



# ICE Commodity Traceability (ICE CoT)

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# Agenda

1. EU Deforestation Regulation – *what you need to know*
2. ICE Commodity Traceability (ICE CoT) Service – *what we will provide*
3. ICE Benchmark Administration – *who we are*

# EU 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.

Cocoa	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

# What is the EU Deforestation Regulation (EUDR)?

- 31 December 2020 - EUDR cut-off date for deforestation
- 29 June 2023 - EUDR *Entered into Force*
- 30 December 2024 - EUDR *Entry into Application*

## Due Diligence

For products placed on, or exported from, the EU 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 analyse the information collected....and.... shall carry out a risk assessment’

### Article 11 – **Risk Mitigation**

- collecting additional data, carrying out independent 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*'
- EUDR FAQ #32
  - 'Operators further down the supply chain are those who transform a product listed in Annex I ... into another product'

## 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:
  - a) they need to file a due diligence statement
  - b) they need to check the due diligence previously carried out in the supply chain
  - c) 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 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 at least 9% of Traders and Operators.

## Penalties

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

# Market put on alert

- Anticipate that goods delivered to the futures contracts in EU are likely to fall within the remit of the Regulation.
- Anticipate first delivery contract affected could be December 2024 for London Cocoa.
- Exchange Rules I14 and I6 allow the Contracts Rules to be amended in these circumstances.
- Participants planning to trade, or deliver against, any contract months affected by the entry into force of the Regulation should consider the possible impact of the legislation and the potential for amendments to the Exchange's contract rules.

ICE Futures Europe  
16 February 2023

## Circular 23/030

London Cocoa and Robusta Coffee Futures Contracts - potential implications of the proposed EU regulation 2021/0366(COD) relating to 'certain commodities and products associated with deforestation'

### Category

Trading

### Attachments

None

This Circular is directed at participants in the London Cocoa and Robusta Coffee Futures Contracts.

Participants will be aware of EU Regulation 2021/0366(COD) of the European Parliament and Council (the Regulation), related to the making available on the European Union (EU) market, and export from EU, of certain commodities and products, including cocoa and coffee, associated with deforestation and forest degradation. At the end of December 2022, agreement was reached between EU legislators on the **final proposed text** of the Regulation, which is now in the stage of formal adoption. Following formal adoption, the Regulation is expected to come into force near the end of Q2 2023. Once in force, the Regulation has an 18-month transition period, meaning that the Regulation is likely to become applicable for in scope market participants in Q4 2024.

Noting that several of the Delivery Areas for Cocoa and Coffee are within the EU, the Exchange anticipates that goods delivered to the futures contracts in those areas after the entry into force of the Regulation are likely to fall within the remit of the Regulation. Although the exact date for when the Regulation becomes applicable is yet to be determined, the Exchange anticipates that the first delivery contracts affected could be November 2024 for Robusta Coffee and December 2024 for London Cocoa.

The Exchange will wish to take account of the Regulation and has various powers under its Rulebook to do so, including Rules I14 and I6, which allow the Contracts Rules to be amended in these circumstances.

Participants planning to trade, or deliver against, any contract months affected by the entry into force of the Regulation should consider the possible impact of the legislation and the potential for amendments to the Exchange's contract rules.

Market participants are invited to submit their views and feedback on the potential impact of the Regulation on the London Cocoa and Robusta Coffee futures markets and delivery mechanisms. This will assist the Exchange in considering how best to respond to this proposed legislation.

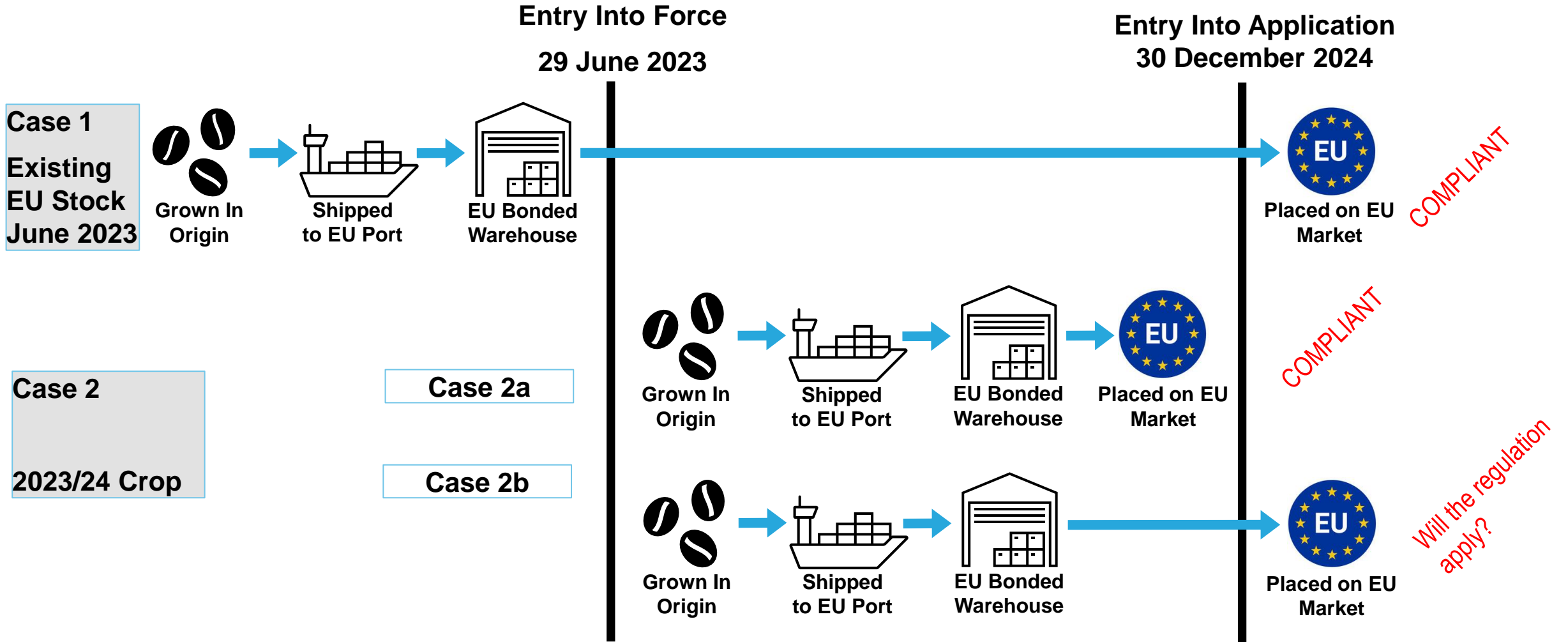
# Timing – 2025 contracts are already trading, stocks exist and are building

Futures Month	Open Interest (25/07/23)
May '24	30,843
Jul '24	19,132
Sep '24	9,260
Dec '24	6,272
Mar '25	1,156
May '25	285
July '25	0 ( <i>Listed 17<sup>th</sup> July 2023</i> )

EUDR Entry Into Application 30 December 2024

Port	Certified Stocks MT (25/07/23)
Amsterdam	79,640
Antwerp	78,760
Bremen	750
Hamburg	5,700
Liverpool	870
London	1,100
Rotterdam	40





# Complexities and inconsistencies through the transition period

# Implications for Traders and Operators

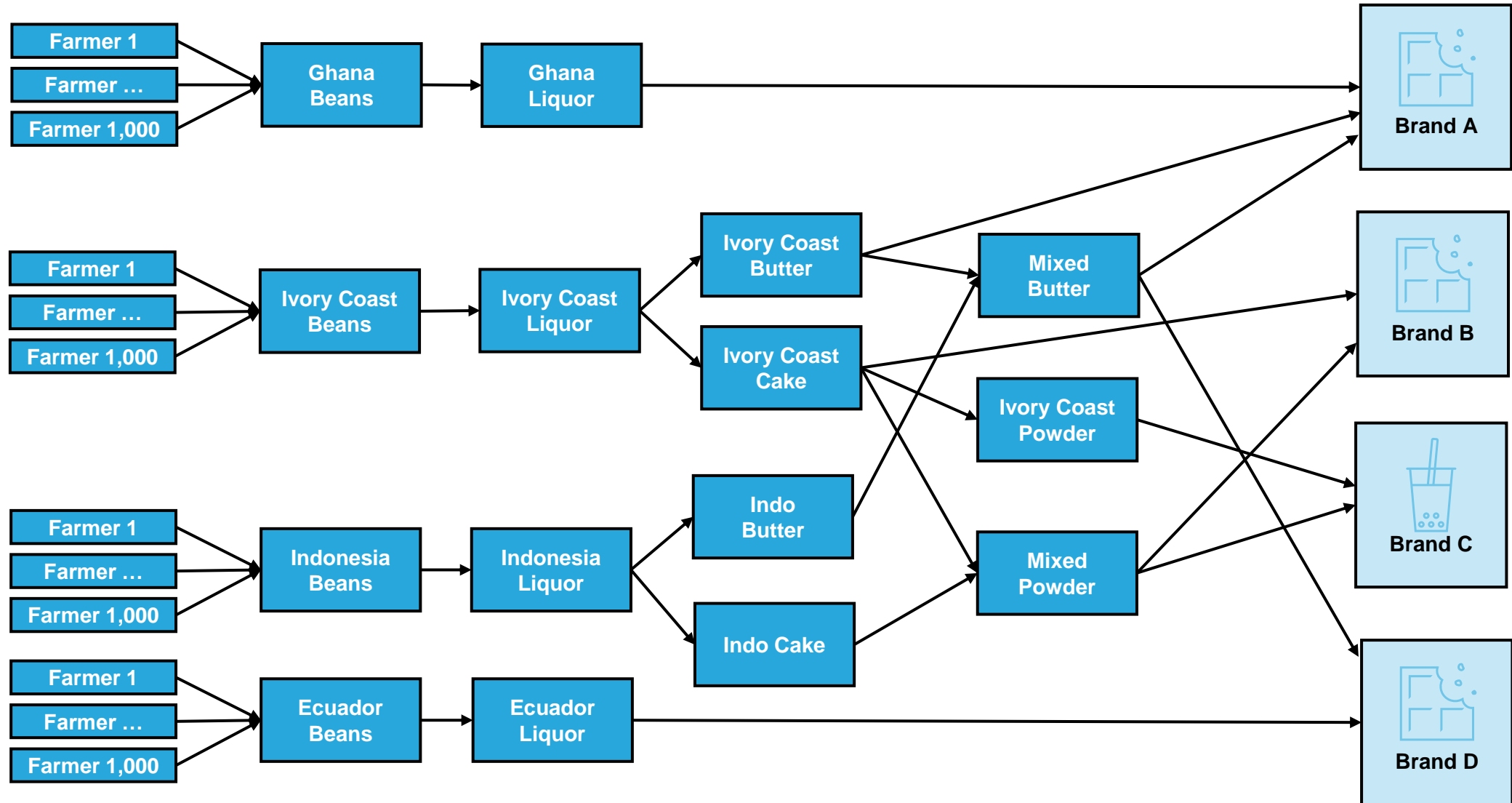
Format	Weight	Likely <u>minimum</u> number of farms contributing data <sup>3</sup>
40ft container	25MT	400 farms
Standard Bill of Lading	250MT	4,000 farms
Bulk shipment or bulk pile	5,000MT	80,000 farms

- 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>

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



# Cocoa: A Complex Global Supply Chain



# Challenges for the cocoa industry and trade (opinion)

- Will there be a deficit of EUDR compliant cocoa in 2025 and beyond?
  - Need to make third party suppliers and indirect supply chains compliant
- EUDR adds complexity to trading
  - Danger of de-commoditisation
  - Threats to the existing trading model of the industry
  - FCC contract terms for cocoa bound to Europe will need to incorporate EUDR terms somehow
  - De-commoditisation and restricted trade would hinder the price discovery process
- FUTURES EXCHANGE delivery terms
  - Delivery points are in Europe
  - Initial assessment is that Exchange certified stock should meet the EUDR standards
  - Similar to Grading cocoa for quality, ICE intends to introduce EUDR compliance data checks (e.g. via ICE CoT service)

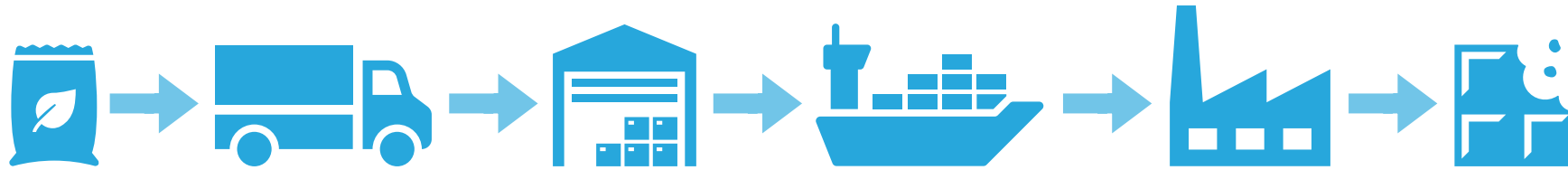


# **ICE Commodity Traceability (ICE CoT) Service**

# ICE CoT: Facilitating trade along the supply chain

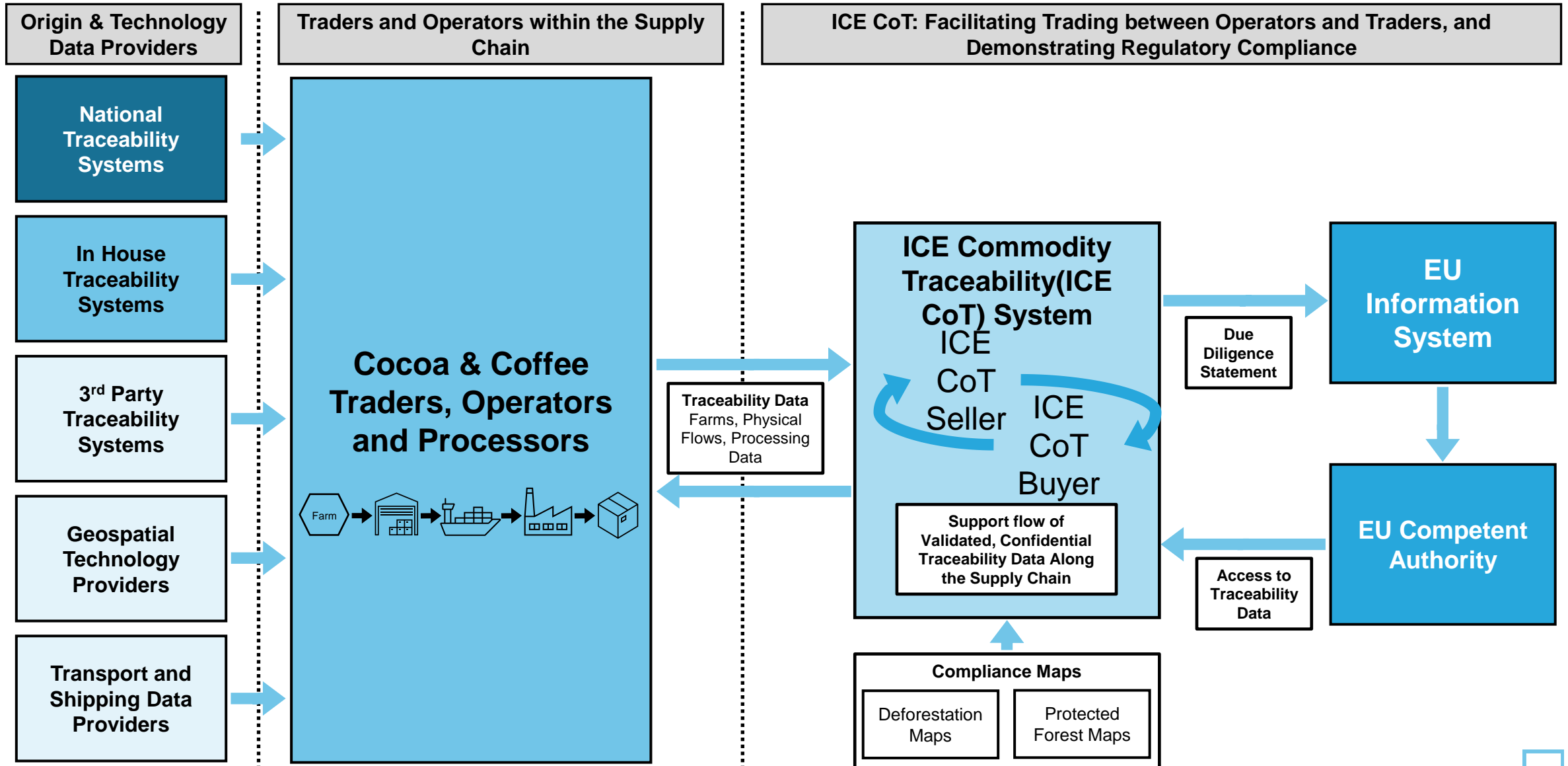
- **Complete Coverage** – ICE CoT is intended to support the whole cocoa industry, not just beans traded via ICE futures
- **Standardisation** – ICE CoT is expected to create a common standard for sharing traceability data across the supply chain
- **Confidentiality** – ICE CoT is designed to allow traceability data to pass from buyer to seller while remaining confidential, and to be made available to a National Competent Authority when required
- **Validation** – ICE CoT is designed to carry out independent validations designed to ensure that the data provided by the seller demonstrates compliance with EUDR and is reasonable and complete
- **Increased Trust** – before trading, sellers can demonstrate that parcels have been validated by ICE CoT and have the required data

# ICE CoT: Tracking parcels through the cocoa supply chain



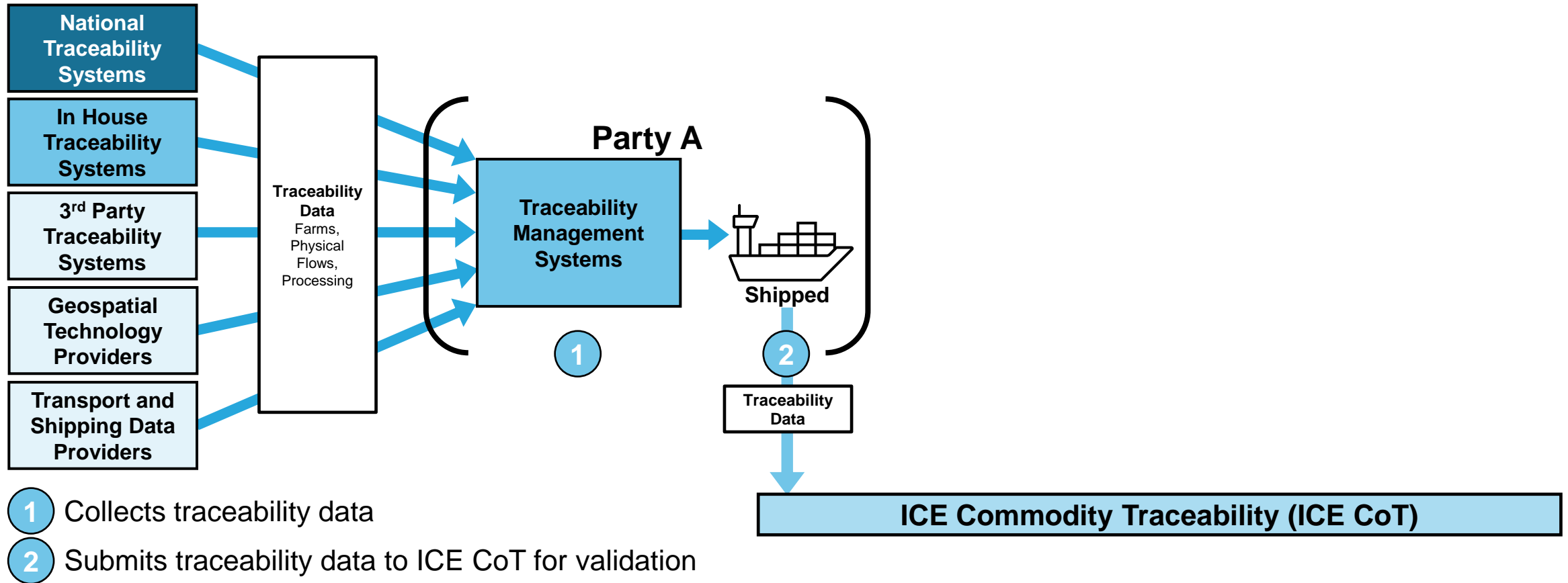
- ✓ ICE CoT is designed to track parcels that are submitted by Traders and Operators. For each parcel, Traders and Operators would provide traceability data
- ✓ Traceability data includes the plots the product was sourced from, as well as details of the physical flows and processing
- ✓ ICE CoT is designed so that parcels can be handed over from seller to buyer within ICE CoT, with the associated traceability moving with the parcel and remaining confidential. As designed, 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 and Traders or Operators

# ICE CoT: System Overview and Data Flows

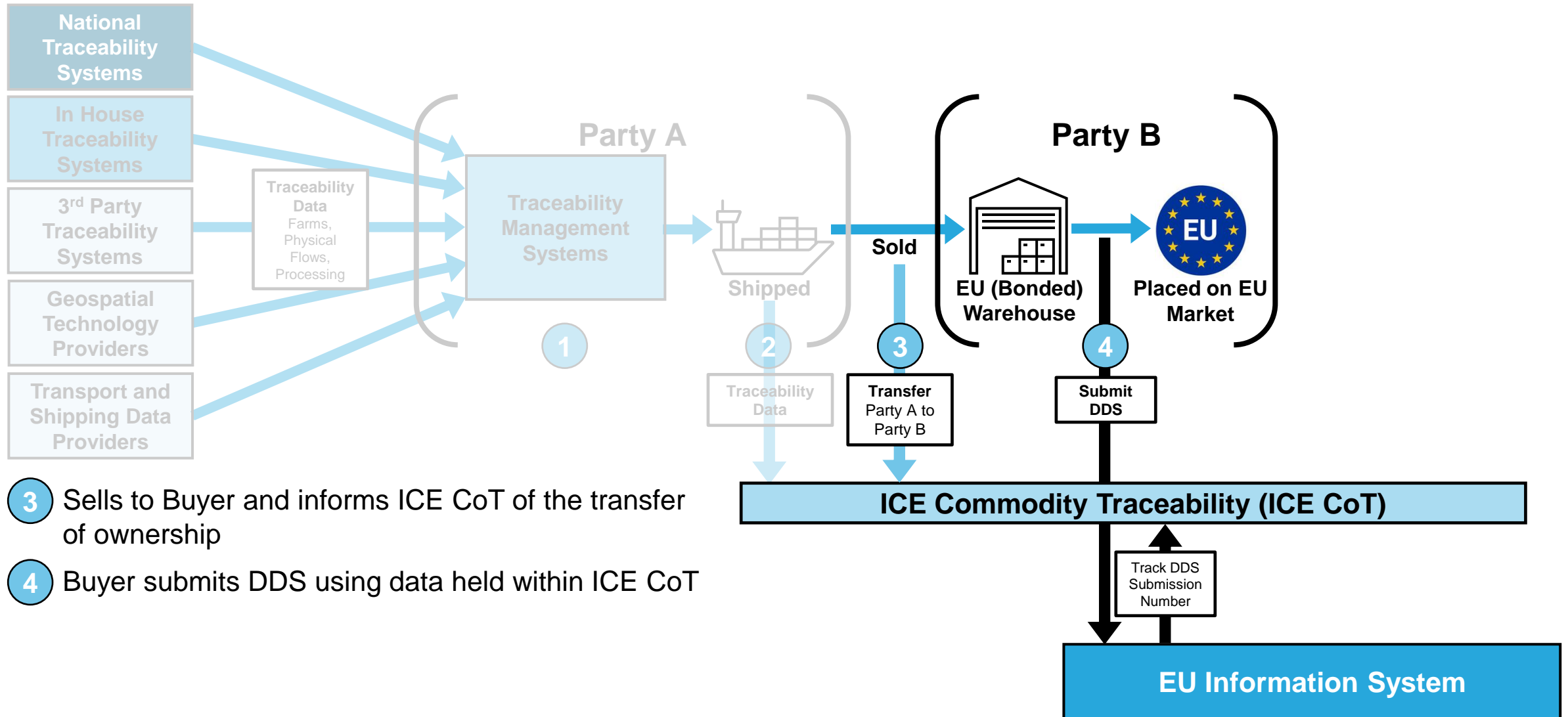




# ICE CoT: Supporting Trade Across the Supply Chain – Example Part 1

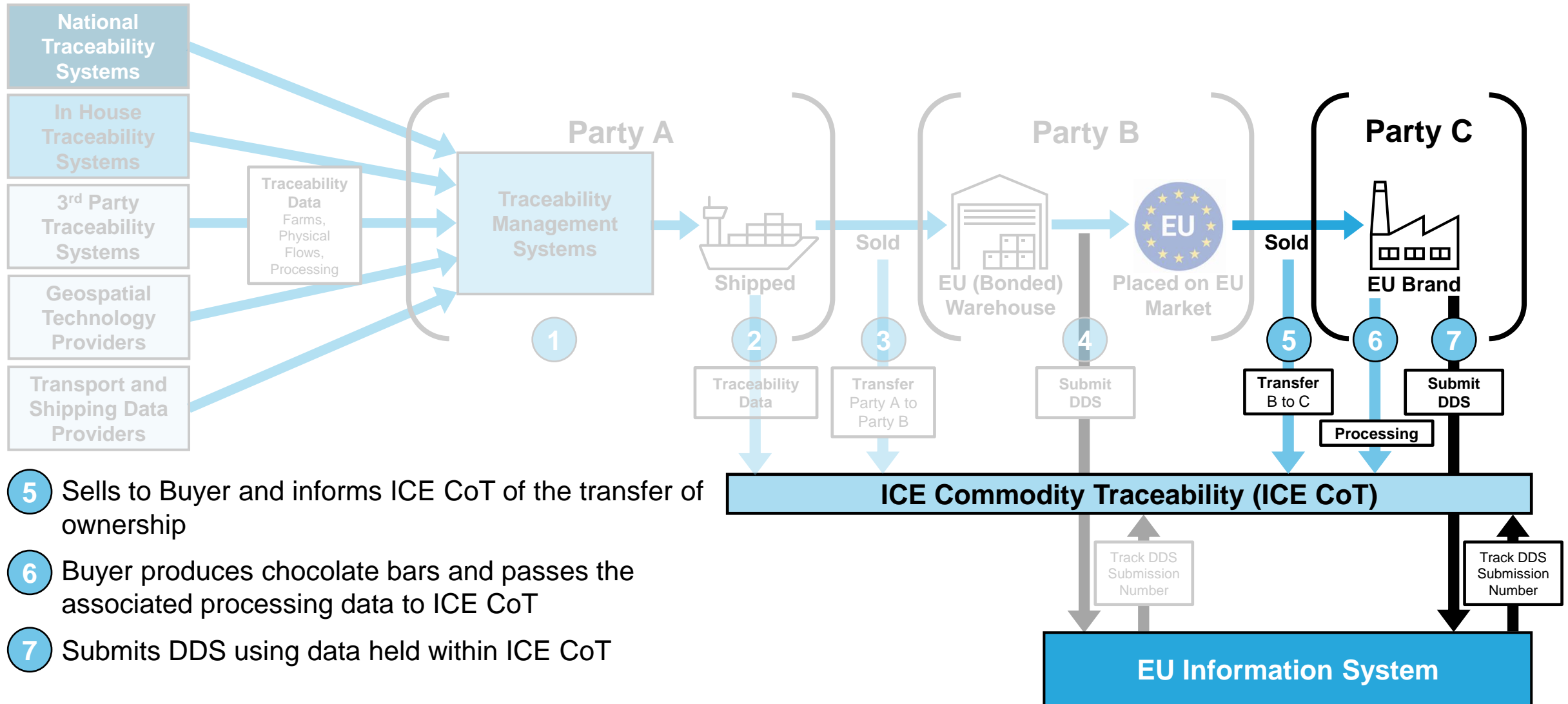


# ICE CoT: Supporting Trade Across the Supply Chain – Example Part 2



- ③ Sells to Buyer and informs ICE CoT of the transfer of ownership
- ④ Buyer submits DDS using data held within ICE CoT

# ICE CoT: Supporting Trade Across the Supply Chain – Example Part 3



- 5 Sells to Buyer and informs ICE CoT of the transfer of ownership
- 6 Buyer produces chocolate bars and passes the associated processing data to ICE CoT
- 7 Submits DDS using data held within ICE CoT

# ICE CoT: Validation of Traceability Data

Independent validation of farm and traceability data increases buyer confidence

ICE CoT is designed to carry out automated validation checks on all farm and traceability data, to ensure compliance, reasonability and plausibility

ICE CoT is designed to:

- 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 (for example, validating expected yields when processing beans to liquor)





# **ICE Benchmark Administration (IBA)**

# IBA: Governance, technology and data management

- ICE Benchmark Administration (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 UK 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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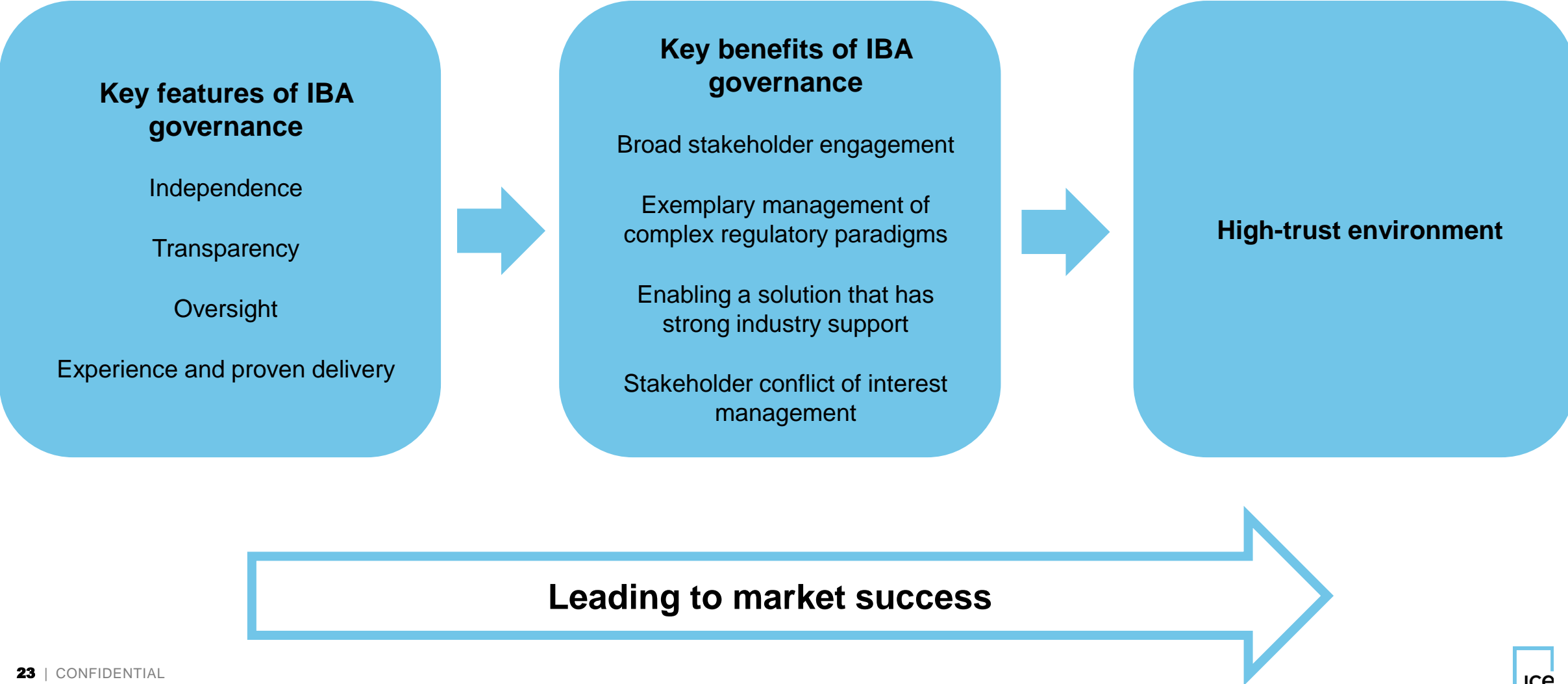
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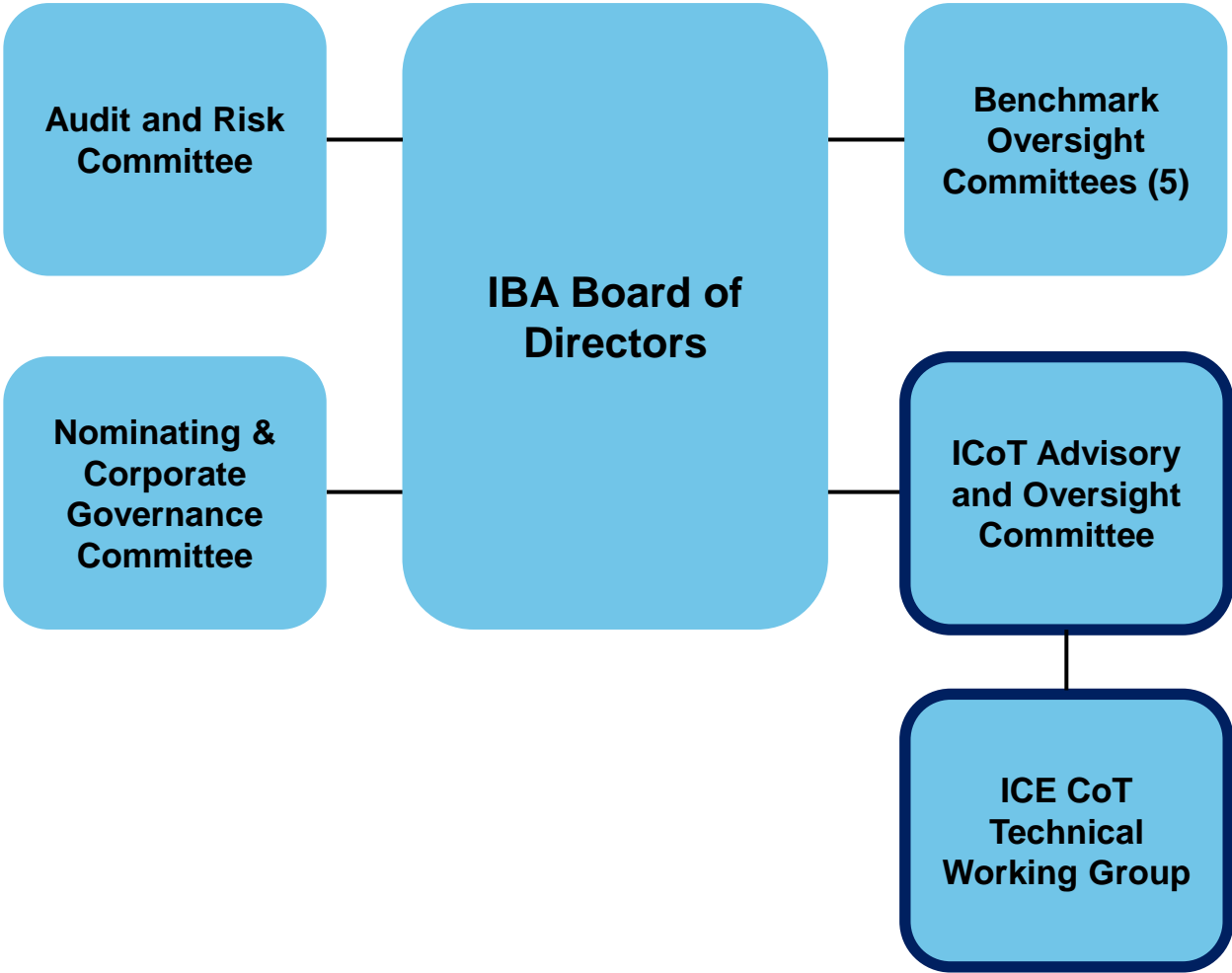
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# IBA Governance: Creating a high-trust environment for physical cocoa trading



# ICE CoT Advisory and Oversight Committee: An important voice

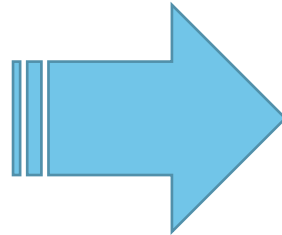


- IBA’s Board has a majority of independent directors
- The ICE CoT Advisory and Oversight Committee will be a forum for advice and guidance from diverse viewpoints:
  - Providing independent governance and direction for ICE CoT
  - Providing important input in respect of ICE CoT
  - Ensuring that the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



## Key advantages of ICE CoT design

- Increases trust between buyers and sellers
- Makes cocoa parcels easily tradable
- Provides independent validation of EUDR compliance data
- Enables EUDR compliance data to be transferred confidentially
- Strong governance builds stakeholder confidence in the ICE CoT service



## Key benefits for participants

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

# Contact Details

Please email any questions to: [iba@ice.com](mailto:iba@ice.com)

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