

Necessary Farm Gate Prices for a Living Income

Existing Living Income Reference Prices are Too Low

Consultation Paper for the 2020 Cocoa Barometer / January 2020

Living Income is a human right

Living Income is the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household.ⁱ Being able to earn a living income is a basic human rightⁱⁱ.

Living Income is necessary to solve other challenges

Currently almost no cocoa farmers in the main cocoa production countries in West Africa are earning a living income. Without a living income for cocoa farmers, cocoa will never be sustainable. If a farmer must choose between feeding his family, and not cutting down his old growth trees, it isn't a choice. Other challenges facing the sector – such as deforestation and child labour – will be impossible to tackle if farmers still live in poverty.

Living Income is a starting point, not the finish line

It should be abundantly clear that living income should be the starting point of a conversation on farmer income, not a finish line. Most people reading this paper would not be satisfied with earning just a living income. Why should a cocoa farmer? Every farmer should be able to earn *at least* a living income, but preferably a lot more.

Current reference prices are too low

Several initiatives in the past year have started to communicate about desired cocoa price levels for farmers in Cote d'Ivoire and Ghana. The situation is not transparent, as each approach has a different methodology to calculate a living income and a different way to transfer additional money.

- The **Fairtrade** Living Income Reference Price has been reduced, and now is \$2,200 in Cote d'Ivoire and \$2,100 in Ghana per metric ton, plus a premium of \$240.

- **Tony's Chocolonely** have aligned their price with Fairtrade and pay the same per metric ton. The main difference is that Tony's calculates the Fairtrade premium as part of the living income reference price. However, premiums are part of a communal fund, are not fully paid to the farmer, and should not be considered part of the farmgate price. Dutch retailer Albert Heijn is also purchasing according to the Tony's Chocolonely model.

- **Oxfam Fair Trade**ⁱⁱⁱ have started paying a flexible premium to reach a farm gate price of \$2,668 in Cote d'Ivoire.

- For the 2020/2021 crop season, the governments of Cote d'Ivoire and Ghana have put in place a **Living Income Differential**, a \$400 premium per tonne above the world market price, which they claim will lead to farm gate prices of \$1,820 from October 2020 onwards.

We believe, however, that these living income price calculations so far have erred significantly on the low side. In this paper we will explain why we think these living income reference prices are too low, and why farm gate prices for farmers should be higher still.

More – and better – public data needed

For a long time, being able to determine a fair farmgate price for cocoa was very hard, as there are so many variables that influence the answer. Some variables were unanswerable until recently due to a lack of any data at all, let alone qualitative data. However, in the past two years, substantial information has become more available, either publicly or shared with the VOICE Network off-record. As a first step, we are making available all the data that we have used to base our calculations on. This data can be found here^{iv}. Many more data are collected by companies but is not available despite the urgent need to support a better-informed discussion.

Cost of Production

One variable that is often not taken into consideration is the cost of production. Very little data is currently available about the cost of hired labour, inputs, etc. Our estimates below are based on available data, both publicly and privately. However, we believe that this number must be further solidified through the publication – by companies – of their data.

Unrealistic Productivity increase

All current calculations for a desired farm gate price assume farmers will be able to significantly increase their productivity. Only then will a family be able to earn a living income. There are several key problems to that approach. First, earning a living income is a fundamental human right for everyone, and should not be available only to the highest

achiever. Average cocoa farming households should be able to achieve a living income, not just the outliers. Second, it is highly questionable whether cocoa farms will be able to achieve the kind of productivity increase demanded by these calculations.

Availability and affordability of inputs

Most cocoa farms are old. In order to achieve a productivity increase, fertilisers, seedlings, and pesticides¹ need to be available and affordable. This is not the case in most of the West African cocoa growing regions. Additionally, the Ivorian government currently forbids rejuvenation of farms and the planting of seedlings.² In any case, even if these materials were available, farmers would have to invest money and labour to obtain and apply these inputs. This requires access to affordable credit, which is simply not available to most farmers presently.

Availability and affordability of labour

Increasing productivity per hectare requires an increase in labour hours. Sadly, there are presently no publicly available reliable data on the relation between labour days and productivity per hectare. However, published and unpublished data of companies and research institutions available to the authors of this paper show that an increase to about 800 kilograms per hectare would require an increased amount of labour of at least 50%.^v This means that increasing productivity also requires a decent price for cocoa, and it is an open question whether at the current price levels – including the new Living Income Differential - it would pay off for farmers to invest all this extra labour. As a Ghanaian cocoa farmer once put it “price is the best fertiliser”, if you want to increase yield per hectare.

Good Agricultural Practices

Of course, Good Agricultural Practices (GAP) can improve productivity, some measures even at very low cost, and of course these should be introduced. But even with improved agricultural practices, it is going to be a challenge for farmers to reach 800kgs per hectare, as the experience of many projects in the past decade has shown. If this doubling of a yield would be reached, the sector would be faced with a serious overproduction challenge.

¹ Pest and disease management is an essential part of sustainable cocoa farming. However, the use of agrochemicals should be kept to a minimum, and agroecology and agroforestry can play an important part in growing cocoa without chemical inputs.

Farm size overestimated?

Technological advances such as GPS and polygon mapping show that farmers’ actual cocoa plots are often smaller than originally declared by farmers themselves, especially in Ghana. This significantly impacts several variables of the living income reference price calculation. It means that productivity is already often higher than is assumed, as the declared total yield per farm is often correct. This will also have implications for many sustainability projects; if productivity levels are already significantly higher, it is not reasonable to expect as much return on investment of productivity-enhancing activities. Based on an average of five separate databases that are not publicly available, but that have been shared for this paper, we believe that average actual farm size is reflected in the table below. This means that current productivity in Cote d’Ivoire and Ghana is probably significantly higher than currently assumed^{vi}. However, there is only limited information on the accuracy of the GPS-measurement. Additionally, it might be possible that a farmer has more plantations (for example illegal plots in protected areas) than these included in the measurement. Despite the problems we publish these figures to put pressure on all involved stakeholders who have reliable data to make these available.

Cote d’Ivoire (averages)	Self-Declared	Measured by GPS
Farm Size (in ha)	4.47	3.35
Farm Yield (in MT)	1,863	1,863
Productivity (kg/ha)	417	556

Ghana (averages)	Self-Declared	Measured by GPS
Farm Size (in ha)	3.33	1.74
Farm yield (in MT)	1,232	1,232
Productivity (kg/ha)	370	708

Minimum farm gate price levels

Even with the assumption that currently declared farm sizes and yields are correct, farm gate prices should be higher than the current reference prices. The minimum farm gate price necessary to earn a living income from cocoa should be at least **\$3,166** per metric ton for Cote d’Ivoire, and **\$3,116** per metric ton for Ghana.

² Though we applaud the initiative of the Ivorian government to attempt to avoid overproduction, the interdiction of rejuvenation is counterproductive. Other policies are required that allow farmers to further professionalise.

Rainforest Alliance and all multinationals have no living income reference price at all

It is important to note that this paper focuses on the frontrunners, not the laggards. Disappointingly, most cocoa supply chain actors have no living income reference price at all. This includes the Rainforest Alliance – despite repeated requests to put such a policy in place – as well as all the large chocolate and cocoa multinationals. They should all do so at the shortest possible time, as cocoa cannot be considered sustainable if the price for farmers is insufficient to cover a living income.

Recommendations

- Every chocolate and cocoa company, and every sustainability standard, should develop and publish a living income policy, including a clear statement on what the minimum farm gate price should be.
- Living Income Reference Prices should be based on the current reality of average cocoa farmers, not on hypothetical future yield scenarios for outlier farmers.
- Certification premiums should not be considered as a part of a Living Income reference price.
- All involved parties should make data available on cost of production, including availability and amount of labour necessary.
- The Ivorian government should immediately cease their ban on rejuvenation and on distribution of seedlings and put in place supply management solutions that do not forbid farmers to improve their production practices.

Desired farm gate price levels	Cote d'Ivoire	Ghana
Total farm yield (in MT)	1,863	1,232
Publicly available data on farm size (in ha), declared by farmers	4.47	3.33
Production costs per hectare	\$418	\$358
Production costs per farm	\$1,868	\$1,192
Living Income Level (per household per year)	\$5,448	\$3,948
Percentage of household income from cocoa	74%	67%
Gross income from cocoa necessary to achieve a Living Income	\$5,900	\$3,837
Necessary Farm Gate Price (per metric ton)^{vii}	\$3,166	\$3,116
Difference to Oxfam Fair Trade Living Income Price	\$498	n/a
Difference to Fairtrade Living Income Reference Price	\$966	\$1,016
Difference to Tony's Chocolonely Living Income Reference Price	\$1,206	\$1,256
Difference to Living Income Differential farm gate price of \$ 1,820	\$1,346	\$1,296

Colophon

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ⁱ The Community of Practice on Living Income, bringing together several hundred practitioners from public and private sector provides definitions, and outlines best-practices in methodology for setting Living Income benchmarks. <https://www.living-income.com/>

ⁱⁱ Fountain, A.C. and Hütz-Adams, F. (2014): Defining a Decent Living. Living Income for Smallholder Cocoa Farmers in West Africa.

ⁱⁱⁱ The trading branch of Oxfam Fair Trade makes and sells chocolate. Their sister organisation, the Belgian NGO Oxfam Wereldwinkels is a member of the VOICE Network.

^{iv} Much of the data we are using for this is not public, however the sources are all datasets that have been provided by either industry or academia, and we believe to be credible sources of information. Data compiled and validated by Friedel Hütz-Adams (Südwind Institut)

^v We invite companies or other institutions with better data on this to make available their data so that these assumptions can be verified.

^{vi} Based on data that is not currently available in the public domain. The numbers on Ghana, particularly, could be strengthened by validations of larger databases, and we invite any and all to provide solid data either proving or disproving our hypothesis.

^{vii} The calculations used for this table – as well as the underlying data – are available for download at <https://www.voicenetwork.eu/200108-datasheet-necessary-farm-gate-prices-for-a-living-income/>