



# ICE Commodity Traceability (ICE CoT)

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# Agenda

1. E.U. Deforestation Regulation
2. ICE Commodity Traceability (ICE CoT) Service
3. ICE Benchmark Administration

# E.U. Deforestation Regulation (EUDR)

## Article 3 - Prohibition

Relevant commodities and relevant products **shall not** be placed or made available on the market or exported, unless all the following conditions are fulfilled:

- (a) they are **deforestation-free**;
- (b) they have been produced in accordance with the relevant legislation of the country of production; and
- (c) they are covered by a **due diligence statement**.

### ANNEX I - Relevant commodities and relevant products as referred to in Article 1

Relevant commodity	Relevant products
<b>Cocoa</b>	1801 Cocoa beans, whole or broken, raw or roasted 1802 Cocoa shells, husks, skins and other cocoa waste 1803 Cocoa paste, whether or not defatted 1804 Cocoa butter, fat and oil 1805 Cocoa powder, not containing added sugar or other sweetening matter 1806 Chocolate and other food preparations containing cocoa
<b>Coffee</b>	0901 Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion



# What is the E.U. Deforestation Regulation (EUDR)?

- Dec. 31, 2020: EUDR cut-off date for deforestation
- June 29, 2023: EUDR entered into force
- Dec. 30, 2024: EUDR entry into application

## Due diligence

For products placed on, or exported from, the E.U. market, traders and operators will need to produce a Due Diligence Statement (DDS) including the geolocation of every farm plot – either a GPS point or a polygon if the plot is over 4 hectares.

The DDS also includes confirmation that due diligence in accordance with the regulation has been carried out. Due Diligence can be checked (audited) by authorities.

### Article 9 - Information

- including quantity, time of production, country, geolocation, name and address of suppliers
- 'adequately conclusive and verifiable information that the relevant products are deforestation-free'

### Article 10 – Risk assessment

- 'Operators shall verify and analyze the information collected ...and shall carry out a risk assessment'

### Article 11 – Risk mitigation

- Collecting additional data, carrying out independent surveys/audits
- Adequate controls and procedures to effectively manage risks of non-compliance
- Measures and procedures need to be documented and available for checks by authorities

# EUDR definitions & liability- 'trader' and 'operator'

## Operator

- Legislation definition
  - An operator is a 'person who .... places relevant products on the [EU] market or exports them'

## Trader

- 'any person in the supply chain other than the operator who...makes relevant products available on the market'

## Obligations (from EUDR FAQ #34)

- 'By virtue of Article 5(1) of the Regulation, the obligations of large traders are the same as those of large downstream operators:
  - They need to file a due diligence statement
  - They need to check the due diligence previously carried out in the supply chain
  - They are liable in case of a breach of the Regulation.'

# EUDR liability, checks and penalties

## Liability (from EUDR FAQ #35)

- FAQ 35. 'Who will be held liable if products have already entered the market or in case information is not properly disclosed by the operator?'
- FAQ Answer: ' All operators retain responsibility for the compliance of the relevant product they intend to place on the Union market or export from it. The Regulation also requires operators (or traders which are not SMEs) to communicate all necessary information along the supply chain. Therefore, in case of a breach of the Regulation, each actor of the supply chain concerned with the specific shipment is held liable'

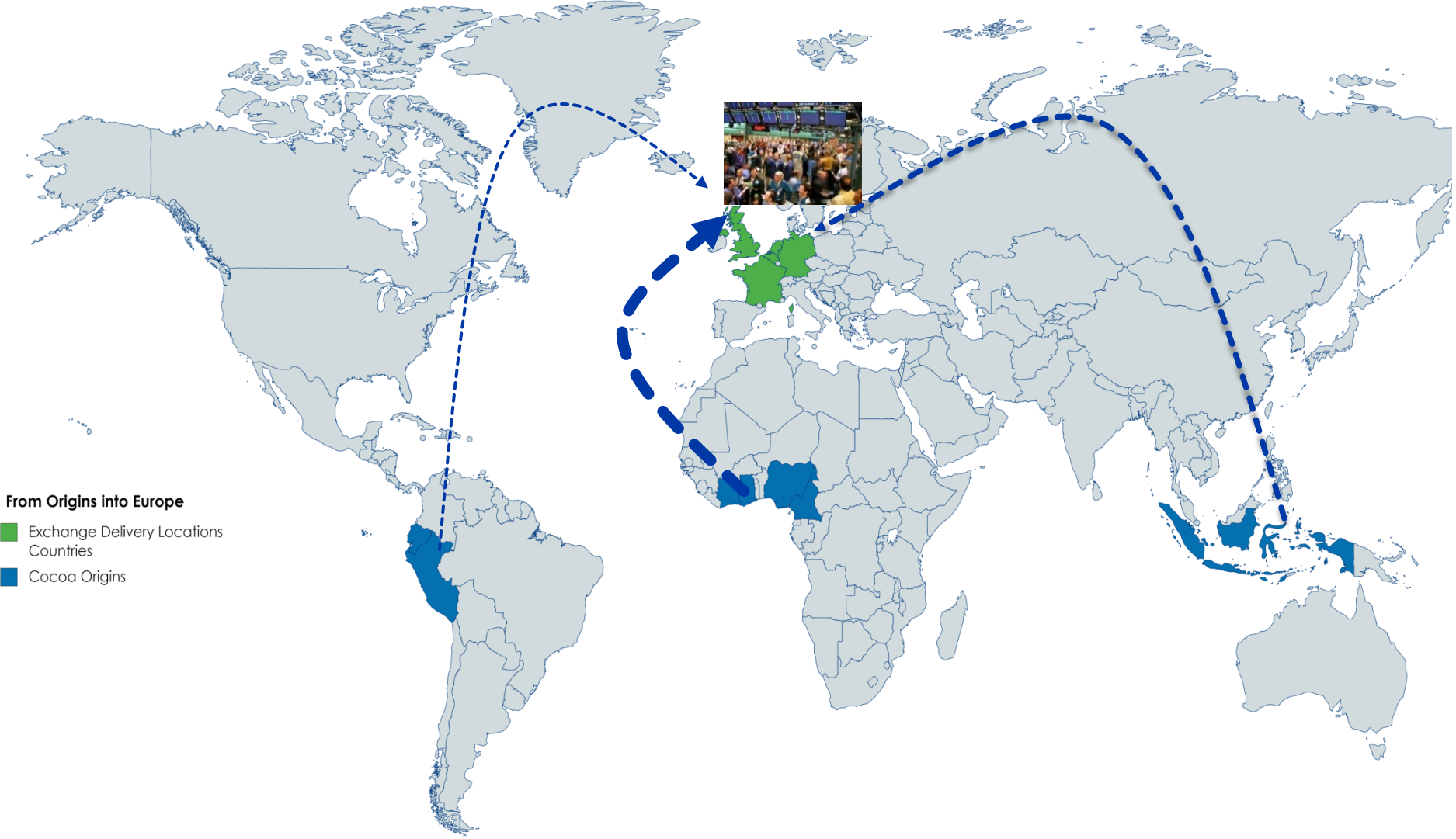
## Checks

- National Competent Authorities will carry out annual checks on up to 9% of traders and operators

## Penalties

- Non-compliance could result in a fine of 4% of the company's annual turnover within the E.U.

# Central Role of the E.U. and the futures market in world-wide cocoa trading



# One marketplace for hedging and trading robusta coffee



Created with mapchart.net ©



# Implications for traders and operators (coffee)

Format	Weight	Likely <u>minimum</u> number of farms contributing data <sup>3</sup>
20ft container – <i>coffee example</i>	19.2 MT (320 bags)	320+ farms
Standard Bill of Lading	100MT	3,000+ farms
Bulk shipment or bulk pile	5,000MT	80,000+ farms

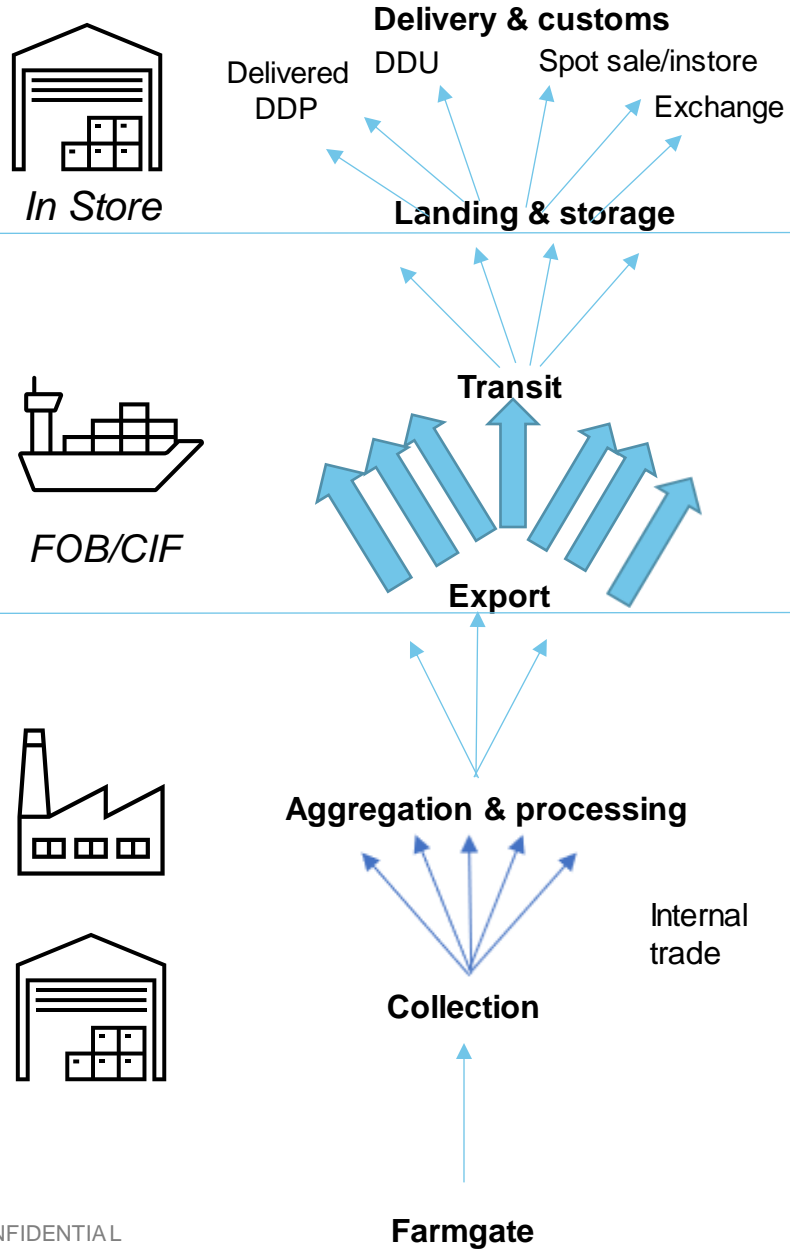
- All plots of land must be identified, and compliant products must not be mixed with products of unknown or deforested origin at any step of the process<sup>1</sup>
- If identification and separation cannot be done, then the whole shipment is non-compliant<sup>2</sup>
- Standardization for quality and/or bean size would increase mixing
  - the number of farms could increase by a multiple (x3 x4 x5)

1. [FAQ - Deforestation Regulation 1.pdf \(europa.eu\)](#) FAQ#4

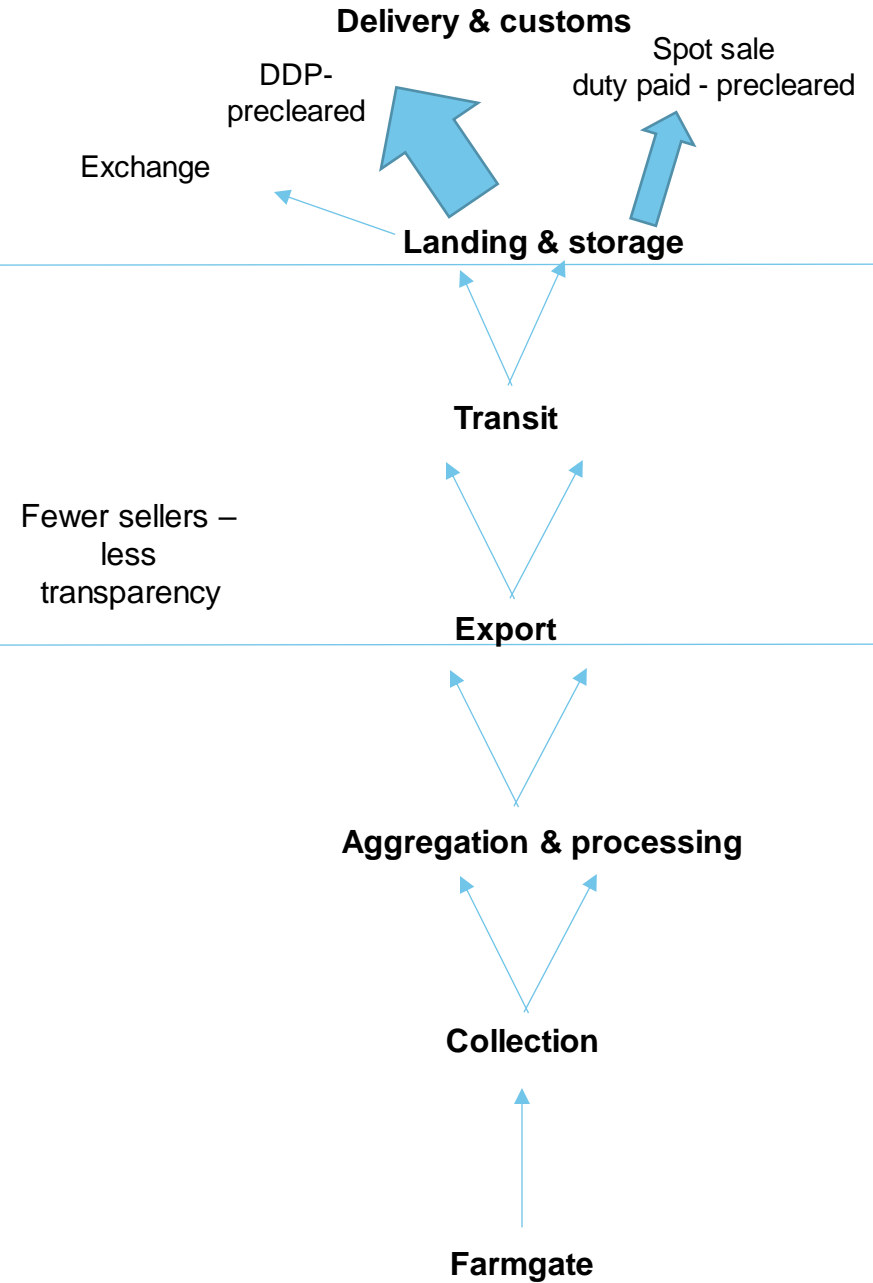
2. [FAQ - Deforestation Regulation 1.pdf \(europa.eu\)](#) FAQ#5

3. Assumes 1 bag from each farmer, 16 bags per MT and a segregated supply chain

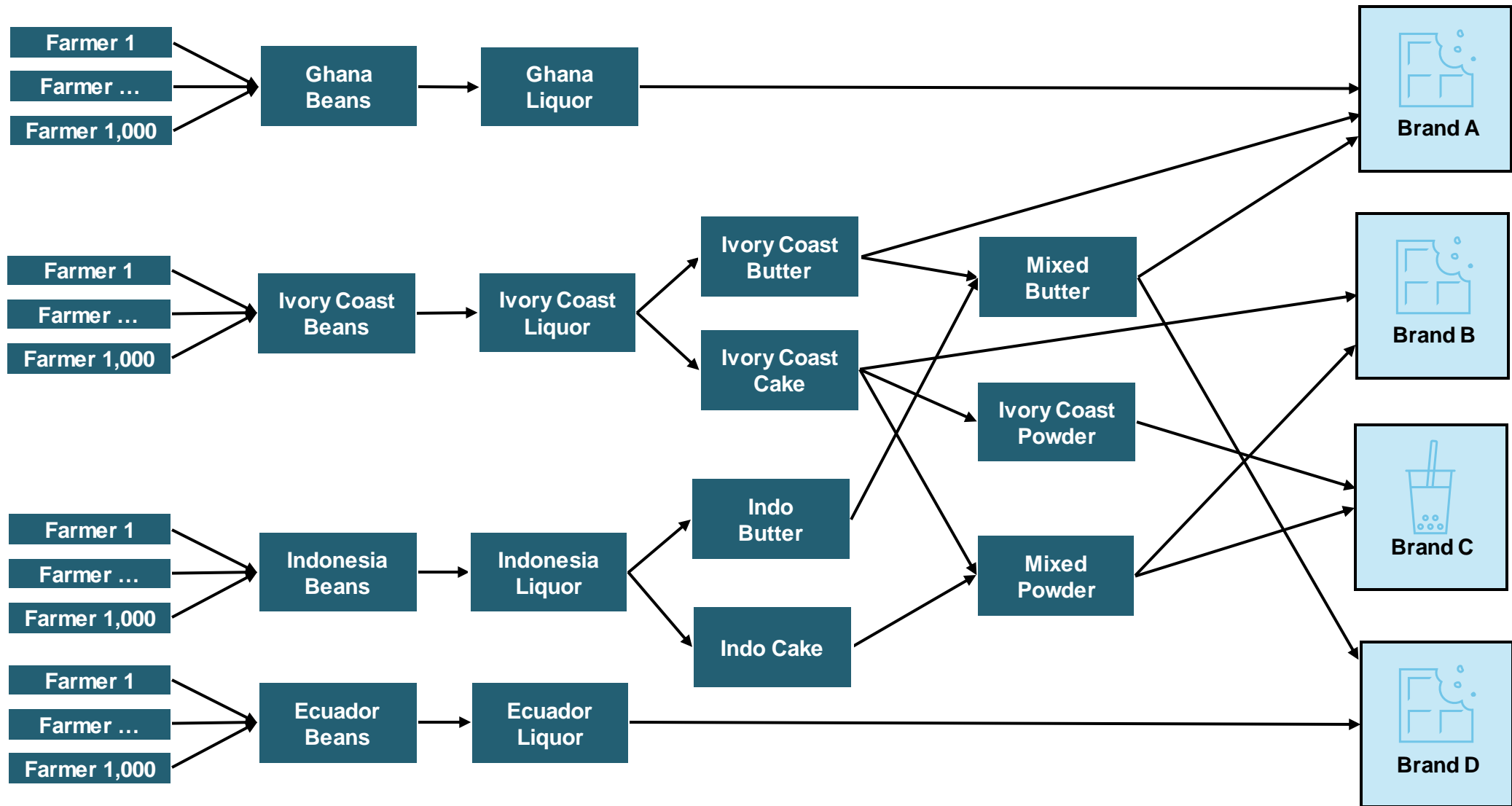
# Pre-regulation flow



# potential Post-reg flow



# Cocoa: A complex global supply chain



# Challenges for the coffee and cocoa industry and trade (opinion)

## Will there be a deficit of EUDR compliant coffee in 2025 and beyond?

- Will direct supply chains meet the demand?
- Need to make third party suppliers and indirect supply chains compliant

## EUDR adds complexity to trading

- Requirement for due diligence checks by buyers on suppliers
- Danger of de-commoditization
- Threats to the existing trading models of the industries
- Contractual terms for coffee and cocoa bound to Europe will need to incorporate EUDR terms
- De-commoditization and restricted trade could hinder the price discovery process



# **ICE Commodity Traceability (ICE CoT) Service**

# ICE CoT: Facilitating trade along the supply chain

- **Standardisation** – ICE CoT will support the submission of traceability data in a consistent format that can be shared along the supply chain
- **Validation** – ICE CoT is designed to carry out independent validation designed to ensure that the data provided demonstrates compliance with EUDR and is reasonable and complete
- **Confidentiality** – ICE CoT allows traceability data to pass from buyer to seller while remaining confidential. This data can be made available to a national competent authority when required
- **Increased trust** – before trading, sellers can demonstrate that parcels have been validated by ICE CoT and have the required data
- **ICE Futures Markets** – ICE CoT will be able to support beans delivered for the ICE Futures Markets
- **Commercial flow** – ICE CoT is designed to support the whole cocoa and coffee industry. This will include cocoa products such as liquor, butter, powder and chocolate

# ICE CoT: Independent validation of traceability data

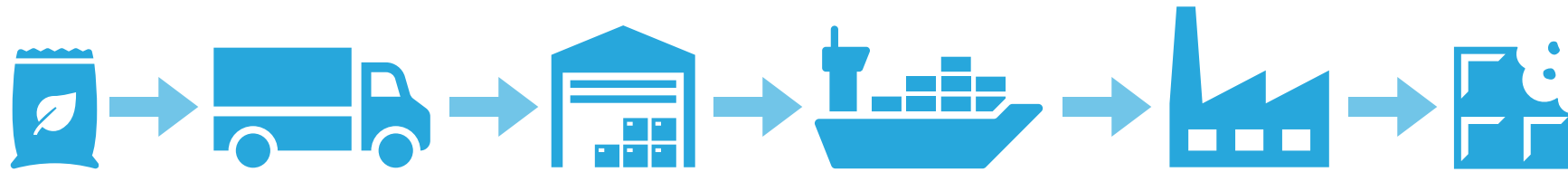
- ICE CoT is designed to carry out automated validation checks on all farm and traceability data, to ensure compliance, reasonability and plausibility
- For the development of this validation IBA is collaborating with Meridia Land B.V. (Meridia), an agricultural technology company specializing in the verification of farm origin and supply chain data



## ICE CoT validation checks will include:

- Validate that each plot is not in an area of deforestation, according to the reference map
- Validate that each plot is not within a protected forest, according to maps produced by each origin country
- Conduct additional sense and reasonability checks on farmer and plot data
- Conduct sense and reasonability checks on physical flow and processing data

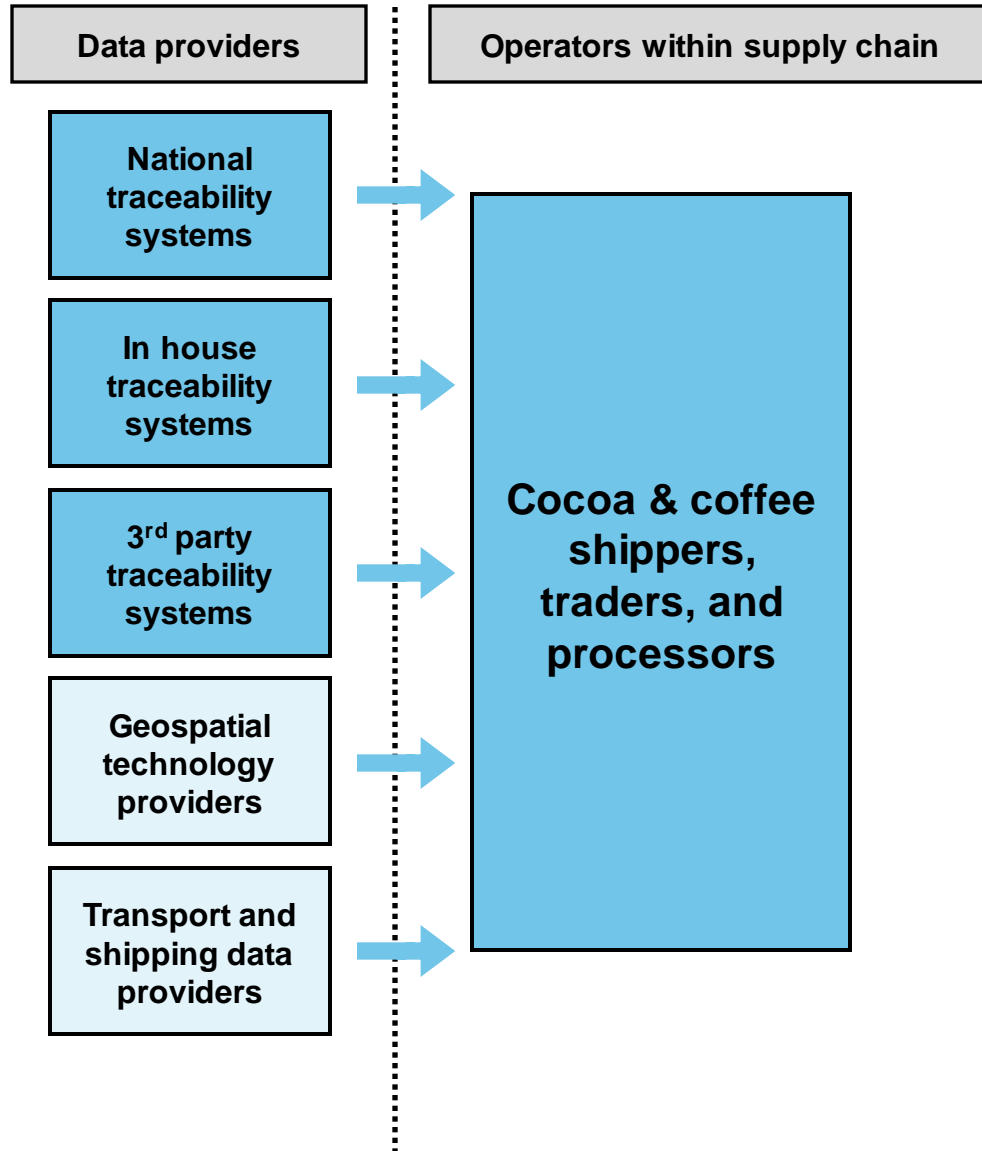
# ICE CoT: Tracking parcels through the cocoa supply chain



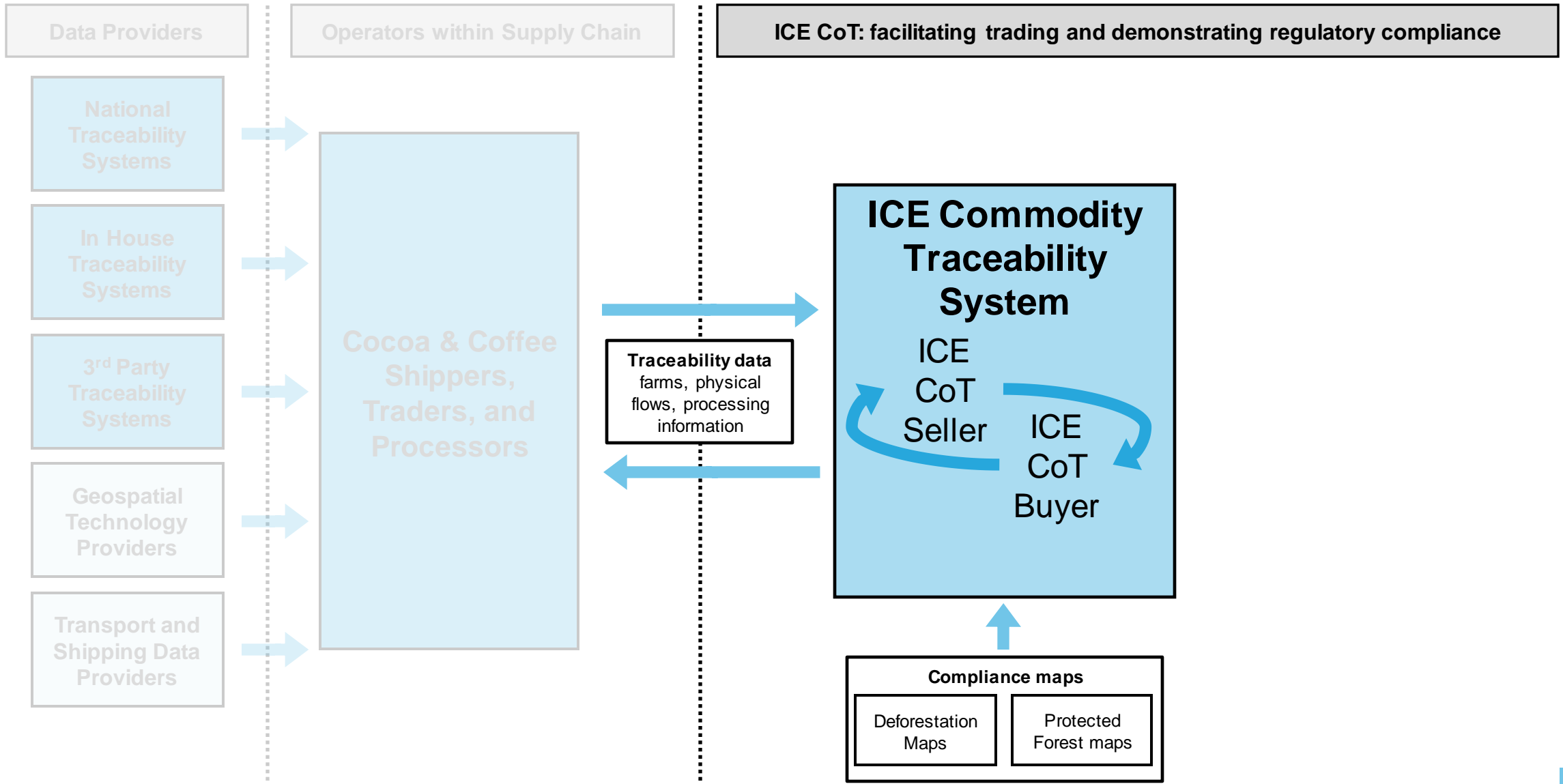
- ICE CoT tracks parcels that are submitted to the platform. For each parcel, a full set of traceability data must be provided
- Traceability data includes the plots the product was sourced from, as well as details of the physical flows and processing along the supply chain
- Parcels can be transferred from buyer to seller within ICE CoT. When this happens the associated traceability data will move with the parcel and remain confidential. The buyer can build upon this traceability data as they move, merge, split and process parcels
- ICE CoT is designed to support the submission of due diligence statements
- Traceability data can be made available to national competent authorities to support checking of parcels



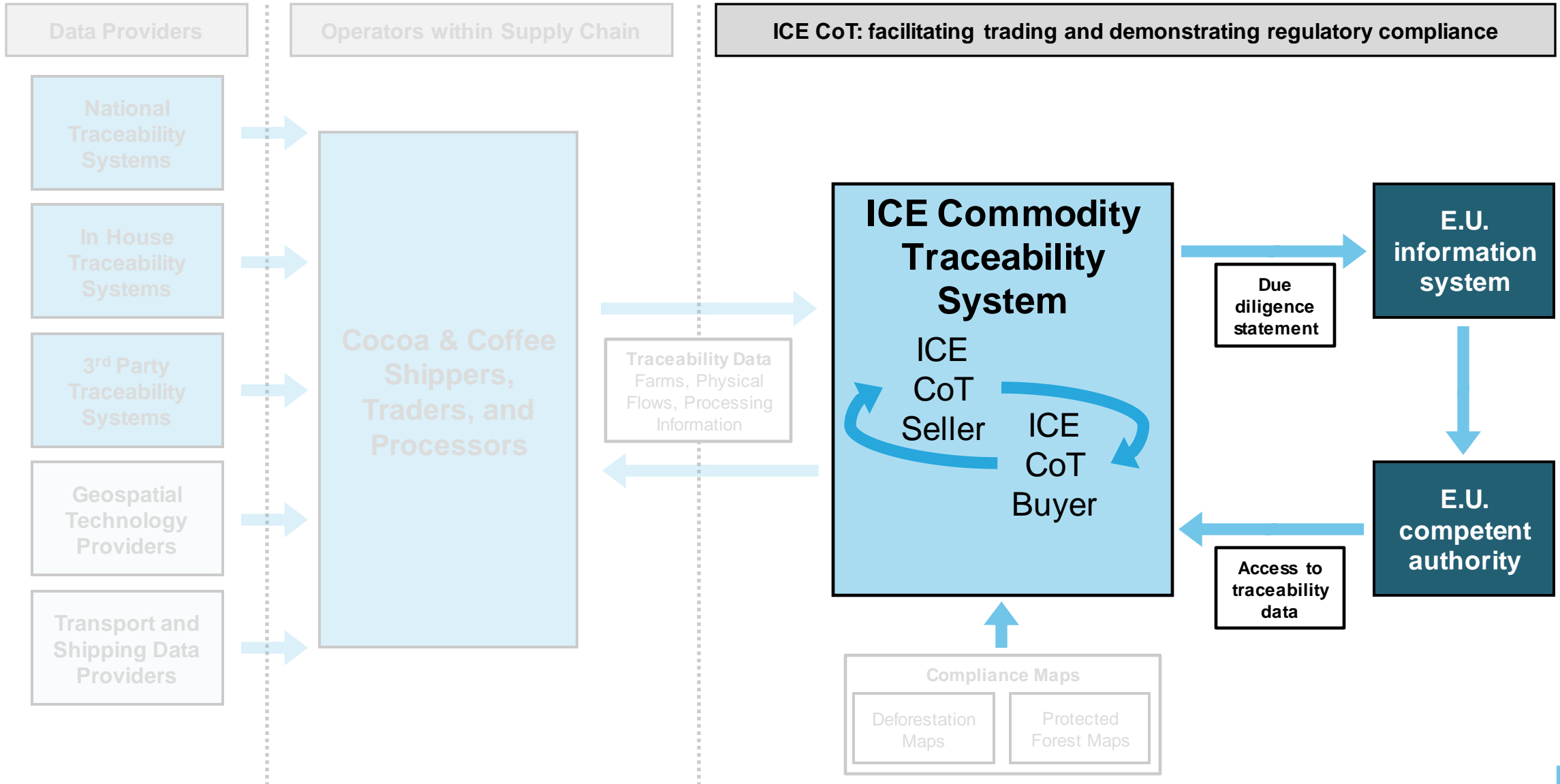
# ICE CoT: System Overview - 1



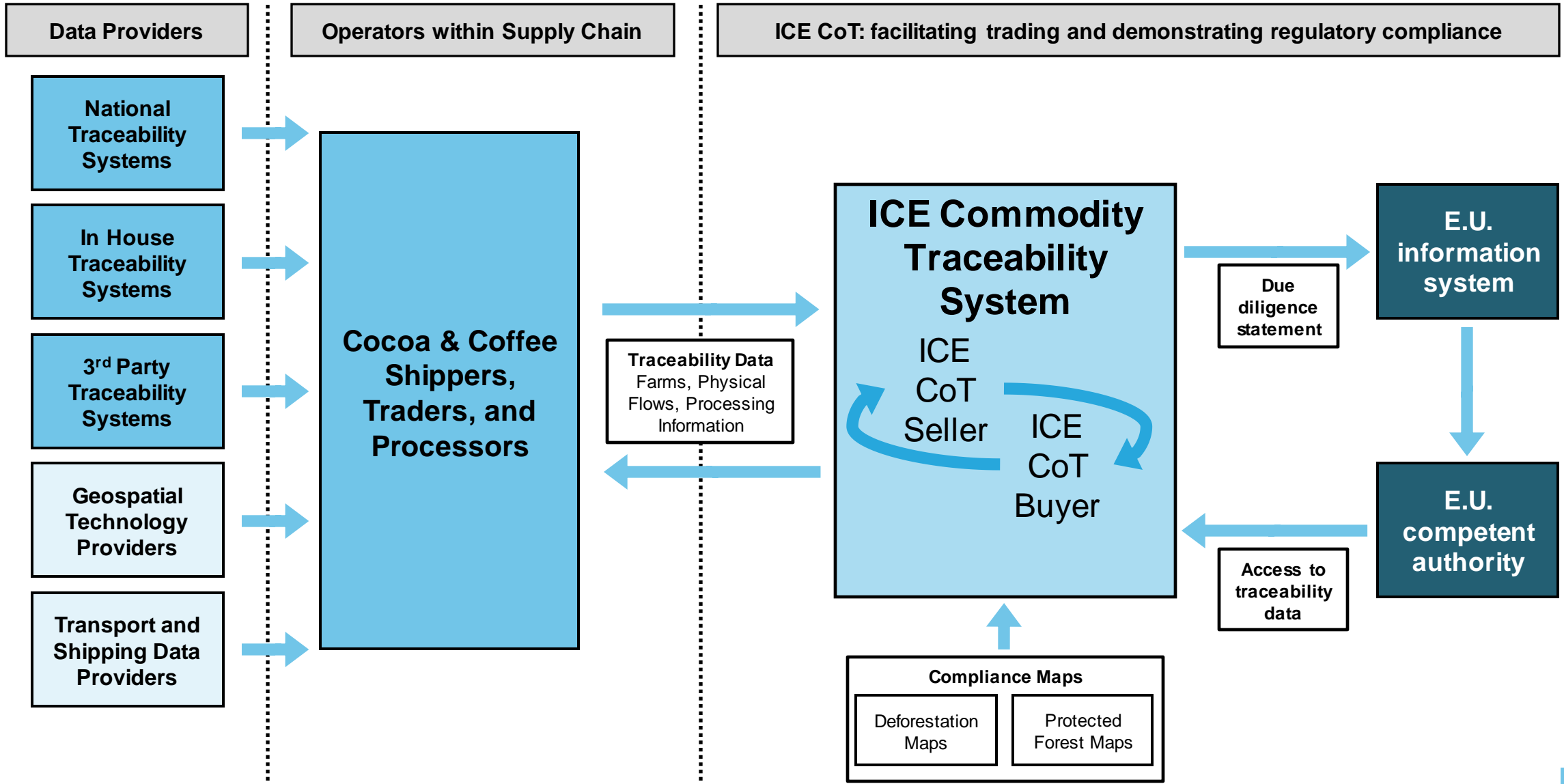
# ICE CoT: System Overview - 2



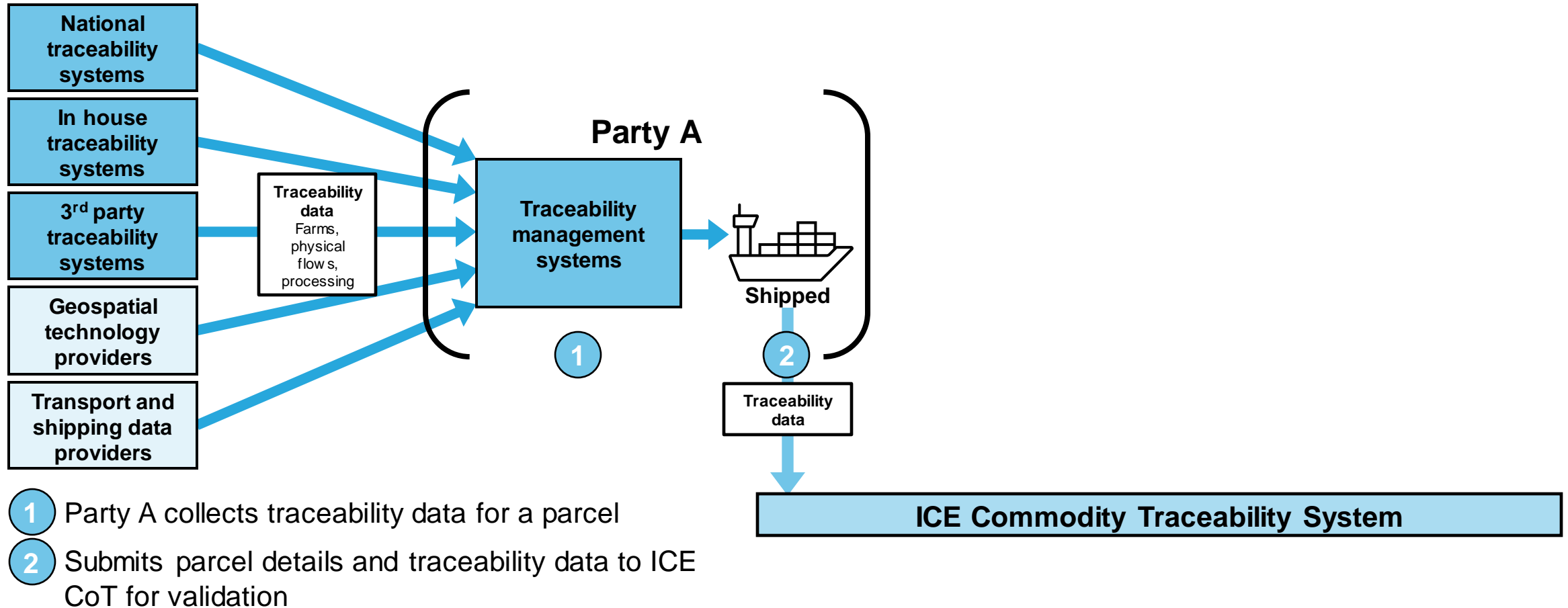
# ICE CoT: System Overview - 3



# ICE CoT: System Overview

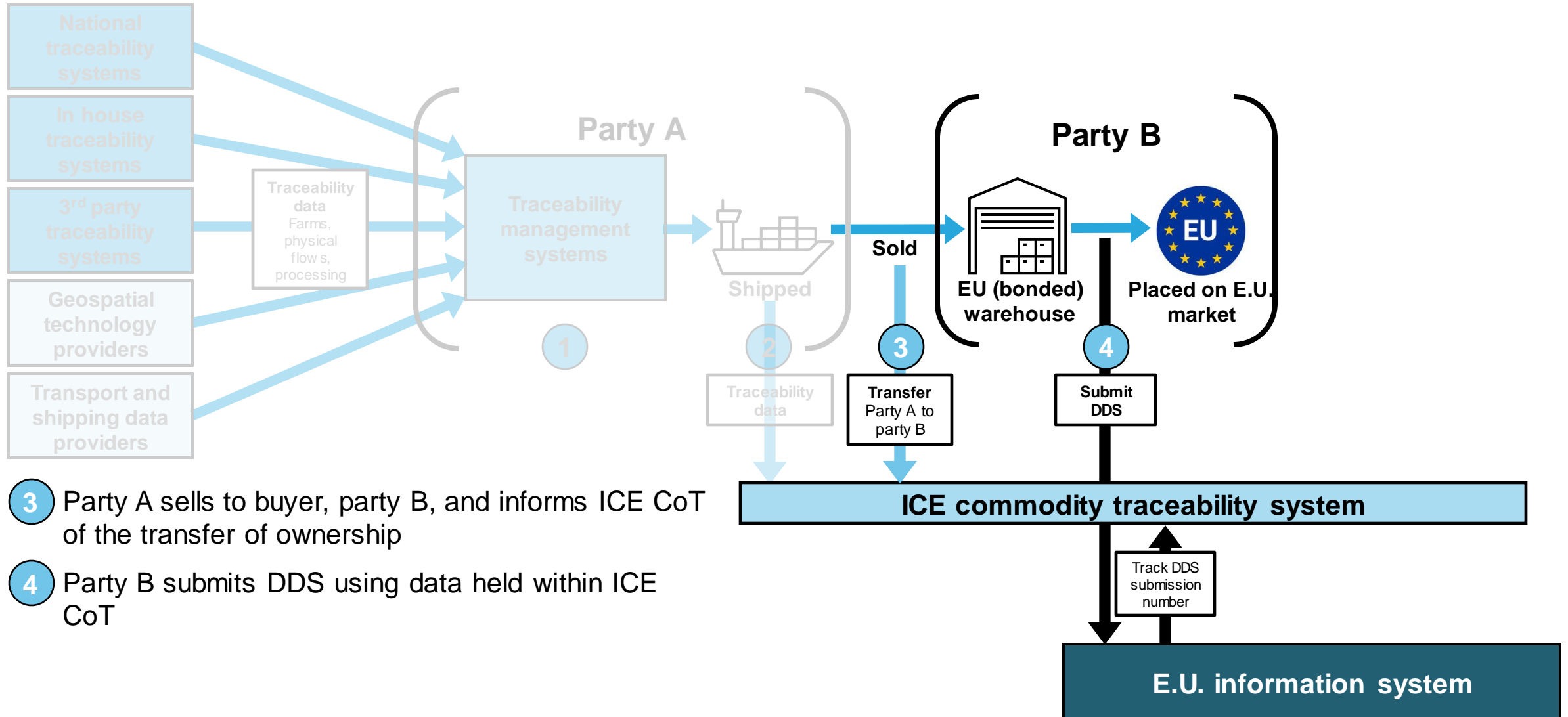


# ICE CoT: Supporting trade across the supply chain – 1



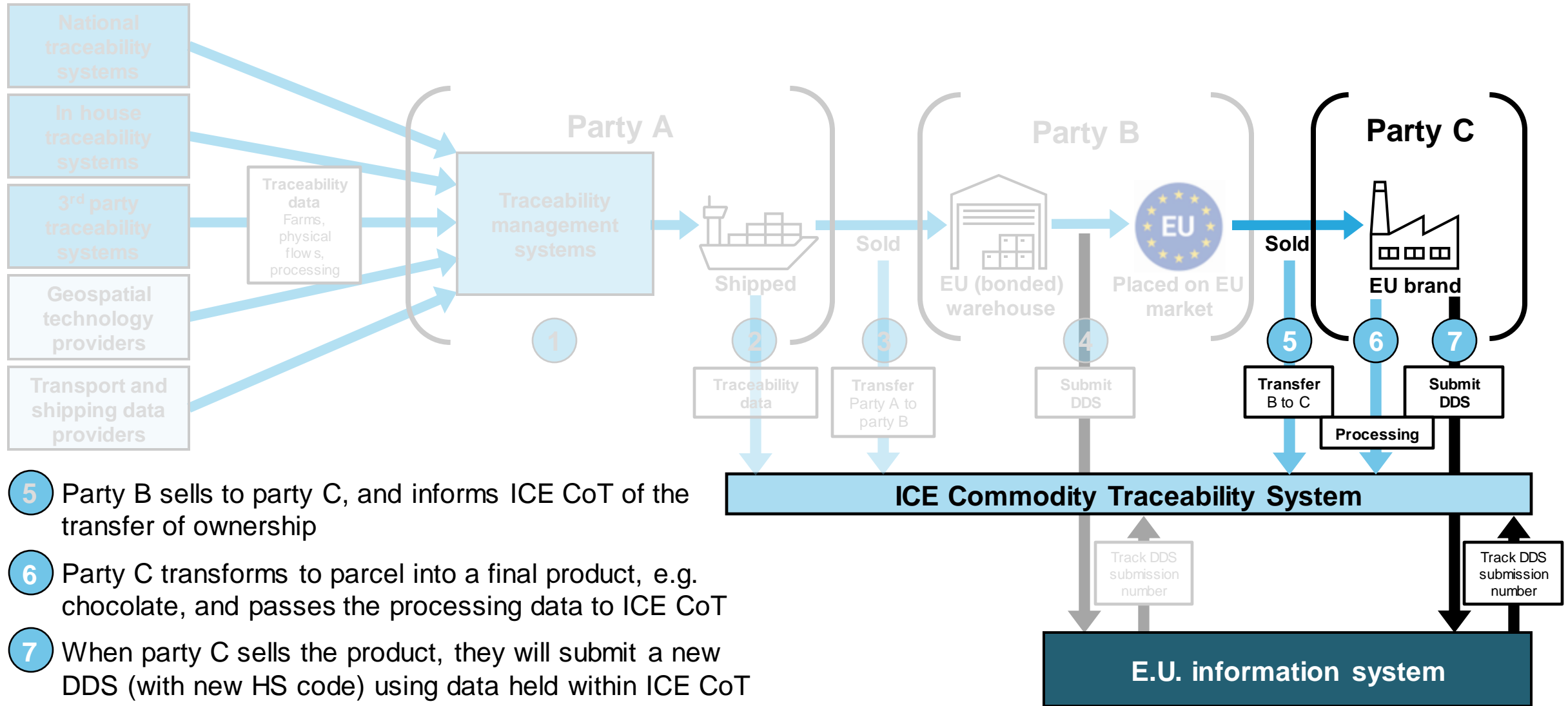
- 1 Party A collects traceability data for a parcel
- 2 Submits parcel details and traceability data to ICE CoT for validation

# ICE CoT: Supporting trade across the supply chain – 2



- 3 Party A sells to buyer, party B, and informs ICE CoT of the transfer of ownership
- 4 Party B submits DDS using data held within ICE CoT

# ICE CoT: Supporting trade across the supply chain – 3





# **ICE Benchmark Administration (IBA)**



# IBA: Governance, technology and data management

- ICE Benchmark Administration Limited (IBA) was established in 2013 and has a majority independent board of directors
- IBA's mission is to provide robust and reliable benchmark and other services that facilitate the smooth functioning of commodity and financial markets globally
- IBA is recognised worldwide for its expertise in governance, technology and data management
- IBA is authorised and regulated by the U.K. Financial Conduct Authority for the regulated activity of administering a benchmark
- IBA is owned by ICE, the world's home for trading physical commodities, including coffee and cocoa, delivered under futures contracts

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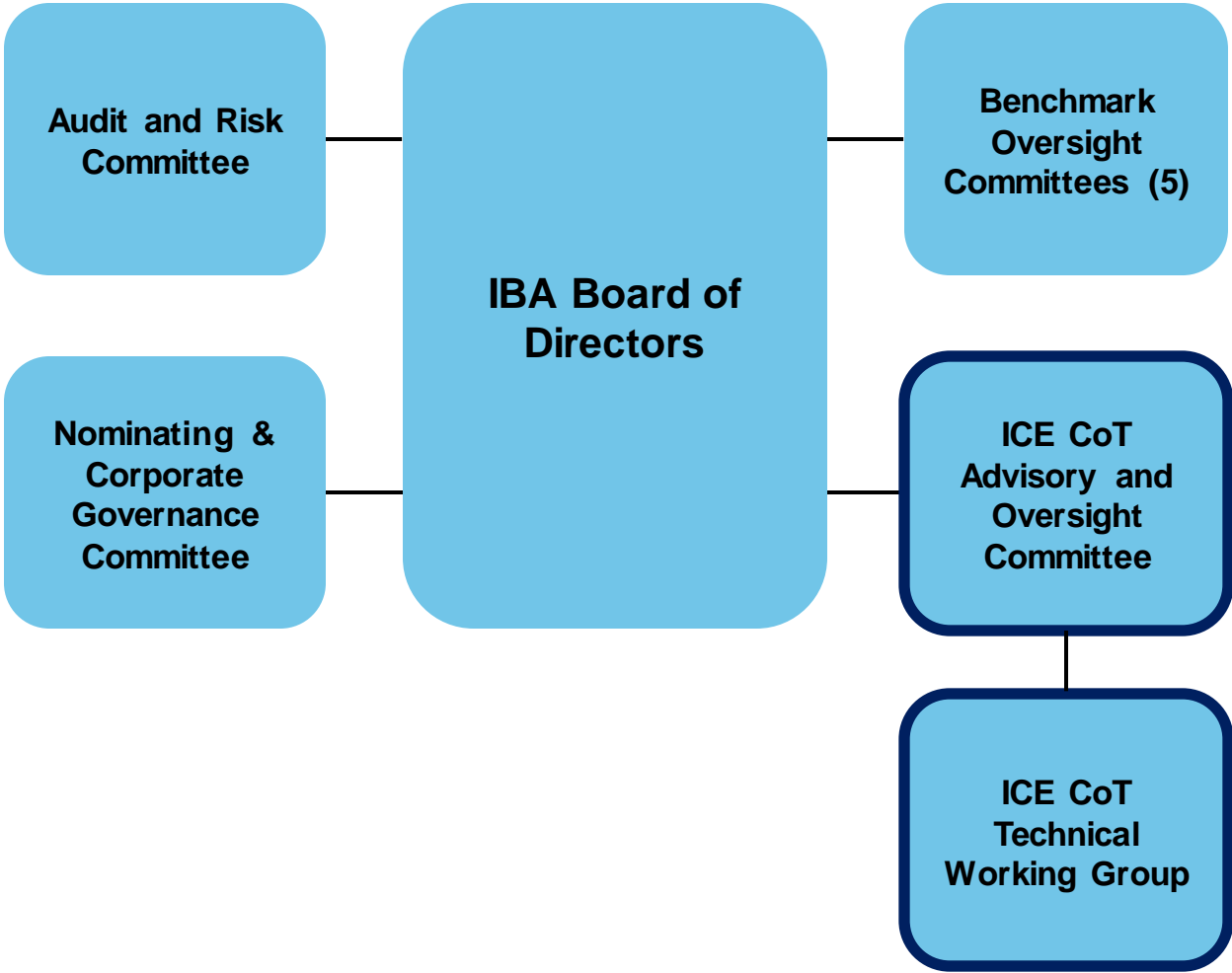
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# IBA Governance: Creating a high-trust environment for physical coffee trading



**Leading to market success**

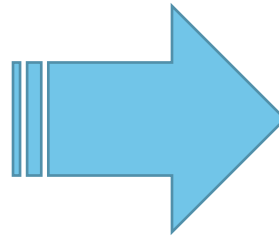
# ICE CoT Advisory and Oversight Committee: An important voice



- IBA's Board has a majority of independent directors
- The ICE CoT Advisory and Oversight Committee will be a forum for advice and guidance from diverse viewpoints:
  - Providing independent governance and direction for ICE CoT
  - Providing important input in respect of ICE CoT
  - Ensuring that the ICE CoT design addresses the needs of industry participants

## Key advantages of ICE CoT

- Strong governance builds stakeholder confidence in the ICE CoT service
- Provides independent validation of EUDR compliance data
- Increases compliance assurance for cocoa and coffee parcels making them more easily tradable
- Enables EUDR compliance data to be transferred from seller to buyer confidentially
- Strong governance builds stakeholder confidence in the ICE CoT service



## Key benefits for participants

- Reduces risk of non-compliance
- Keeps cocoa and coffee supply chain commoditised
- Facilitates both direct and indirect supply chain
- Maintains existing business models
- Enhances ROI on sustainability investments

## Contact Details

IBA would also be very happy to hold individual meetings to discuss ICE CoT. To schedule a meeting or email any questions to:

[ibalondon@ice.com](mailto:ibalondon@ice.com)

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