



2nd Edition

Sweetness follows

A rough guide towards a sustainable cocoa sector

Content

1. Introduction
 2. The cocoa sector
 3. Pillars of sustainability
 4. Sustainability initiatives
 5. Comparison with other commodities
 6. Market dynamics
 7. Conclusion
 8. Recommendations
- Sources

Abbreviations

4C	Common Code for the Coffee Community
ADM	Archer Daniels Midland
BACP	Biodiversity and Agricultural Commodities Program
BMP	Better Management Practices
CMAA	Cocoa Merchant Association of America
CAOBISCO	Association of the Chocolate, Biscuit and Confectionary Industries of the EU
CATIE	Tropical Agricultural Research and Higher Education Center
CIFOR	Center for International Forestry Research
COPAL	Cocoa Producers Alliance
CRES	Compensation and Reward for Environmental Services
CSR	Corporate Social Responsibility
ECA	European Cocoa Association
EU	European Union
FCC	Federation of Cocoa Commerce
FDA	Food and Drug Administration
FSC	Forest Stewardship Council
ICA	International Confectionary Association
ICA	International Cocoa Agreement
ICCO	International Cocoa Organization
ICI	International Cocoa Initiative
ICRAF	International Centre for Research in Agroforestry
ICVB	International Cocoa Verification Board
IFC	International Finance Corporation
IISD	International Institute for Sustainable Development
ILO	International Labor Organization
ILRF	International Labor Rights Forum
LIFFE	London International Financial Futures Exchange
NCA	National Confectioners Association
NGO	Non Governmental Organization
NY CSCE	New York Coffee, Sugar and Cocoa Exchange
RSCE	Roundtable for a Sustainable Cocoa Economy
RSPO	Roundtable for Sustainable Palm Oil
TCC	Tropical Commodity Coalition
UNCTAD	United Nations Conference on Trade and Development
VISC	Voluntary Initiatives for Sustainable Commodities
WCF	World Cocoa Foundation
WTO	World Trade Organization
WWF	World Wildlife Fund

1. Introduction

Cocoa plays a crucial role in the livelihoods of millions of rural households across the developing world, and this tropical commodity has the potential to lift many out of poverty. Dealing with rural poverty is closely linked to introducing fairness, justice and sustainability into the cocoa sector. This challenge requires a closer look at the cocoa value chain and the stakeholders involved.

The cocoa supply chain is a long one: it passes through a complex trading network comprising a large number of intermediaries; like collectors, traders, exporters, processors and manufacturers, before it reaches the consumer, who increasingly expects assurance of responsible social and environmental production from their chocolate brands.

Given the wide array of challenges to sustainability in the sector, it is not surprising that a range of initiatives, programmes and systems have been developed to deal with specific pieces of the sustainability puzzle. The transformation of the

cocoa industry into a sustainable economic sector presents an extraordinary challenge to all the stakeholders involved. Cooperation between producers, NGOs, governments, traders, processors and manufacturers is necessary in order to develop these initiatives to their full potential and thus improve the working and living conditions at the beginning of the cocoa chain.

This report presents an overview of the world cocoa market and its main stakeholders. It first details the sustainability challenges facing the cocoa sector, then provides an overview of initiatives to manage sustainability in the cocoa chain. It also presents lessons from other commodity chains, like coffee and timber. Recent developments and trends show leverage points for ways to achieve more sustainable cocoa production and trade. Without promoting one initiative or another, various critical issues are addressed in the conclusion and recommendations.

2. The cocoa sector

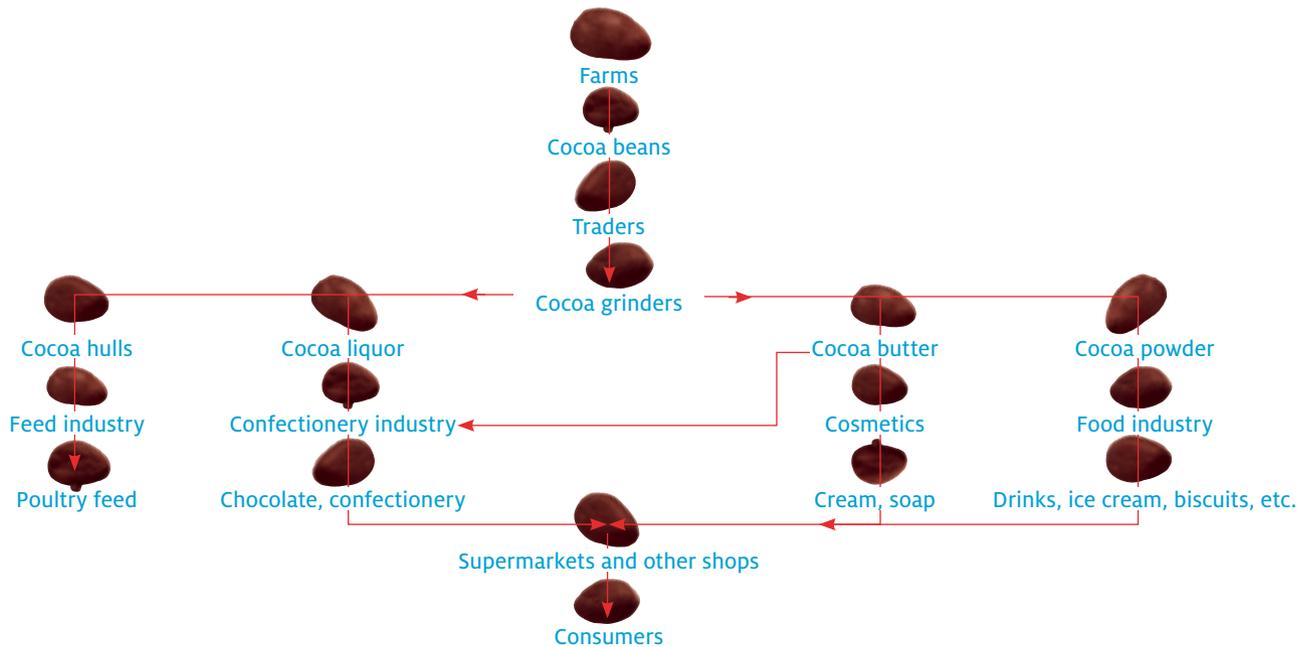
The cocoa tree evolved in the tropical rain forests of the Amazon basin. Evidence of the usage of cocoa beans dates back as far as 1000 BC, when wild forms of the cocoa tree were cultivated by Meso-American Indians in small, diversified gardens in what are now Belize, Guatemala, Honduras and Yucatán. Nowadays, cocoa is an internationally traded commodity and the key ingredient of chocolate.

There are two main varieties of cocoa tree: the Criollo variety – which produces fine or flavour quality cocoa – and the Forastero variety, which produces bulk cocoa. Criollo cocoas are grown mostly in Latin America. Their share of world production, however, is very small. Forastero cocoas are mainly grown in Africa and Asia. The main cocoa producing countries

are Indonesia, Nigeria, Cameroon, Brazil, Ecuador, Ghana and Ivory Coast, with the last two accounting for almost 60% of global production. In 2006, the world's total production of cocoa beans was 3.6 million tonnes.

The cocoa chain is a labor-intensive chain. The International Cocoa Organization (ICCO) estimates that 90% of global cocoa production is produced by some 3 million smallholders. Total worldwide employment in primary cocoa production is estimated at 14 million workers. It is thought that in West Africa there are 1.2 to 1.5 million cocoa farms, with an average size of 3-5 hectares, employing 10.5 million people. The cocoa bean is grown and processed on these farms using labor-intensive methods, and its sale is often the main source of

Figure 1 The cocoa chain



family income. Larger scale cocoa plantations exist mainly in Brazil and Indonesia.

Cocoa is generally exported in the form of dry beans. The farmers' production is purchased by dealers and exported by registered exporters or government marketing boards. Sales are effected through physical contracts or futures markets, principally in London (LIFFE) and New York (NY CSCE). The market distinguishes between bulk cocoa and fine flavour cocoa. The latter have a preferred flavour or other characteristics, and often receive a price premium.

The process of producing cocoa liquor, butter and powder is known as grinding. A part of the cocoa liquor is sold to chocolate manufacturers; the rest is pressed to extract cocoa butter and cocoa powder. To produce chocolate, cocoa liquor is mixed with cocoa butter, sugar, milk and emulsifying agents. Cocoa butter is also used in such cosmetic products as moisturizing creams and soaps. Cocoa powder is used on a large scale by other food industries for the production of drinks, desserts, ice creams, spreads, sauces, cakes and biscuits. The by-products of the cocoa beans – the husks and shells – are used as organic mulch, soil conditioner and poultry feed.

Traditionally, most cocoa beans are processed in the United States, the Netherlands, Germany and Ivory Coast: each country processes over 350,000 tonnes per year. As with other commodities, one of the key features of the cocoa chain is the growing dominance of multinationals in trading, processing and manufacturing activities. Although there are a large number of companies involved, a small number of well-known multinationals dominate the market: between them Archer Daniels Midland (ADM), Barry Callebaut, Blommer, Cargill, and Petra Foods account for more than half of the total trade and grinding activities. Hershey, Ferrero, Kraft, Mars and Nestlé are the main producers of chocolate confectionery.

Global consumption of chocolate and other cocoa products is dominated by Europe (49%) and North America (22%). In 2006, the average consumption of chocolate confectionery was 3.2 kilos per head.¹ It is expected that the total demand for cocoa will increase in, for example, Russia, Japan, Brazil and China. The retail sector is the main distribution channel for chocolate products. A consumer can choose from a bewildering variety of different brands and supermarket private label chocolate products.

Figure 2 Cocoa stakeholder organizations

<p>Producing and Consuming Countries</p> 	<p>International Cocoa Organization (ICCO)</p>	<p>An intergovernmental organization set up in 1973 to implement the international cocoa agreement. At present, 42 countries representing 80% of the worldwide production and 70% of the worldwide consumption are signatories to this agreement. The first mention of a sustainable cocoa economy can be found in the International Cocoa Agreement 2001.</p>
<p>Producing Countries</p> 	<p>The Cocoa Producers Alliance (COPAL)</p>	<p>An intergovernmental organization that unites the cocoa producing countries. Its members are: Ghana, Nigeria, Brazil, Ivory Coast, Cameroon, Dominican Republic, Gabon, Malaysia, Sao Tomé, Principe and Togo. COPAL focuses on sufficient supply at good prices, technical information, improvement of the mutual socio-economic relations and the promotion of cocoa consumption.</p>
<p>Traders</p>   	<p>1. London International Financial Futures Exchange (LIFFE) 2. Options Exchange New York Coffee, Sugar and Cocoa Exchange (NY CSCE)</p>	<p>Commodity exchanges. The cocoa contracts are meant to eliminate the price risk (hedgers) and are bought and sold for purposes of speculation (speculators). The negotiated price of cocoa is affected by supply and demand and by the exchange rates (LIFFE in pounds sterling, CSCE in US dollars). It is said that only 1.5-2% of the total number of contracts bought and sold on the LIFFE result in a physical delivery of cocoa.</p>
	<p>1. The Federation of Cocoa Commerce (FCC) 2. Cocoa Merchants Association of America (CMAA)</p>	<p>The FCC provides the international contract and arbitration service for the cocoa supply chain. Its members include the cocoa origins, trade, processors, chocolate manufacturers together with logistics providers, banks and insurance. In the USA, the CMAA is the agency to contact for the international trade.</p>
<p>Processors and manufacturers</p>    	<p>European Cocoa Association (ECA)</p>	<p>A relatively new trade organization representing the European cocoa sector. Its members are engaged in the trade of cocoa beans, the storage and distribution of cocoa beans and their processing into paste, powder and butter, and the production of chocolate.</p>
	<p>National Confectioners Association (NCA)</p>	<p>The NCA is the national trade association representing the chocolate and confectionary industry in the USA.</p>
	<p>International Confectionery Association (ICA)</p>	<p>A worldwide forum in which, through their associations, almost 3,000 companies in over 30 countries are represented. The members include the CMA (Confectionery Manufacturers of Australia), the ABICAB (Brazilian Chocolate, Cocoa & Confectionery Manufacturers Association), CAOBISCO and NCA.</p>
	<p>Association of the Chocolate, Biscuit and Confectionery Industries of the EU (CAOBISCO)</p>	<p>CAOBISCO represents European manufacturers of chocolate, biscuits and confectionery and its members use 50% of all the cocoa beans that are produced.</p>
<p>Value chain</p> 	<p>World Cocoa Foundation (WCF)</p>	<p>In 2000 the WCF was set up to support farmers in the cultivation of cocoa. The WCF is a partnership of nearly 70 members representing branded companies, processors, traders, retailers and port authorities from Europe, the Americas and Asia.</p>

Figure 3 Main cocoa producing and processing countries, and the main processing and manufacturing companies

Cocoa Chain	Mainstream Chain			
Cultivation 	Country	Volume	%	
		x 1,000 tonnes in 2006/07 ²	Share in 2006/07	Total 3,370,000 t
	Ivory Coast	1,229	36	
	Ghana	615	18	
	Indonesia	520	15	
	Nigeria	190	6	
	Cameroon	168	5	
	Brazil	126	4	
Grinding / processing 	Country	Volume	%	
		x 1,000 tonnes in 2006/07 ³	Share in 2006/07	Total: 3,637,000 t
	Netherlands	480	13	
	USA	418	11	
	Ivory Coast	360	10	
	Germany	357	10	
	Malaysia	302	8	
	Brazil	224	6	
	Company	Volume	%	
		x 1,000 tonnes in 2006/07 ⁴	Share in 2006/07	Total: 3,600,000 t
	Cargill	520	14	
	ADM	500	14	
	Barry Callebaut	440	12	
	Petra Foods	250	7	
Blommer	190	5		
Confectionary 	Company		%	
			Share chocolate market 2006 ⁵	
	Mars Inc		15	
	Nestlé SA		13	
	Hershey Foods		8	
	Kraft Foods		8	
	Cadbury Schweppes		7	
	Ferrero SpA		7	
Consumption 	Country	Volume	%	
		x 1,000 tonnes in 2006/07 ⁶	Share in 2006/07	Total: 3,550,000 t
	United States	795	22	
	Germany	315	9	
	France	260	7	
	United Kingdom	220	6	
	Russian Federation	195	6	
	Japan	167	5	



3. Pillars of sustainability

The importance of commodity sectors as vehicles for poverty reduction and sustainable development is evident: these sectors have not only a positive economic impact on but also a closely related social and environmental significance for the overall development of communities. Cocoa is an important commodity in terms of value traded globally, and plays a crucial role in the livelihoods of millions of rural households across the developing world. In addition to the 3 million small-scale cocoa farmers who depend on cocoa as their primary source of income, cocoa exports contribute significantly to foreign exchange earnings and government revenue.

The concept of sustainable development in this realm includes such aspects as 'economic viability for farmers', 'environmental conservation' and 'social responsibility'. Translating these broad concepts into daily practice is strongly linked to the belief system of a stakeholder. Sustainability is interpreted in different ways at different levels of the cocoa chain: for a farmer, a guaranteed income is important; for a country, the volume and export revenues are significant; and for many consumers, a responsible production process is a major issue. In the cocoa sector the debate centres on specific topics within the social, environmental and economic pillar, which are described in the following text boxes.

The social pillar: focus on child labor and forced labor

In 2000, worldwide media attention was paid to children being trafficked and forced to work on cocoa farms in West Africa. As a result of public outrage, politicians, government officials, social activists and representatives of the cocoa industry signed the Harkin-Engel Protocol, also known as the Cocoa Protocol. The protocol proposed guidelines for producing cocoa in adherence with ILO Convention 182. The protocol included a six-step action plan for cocoa manufacturers to complete by July 2005. One of these steps was to establish the International Cocoa Initiative (ICI), a joint foundation 'to oversee and sustain efforts to eliminate the worst forms of child labor in the growing and processing of cocoa beans and their derivative products'. The initial deadline, July 2005, was not met and with little fanfare extended to July 2008. The renegotiated parameters resulted in a new commitment, including the following aspects:

- a sector-wide independently verified certification process across each country's cocoa-growing sector by the end of 2010.
- governments of Ghana and Ivory Coast target and coordinate remediation efforts, based on the results from the certification data reports.
- ICI expands its activities to additional communities in Ghana and Ivory Coast; further strengthens government capacity at the national level, and educates key stakeholders in the cocoa supply chain on safe, responsible labor practices.

The development of a system of public certification is a key part of the Harkin-Engel Protocol. By the July 1 deadline, both Harkin and Engel confirm the progress made in recent years by ICI and the governments of Ghana and Ivory Coast. At the same time they stress the fact a lot remains to be done to make real progress in eliminating the worst forms of child labor and forced adult labor in the cocoa industry.⁷ A first independent progress report of the Harkin-Engel Protocol openly questions the basics of the proposed 'certification concept' as put forward by the cocoa industry.⁸ The US based NGO International Labor Rights Forum (ILRF) has monitored the Cocoa Protocol closely over the years and in a letter to Senator Harkin, June 2008, clearly ad-

resses that: "the 'certification concept' put forth by the cocoa industry in relation to cocoa production is neither a process certification nor a product certification, and offers no assurance to consumers that the corporations profiting from chocolate sales in the US have taken steps to eliminate child labor within their supply chains. The certification program as proposed by the cocoa industry appears to be an attempt to broaden the commonly understood definition of a certification system, a fact recognized by the industry itself as it seeks to develop an entirely new concept of certification without the benefit of a genuine multi-stakeholder process with clear rules of decision-making that will ensure an outcome acceptable to all stakeholders".⁹

The environmental pillar: focus on deforestation and soil degradation

Small-scale farmers grow cocoa trees in hot, rainy environments, mostly in areas near the equator. Because cocoa is a delicate, sensitive crop, cocoa seedlings are often sheltered by other trees, such as banana plants, plantain plants, coconut palms or hardwood trees. Several environmental problems are related to the production of cocoa, namely deforestation, loss of biodiversity, soil erosion and the use of agrochemicals.

- Deforestation and conversion of primary forest habitat: estimates indicate that cocoa production is probably responsible for the loss of 8 million hectares of tropical forest. A lot of cocoa farming is done on land already logged for other purposes or for logging in itself.
- Soil erosion: erosion in cocoa agroforestry plots is likely to be higher than in natural forests because the leaves do not decompose quickly and they suppress other vegetation. Due to intensive cocoa production soils loose fertility, which explains why cocoa plantations move to fertile ground and are replaced by conventional agriculture.
- Loss of biodiversity and input of agrochemicals: cocoa should be intercropped with other tree crops to maximize biodiversity conservation. The high yielding cocoa variety

called CCN-51 is grown in monoculture and density of 1600 trees per hectare, it needs a high input of agrochemicals.

If done properly cocoa farming has the potential to contribute positively to the environment, it is a fact that low productivity and poor support services to farmers can encourage the opposite effect. Compensation and rewards for ecosystem services (CRES) is a relatively new approach for achieving resource conservation and restoration. The World Bank's BioCarbon fund is one of the largest biodiversity CRES programs. This program aims to sequester carbon while promoting biodiversity conservation and poverty alleviation co-benefits. In cocoa there are a few examples that try to integrate CRES concepts. Conservation International and CIFOR are exploring how sustainable cocoa production can support biodiversity corridor management goals in West Africa (e.g. Kakum National Park Ghana). WWF's Macroeconomics Program Office has been developing Agro-forestry/Carbon approaches in Africa with ICRAF and other partners. In addition CATIE (Costa Rica) has ongoing projects on biodiversity conservation and carbon sequestration in small indigenous farms in Costa Rica and Panama. In May 2008, the International Finance Corporation (IFC; part of the World Bank) launched a programme called the Biodiversity and Agricultural Commodities Program (BACP). BACP will support private-sector-led initiatives to mainstream the adoption of Better Management Practices (BMP) in the four target commodity markets of palm oil, soybean, sugarcane, and cocoa.¹⁰

The economic pillar: imbalance in revenue and power

In the original and simplified sense, commodities were things of value and of uniform quality that were produced in large quantities by many different producers. A characteristic of commodities is that their prices are determined as a function of their market as a whole. As a result, the price a farmer receives is not within his or her control. In general the farmers sell their cocoa beans to local traders, who sell to exporters. Until recently, centralized marketing systems prevailed in almost all major cocoa producing countries in West and Central Africa. In the nineties, under pressure to liberalise

their markets, countries such as Nigeria, Cameroon and Ivory Coast fully privatized their internal and external marketing structures. The Ghana Cocoa Board (Cocobod) still sets the price of the cocoa paid to the farmers and controls 70% of cocoa trade. In most other cocoa producing countries a free market system has always prevailed.

The farmers' gate price is dictated by the exchange market, even though only 1.5 - 2% of the total number of contracts bought and sold on the exchanges result in the physical delivery of cocoa. A rough estimate for the net income by farm would be US\$ 2,000 to US\$ 3,000 per year. For a family of six or seven, that amounts to some US\$ 300 to 500 per capita. Through growing their own food and earning income from other sources, the family can achieve an income that reaches or comes above the poverty threshold of US\$ 2 per capita per day, as established in the Millennium goals of the United Nations. However, for farmers with less land to cultivate, lower yields, or in a situation where cocoa prices are (temporarily) lower and/or where taxes are higher, the income falls below the poverty threshold.¹¹

Like other commodities, cocoa has the potential to lift many out of poverty. Realizing more margin through added value, redistribution of margins across the supply chain or creating new forms of ownership are ways for a farmer to realize more income. The question whether the cocoa farmer is achieving a viable income is hard to answer and is different for every 'supply chain' and country of origin. An example of new market approaches that creates more ownership for the farmers involved is the Divine Chocolate formula. The largest shareholder of Divine Chocolate Ltd is Kuapa Kokoo (meaning 'good cocoa growers'), the Ghanaian farmers' cooperative from which it buys all its cocoa. Kuapa Kokoo holds 45% of the ordinary shares in Divine Chocolate. Divine turns over US \$ 17,7 million and 45,000 people in 1,200 villages get a share of the profits and make a collective decision how to spend it. Mr Ohemeng Tinyase, Managing Director of Kuapa Kokoo said, 'For us, farmer ownership always made Divine Chocolate special. For the first time our members benefit as owners of a wonderful chocolate brand, and not only as suppliers of excellent, fairly traded cocoa.' In June 2008, Divine received the UK Observer's Ethical Business award for its empowering trade model.¹²

4. Sustainability initiatives

“As an industry, we see this effort as a long-term commitment, one that reflects a shared responsibility for the cocoa farmers and their families at the start of our supply chain. It is not a commitment that expires with any one date but rather is an essential, ongoing part of how we conduct business. While we focus on near-term milestones, they are in fact part of a longer, sustained effort that reflects our corporate citizenship in this and other areas.” David Zimmer, Secretary General of CAOBISCO.¹³

The transformation of the cocoa industry into a sustainable economic sector presents an extraordinary challenge to all the stakeholders involved. Cocoa stakeholders have developed various initiatives, programmes and systems to deal with specific pieces of the sustainability puzzle (see Figure 4). Cooperation between producers, NGOs, governments, traders, processors and manufacturers is necessary in order to develop these initiatives to their full potential and thus improve the social, environmental and economic situation at the beginning of the cocoa chain.

International multi-stakeholder initiatives – such as the International Cocoa Initiative, the World Cocoa Foundation and the Roundtable for a Sustainable Cocoa Economy – face significant challenges to sustainable development at the production end of the supply chain. With these forums for debate and cooperation amongst policy makers, private-sector players and other stakeholders, there is the chance to design and implement an equitable and participatory cocoa trading system. By supporting NGO and farmer organization initiatives, it is possible to turn their stated commitment to sustainability into action. Figure 5 gives an overview of the focus and commitment of the various stakeholders.

Certified Cocoa

“In short, rather than confusing the issue further in future, industry players must therefore work with each other, as well as the farmers, to not only come up with a more consistent standard of how cocoa suppliers are treated, but also a fair way of indicating the supply chain to consumers. It would be desperately sad if the Western consumer started to take a jaded and cynical view of the

issue of ethical cocoa supply, and if a day comes when nobody has faith in how companies treat the suppliers, it will not only be the farmers who lose out.” Charlotte Eyre, editor of Confectionerynews.com and Bakeryandsnacks.com¹⁴

Codes of conduct and the certification of cocoa have proliferated in recent years in response to the growing consumer concern about food production methods and the impact of these methods on the poor and the environment. Certification is the procedure by which a certification body gives written assurance that the quality of the cocoa and the production process have been assessed and that both conform to specified requirements. Codes of conduct require suppliers to meet standards on food safety, working conditions and environmentally friendly production. This market-based approach to the sustainable development of the cocoa sector has given rise to a number of opportunities for producers, for example training, access to new markets, and enhanced efficiency and revenues. The adoption and implementation of these codes could directly improve and protect the economic, social and environmental conditions of a cocoa grower. However, full access by those who are the most in need is restricted by various obstacles, for example limited demand, and investment and audit costs.

For the cocoa sector, there are four global initiatives, namely Fairtrade, Organic, Rainforest Alliance and Utz Certified. Their characteristics are briefly presented in figure 6. Product quality and traceability have attracted the interest of major companies. The examples of note include the announcement of Dutch chocolate brand Verkade (United Biscuits) to shift towards 100% Fairtrade (Max Havelaar certified) cocoa and sugar sourcing by January 2009 (1,500 tonnes of Fairtrade cocoa a year).¹⁵ Ahold, Cargill, Heinz Benelux, Mars, Nestlé and Ecom are participating in the development of a Utz Certified cocoa standard.¹⁶ Kraft Foods entered in a partnership with Rainforest Alliance. Also notable is Starbucks' new company cocoa standard, an overall sustainability standard with a strong labor standards component.¹⁷



Figure 4 International multi-stakeholder initiatives

Initiative	Mission	Stakeholders & funding	Sustainability statement
<p>International Cocoa Initiative (ICI) www.cocoainitiative.org</p> 	<p>Established in 2002 'to oversee and sustain efforts to eliminate the worst forms of child labor and forced labor in the growing and processing of cocoa beans and their derivative products'</p>	<p>Governments, industry, cocoa producers, labor organizations and NGOs</p> <p>Funded by its industry members</p>	<p>"Today, let us each remember that children everywhere deserve a childhood, an education and an opportunity to escape the cycle of poverty." <i>Peter McAllister, ICI Executive Director</i></p>
<p>World Cocoa Foundation (WCF) www.worldcocoa-foundation.org</p> 	<p>Started in 2000 as an industry-driven initiative to promote a sustainable cocoa economy through economic and social development and environmental conservation in cocoa growing communities</p>	<p>A partnership of nearly 70 chocolate company members, government, international agencies, trade associations and NGOs</p> <p>Funded by industry and private foundations</p>	<p>The WCF supports programmes to make cocoa farming a sustainable, successful way of life for farming families. WCF-supported programmes drive sustainable cocoa farming.</p>
<p>International Cocoa Organization (ICCO) www.icco.org</p> 	<p>Article 1 of the International Cocoa Agreement (ICA), 2001 stipulates that members shall promote a sustainable cocoa economy</p>	<p>An international organization, composed of both cocoa producing and cocoa consuming countries. The private sector is represented through the Consultative Board on the World Cocoa Economy</p>	<p>ICCO members should be working collectively towards a world cocoa economy that is "economically viable, ecologically sound and socially acceptable."</p>
<p>Roundtable for a Sustainable Cocoa Economy (RSCE) www.roundtablecocoa.org</p> 	<p>Launched in 2007 by the International Cocoa Organization (ICCO), the mission of the Roundtable is to establish a participatory and transparent process towards economic, environmental and social sustainability in the global cocoa economy</p>	<p>The 1st Roundtable in 2007 brought together more than 200 stakeholders representing governments, industry, farmer organizations, labor unions and NGOs. A second meeting is planned in 2009</p> <p>RSCE has received funding from governments of cocoa producing and consuming countries</p>	<p>"... to build a consensus on defining a concept or model of criteria, indicators and ways to achieve a sustainable world cocoa economy through a participatory and comprehensive approach."</p>
<p>International Cocoa Verification Board www.cocoaverifcation.net</p> 	<p>In the Harkin-Engel Cocoa Protocol of 2001, the cocoa and chocolate industry made a commitment to establish a system to certify that cocoa beans and their products are being produced under fair labor conditions – particularly without using child labor or forced labor</p>	<p>Independent of industry and governments</p> <p>Funded by the industry</p>	<p>"Verification is an essential step in assessing labor conditions in cocoa-growing communities in West Africa. The ICVB holds the strong conviction that accurate data will help guide strategic planning and programming to effectively address potential areas of concern, including child and forced adult labor."</p>

Figure 5 Overview of the focus and commitment of the various stakeholders



Initiatives	Sustainability Indicators *				
	Social	Environmental	Economic	Corporate Governance	Operational aspects
Roundtable for a Sustainable Cocoa Economy (RSCE)					
World Cocoa Foundation (WCF)					
International Cocoa Initiative (ICI)					
Production Standards					
Capacity building programmes ¹					



Indicators developed



Indicators not developed

Figure 6 Cocoa production standards

	Fairtrade www.flo.org 	Organic www.ifoam.org 	Rainforest Alliance www.rainforest-alliance.org 	Utz Certified www.utzcertified.org (in development for cocoa) 
Major producing countries	Ghana, Ivory Coast, Dominican Republic	Madagascar, Tanzania, Brazil, Dominican Republic, Mexico, Peru	Ecuador, Ivory Coast, Ghana	Ivory Coast
Produced volume 2008 expected	10.000 t	20.000 t	12.000 t	8.000 t
Volume 2009 expected	13.000 t	26.000 t	25.000 t	36.000 t
Trends	Growing demand, in the last years over 40%	Growing demand side, over 32% in the period 2006 – 2010. Growth of production over 20%	Growing market demand	Committed confectionary companies are involved: Ahold, Mars, Nestlé, Heinz
Requirements for farmers	Smallholders organized in democratically run organizations, ban on most toxic pesticides, integrated crop management	Use of non-synthetic nutrients and plant protection methods, soil conservation	Sustainable farm management, integrated pest management, worker welfare, community relations, biodiversity conservation through maintenance of shade cover or protection and restoration of native forest reserves	Good agricultural practices, decent social conditions, environmental stewardship, food safety, traceability and transparent group management
Label use	100% Fairtrade cocoa	95% organic cocoa	Two types of label: 1. 100% Rainforest Alliance cocoa 2. Minimum 30%-90% Rainforest Alliance cocoa with a seal indicating the percentage of certified cocoa	In coffee: 90% minimum Utz Certified In cocoa: To be determined
Price premium	Minimum price and fixed premium	Minimum price and fixed premium	Negotiable premium	Negotiable premium

5. Comparison with other commodities

The sustainability of a commodity chain has many dimensions. The balance of benefits and negative impacts is different for every commodity chain, and each commodity chain has its own geographical and social distribution.

Therefore, the issues addressed by sustainability initiatives and the best approach to these issues also differ between commodity chains. Various characteristics of commodity chains play a role, for instance, product, production process, production chain, and the political and regulatory environment.

A successful sustainability initiative for a specific commodity must deal with the commodity's specific characteristics: there is no universal solution. The way in which specific sustainability initiatives in other commodity chains deal with these

characteristics can help to transform the cocoa industry into a more sustainable sector. Several examples are presented in figure 7.

Cocoa is often compared to coffee, as the two 'hot drinks' share several characteristics, starting with the production by small-scale farmers. The main sustainability issues are comparable, as is the market structure, with some dominant players active in both commodity sectors. But compared to coffee, cocoa is processed further and into a larger variety of products (which also contain other ingredients). Nevertheless, cocoa is recognizable to end consumers in most products, and therefore difficult to substitute. Combining sustainability efforts with the sugar sector, which is used in many products in combination with cocoa, is also worth considering.

Figure 7 Commodity characteristics

Commodity	Issues	Characteristics	Obstacles	Solutions
 Coffee	Social and economic benefits for small-scale producers and workers Pesticide usage	Many small-scale farmers and plantations Very volatile price Five multinationals buy 50% of green coffee production Consumers recognize coffee as end product	Overproduction	Establish parallel markets for Fairtrade and organic coffee Certification initiatives (e.g. Rainforest Alliance and Utz Certified) addressing the mainstream market Multi-stakeholder sustainable baseline standards: Common Code for the Coffee Community (4C)
 Palm oil	Land rights of local communities Biodiversity loss Environmental impacts	New demand for use as biofuel	Consumers do not recognize palm oil as an ingredient	Roundtable for Sustainable Palm Oil (RSPO) in the process of establishing production standards and certification system
 Timber	Land rights of local communities Biodiversity loss Environmental impacts	Consumers recognize timber in processed products	Lack of dominant players in the timber market	The Forest Stewardship Council (FSC) is a multi-stakeholder initiative that has established production standards and a certification system: FSC parallel market with high price premium
 Sugar	Social and economic benefits for small-scale producers and workers Biodiversity loss Environmental impacts	New demand for use as biofuel	Heavy government regulation Market is not concentrated and is divided along national interests	Better Sugarcane Initiative

6. Complementary trends

The consumer demand in Europe and the United States shows a change towards increasing demand for specialty chocolate products, with high cocoa content or sugar free or natural sugar, and specific countries of origin. In recent years, new premium chocolate products like Green and Blacks (dark organic chocolate of Cadbury), Origin Chocolates (Valhrona) and Divine Chocolate have been marketed successfully. Consumer demand of chocolate is directly related to the economic development of a country. As such it is obvious that cocoa markets, with their own consumer preferences, will emerge in Brazil, Russia, India, Japan and China.

The responses of cocoa growing countries to these supply dynamics and the increasing demand for cocoa are of the utmost importance to farmers. Especially the governments of Indonesia and Ghana regard cocoa as a high opportunity crop and are investing heavily in future production. Also the process of adding more value to cocoa growing, besides the traditional exporting of cocoa beans, is taking place. In recent years, the grinding capacity in such origin countries as Ivory Coast and Indonesia, has grown considerably.

Cocoa supply is insecure due to the ageing of cocoa trees, the dominant position of Ivory Coast, and the potential devastating effect of such pests as witches' broom and the cocoa pod borer. As a result, processors are focusing on sourcing new locations and developing pest-resistant trees, new insecticides and safe pest control, including bio control. Furthermore, industry's increasing demands for efficiency and traceability are resulting in activities being shifted across the cocoa chain.



The outsourcing of cocoa trade and processing by the chocolate industry, and the integration of processing and marketing activities by cocoa processors are ongoing.

In the European Union, Directive 2000/36/EC was implemented in 2003¹⁸. The aim of this directive is to allow the use of up to 5% of a limited number of exotic vegetable fats in the production of chocolate. These fats are illipe, palm oil, shea, sal, mango kernel and kokum gurgi. The impact of this legislation on the global cocoa market is still limited, as only 15 manufacturers have incorporated cocoa butter substitutes in their recipes. However, as cocoa prices rise and manufacturers adapt their recipes, a future shift to vegetable fats can be expected.

Although substituting other vegetable fats for cocoa is a threat to cocoa producing countries and farmers, it might create opportunities for mixed agro-forestry systems and income diversification.

In the United States, the Food and Drug Administration (FDA) has let it be known that there will be no review of US chocolate standards unless "... they receive clear direction from the US industry as a whole on proposed changes"¹⁹. At the moment the US cocoa and chocolate industry supports the current standards.



7. Conclusion

The growth in recognition of the importance of sustainability in cocoa production amongst producers, governments, companies, NGOs and consumers has put the cocoa sector at a crossroads. No single stakeholder group will make the cocoa value chain significantly better. The cocoa market involves many players, and if the goal is to alleviate poverty by making the production and trade of cocoa more sustainable, many different stakeholders will need to be involved. Based on our overview of the different initiatives, programs and systems dealing with specific pieces of the sustainability puzzle, it became clear none of them links the three pillars of sustainable development in-depth. To address rural poverty and environmental degradation the main point of departure should be the whole cocoa farming system. Instead, the multi-stakeholder discussions are centred around child labor, environmental conservation or agricultural production practices. With a view to promoting greater sustainability in the cocoa production and raise standards across the cocoa sector as a whole the following observations can be made.

Since small farmers often lack organization and political representation both within their own countries and on the international stage, their concerns are frequently not reflected in the existing multi-stakeholder processes. Also the workers, a large group of the agricultural workforce, are often unorganized and overlooked. The main multi-stakeholder initiatives in the cocoa sector are dominated by companies, governments and NGOs. At the RSCE governments (producing and consumer countries), industry and civil society are included. The stakeholder composition of ICI is integrating NGOs, companies, trade unions and institutional organisations. The WCF combines 70% of company members, bringing together the public sector and NGO partners in bi-annual partnership meetings. All of their on-the-ground programs are operated through public-private partnerships. The over-all representation and influence of cocoa farmers and workers in the initiatives is low, as a result their priorities and aspirations are rarely articulated in the on-the-ground programs.

Although each of the current initiatives and programmes offers some level of economic, social or environmental benefit to producers, an integral approach towards a more sustain-

able cocoa sector is lacking. ICI focuses on child labor prevention in Ghana and Ivory Coast. WCF concentrates on improving the cocoa production and marketing practices in West Africa, Southeast Asia and Latin America. WCF also works on disease and pest pressures in public-private partnerships with research institutes. In order to really foster changes at the ground level and to develop 'holistic' solutions it is clear that a high level of cooperative action between stakeholders themselves and at the public policy level will be necessary. The first RSCE meeting in Ghana, October 2007, reconfirmed the necessity to develop a broad based multi-stakeholder platform in which principles for a sustainable cocoa economy can be formulated together. The RSCE multi-stakeholder initiative will have to prove itself by formulating what is minimally needed as a starting point to ensure an international level-playing field for sustainable cocoa.

Product quality and traceability have attracted the interest of large companies and the retail sector. The well-known Dutch chocolate brand Verkade (United Biscuits) announced to shift towards 100% Fairtrade (Max Havelaar certified) cocoa and sugar sourcing by January 2009. Ahold, Cargill, Heinz Benelux, Mars, Nestlé and Ecom are participating in the development of a specific Utz Certified cocoa standard. Cocoa production standards and certification become more widespread, companies are searching for ways to distinguish themselves from the competition and to guarantee the sustainability and traceability of their cocoa and chocolate products. The market share of certified cocoa is growing and offers new opportunities for the chocolate manufactures to credibly market sustainably produced cocoa.

There are still many challenges. Therefore stakeholder representation and cooperation at all levels between producers, governments, NGOs, traders, grinders and the confectionary industry is necessary in order to develop the different initiatives to their full potential and link the social, environmental and economic pillars of sustainable development in the cocoa sector.

8. Recommendations

This revised rough guide has revealed the complexity in linking the three pillars of sustainable development in the cocoa chain. There is an urgent need to address the social, environmental and economic problems simultaneously and raise the standards to ensure quality cocoa now and in the future. The recommendations summarized below can be taken into consideration when developing specific strategies towards a more sustainable cocoa chain.

Realise the key issue of the sustainability debate: From the 90s up till now fair-trade principles and sustainability issues have moved from the niche market to the mainstream cocoa market. The continued media attention on child and forced labor and of the Harkin-Engel protocol has continuously put pressure on the cocoa industry to take its responsibility. WCF, ICI, RSCE and the global production standards all developed mechanisms to deal with specific issues of sustainability. Institutionalizing the results of these processes in the cocoa value chain and assigning responsibilities to the various stakeholders is currently taking place. A key issue that remained untouched upon in the current multi-stakeholder initiatives is the crucial role the cocoa price plays in the income of the farmer in realizing a fair or sustainable cocoa economy.

Stimulate farmer representation: Although around 3 million small-scale farmers are active in the cocoa supply chain, representation at (inter-)national level is virtually non-existent. Producer governments together with industry and NGOs have to create an enabling environment for small-producer associations and cooperatives to join and provide input in the sustainable cocoa debate. Also the workers, a large group of the agricultural workforce, are often unorganized and overlooked in the current initiatives.

Develop a shared vision on a sustainable cocoa economy in the RSCE: The RSCE is a multi-stakeholder platform in which a shared vision on a sustainable cocoa economy can be formulated. In an effort to build shared understanding and approaches to sustainability in the cocoa chain at a global level, key stakeholders can support government and industry to develop a public/private shared vision towards a

sustainable cocoa sector linked to the national levels. At the national level, multi-stakeholder cocoa platforms can design specific action plans to develop and implement sustainable practices efficiently throughout the cocoa chain in their country. In order to make the discussion on a sustainable cocoa economy transparent and clear, all stakeholder groups in the cocoa sector are encouraged to develop a 'shared vision' on a sustainable cocoa economy.

Improve production standards and cost sharing: Production standards and certification become more widespread in the cocoa sector. Meeting these new standards involves costs for producers of doing business. Farmers are not interested in the extra cost imposed on them without gaining a share of the value. Specific bottlenecks in access for small producers should be taken away, for example by developing a system of cost sharing between companies, governments, and international development organisations.

Measure the impact of (CSR) activities: Change is unlikely to happen unless the drivers in the chain recognise and accept their responsibility to contribute to the improvement of working and living conditions at the beginning of the cocoa chain. The confectionary industry, traders and other companies should make corporate social responsibility measurable and report transparently about the impact of their activities.

Use sustainability as a motor for innovation: The opportunity to link cocoa growing to new financial mechanism and climate change is an opportunity for the whole sector. By linking programs to sequestering carbon and biodiversity conservation as well as poverty alleviation an integral approach of sustainability can be realised. The larger part of the value chain and producing countries (Congo, Nigeria) receive limited attention. Projects in practice (Ghana, Ivory Coast) should be expanded to other cocoa producing countries to gain more understanding of the potential benefits and threats of this approach.

Integration in world trade debate: To ensure the production of high quality cocoa now and in the future and bring many small-scale farmers out of poverty, the sustainable cocoa chain debate has to be incorporated in the broader world trade debate e.g. WTO (Trade and Environment Committee, Core ILO standards), UNCTAD, IISD (VISC), EU (Action plan for commodities) and U.S. Commodity Futures Trading Commission.

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Footnotes

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Tropical Commodity Coalition

Tropical Commodity Coalition (TCC) comprises eight non-governmental organisations: Hivos, Oxfam-Novib, Solidaridad, Oikos, Somo, Fairfood, India Committee of the Netherlands, BothEnds and two trade unions, FNV Bondgenoten, CNV Bedrijvenbond. It cooperates with NGOs and trade unions in coffee, tea and cocoa producing countries to improve the social, environmental and economic conditions at the beginning of the coffee, tea and cocoa value chains.

TCC addresses the social, environmental and economic conditions in the coffee, tea and cocoa chains through organising informed debates, in both the South and the North. The TCC ensures coordination of the members' activities where needed and compiles lessons learnt and promotes the interchange of strategies to build shared understanding and approaches to sustainability in these commodities. TCC shares its knowledge and influences policies and plans of companies, standard bodies, CSR initiatives, governments, NGOs and unions to develop and implement sustainable practices efficiently throughout the coffee, tea and cocoa chains. TCC creates an enabling environment for civil society stakeholders from producing countries to join and take an active part in the sustainable commodity debate.