

COMMENTARY

Throwing the Chocolate Bar Out with the Bathwater:

How Cadbury's transition to an in-house sustainability standard threatens the sustainability of the cocoa sector

Jason Potts
January 2017

Cadbury's recent decision to develop its own in-house sustainability standard rather than continue to rely on Fairtrade International certification is a great step backwards for global cocoa sustainability.

The transition to an in-house sustainability standard will reduce the level of public oversight, thereby diluting and confusing the market for sustainable cocoa products. As a result, producers will face reduced market benefits and higher transaction costs with the advent of "yet another" standard toward which they must demonstrate compliance.

Cadbury, which buys 15 per cent of the world's cocoa, became a global leader when it committed to source 100 per cent of the cocoa used for its Dairy Milk brand from sustainable sources in 2009. Cadbury's move led the way in what would become a wave of corporate commitments to sustainable sourcing, marking the beginning of a more generalized adoption of international voluntary standards by mainstream companies.

On December 1, however, Mondelez, Cadbury's parent company, announced that it would no longer be using Fairtrade International to source

its sustainable cocoa product; instead, it would develop its own in-house standard to accomplish its sustainable sourcing goals. Cadbury is not the first to take such a path; other major companies that have pursued a similar route include Starbucks and Nespresso. However, those companies launched their in-house initiatives in a market where independent international sustainability standards were less recognized, and the infrastructure for their implementation was less developed than it is today.

It has now been three decades since the first major international voluntary sustainability standards were launched. Since then, the sector as a whole has developed a sophisticated system for ensuring the credibility of standards that has pushed global markets towards greater transparency and enabled the existence of an actual market for sustainable products. Cadbury's decision to launch its own in-house standard reveals a deep misunderstanding of the core value of international sustainability standards, and, in so doing, risks undermining a global transition to sustainable cocoa production more broadly.



Missing the Point

After more than six years of using the Fairtrade International certification for part of its supply chain, Cadbury has concluded that certification alone cannot ensure the sustainability of its entire supply chain—and they are correct in reaching this conclusion. Certification systems are principally designed to recognize production systems that already *are* meeting specified sustainability requirements. But in many producing regions, particularly across the developing world, the gap between actual production and sustainable production is large. Closing the gap typically requires investment at both the farm level and the community level in the form of schools, medical facilities and other infrastructure. International voluntary standards have neither the resources nor the mechanisms to enable the transition to sustainable production. But while international standards do not, and cannot be expected to, build sustainable production systems on their own, they do facilitate the transition to sustainable production by enabling the existence of a formal market for sustainable products.

Reduced Market Benefits for Producers

Consumer and corporate demand for sustainable products is predicated on the ability of buyers to identify which products are actually sustainable. Consumers can only “care” about the sustainability of the products they purchase if they have a way of acting on such concerns. In the world of global supply chains, and where the sustainability of production is not verifiable by the physical characteristics of the product, some additional process is required to ensure that practices have been applied to ensure that sustainable practices have been applied.

Cadbury’s in-house standard may *claim* to do as much or more than other international standards—and perhaps it even *will*. But who can tell? As an internally managed system, the new Cadbury standard will always be subject to legitimate questions and criticism from an uncertain public.

By requiring independence in both the standard-setting and conformity assessment processes, third-party certification offers one of the most compelling models of ensuring that market claims are actually supported by real practice and not unduly influenced by special interests. It is also the prerequisite to the very existence of the rapidly growing market for sustainable products, which allows consumers to choose, and producers and manufacturers to compete, based on sustainability parameters.

It is only in the presence of credible and independent market claims about sustainability that actual market value can be attributed to the adoption of sustainable production practices. While the most obvious form of market value comes from higher premiums, producers can receive a variety of other market benefits, ranging from increased market access, to longer-term supply relations, to enhanced access to finance. Producers that adhere to a single in-house standard, on the other hand, gain no market benefits other than those offered by the owner of the standard (e.g., access to that buyer’s supply chain).

Even worse, producers who comply with a corporate-owned standard run the risk of becoming hostage to a single buyer by making investments to meet the needs of that buyer. They thereby have fewer resources to invest in adapting to, or accessing, the broader market. At a minimum, producers faced with a new in-house standard will incur additional transaction costs related to demonstration of compliance with yet *another* standard. International standards, on the other hand, reduce the burden on producers by pooling consumer/buyer preferences thereby reducing the number of systems.

A Race to the Bottom

Even if the new in-house Cadbury standard offers requirements and conformity assessment processes on par or above those offered by international standards, it will have delivered a powerful blow to all efforts to create meaningful markets for sustainable products. Of course, the deeper fear



is that Cadbury's corporate-owned standard may be less robust than those offered by competing international standards. In this case, the transition to an in-house standard would represent not only an additional burden for consumers and producers who have to try to figure out what the meaning of the standard is, but also run the risk of promoting a "race to the bottom," whereby competitors feel compelled to abandon more rigorous independent standards in favour of watered-down in-house standards or corporate social responsibility (CSR) programs. And there is good basis for such a fear. Mondelez promised to honour and maintain its commitments to sourcing from Fairtrade International when it initially acquired Cadbury in 2010: a promise that it seems perfectly comfortable with forgetting now that the dust of the controversial acquisition has settled.

Sanitizing Public Participation

One of the major inspirations behind the growth of voluntary sustainability standards has been their ability to give voice to stakeholders that otherwise might have little to no influence in determining supply chain policy. Voluntary sustainability standards have largely achieved this by organizing themselves under multistakeholder governance models whereby stakeholders from different parts of the global supply chain are given formal authority over the development and enforcement of production requirements.

Participatory governance has long been considered a pillar of sustainable development, and a growing number of voluntary sustainability standards have made significant progress in developing systems to more efficiently enable multistakeholder oversight and participation. While different standards have realized this objective to varying degrees, Fairtrade International, the initiative under which Cadbury currently sources its sustainable cocoa, represents one of the more inclusive initiatives available on the market today, with a board structure consisting of producer groups, consumer groups and companies.

Cadbury will, no doubt, consult stakeholders in the development and implementation of its new in-house standards; however, no matter what system of external checks and balances Cadbury introduces to its internal system, it will always be nothing more than that—an internally dictated and managed system. That is, after all, the precise distinction between an "in-house" and an external (international) standard.

Cadbury's decision to transition from Fairtrade International towards a standard owned and governed by Cadbury itself, therefore, is in direct and explicit opposition to the participatory governance model that Fairtrade and other similarly situated international certification schemes embody. On this count alone, the launch of an in-house standard flies in the face of one of the cornerstone principles of sustainable development.

Information as a Public Good

Ultimately, Cadbury (or perhaps more accurately, Mondelez) has fundamentally failed to recognize the true value that voluntary sustainability standards have to offer. By allegedly focussing solely on improving producer outcomes (a focus that, itself, is subject to serious question given the above observations), Cadbury misses the role of standards in providing more sustainable governance of international supply chains; of improving efficiencies and economies of scale through the pooling of resources; and of providing credible information to markets on sustainability performance. In so doing, Cadbury's new standard can also be expected to miss its objective of actually leading to improved producer outcomes, since these can only exist within the context of credible information and inclusive governance, which have, *a priori*, been sacrificed through the adoption of an in-house process.

Finally, Cadbury's decision to opt for an in-house standard is a repudiation of the public nature of international voluntary sustainability standards. Although technically a form of "private" coordination, multi-stakeholder international standards offer governance, market pooling and information services that enable more transparent,



open and inclusive operation of global markets; services which themselves are a form of public good. Credible independent multi-stakeholder voluntary standards, such as Fairtrade, should therefore be regarded as a form of public good, distinct from their truly private (in-house) counterparts, and supported accordingly through proactive fiscal, regulatory and development policy. Unless this is the case, their ability to survive in a world that seeks to externalize the costs of improving market efficiency and inclusiveness will be under constant threat.

The Bittersweet Truth

Cadbury's decision to transition to an "in-house" standard is a symptom of the larger problem facing voluntary standards. If the market is unwilling to pay for the costs of demonstrating sustainable practice, how can it be expected to pay for the astronomically more costly endeavour of actually transitioning to sustainable practice? And on what basis will consumers, companies and policy-makers be able to determine that their purchases and investments are contributing toward such a transition without a rigorous mechanism for identifying sustainable practice?

Cadbury has learned that certification alone will not deliver the sustainability of its supply chain; however, the decision to move away from the use of international standards merely reduces the potential of *ever* generating the resources required to enable the transition to sustainable practices. Formal, credible markets are a prerequisite to leveraging the market to invest in the transition to sustainability. Instead, Cadbury will now be faced with generating such resources from its own purse, which will, inevitably, be insufficient to achieve the full sustainability of its supply chain. In opting for an in-house standard, Cadbury may have thrown the proverbial baby, or in this case the sustainably sourced chocolate bar, out with the bathwater.

© 2017 The International Institute for Sustainable Development
Published by the International Institute for Sustainable Development.

INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT

The International Institute for Sustainable Development (IISD) is one of the world's leading centres of research and innovation. The Institute provides practical solutions to the growing challenges and opportunities of integrating environmental and social priorities with economic development. We report on international negotiations and share knowledge gained through collaborative projects, resulting in more rigorous research, stronger global networks, and better engagement among researchers, citizens, businesses and policy-makers.

IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the International Development Research Centre (IDRC) and from the Province of Manitoba. The Institute receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations, the private sector, and individuals.

Head Office

111 Lombard Avenue, Suite 325
Winnipeg, Manitoba
Canada R3B 0T4

Tel: +1 (204) 958-7700

Fax: +1 (204) 958-7710

Website: www.iisd.org

Twitter: [@IISD_news](https://twitter.com/IISD_news)



IISD.org