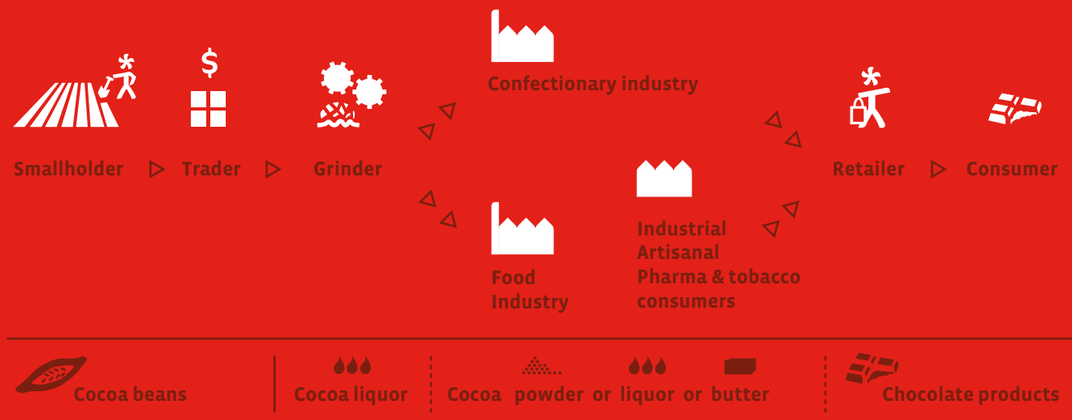
2012
Cocoa Barometer

2012

2009

2010

Cocoa supply chain



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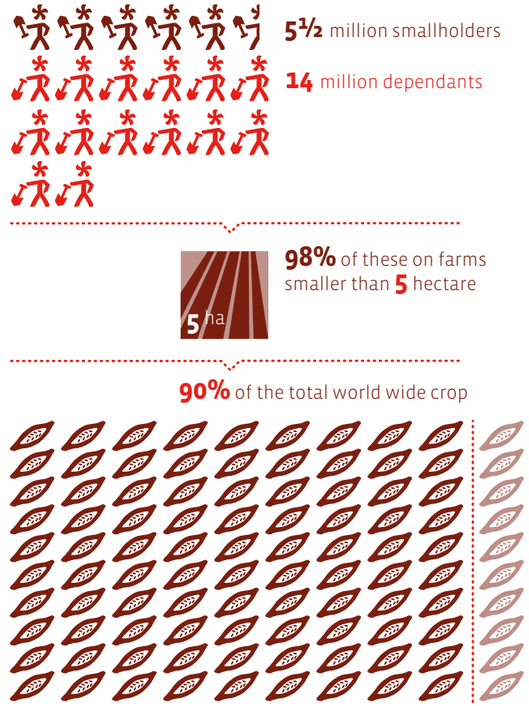
Scope and limitations

The Cocoa Barometer 2012 is an endeavour to stimulate and enable stakeholders to communicate and discuss critical issues. This Barometer aims to provide an overview of current sustainability developments in the cocoa sector. The authors have chosen to focus on West Africa's cocoa sector, due to its dominance in cocoa production and the significant challenges facing this region. Because of the constraints of this publication and the absence of third party evaluations, focus on individual company projects and evaluations of Standards Bodies is not a key element of the current Barometer, but there are plans for these topics to become the core focus of the Cocoa Barometer 2013.

1 Introduction

Visual 1 **smallholders and production**



When questioned, ninety per cent of people admit to love chocolate. The other ten per cent lie. It's a good joke, and while chocolate is a tasty snack for the consumers in the industrialised countries, more than 5.5 million smallholders earn their livelihood by cultivating cocoa, the most important ingredient of chocolate. Another 14 million rural workers directly depend on cocoa for their income.

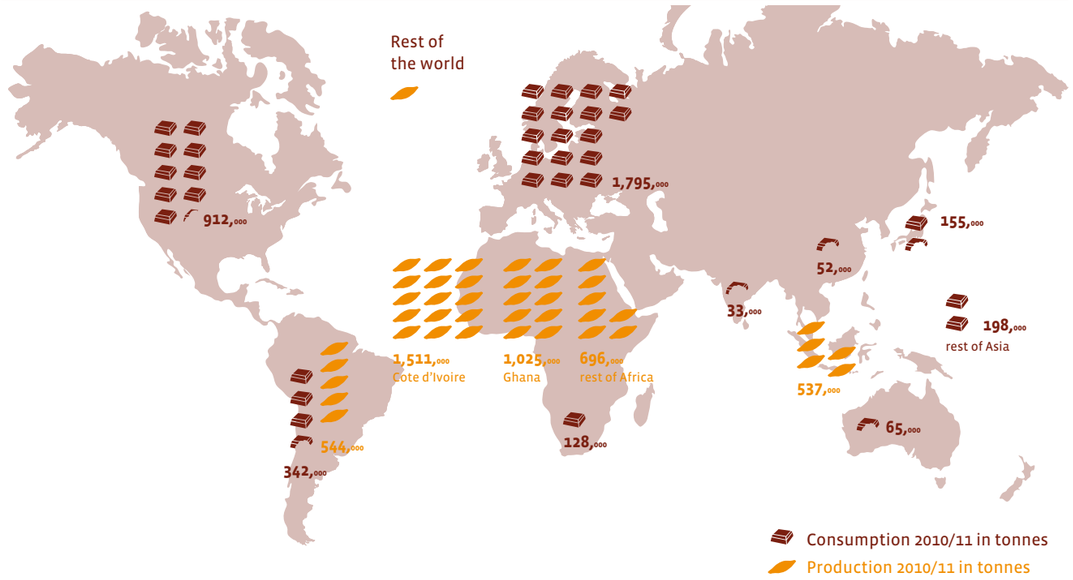
West Africa is the source of more than 90% of cocoa consumed in Europe. Côte d'Ivoire and Ghana alone contribute 59% of the global cocoa supply, with Indonesia, Nigeria and Cameroon accounting for another 23%.

Smallholders and their workers harvest more than 90% of the global cocoa production. Harvesting, fermenting, and drying the beans, maintaining the farm, it's all hard manual labour. Most workers on cocoa farms, especially in West Africa, live and work under dismal conditions, well below the poverty line. Most of these have never tasted chocolate, though their lives revolve around its key ingredient.

In the first decades of the second half of the Twentieth century, cocoa was a crop that generated a decent income for the farmers and their families. As a result of overproduction and the liberalisation of cocoa markets, the price for cocoa declined. At the same time, political instability in many West African producer countries worsened.

In recent years, emerging cocoa markets such as Eastern Europe and Brazil have seen a rise in chocolate consumption. Forecasts indicate that this trend will continue in the near future, although demand in Asia

Visual 2 - **global production and import of cocoa**



is less a driving factor than initially expected. At the same time, due to ageing cocoa farms and farmers, and a depletion of available arable land, yields have at best remained stable, if not declined. As a result, market experts and the industry as a whole expect a substantial shortfall between supply and demand by 2020, unless action is taken. Increasing yields at farm level is seen as a necessity in order to meet the increasing global demand for cocoa. It could also provide producer countries with more jobs, revenue, and export opportunities.

In response, there has been a significant move of cocoa companies, traders and chocolate manufacturers, to introduce projects aimed primarily at increasing yields, although other sustainability issues are addressed in passing. Their form varies from company-specific projects, to joint actions with other companies, cooperation with institutions financed by development assistance, and multi-stakeholder initiatives with civil society actors and Standards Bodies. These projects are primarily centred on West Africa. Additionally, producing and consuming nations' governments are investing in these projects, and in other efforts to increase sustainability in the cocoa supply chain. Some of these projects show good results, although coordination of learning between projects needs to be improved, and there are questions on scalability of these projects.

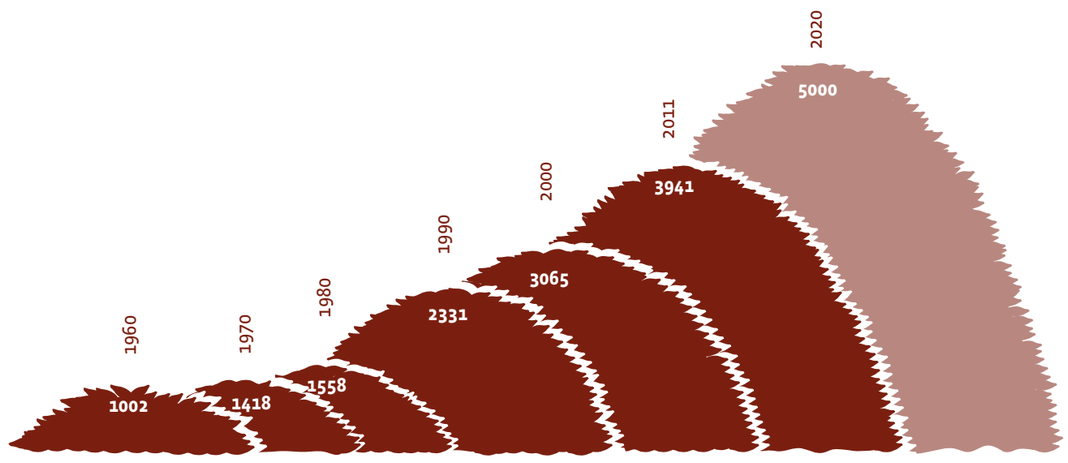
Two years ago, when the last Cocoa Barometer was written, one tonne of cocoa cost more than $3.100 on

the world market. However, the cocoa market is volatile. During the 2010-2011 harvest season yields reached a new record level, and prices went up to more than $3.700, due to the political crisis in the Côte d'Ivoire, before they went down to around $2000 at the end of the year 2011. Preliminary figures on the harvest season of 2012/2013 show that there is at best a marginal supply deficit, due to a good harvest, which will likely lead to continued low prices for the near future.

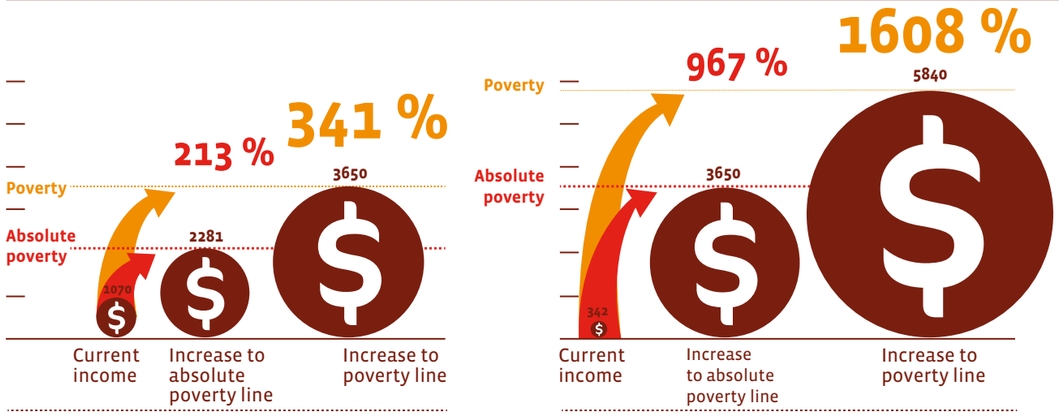
In many countries the farm gate price for cocoa growers is much lower than the world market price. Smallholders generally do not have a strong bargaining position. As a result, many farmers cannot invest in their smallholder farms, and young people are leaving cocoa, resulting in an aged cocoa-tree population, with the average age of farmers worryingly high.

It is argued that yield increase will naturally lead to improved income for farmers. This increased income will then lead to an improvement of working conditions, including reduction of (worst forms of) child labour and alleviation of other social issues. However, recent reports suggest that yield increase alone will not be able to solve the issues faced by smallholders. The debate about a living income for farmers and their families, a diversification of income, access to finance, access to agricultural inputs, a focus on the social and environmental issues, financial transparency along the supply chain, as well as an investment in local infrastructure, are all essential ingredients of a holistic approach towards a sustainable supply chain. It is necessary for the sustainability debate in cocoa to go "Beyond Productivity", the specific focus of this Cocoa Barometer.

Visual 3 - **World market for cocoa in 1.000 tonnes**



Visual 4 **Income increase needed to escape from poverty and absolute poverty**



The global cocoa industry is in crisis, and 'business as usual' is not going to be able to solve it. Many issues demand attention if cocoa is to have a future, particularly in West Africa.

Absolute poverty

Income of farmers and workers must increase drastically from its current levels. The average income of West African cocoa farmers and their dependents is far below the level of absolute poverty. Insufficient income to pay workers, coupled with a shortage of workers in rural areas, forces farmers to rely on unpaid workers. Many of these are family-members, and often work excessive hours, directly increasing the risk of (worst forms of) child labour and forced adult labour (FLA 2012: 28-29).

Poor working conditions

Working conditions on cocoa farms remain very poor. Farmers are exposed hazardous work, non-mechanised production systmes, gender and ethnical discrimination, poor-nutrition and limited social/economic infrastructure in cocoa communities. Besides the obvious human and labour rights aspects, media attention and consumer awareness about working conditions – specifically trafficking and (the worst forms of) child labour – pose a constant threat to brand reputation for the chocolate companies.

Decline of farmer population

The average age of cocoa farmers in West Africa is around 50 years. With life expectancy around 60, the current generation of cocoa farmers will soon start passing away. Poverty and dismal working conditions have caused farmers to no longer believe in a good future in cocoa for their children and grandchildren. Children want go to school, not to become better farmers, but in the hope of finding employment outside the cocoa sector. As a result, a severe shortage of cocoa farmers is a realistic scenario within the coming years. At the same time, demand for cocoa is expected to rise by 1 million tonnes in the next decade - a quarter of the current world production.[1]

Critical issues

Economical issues

- Income for farmers (living income, diversification of crops, rising cost of living, price volatility and speculation)
- Access to markets (credit, market information, investment risks)
- Farming practices (farmer training, low yields)
- Infrastructure (streets, hospitals, schools, roads, high taxes, transport costs)

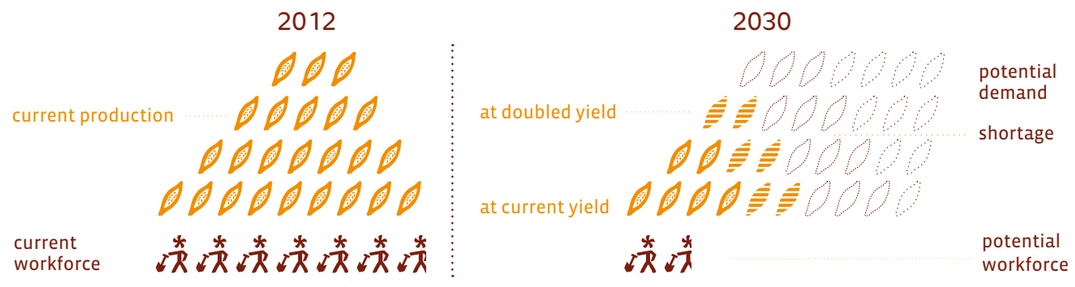
Social issues

- Human rights violations (child labour, forced labour, trafficking, undernourished children)
- Working conditions (use of pesticides and fertilisers, polluted water, hours of work, harassment or abuse, discrimination, gender inequality)
- Land tenure
- Illiteracy and education
- Freedom of association, collective bargaining, and farmer organisation

Environmental issues

- Ageing farmer communities
- Power relations (corruption, tax evasion through trade mispricing, political instability, smallholder famers versus multinational companies)
- Ageing & diseased cocoa trees
- Low quality of cocoa beans & monoculture
- Deforestation, decreasing biodiversity & soil degradation
- Climate change
- Environmental impact of use and sourcing of fertilisers and pesticides

Visual 5 **Potential decline in workforce 2012 - 2030**



[1] This growth in demand comes primarily from countries in Eastern Europe, such as Russia and Poland, as well as Brazil. Historically one of the major cocoa exporting nations, Brazil now consumes almost as much cocoa as it produces, and has de facto ceased to be a major cocoa exporting nation. Consumption of chocolate in India and China is not increasing as strongly as some have previously predicted. Even in the case of a strong growth of consumption, it will take many years for them to become an important global export market.

3 Certified Cocoa Production

The past years have seen a significant rise in certified cocoa production. There are various reasons for companies to move to certified supply chains; supply security, demand from consumers, improvement of brand reputation, credibility of claims, transparency of (a part of) the supply chain, cost reduction in sustainability processes, and efficiency, to name a few.

These developments have led to a healthy competition between the major Standards Bodies. Production of certified cocoa increased fourfold between 2009 and 2011. An impressive growth, even if approximately one third of this amount is inflated because of double or even triple certification. Additionally, production of certified cocoa beans was significantly higher than the sale of certified cocoa, with more than a third of the produce eventually not sold as certified.

As a result, there is confusion regarding the amount of available certified cocoa. Some companies claim that they cannot increase purchases of certified cocoa due to a lack of supply. Standards Bodies and farmers, on the other hand, indicate that production of certified cocoa is far higher than demand. Although there are valid potential reasons for this overshoot, the current significant differences warrant further research on this gap in claimed supply and claimed demand.

FLO, Rainforest Alliance, Organic, and UTZ Certified

The four internationally accepted Standards Bodies are Fairtrade Labelling Organizations International, Rainforest Alliance, Organic, and UTZ Certified. These standards are defined after consultation and in close cooperation with various stakeholders in the cocoa supply chain, including farmers. Standards Bodies advise farmers on how to implement better farming practices, establish protocols on dealing with environmental and social issues, implement auditing and third party verification on these issues, and communicate to consumers at the end of the trade chains, thereby creating a necessary level of assurance.

Certified cocoa commitments of major chocolate manufacturers

Cadbury was the first major chocolate company to start using certified cocoa, for their Dairy Milk chocolate in 2008. Then, in 2009, **Mars** was the first major global chocolate company to commit to use 100% certified cocoa for their entire range by 2020. They are following this up with regular public disclosure on progress. **Ferrero** will source 100% of their cocoa 'sustainably' by 2020, and have released a timeline, but does not specify comprehensively what level of assurance the sustainability will be measured to. **Nestlé** does not name a specific date when all their cocoa will be compliant to renowned standards, although in certain countries and on certain sub-brands they have now committed to 100% certified sourcing, communicating future targets only at regional level. Their recent response to a Fair Labor Association report on child labour in their supply chain is robust. However, it deals mainly with the cocoa sourced through their own Cocoa Plan, with the vast majority of their supply being unaffected by these plans. Recently, **Hershey** has made a commitment to 100% certification by 2020, although there is no transparency at the time of publication as to how they will back up this commitment. They have declined repeated invitations by the authors of this Barometer to provide information on their future plans. **Mondelez** (formerly Kraft Foods) are the world's largest chocolate company since acquiring Cadbury in 2010 – at the time a company leading the way in FLO-certification. Since that time, Mondelez have made no new movements towards certification, although this can be partly attributed to a string of internal reorganisations. These have also led to an expected delay in delivering on their commitment to fully certify their Marabou and Côte d'Or ranges by the end of 2012.

Retailers

Many European retailers are actively promoting sustainable cocoa, and are sourcing more and more sustainable cocoa for their own brands. Most of these are major players, such as Ahold (Netherlands), Rewe and Lidl (Germany), Sainsbury's (Great Britain), Carrefour (France), and Coop (Switzerland). This adds to the pressure on other retailers, but also on traditional chocolate producers with well-known brands. If retailers can source cocoa from sustainable sources, even down to the lower price segments, the more expensive brand names should surely be able to do the same.

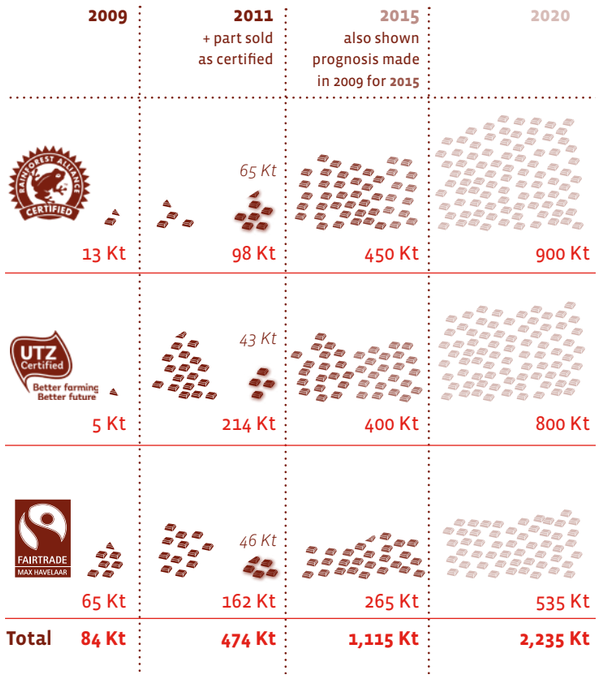
Evaluation of Standards Bodies

Although it is generally accepted that Standards Bodies provide an improvement in economic and living conditions at producer level, there are few independent evaluations on the outcomes and impact of the Standards within cocoa. However, evaluations for Rainforest Alliance, Fairtrade and UTZ Certified are expected to published in the near future. Besides impact evaluations, a second important tool in evaluating the actual operations (but not the outcomes and impact) of Standards Bodies is the "Continuous Improvement Model".[2] The previous Cocoa Barometer gave various suggestions for improvement to Standards Bodies, based on this model. Current evaluations and impact studies would do well to incorporate these previous suggestions.

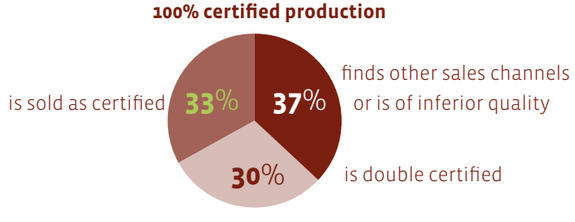
The outcome of these evaluations and pending changes is fertile ground for future research.

[2] For a description of this model see TCC Cocoa Barometer 2010.

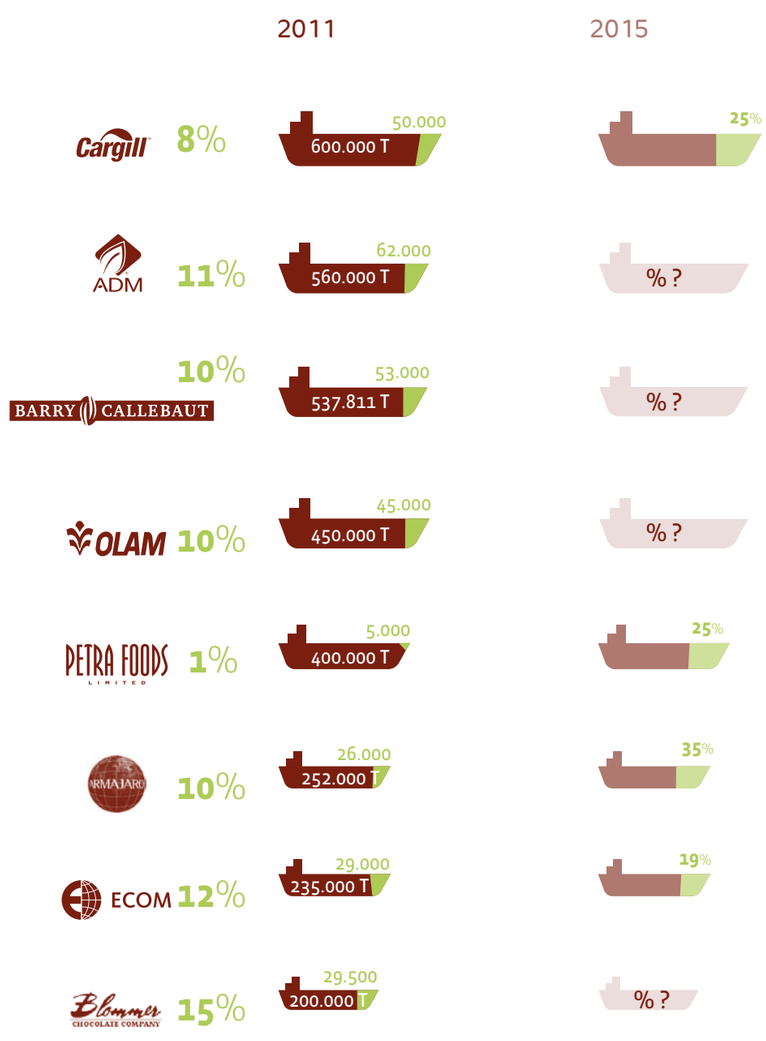
Visual 6 **Production and growth projections of certified cocoa by Standards Bodies**



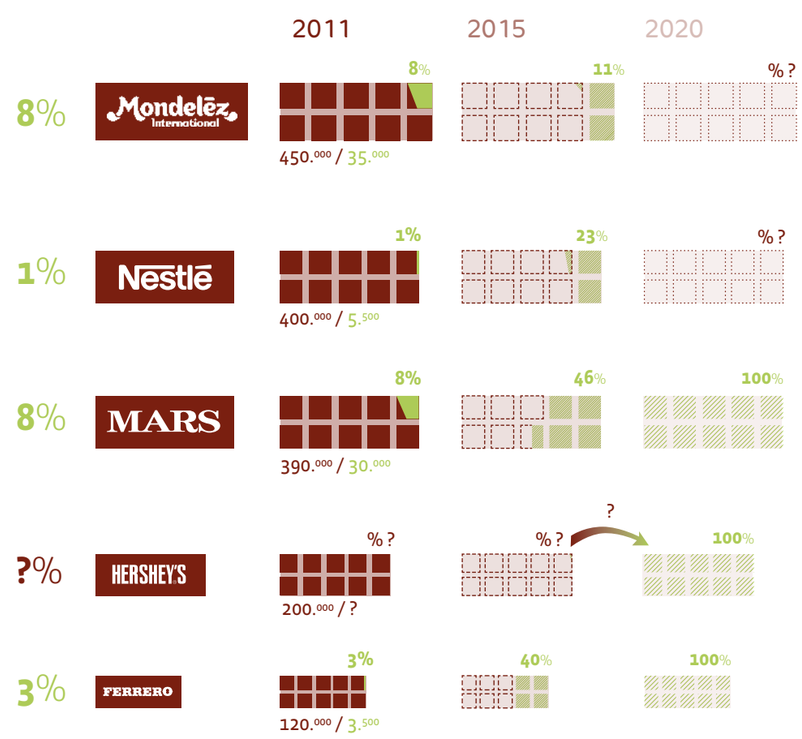
Visual 7 **Fate of certified cocoa in 2011**



Visual 8 **Traders & Grinders**



Visual 8 **Chocolate Manufacturers**



4 Sector Developments

So many sustainability initiatives have been started in cocoa in recent years that governments, companies, or civil society actors not involved in at least one or two programmes are hard to find. This is a positive development, which needs to be matched by public transparency of these initiatives; on activities, moneys spent, and most importantly on impact.

Additional to these individual programmes, a sector-wide and pre-competitive approach to the issues is necessary. Though some interesting steps are being taken in this regard (the Certification Capacity Enhancement and European Committee for Standardisation programmes, the work of organisations such as the International Cocoa Initiative and World Cocoa Foundation, as well as the possible outcomes of the World Cocoa Conference), at present a true sector-wide approach to the economical, ecological and social crises in the global cocoa production still needs to take significant shape.

Developments in certification

Although standards and certification are essential tools in the development of sustainable cocoa productions, its benefits are not always clear to companies, producers, and consumers. Costs and complexity, unverified impact, and overlap of standards, all contribute to this. (ISEAL Alliance 2011: 15) Two industry-wide initiatives to tackle some of these concerns have recently been launched, the CCE and CEN processes.

Certification Capacity Enhancement (CCE)

The CCE project is a recent initiative to improve farmer access to standards and certification, and is supported by a broad range of private sector companies, standards bodies, and development organisations. CCE developed a common training manual for sustainable cocoa production for trainers, training guides for small producers and a guide for an internal management system. It is based on existing experiences that can be used by all Standards Bodies. Material is adapted to national needs, for example in legal definitions of (worst forms of) child labour or in reference to support structures offered by governments.

Though its initial phase is now in the winding-down stages, it is expected that the majority of progress made within the CCE project will be picked up within the new German 'Forum Nachhaltiger Kakao'. CCE is an important step in cooperation of the three major Standards Bodies. Nonetheless, there is ample room for closer cooperation, specifically at the level of farmer training and auditing, ensuring better access to standards and certification for farmers at lower costs to the producers.

European Committee for Standardisation (CEN)

A second recent development comes from the European Committee for Standardization (CEN), which plans to develop a standard around "the sustainability and traceability of cocoa." Some actors hope, through the CEN process, to develop a common European standard for cocoa that could be a valid baseline for their sustainability projects. Others, including some non-governmental organisations, government representatives, and some companies, are worried that the process might lead to a lowest common denominator standard, which might result in a reduction of the gains made in the past decades.

There are concerns surrounding the inclusion of stakeholders in the CEN process. Southern civil society is under-represented at the time of publication of this document. In most European countries there is also an under-representation of civil society, due amongst other reasons to high participation fees.

Within the CEN standard, it will be important to have a high bar, but with a low entry threshold for farmers. Through a stepped approach, they could then be able to achieve the high outcomes that the current process envisions. If this line will be held, it could create a system that allows all farmers to be included, whilst at the same time ensuring a common and high standard for sustainable cocoa production.

Developments in producing countries

As recently as the 1970's, being a cocoa farmer in West Africa was a desired profession, and cocoa farming could provide sufficiently for the farmer and his/her family. Then, in the 1980's, under pressure from the IMF and the World Bank, the state-owned marketing boards were dismantled, with the exception of Ghana's Cocobod. Since then, West Africa's cocoa farmers have been increasingly vulnerable to price volatility, and have often received only a small share of the world market price, while bureaucrats, and influential traders got rich, and the price for cocoa declined. Recently, Côte d'Ivoire has re-established a marketing-board, the Conseil du Café-Cacao (CCC), and Nigeria, Cameroon and Indonesia are all working on plans to increase the cocoa exports, but without apparent plans to re-establish marketing boards.

In the meantime, the International Cocoa Organisation (ICCO) – the international body of cocoa exporting and importing countries – has been steadily working away on a progression of International Cocoa Agreements (this year the 7th ICCA came into force), aimed at creating a sustainable world cocoa market. Though the ICCO plays an important role, especially in research as well as dialogue between consuming and producing nations, it is currently an exclusive government-level organisation in which farmers, traders, unions, non-governmental organisations and consumers are not represented, and at which industry has a consultative role. Though the new ICCA indicates indicates an increased possible participation for stakeholders, increased stakeholder participation is an issue that can and should be addressed.

The Roundtable for a Sustainable Cocoa Economy (RSCE) was a multi-stakeholder process set up to foster dialogue about sustainability in the cocoa economy. Two major conferences were held, in 2007 in Ghana and in 2009 in Trinidad & Tobago. A Roadmap with key elements towards a sustainable cocoa economy was agreed on, addressing the most urgent issues in the cocoa supply chain. However, some producing nations objected to the outcomes of specifically the Trinidad conference, which has stalled the operation of the RSCE. The RSCE-process has provided a platform for dialogue on the need for global and national efforts to explicitly promote sustainable cocoa supply chains.

Partly as a continuation of the RSCE, the ICCO is organising the World Cocoa Conference (WCC), which will be held in Côte d'Ivoire in late 2012. Hoping to bring together actors from all stakeholder groups, this conference could give necessary alignment to the future of sustainable cocoa The WCC might be a useful starting point for launching sector-wide approaches to dealing with some of the core issues at hand, provided relevant stakeholders are sufficiently able to engage in the process.

Civil society in West Africa is increasingly starting to come together, with the formation of the African Cocoa Coalition, a broad West African cooperation of civil society, and with the formation of various networks of farmer groups and trade unions, many of which were established with assistance from European civil society.

Elsewhere, significant investments in Asia are seeing a rise of cocoa production in countries such as Indonesia, Vietnam and India, although it will still be a long time before these regions will be producing the quantities currently coming from West Africa.

Ghana: Cocobod

Being the only country not to disband their marketing board, Ghana's state-run marketing board Cocobod, has provided a level of protection to farmers from the worst impacts of liberalisation of the cocoa market. Farmers and multinational cocoa companies accept the Cocobod, and operate relatively well within its framework. However, they could be benefitted by a reduction of inefficiencies and bureaucracy within its systems.

Being the only institution authorised to export cocoa from Ghana, Cocobod sells up to 70% of expected cocoa yields to traders and on the commodity futures market prior to the harvest. As a result, it guarantees a minimum price of 70% of the world market price at the start of the harvest season, providing at least a partial protection against volatility of world market prices.

Cocobod is also responsible for quality checks at the cocoa collection points, and supervises the buyers. It has its own research institutions, coordinates spraying activities, and is responsible for the distribution of subsidised fertilisers. A useful role for the Cocobod in the coming years could be to support diversification of farmer income.

Côte d'Ivoire: Conseil du Café-Cacao (CCC)

This year, Côte d'Ivoire has initiated the rebuilding of a platform to regulate the cocoa market, the Conseil du Café-Cacao (CCC), whose predecessor was disbanded 20 years ago.

The CCC aims to improve yield and quality, and plans are being made to implement transparent and reliable trade structures, as well as to strengthen cooperatives and the cooperation of the different players along the cocoa value chain. Additionally the CCC guarantees farmers 60% of the world market price for their cocoa. In order to achieve this, a similar system to Ghana's is being worked on, selling future production via auctions before harvest.

The tense political situation in the country, combined with the pending problem of land conflicts, and the fact that the margin of 60% might not be sufficient to stop cocoa being smuggled. It remains to be seen whether such fundamental changes can be enforced in such a short period of time, with the tense political situation in the country, combined with the pending problem of land conflicts, and the fact that the margin of 60% might not be sufficient to stop cocoa being smuggled. However, the establishment of the CCC can be seen as a positive step in the restructuring of the world's largest cocoa producing nation after a decade of turmoil.

Developments in consuming countries

Over the last decade, consumer awareness of issues surrounding sustainable cocoa production has increased. Fuelled by countless campaigns, particularly focused on child labour and trafficking, media and public awareness now is a major driving force behind the move to standards and certification within the chocolate industry.

However, the argument has been made that ten years of voluntary self-regulation has shown a failure to end labour abuses in the supply chain. Some say that now is the time for consuming nations to step up their role as oversight bodies. At the same time, a public focus is also needed on the root causes of social wrongs in the cocoa supply chain, and a re-emphasis on some of the less well-known issues in cocoa.

An increased cooperation between civil society has created a stronger globally accepted agenda for sustainable cocoa, and also serves to strengthen inter-stakeholder dialogue. As a consequence of the RSCE, several countries are starting to implement national Roundtables on sustainable cocoa, aiming to increase the sustainability of nationally consumed cocoa.

The Netherlands

Through constructive multi-stakeholder dialogue, many steps are being taken, and in many ways, the Dutch government have had a leading role in the move towards a sustainable cocoa supply chain. The Netherlands also have been proactive on an international level, for example in the RSCE's, within the ICCO and in the current CEN process.

In 2010 a declaration of intent on sustainable cocoa consumption was signed. This declaration committed the Dutch cocoa sector (industry, government and civil society) to ensure that 100% of cocoa consumption in the Netherlands would be certified by 2025, with intermediate targets of 50% by 2015 and 80% by 2020. The monitoring of progress on this declaration is being set-up at the time of writing, and initial results should be available soon. At the same time, the 'Choco Workgroup' has provided a platform for all stakeholders - including small and medium sized enterprises – to engage in dialogue on a sustainable cocoa production.

Sadly, the Tropical Commodity Coalition (TCC), one of the strongest forces within sustainable cocoa in the Netherlands, ended operations at the beginning of 2012. The gap the TCC has left has been partially filled by the Voice network, as well as the work of individual former member organisations of the TCC such as Oxfam Novib, Hivos and Solidaridad.

Germany

The "Forum Nachthaltiger Kakao" (Sustainable Cocoa Forum) was launched in Germany in June 2012 as a multi-stakeholder process of all major participants in the German value chain from civil society, industry, unions and Government ministries. Its aims are to promote sustainable cocoa farming and improve living conditions of the farmers, as well as to accelerate and improve existing initiated processes. Provided there is good stakeholder inclusion and that ambitious goals concerning the identification and the scale up of best practise projects are set, this large cocoa market could play a vital role in the transition to a sustainable cocoa economy. Although there are discussions about the Forum setting up sustainable consumption targets, there is a danger that setting targets that are less than ambitious would reduce the sustainability debate, rather than enhance it.

Belgium

A panel on a sustainable cocoa value chain was organised in October 2011 by Oxfam and Transparency International. Different stakeholders attended the panel and opened the dialogue on challenges and chances to work towards a Belgian sustainable cocoa chain.
At present, there are discussions among stakeholders towards setting up a Belgian roundtable on sustainable cocoa. Harbouring the second biggest cocoa import port in Europe, world's biggest processing factory, a flourishing sector of fine Belgian chocolates, and a Belgian Chocolate Code, it is time for improvement of sustainability of the Belgian market. There is a crucial role for the federal government to take in the process.

Switzerland

Unlike many of Switzerland's European counterparts, there is a lack of a coordinated and comprehensive approach to sustainable cocoa. The State Secretariat for Economic Affairs (SECO) and the Swiss Agency for Development and Cooperation (SCD), provide support for projects in Indonesia and Ghana, in cooperation with Swiss companies and development NGOs, and there is activity in civil society. However, it is surprising that Switzerland, which houses two of the world's largest chocolate companies, is not taking a more active role, both on a national and on a global level.

EU

When the European Union ratified the new International Cocoa Agreement in the spring of 2012, the parliamentary Committee on International Trade (INTA) decided to add a resolution on (the worst forms of) child labour, since these points were hardly mentioned in the ICCA. This resolution urges all cocoa producing states that have not done so to swiftly ratify and implement ILO core-conventions 138 (on child labour) and 182 (on the worst forms of child labour or WFCL), and foster awareness of this issue within their own countries.

The resolution denounces the breaches of human rights, points out the seriousness of the issue in the cocoa sector and calls for concrete action. However, there are still urgent actions underexposed in the resolution. The proposed actions are mainly targeting states. Nevertheless, it is necessary that, at the European Commission and Parliament level, legally binding measures are also outlined for other stakeholders in the supply chain

Australia & New Zealand

The Australian Government has so far resisted campaigns from civil society groups to take any active role in addressing forced labour and child labour in the production of cocoa imported into Australia. However, in 2011 the Department of Foreign Affairs and Trade confirmed at a Parliamentary hearing that World Trade Organisation rules would not prevent consumer governments from being able to take such action. There has been no roundtable of chocolate companies in Australia. Thus, action in Australia has been a series of community campaigns targeting individual brands. These campaigns have had some success.

USA

In 2001 the United States threatened to ban the import of cocoa from regions where the worst forms of child labour are widespread. Under pressure from the chocolate industry, the legislation ended up as the voluntary Harkin-Engel Protocol. In this Protocol, the chocolate industry agreed to abolish the worst forms of child labour by 2005, although this deadline has been extended several times, in the last instance to 2020. It has become obvious that the initial attempts of the industry to join forces and push through changes have failed.

In 2010, the chocolate industry, together with government officials of the United States, Côte d'Ivoire and Ghana, issued a Joint Declaration and a Framework of Actions to implement the Harkin-Engel Protocol. The new target now is to reduce worst forms of child labour 70% by 2020, although a benchmark by which this reduction can be measured has not been agreed on.

Though turn-of-century legislative processes initiated the global dialogue on sustainable cocoa, specifically on child labour-related issues, and though the USA is the world's single largest consumer of cocoa, it is disappointing that at present the government has become largely inactive on the issue, leaving the brunt of the work to civil society organisations in the United States.

Industry initiatives

Various industry-led initiatives on sustainability have been launched in the past few years. Industry investments aim to identify farmers, improve farming methods, and increase yield across the board. This in turn is expected to lead to an increase in livelihoods for the farmers, thereby increasing sustainability in the long term. Examples of these industry-led initiatives include Armajaro's "Source Trust", Barry Callebaut's "Partenaire de Qualité" (QPP), Nestlé's "Cocoa Plan", and Mars' "iMPACT" and "Vision for change" programmes.

Most of these programmes report on the amount of farmers trained, however, few, if any, have been independently evaluated on impact, or work with third-party verification. In order to be able to measure the merit of these programs, further research is needed. The next Cocoa Barometer will specifically look at these programmes, and the authors of this document strongly urge the private initiatives to have independent evaluations publically available by the middle of 2013.

Besides the company-owned projects, there is also a variety of industry-wide initiatives which focus on a sustainable cocoa production, including the International Cocoa Initiative, the World Cocoa Foundation, and the Dutch Sustainable Trade Initiative.

International Cocoa Initiative (ICI)

The ICI was founded in response to the Harkin-Engel protocol, to create an answer to eliminating Worst Forms of Child Labour (WFCL), child labour and Forced Adult Labour (FAL). The main thrust of their work has been community-level sensitization, mobilization and community-driven action to eliminate WFCL. From an initial scope of targeting the entire cocoa sector in Côte d'Ivoire and Ghana, its ambitions and goals have been slowly readjusted to be a clearinghouse of best practices, and to be an advocate for best practices to be adopted by relevant actors within cocoa producing communities.

Recently the ICI has found a new impulse, coming alongside chocolate manufacturers and local authorities to jointly tackle the child labour issues within their supply chains. An increase of participation of stakeholders, particularly civil society actors, is much needed. Clear communication of goals and ambitions, coupled with a

holistic agenda for the sector, would strengthen its work. In that light, it is a good step that the ICI have held their first external stakeholder meeting in November 2012. Funding and support from various stakeholders continue to be necessary for the ICI to deliver and increase concrete results on the ground in reducing (worst forms of) child labour in West African cocoa.

World Cocoa Foundation (WCF)

The WCF is a global industry-based foundation, with more than 90 member companies, representing 80% of the global cocoa and chocolate market. Its main goal is to promote sustainable cocoa by financing and organising a broad range of programs to support the farmers.

Its Cocoa Livelihoods Program aims to improve the functioning of farmers organisations, trains farmers in good agricultural practices to increase productivity and quality and supports the foundation of Farmer Business Schools to enhance the skills of farmers not only on cocoa but also to diversify produce other crops. CocoaMAP, which was launched in the fall of 2012, is a data-collection tool to measure progress on sustainability in the cocoa sector, in a broad sense. Its aim is to have a constant flow of information with a variety of indicators on the developments towards sustainable cocoa production.

Many of the WCF's projects are run in cooperation with its industry members. As such WCF plays an important role in the implementation of sustainability projects in producing regions. However, public evaluation of projects and impacts are a necessary next step.

Dutch Sustainable Trade Initiative (IDH)

IDH has been one of the major catalysts towards mainstreaming sustainable cocoa through its support for UTZ Certified cocoa. Providing fund-matching for participating companies, its scope of operations has been increasing throughout West African cocoa for the past years. Like many other current sustainability projects, its focus is on increasing yield and improving farming practices, with primarily social indicators absent in reporting and objectives.

Its initial goal of having a broad variety of industry partners actively participating in the project seems to have been reached, although it has primarily attracted cooperation of multinational corporations, with only a few small and medium enterprises involved.

Partners involved in IDH are investing millions in building service infrastructure for their farmers, but at present there is no systematic assessment or benchmarking to understand what really works, what is scalable, and how to drive cost-efficiencies. Such assessments are necessary to fill in the knowledge gap, creating greater insights for the public domain but also for industry investment decision-making. Wageningen Univeristy (WUR) and IDH have therefore initiated a study to redefine impact reporting on their projects. Besides that the Dutch Ministry of Foreign Affairs is setting up an evaluation program with IDH. However, no independent public evaluations of projects and impacts have been published.

5 Beyond Productivity

There are many reasons for the poverty and poor living conditions of cocoa farmers and their workers; low income due to volatility of prices, high living costs, a large number of dependents per cocoa farmer, lack of infrastructure (including roads, health facilities, schools, and electricity), and, despite efforts in recent years, there still remains a serious lack of farmer training capacity.

Though there is a wide range of projects currently aimed at increasing sustainable cocoa production, there seems to be little central communication and coordination of these projects. There is a strong competitive edge to many of these programmes, where it would be beneficial for collective and pre-competitive sector-wide approaches to be implemented.

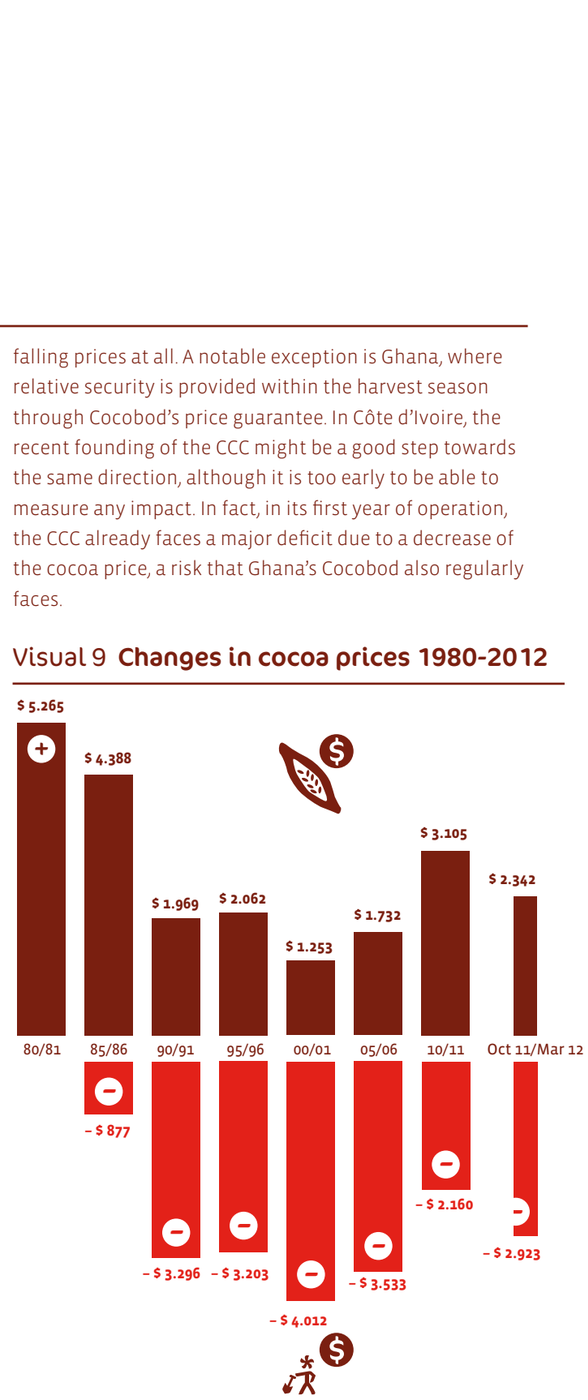
All current sustainable cocoa projects focus mostly on increasing yields, at least in practice. Though increasing yields is a necessity, the issues facing a sustainable cocoa supply chain, and therefore the needed solutions, are much broader. A wider set of tools and interventions are necessary.

Price volatility

Between 1980 and 2000, the price for a tonne of cocoa decreased from $5.265 to $1.253.[3] Although the price of cocoa has doubled in the past decade, it still remains at merely half the level of 1980. Not only are the prices low, daily cocoa prices vary wildly, further exacerbating the situation of farmers.

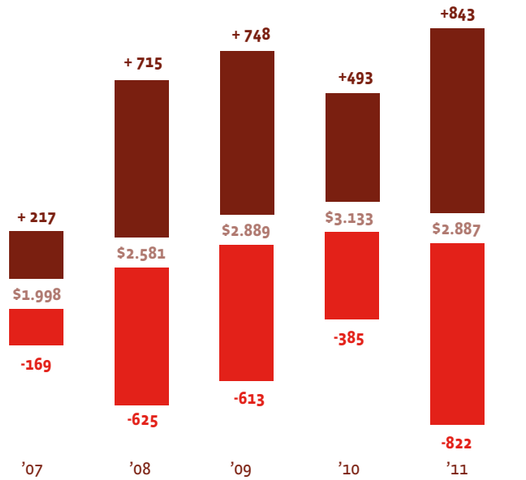
While the major companies are able to protect themselves against price fluctuations through long-term supply contracts, and by hedging transactions at the cocoa stock exchange, farmers have no such protection against falling prices at all. A notable exception is Ghana, where relative security is provided within the harvest season through Cocobod's price guarantee. In Côte d'Ivoire, the recent founding of the CCC might be a good step towards the same direction, although it is too early to be able to measure any impact. In fact, in its first year of operation, the CCC already faces a major deficit due to a decrease of the cocoa price, a risk that Ghana's Cocobod also regularly faces.

Visual 9 **Changes in cocoa prices 1980-2012**



[3] Price adjusted for inflation.

Visual 10 **Volatility of market prices**



Return on investment

Yield increases do not necessarily guarantee higher incomes, because of higher costs. Positive results are dependent on availability of better planting material, fertilisers and pesticides, as well as improved husbandry, which are all costs to be taken out of the farmer's income. Besides these investments in their farms, farmers must also increase their workload.

In some cases, investments can clearly be beneficial, as Mars' Sulawesi project shows; despite increased costs, profits rose from $694 a year to $3.725 (World Agroforestry Centre 2011: 13). However, it is an open question whether good results in smaller pilot projects can be replicated indefinitely. In Côte d'Ivoire, for example, most of the sustainability projects are not present in remote areas because of a lack of transportation, roads, and accommodation (FLA 2012: 24).

A 2008 report issued by the Bill & Melinda Gates Foundation claimed that West African cocoa yields could be significantly raised, from 400 to 980 kg per hectare, by introducing better farming practices. This would, however, also lead to a significant rise in costs. Due to subsidised fertilisers and low taxes, these investments could be profitable for Ghanaian farmers. In contrast, income of farmers in Côte d'Ivoire would only marginally increase, due to higher taxes and margins of the cocoa traders, and the absence of subsidies for fertilisers (BMGF 2008: 15-16).

But investments can also lead to losses. In a project in Indonesia, millions of seedlings were distributed, and advice was provided on proper of use of fertilizer, handling of seedlings, and pest-control. However, bad weather and a cloning technique originally intended to hasten seed production has lead to misshapen trees that yield small, discoloured beans. Corruption, insufficient farmer training, and faults by nursery workers have now caused farmers to start cutting down cocoa trees to make way for oil palm plantations that bring better returns (Pardomuan/Taylor 2012).

More research has to be done on the potential profitability of yield increase, on the risks involved and how to mitigate them, on the likelihood of investments due to lack of funding, and on best ways to make financing available.

Uncertain profits of certification

Most experts operate under the assumption that certification against a standard brings financial benefits to farmers. However, at present, there are few independent evaluations on the impact of standards and certification on cocoa farmer income, although several such studies are in the pipeline. Initial findings from preliminary research suggest that adhering to standards through certification is financially profitable. However, some of these studies have been based on the assumptions of high cocoa prices.

Some of the complexities surrounding measuring the financial benefits of certification come from the varying costs of certification (although initial costs are always high), and also the variable added income through premiums (part of which may not reach farm level). According to a recent calculation of the situation on the cocoa market, most of the extra income comes from premiums, which might decline when certification becomes mainstream. (KPMG 2012: 64).

Smallholder farmers and cooperatives seeking certification from multiple standards – often covering a majority of the same issues – face high administrative and handling costs. Ways need to be found to reduce these costs. Tools for multiple auditing have been developed, and initial steps in creating joint training have been undertaken through the aforementioned CCE project. A logical and useful next step would be to streamline the auditing and compliancy at farm level, with Standards Bodies accepting each other's audits on those areas were overlap is evident.

Land use and tenure

For decades, expanding cocoa production mostly meant clearing virgin forest to plant cocoa trees. Such practices are not possible any more; most of the fertile land in West Africa suitable for cocoa is already planted with cocoa trees. Biodiversity throughout the cocoa belt has suffered major blows, mainly because of cocoa. In many cocoa-producing regions, there is virtually no original forest left.

This is not just a historic process. As recently as a few years ago, Ghana's already small forest areas were in decline by 2% a year, mostly due to cocoa (Hatloy et al. 2012: 17-18). In Côte d'Ivoire, population increase in cocoa regions, at least partially because of migration, has led to immense pressure on land and forests. The problem is aggravated by climate change. According to recent forecasts the areas suitable for cocoa plantations will diminish dramatically until 2050 (Climate Change/CIAT 2011).

Land tenure, as a result, has become an issue in several ways. Conflicts about ownership of land were one of the underlying reasons for the recent civil war in Côte d'Ivoire. In addition, many migrant communities find themselves unable to diversify their crops, due to land tenure laws, and are caught in the poverty trap of growing cocoa. In many West African communities, additionally, land rights become problematic when coupled with gender, with ownership and decision-making power often not being accessible for women, even when they are the ones doing a lot of the work.

Environmental effects of yield increase

Current projects for increasing yield are dependent on a significant increase in the use of fertilisers and pesticides. However, seeing such an increase across the entire cocoa growing community is not feasible, for both economic and environmental reasons.

If all cocoa farmers in Ghana were to use the amounts of fertilisers and pesticides currently propagated by the

various programmes, it would probably bankrupt Cocobod who subsidises their use. In Côte d'Ivoire, most farmers are simply not capable of paying for fertilisers and pesticides. Additionally, an extensive increase of mineral fertilisers will destroy the ecology of the North African regions where these minerals are mined, increasing pesticide use will detrimentally affect the quality of local water sources, besides the obvious health hazard of using pesticides. Organic production, combined with better farming practises, in pilot projects in Nigeria has lead to good results; increased yields combined with a significant lower use of pesticides and fertilizer lead to higher incomes, and might be a way forward. (Faturoti et al. 2012: 435)

To this end, further research is necessary, as well as a careful approach in rolling out new projects that might have negative environmental effects. Increasing yield is a necessity, but all efforts should be made to ensure this happens with as little damage to environment as possible.

Access to credit and agricultural inputs

The vast majority of farmers do not have sufficient access to inputs and training, and when they do, they often cannot afford them (World Bank 2011: 47). All the predictions on yield increase, through more or better inputs and the implementation of better farming practices, are based on the assumption that the farmers are able to invest. Farmers could end up in a poverty trap; without capital investments their yields cannot increase, but their current capital does not give them any room for investment (Hainmueller/Hiscox/Tampe 2011: 3). As a result, certification could then become unobtainable for small-scale farmers (KPMG 2012: 45).

One possible way to overcome this problem would be for banks operating in rural areas to make credit available for smallholder agriculture enabling small-scale farmers to access credit or to save money. Such systems are included in very few of the projects led by companies. GIZ is trying to set up a system with the governments of Nigeria, Cameroon, Côte d'Ivoire, Cocobod and the WCF, in close cooperation with local NGOs, but there is still a long way to go to make credits and agricultural inputs available and affordable for small-scale farmers.

Local infrastructure

A significant improvement of local infrastructure is necessary, including building roads and warehousing, in order for sustainability projects to be rolled out across all cocoa growing regions. Though in essence a responsibility of local governments, this is in the direct interest of all involved in the cocoa supply chain. Over decades, the tax revenues from the cocoa trade have not led to corresponding investments in the infrastructures in the cocoa growing regions. Industry, government and developmental investments in local infrastructure are sorely needed. Additionally, there is a role for governments of consumer countries to assist producer country governments on eliminating trade mispricing tax avoidance by cocoa traders.

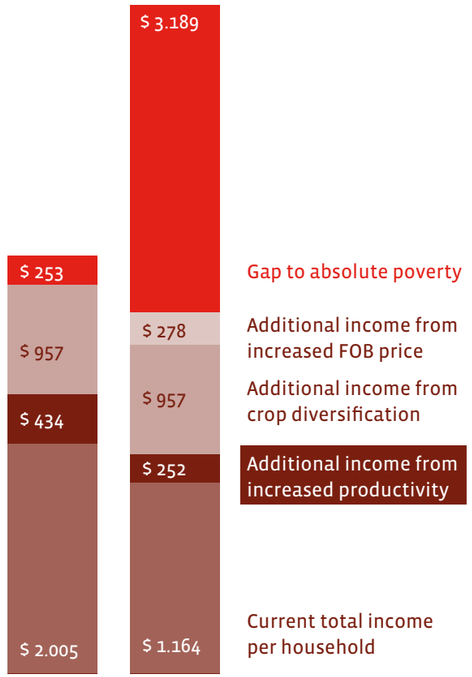
Diversification

Whereas many cocoa farmers are entirely dependent on the cocoa prices for their survival, chocolate companies are much less vulnerable to fluctuations in market prices. In West Africa cocoa is primarily a monoculture crop, while for chocolate companies the cost of cocoa is only one factor among many. In Europe, the expenses for cocoa make up only 7% or less of the price of a bar of chocolate.

(Hütz-Adams 2012: 28-29) Diversification of crops is crucial in order to improve income and living conditions in the cocoa belt. (e.g. BMGF 2008; KPMG 2011; FLA 2012)

A move away from monoculture would not only provide protection against extreme market fluctuations, the other crops they could grow could increase their income considerably. (GIZ/WCF 2011: 33, BMGF 2008: 18) Standards Bodies, non-governmental organisations, development assistance organisations, and some companies are now starting to advise farmers how to diversify production. This could improve the farmers' livelihoods and encourage them to go on growing cocoa even in times of low prices, by balancing the lower cocoa income by additional income from other crops.

Visual 11 **income effects of yield increase**



Social Issues

Social issues are still a major problem in cocoa farming; gender based inequalities, illiteracy, hazardous working conditions, long working hours, lack of education, child trafficking, and (worst forms of) child labour, to name a few, are still all too commonplace throughout the cocoa belt. Though many of the current projects claim to deal with these issues, key performance indicators on these projects often insufficiently reflect the declared intentions. Improving yields, and even improving income, are not direct guarantees that the 'softer' problems will also be diminished.

Current projects should make a conscious effort to incorporate these issues into their core plans and reporting. Remediation programmes, such as FLO's recent child labour remediation strategy, are a necessity to ensure that the issues are not merely transferred to other regions or other branches of industry. There is a need for schools within acceptable distance of all cocoa growing communities. Lastly, farmer training programmes need to increase the focus on social elements within their programmes, and ensure that farmers are sufficiently sensitised to the advantages of tackling social issues.

6 Recommendations

Recommendation 1: Increase, diversify & stabilise income of farmers

- Living income in the cocoa sector should be internationally defined and accepted, and should be central to all sustainability programmes. Sector-wide dialogue is necessary to ensure this happens, for example through the formation of a multi-stakeholder body.
- Diversification of income is essential to creating stable and sufficient income for farmers. All initiatives should provide sufficient focus on this aspect of farmer training and awareness.
- Long-term relationships between traders and farmers, including up-front payments covering cost of production, can lead to a fair contract farming system, where risks to price volatility are shared equitably.
- Private or state-run marketing boards, such as Cocobod and CCC, should be set up in all major cocoa-growing nations to foster stability of prices. Existing storage facilities could be expanded and utilised to stabilise price in years of bumper harvests. Alternatively, a Global Fund could be set up to fulfil this role on a global level.
- Increase prices of cocoa paid at farm level.

Recommendation 2: Improve infra- and support structure

- Roads, water supply, healthcare, primary and secondary education, farmer training facilities, warehousing, and improved access to market information are all essential ingredients of a locally functioning infrastructure.
- It is in businesses' interest to directly support investments in projects that further develop these issues.
- Structurally, a larger part of taxation derived from the sector needs to be reinvested in local infrastructure.
- Financial institutions should develop agricultural services, enabling small-scale farmers to access credit, start a saving system, and ensure small-scale farmers can invest in cocoa production and diversification of products, as well as participate in standard and certification programmes.
- Ensure that farmer training (including access to certification) is available to all cocoa farmers.

Recommendation 3: Increase pre-competitive collaboration

- Increased collaboration between Standards Bodies should be actively pursued, beyond streamlining of curriculum and farmer training, to include auditing
- Besides national roundtables, consuming and producing nations should actively pursue cooperation at creating global common definitions of sustainability and supporting sustainable cocoa production.
- All parties should ensure that adhering to fundamental human rights are addressed in pre-competitive cooperation.

Recommendation 4: Create a level playing field

- Adopt a common set of measuring tools and sustainability standards (including a continuous improvement standard).
- Make compliancy to these standards a 'license to operate' for the sector.
- Increase transparency, on data such as number of farmers reached, figures on costs and improvements achieved
- Evaluate all projects by industry and Standards Bodies on a regular basis, to a common evaluation standard (including the continuous improvement model), ensuring compatibility and benchmarking of evaluations.
- Promote financial transparency through country-by-country-reporting for multinational corporations on prevention of tax avoidance and corruption and to ensure that revenues from cocoa can be invested in cocoa projects
- Promote the Implementation of the Guiding Principles on Business and Human Rights in order to have individual monitoring systems to prevent further human rights violations in the cocoa sector.

Recommendation 5: Prioritise social issues and working conditions

- Farmer training programmes need to be based on an inventory and prioritisation of all issues, including the social ones, and ensure that farmers are able to include social issues in their identification and prioritisation of problems.
- Current projects should make a conscious effort to incorporate these issues into their core plans and reporting, at minimum including social issues and working conditions within their Key Performance Indicators and CSR reporting.
- Individual companies should issue third party independent reports on social issues and working conditions (such as FLA's child labour research for Nestlé). Recommendations and plans of actions should be set up in response, covering the entirety of the cocoa supply chain.
- Remediation programmes, such as FLO's recent child labour remediation strategy, are a necessity to ensure that the issues are not merely transferred to other regions or other branches of industry.

7 Sources of Information

Justification of figures and tables

Visual 1: Estimates based on figures of the World Cocoa Foundation http://worldcocoafoundation.org/wp-content/uploads/Cocoa-Market-Update-as-of-3.20.2012.pdf

Visual 2: Source: ICCO 2012, Table 4

Visual 3: We have shown the 2011/2012 growing season instead of the 2010/2011 growing season, due to the exceptional and non-representative harvest of 2010/2011. Source: ICCO 2012: Table 1 (2011/2012 forecasts) / for 2020/21: World Agroforestry Centre 2011: 2

Visual 4: UNDP and World Bank define poverty to be under $2 a day, absolute poverty $1,25. These definitions are based on parity purchasing power instead of absolute dollars, and are certainly not undisputed (definitions could be on the very low side).
Calculations on farmer income from cocoa are currently not available, so we have attempted to make a rough indication, based on available documentation. We have taken farm size, average yield per hectare, FOB price and the percentage that farmers can be expected to receive of the FOB, as well as average costs for cocoa farming. The results can be found in the table below.
These costs and income are only from cocoa, so where farmers have additional income this income will be higher. However, cocoa is mostly a monoculture crop at present, so this income is generally speaking the same as total farm income. Obviously, there are many other variables, such as variations of price per region, world market price, access to markets etc, but the authors believe this to be at least a reasonable approximation of reality.

Sources: Number of dependants: Ghana: Hainmueller/Hiscox/Tampe 2011: 11; Côte d'Ivoire: Republic of Côte d'Ivoire 2008: 40. Farm size: Ghana: Hainmueller/Hiscox/Tampe 2011: 15; Côte d'Ivoire: FLA 2012: 31. Costs: Ghana & Côte d'Ivoire: KPMG 2012: 60-62

Average household income	**Ghana**	**Côte d'Ivoire**
Dependents	3	6
Yield (tonnes per ha)	0,5	0,5
Average farm size (in ha)	1,5	2
FOB	$2.500	$2.500
Share of FOB for farmer	70%	50%
Costs per hectare	$162	$454

Visual 5: West Africa's cocoa farming population could decline by as much as 80% in the next two decades. The average age of farmers in West Africa is currently within ten years of life expectancy, and only a fifth of children growing up in cocoa want to be cocoa farmers. Based on figures by Hainmueller/Hiscox/Tampe 2011, UNDP etc.

Visual 6: Data graciously provided by the Standards Bodies, based on a questionnaire. Only Organic didn't respond. In light grey the commitments as made for the 2010 Cocoa Barometer

Visual 7: Based on input from Standards Bodies. Sadly, Organic is not shown, as they failed to answer to repeated requests for information.

Visual 8: Data graciously provided by the companies. 13 major grinders and chocolate manufacturers were sent a questionnaire, which was (partially) returned by ADM, Armajaro, Blommer, Barry Callebaut, Cargill, Delfi/Petra Foods, Ecom, Ferrero, Olam, Mars, Mondelez, and Nestlé. Only Hershey failed to respond with numbers. As the data submitted in the responses were not easily comparable, and credibility issues arose regarding the real measurement programs used, this calculation provides only a coarse estimation of the current situation. Because of trade, double registration at Trader/Grinder level is not only possible, it is inevitable.
Although Ferrero has committed to 100% 'sustainable' cocoa sourcing by 2020, their sourcing does not follow the conventional major standards bodies of RA/FT/UTZ/Org, although it does entail third-party independent verification at farm level.

Visual 9: Prices adjusted for inflation, based on constant 2010/2011 indexations. Source: ICCO 2012a, Table 2
The prices of the 2011/2012 growing season have been added, for the same reason as in Visual 4.

Visual 10: Source ICCO 2012, Table 9

Visual 11: Source: BMGF 2008. Though there are quite a few assumptions made by McKinsey in this calculation, the basic premise is that yield increase alone will just not be able to raise the income of farmers sufficiently.

Literature

A complete list of literature can be found on:
www.cocoabarometer.org/literature

Abbreviations

ADM	Archer Daniels Midland
CEN	European Committee for Standardisation
CCC	Conseil du Café-Cacao
CCE	Certification Capacity Enhancement
EU	European Union
FAL	Forced Adult Labour
FLO	Fairtrade Labelling Organization
GIZ	Gesellschaft für Internationale Zusammenarbeit
ICCA	International Cocoa Agreement
ICCO	International Cocoa Organization
ICI	International Cocoa Initiative
IDH	Initiatief Duurzame Handel (Dutch SustainableTrade Initiative)
ILO	International Labour Organisation
INTA	EU Parliamentary Committee on International Trade
NGO	Non Governmental Organization
RSCE	Roundtable for a Sustainable Cocoa Economy
STCP	Sustainable Tree Crop Program
TCC	Tropical Commodity Coalition
WCC	World Cocoa Conference
WCF	World Cocoa Foundation
WFCL	Worst Forms of Child Labour

Colophon

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The final responsibility for the content and the views expressed in this publication lies solely with the authors.

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Cocoa Barometer 2012

The coming decade will see a significant rise in demand for cocoa while current plantations and their workers are ageing, reducing yields if nothing is done. At the same time, farmer population will decline. Destitute poverty, dismal working conditions, and uncertain land rights will all contribute to these changes.

To combat these challenges, certification of farms against a voluntary standard is being rolled out, yield increase programmes are being implemented throughout West Africa's cocoa belt, companies and consuming nations are embarking on commitments to the usage of certified and otherwise sustainable cocoa, and producing nations are implementing various programmes and Roundtables.

Solutions will need to go 'beyond productivity' to deal with the root of the crisis in cocoa production; generating income stability, reducing price volatility, improving local infra- and support structure, ensuring access to finance and agricultural inputs, reducing negative environmental effects, and improving social and labour conditions. Common standards need to include all elements relevant for the whole chain, and be built on priority setting and continual improvement.

This requires individual responsibility and commitment, as well as an increased collective approach. Industry, government, standards bodies, and civil society must find ways to cooperate more closely, at competitive, but especially at pre-competitive levels.

Business as usual is not going to solve the crisis that the cocoa sector is in. Significant changes must happen, and they need to start happening soon. This Barometer is a call for action, specifically on the issues that are not receiving sufficient attention. Though some steps in this direction are already being taken, we must go 'Beyond Productivity', and embrace a holistic approach to sustainable cocoa.

An approach that will ensure that in generations to come there will be a vibrant cocoa growing community.
A community where farmers are proud to be cocoa farmers. Because of the quality of their product, but – even more importantly – because of the quality of life that growing cocoa has made possible for them.

VOICE Voice of Organizations In Cocoa in Europe

BD Berne Declaration · Déclaration de Berne · Erklärung von Bern

FNV Bondgenoten

OXFAM Wereldwinkels

SÜDWIND Institut für Ökonomie und Ökumene

people unlimited HIVOS

Oxfam Novib

Solidaridad

STOP THE TRAFFIK People shouldn't be bought & sold