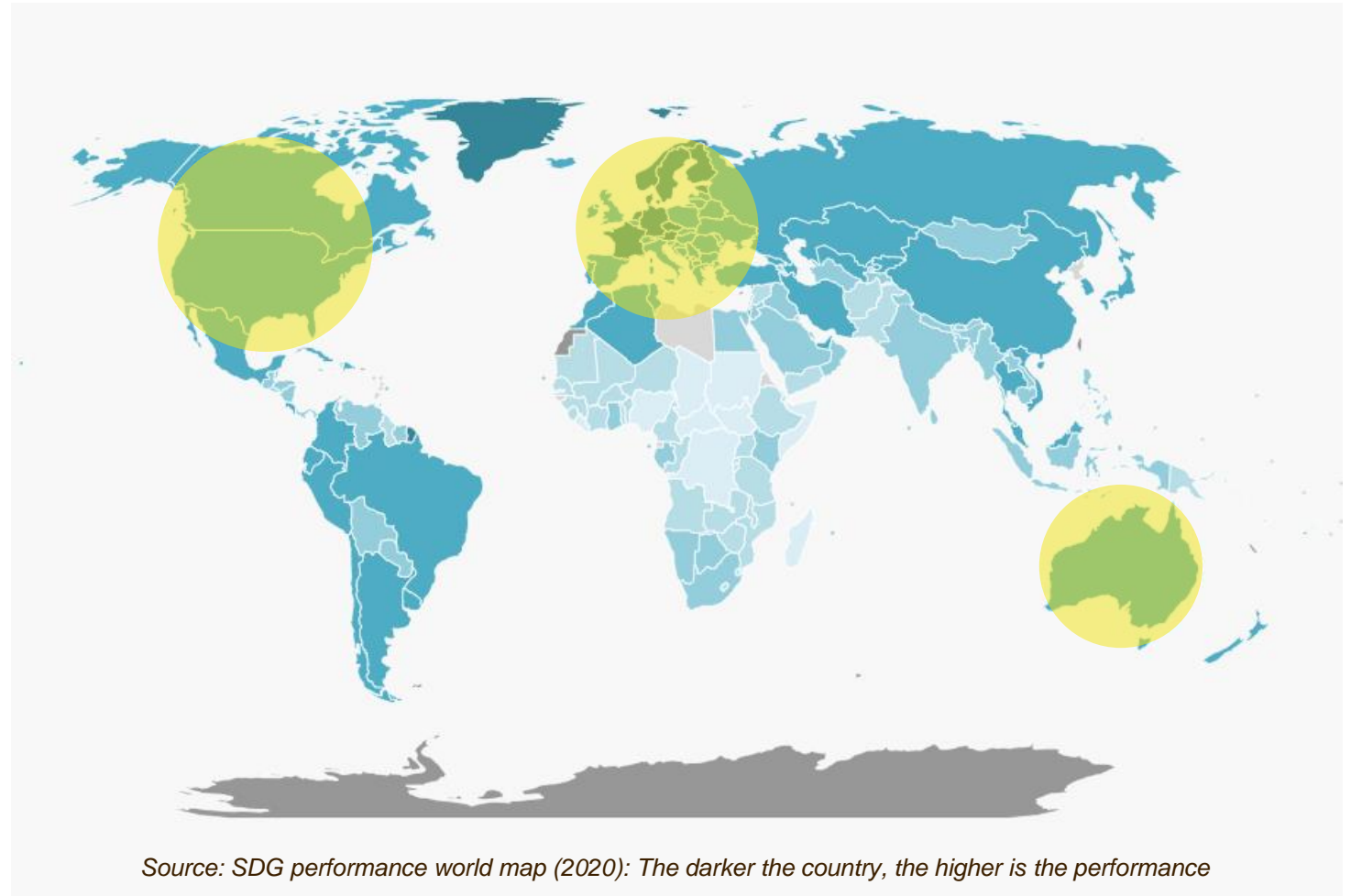
Source: Final Report of Nationaler Aktionsplan Wirtschaft und Menschenrechte (2016-2020)

“Due diligence is understood as the process through which enterprises can identify, assess, mitigate, prevent and account for how they address the actual and potential adverse impacts of their activities as an integral part of business decision-making and risk management systems”

Source: OECD/FAO (2016), OECD-FAO Guidance for Responsible Agricultural Supply Chains

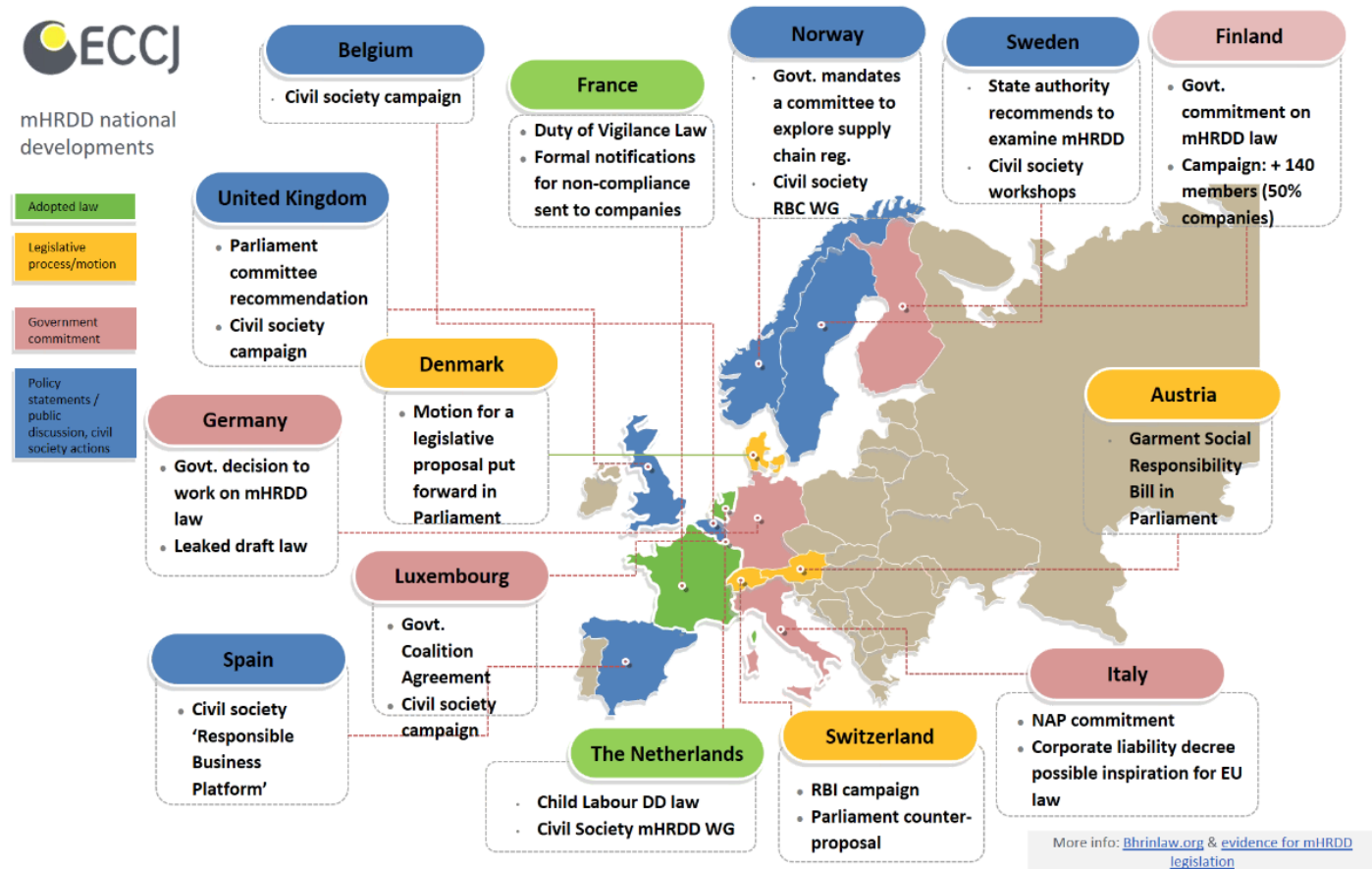
Rise of due diligence regulations around the world

- Globally, companies are facing **increasing pressure** from government legislation
- Multiple governments are enacting **laws that mandate a certain degree of due diligence**. These include e.g. the UK and Australian Modern Slavery Acts, the French Duty of Vigilance Law, and the Dutch Child Labor Due Diligence Law
- Other laws are being developed in countries including Canada, Switzerland, and Germany



The EU is developing cross-sectoral due diligence solutions

- Concerns about **potential fragmentation** and the **lack of a level playing field** for companies across jurisdictions
- The EU is working on a **cross-sectoral European solution** within the frame of the **EU Green Deal**:
 - EU Regulation on **Sustainable Investment** (Taxonomy regulation) came into force in July 2020: common framework for identifying to what degree economic activities can be considered as “environmentally sustainable”
 - EU Legal Framework to Hold and Reverse EU Driven Global **Deforestation** (legislative report adopted in October 2020)
 - European **Supply Chain Law** announced for 2021
- Sector-specific requirements already in place (e.g. EU Timber Regulation)



Source: ECCJ (2020): mHRDD national developments

General requirements of due diligence regulations: Example of Europe



	Scope		Common requirements				Enforcement
			Due diligence			Disclosure	
			Risk assessment	Mitigation, prevention	Monitoring	Reporting	
The UK Modern Slavery Act	✓		✓	✓		✓	✓
French Corporate Duty of Vigilance Law*	✓	✓	✓	✓	✓	✓	✓
Dutch Child Labor Due Diligence Act	✓		✓			✓	✓
Swiss Responsible Business Initiative*	✓	✓	✓	✓		✓	✓
German Supply Chain Act*	✓	✓	✓	✓	✓	✓	✓
EU Legal Framework to Hold and Reverse EU Driven Global Deforestation*	✓	✓	✓		✓	✓	✓
EU Supply Chain Law*	✓	✓	✓	✓	✓	✓	✓



* in planning, not yet enacted



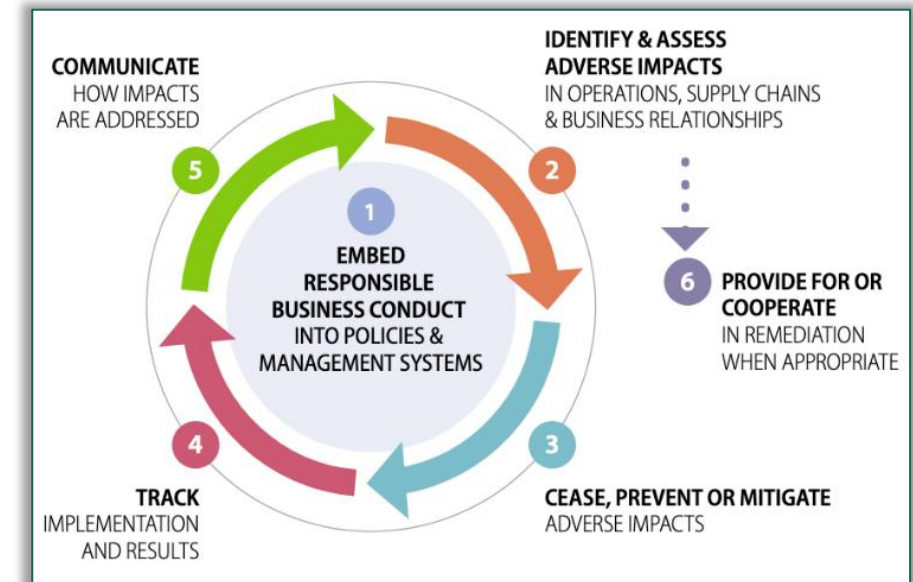
Requirements in a nutshell

- **Risk assessment:** Identify, analyze and map the risks resulting from company's activities. A basis to determine mitigation measures and their implementation
- **Prevention and mitigation:** Mere assessment and reporting have limited effectiveness, therefore companies are required to also establish further suited measures
- **Monitoring:** Set mechanisms to assess the effectiveness of the measures that have been implemented
- **Reporting:** Disclose identified risks and negative impacts and inform whether any action is being taken to address these risks
- **Enforcement:** Administrative and criminal sanctions as a result of non-compliance. Additional liability clause implies that companies are legally responsible for human rights and/or environmental breaches in their supply chains

The role of voluntary sustainability schemes in due diligence regulation



- The primary role of VSS is to **collect and enable access to information** about environmental and social aspects, **identifying risks and thus preventing or mitigating** negative impacts
- Sustainability criteria of VSS align with OECD due diligence framework, as these cover the “assess, prevent, monitor and mitigate” steps
- Some of regulations directly refer to certification as a useful tool for supply chain due diligence, e.g. EU Legal Framework to Hold and Reverse EU Driven Global Deforestation and EU Supply Chain Law
- Companies can use VSS to **assess risks of supply chains** and to determine where and what kind of **corrective action is necessary**



4C enables credible and efficient due diligence process in green coffee bean supply chains: Linking 4C to FAO-OECD due diligence steps

Identify and assess

- 4C System covers environmental and social risks
- Innovative risk assessment procedures through satellite monitoring
- Professional third-party audits
- 4C Integrity Program additionally strengthens the certification process

Communicate

- 4C logo off- and on-pack supports your sustainability commitment
- Conduction of case studies
- Using the results of sustainability projects to communicate additional engagement for specific risks



Cease, prevent or mitigate

- Continuous improvement plans
- Inclusive system for smallholders
- Supply chain mapping and ensuring traceability
- Project implementation for increased impact on the ground

Track

- Keeping track via transparent and secure 4C certification database
- Mandatory commercial reporting
- Tools to automatize and digitalize data collection, e.g. Independent Smallholder App



4C identifies risks in the green coffee bean supply chains

Risk and negative impacts assessment

4C supports coffee companies through:

- **Regular risk assessment procedures for 4C certified products**
 - these are conducted within professional third-party audits in a thorough manner to determine potential adverse impacts
- **Innovative risk assessment tools**, e.g. **satellite monitoring system** to verify sustainability criteria and assess risk levels for the relevant topics such as biodiversity, land use change, and carbon stock
- **Integrity program** which additionally strengthens the certification process. Audits are planned on risk or random basis and conducted by independent auditors, reporting directly to 4C



4C supports in ceasing, preventing and mitigating risks and negative impacts

Mitigation of risks and prevention of serious violations

4C enables the establishment of mitigation and prevention mechanisms:

- 4C mitigates risks via **supply chain mapping** and ensuring their traceability by **requiring physical segregation**
- **4C Improvement Plans** include corrective actions and progress targets
- 4C conducts **regular trainings with its 4C System users** on general certification topics and specific improvements, e.g. in the field of biodiversity
- 4C implements **projects on the ground** to tackle root causes of complex issues and increase positive impact



4C performs a number of monitoring activities

Monitoring systems to follow-up on the measures taken

4C is keeping track:

- Via transparent and secure 4C certification database as well as **tools to automatize and digitalize data collection**, e.g. Independent Smallholder App
- Using **remote sensing technologies**, 4C regularly screens progress of the 4C producer groups
- **4C Improvement Plans** enable **monitoring** of the implementation status, allowing for targeted addressing of issues, developing efficient data-based intervention measures and, thus, minimizing negative impacts
- Mandatory **commercial reporting** enables 4C to follow 4C certified green coffee beans



4C enables efficient communication and fulfilling of reporting obligations

Transparency and disclosure

4C provides data and functions as a versatile tool for communication and reporting:

- Audit reports, Business Partner Maps and Improvement Plans are securely stored in the **4C database** allowing 4C and its system users to keep track of certification process and corrective actions
- 4C certificates are publicly available on the 4C website to ensure **transparency**
- **4C logo off- and on-pack** credibly supports companies' sustainability commitments
- 4C certification significantly **reduces red tape efforts** for companies connected to the mandatory reporting under upcoming due diligence requirements



4C helps companies to take due care of their supply chains

Enforcement

- A few laws consider introducing liability that implies that companies are legally responsible for human rights and/or environmental breaches in their supply chains
- This clause is a major cornerstone in national and international discussions
- The majority agrees that **a company should not be held liable if it can prove that it took all due care to prevent and mitigate negative impacts** in its supply chains
- As a reliable and trustworthy certification scheme, **4C supports companies in implementing secure and robust due diligence** in their green coffee bean supply chains

Certification provides regulatory value and is an important element of a balanced approach to due diligence



Upcoming due diligence requirements create and increase legislative pressure on companies to **uphold environmental and human rights standards** in their supply chains



Certification is a **proven and efficient method to take control of traceability, quality and sustainability** in highly complex global supply chains



As an **independent third-party certification**, 4C represents a **reliable instrument** to support companies in complying with a number of due-diligence requirements



4C creates **shareholder and consumer value** for companies, enabling responsible sourcing, transparent reporting and credible communication. It also provides **regulatory value**, helping to meet increasing due diligence requirements on national and global levels



Thank you for your attention! Any questions?



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