

FMCG INDUSTRY REPORT

An Ethixbase360 Report

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INTRODUCTION

Food and beverage companies occupy a unique niche under the fast-moving consumer goods (FMCG) umbrella. Current and upcoming challenges in compliance are rooted in a heavily globalized value chain that adds complexity to the responsibility of maintaining product quality and managing logistics. That value chain's expansive nature also means companies face greater scrutiny on labor sourcing and environmental, social and governance (ESG) performance.

The industry is also contending with a rising tide of consumer sentiment that demands attention. Recent research revealed that 88% of global consumers say they actively prioritize purchasing from companies with ethical sourcing strategies, and 83% are willing to pay more money for a product they can trust is ethically sourced. Consumers care about the impact of the products they buy, especially now that prices are higher due to inflation. Failing to acknowledge the demand for fair labor and ESG progress lays a path toward brand damage and hits to a company's bottom line.

This report will highlight particular areas of concern and offer guidance on best practices needed to thrive in a changing compliance landscape.

RECENT REGULATORY ACTIONS

Several high-impact regulations are beginning to have significant effects on companies that do business in North America.



UYGHUR FORCED LABOR PREVENTION ACT (UFLPA)

Introduced in December 2021, the UFLPA is designed to stop the import of goods manufactured wholly or in part with forced labor from China and especially the Xinjiang Uyghur Autonomous Region. It allows Customs and Border Protection (CBP) to seize any products made under forced labor conditions. In June 2022, CBP identified 20 Chinese entities and four high-risk priority sectors for targeted enforcement of import controls. Among other agricultural products vital to the food and beverage industry, tomatoes were one of the high-priority categories. Enforcement is significant, with more than 1,500 shipments seized between July 1 and September 30, 2022.

Notably, the UFLPA does allow companies to attempt to disprove that seized goods are made with forced labor. However, the level of documentation necessary makes the burden of proof more challenging than it's worth in many cases.

RECENT REGULATORY ACTIONS

Continued

FIGHTING AGAINST FORCED LABOUR AND CHILD LABOUR IN SUPPLY CHAINS ACT



This Canadian Act received royal assent in May 2023 and will come into effect on January 1, 2024. It requires entities producing, selling or distributing goods in Canada—or importing goods into Canada—to produce periodic reports that include information on:

- Structure, activities and supply chains
- Policies and due diligence related to forced and child labor
- Parts of the business and supply chains that are at risk of forced and child labor
- Measures taken to remediate forced and child labor
- Measures taken to remediate loss of income to vulnerable families
- Training of employees on forced and child labor
- Assessed effectiveness of forced and child labor remediation efforts

As the first round of reports is due on May 31, 2024, food and beverage companies doing business in Canada will have to quickly create or reevaluate policies related to prevention of forced and child labor. As 60% of all child laborers five to 17 years old work in agriculture, compliance with this regulation is of paramount concern to food and beverage companies.

UNITED STATES STRATEGY ON COUNTERING CORRUPTION



The strategy aims to step up enforcement, improve collaboration between countries and government agencies, and provide new mechanisms to bolster anti-corruption. The plan outlines five main corruption-fighting objectives. Upon greater enforcement, this strategy means that companies engaging in corruption and bribery—such as Mondelez/Kraft Foods Inc.'s Foreign Corrupt Practices Act (FCPA) violation in 2017 that resulted in a \$13 million penalty—will be punished more harshly.

TRENDING CHALLENGES

The theme of the preceding regulatory actions is accountability. In global food and beverage manufacturing, there are so many third parties needed to create even one product—from raw agricultural products to final packaging and distribution—that supply chains are often dangerously opaque. To meet the challenges of the new and reinforced regulations, companies need to resolve three central issues.

SILOED DATA

With many food and beverage companies relying on geographically widespread supply chains, there is a lack of data unification that can be dangerous as they try to comply with tighter rules. Managing complex third-party networks requires a platform that provides a single source of truth for all third parties in the ecosystem. A unified repository of policies and practices regarding anti-bribery and anti-corruption efforts will be essential as supply chains evolve globally.

INFLATION

Amid sustained inflation, companies are looking to cut costs and beat price increases. Heightened due diligence is a must for ensuring that cost cuts are not being obtained through unethical or illegal means such as employing children or greenwashing environmentally detrimental goods.

CHILD LABOR

The current child migrant crisis in the U.S. is resulting in more and more children slipping through the cracks and ending up in illegal full-time work in fields and factories that supply our food and beverages. In a [2022 list of products](#) produced by child labor or forced labor, 190 out of 458 products fall under the umbrella of food and beverage—a significant proportion of the overall number meaning this industry is more at risk of discovering child labor in its supply chains than others. Additionally, child labor violations are becoming more widespread on a federal level, with cases including multiple franchisees of McDonald's being [found to employ 305 children](#) working beyond legal hours and performing tasks illegal for their ages.

UPCOMING OBSTACLES

RESHORING & NEARSHORING

The UFLPA in particular will cause companies to withdraw from third parties operating in the Uyghur region, which means they will need to find new suppliers for product components across the value chain, from tomatoes and other raw agricultural materials to final packaging. This multi-faceted shift will require a concentrated focus in due diligence application, which a significant number of companies are ill-equipped to complete thoroughly in a short time.



GREENWASHING

As consumers become more aware of sustainability, the environmental impact of food and beverage products is becoming a point of contention. Many companies tout their packaging and products as “green” when they may not be. While North American greenwashing regulations are yet to be created, companies should note that the UK’s Competition and Markets Authority (CMA) and Advertising Standards Authority (ASA) are cracking down on the estimated 40% of green claims found to be misleading and North America may follow suit.

UPCOMING OBSTACLES

To avoid repetitional damage, companies will have to consider not just their own sustainability practices but the practices of third parties that provide packaging, handle distribution or have a hand in other emissions-causing elements of production.

INCREASED REPORTING & BENCHMARKING

Increased requirements for sustainability reporting are coming into effect, necessitating greater oversight and understanding of food and beverage companies' environmental impacts throughout their supply chains. In the U.S., for example, the Securities and Exchange Commission has proposed enhanced and standardized climate-related disclosures that require reporting on governance of climate-related risks and likely impacts on business from climate-related risks. Part of these disclosures include Scope 1, Scope 2 and Scope 3 emissions. Food and beverage companies will have to greatly enhance sustainability governance efforts and heighten understanding of emissions throughout their third party networks.



CAPABILITIES AND CONCLUSION

Between labor crackdowns, the risk of bribery and corruption and ESG imperatives, a platform like Ethixbase360 helps to efficiently and automatically provide insights into your third-party networks without pouring scarce resources into disorganized manual processes. The platform's relevant capabilities in food and beverage supply chains are:

- Risk assessment
- Screening and monitoring
- Enhanced due diligence
- Collaborative due diligence
- Workflows and automation for large supply chains
- Modern Slavery Questionnaire

Ethixbase360 offers intermediaries the chance to achieve globally-recognized certifications that help assure potential partners that your organization meets the standards required in the food and beverage industry. Certifications offered include:

- [ESGmetrics](#)
- [TRAC](#)
- [Tcertification](#)



Contact [Ethixbase360](#) today to find out how we can help you stay ahead of the fast-paced developments unfolding in the food and beverage industry.

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