



FAIRTRADE AND COCOA

Commodity Briefing
August 2011



FAIRTRADE AND COCOA

INTRODUCTION

Around 50 million people globally depend on cocoa for their livelihoods. This briefing offers an overview of the industry, explores why Fairtrade is needed, and describes what it can achieve. We hope that this will provide a useful resource for all those involved with, or interested in, Fairtrade, whether from a commercial, campaigning or academic perspective.

Fast facts: the cocoa lowdown

- Around 3.5 million tonnes of cocoa beans are produced each year¹
 - Demand is expected to exceed 4.5 million tonnes by 2020
 - With demand forecast to outstrip supply, the chocolate industry could be heading towards a crisis
-
- Close to 50 million people are dependent on cocoa for their livelihood.²
 - Côte d'Ivoire and Ghana dominate world production
 - Over 90 per cent of the world's cocoa is grown on 5.5 million small farms³
 - A further 14 million rural workers directly depend on cocoa for their livelihoods⁴
 - Many cocoa farmers and workers are among the 2.1 billion people living on \$2 a day
-
- The 2009/10 cocoa crop has an estimated export value of \$10bn⁵
 - The global chocolate confectionery market was worth around \$79.4bn in 2010⁶
 - The UK chocolate confectionery market was worth \$5.2bn (£3.2bn) in 2010⁷
 - World cocoa processing and chocolate production and sales are dominated by ten companies
 - Cocoa growers currently receive around 6 per cent of the price of chocolate paid by consumers in rich countries, compared with around 16 per cent in the late 1980s
-
- UK sales of Fairtrade chocolate confectionery grew from £18m in 2005 to £343m in 2010
 - Around 122,000 farmers from 62 producer organisations in 18 countries benefit from supplying Fairtrade cocoa

1 Average annual production 2004/05 to 2009/10, World Cocoa Foundation, *Cocoa market update*, May 2010, p.2

2 World Cocoa Foundation, *Cocoa market update*, May 2010, p.1

3 World Cocoa Foundation, *Cocoa market update*, May 2010, p.1

4 Tropical Commodity Coalition, *Cocoa barometer 2010*, p.3

5 UNCTAD Press Release, *New International Cocoa Agreement Concluded*, 25 June 2010 (includes cocoa beans, cocoa butter/powder)

6 Extrapolated from: *The global chocolate confectionery market is estimated to be worth \$88.3bn*

7 The Grocer, *Top Product Survey 2010, 18 December 2010* in 2014, growing at 2.7 per cent CAGR (2010-14), *Business Insights report*, www.foodnavigator.com, 18 May 2011

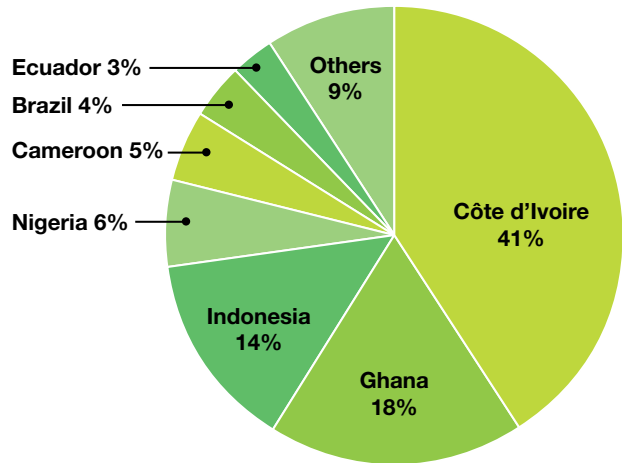
1. COCOA: GROWERS AND BUYERS

Main producing countries

Global cocoa production averages 3.5 million tonnes a year and is dominated by West African producers Côte d'Ivoire (Ivory Coast) which produces around 1.4 million tonnes a year and Ghana (730,000 tonnes). Together with Indonesia (500,000 tonnes), these three countries account for 73 per cent of the world's output. Around 70 per cent of cocoa comes from Africa.⁸

Cocoa demand has been increasing by an average of 3 per cent a year for the past 100 years. Production is projected to rise by 6 per cent between 2009 and 2013⁹ to 3.98 million tonnes. But industry representatives estimate that the sector will need an annual production of at least 4.5 million tonnes of cocoa by 2020 to satisfy the growing demand,¹⁰ driven by rising incomes in emerging economies.

Figure 1: Largest producers of cocoa as % of world total, 2005-09¹¹

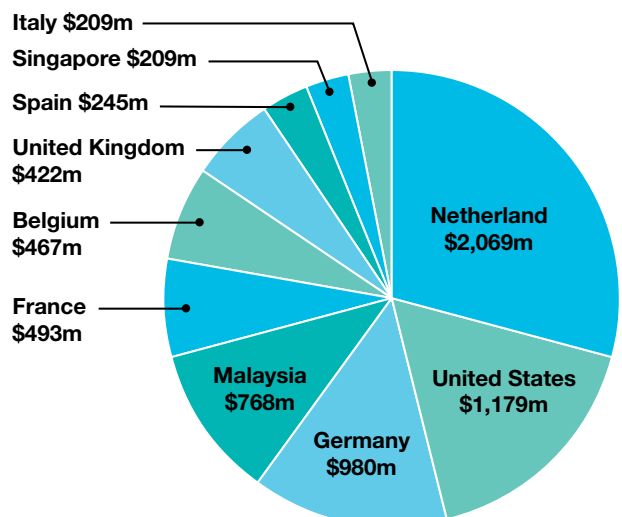


Main importing/consuming countries

The Netherlands is the world's largest importer of cocoa beans, to the value of \$2.07bn in 2009. It is followed by the United States (\$1.18bn), Germany (\$980m), and Malaysia (\$768m), with the UK (\$422m) in seventh.¹²

In 2009, the UK was the world's largest importer of retail chocolate, with an import value of \$1.29bn, closely followed by France (\$1.17bn) and Germany (\$1.16bn).¹³

Figure 2: Largest importers of cocoa beans by value, 2009¹⁴



8 World Cocoa Foundation, *Cocoa market update*, May 2010, pp.1-2

9 'Cocoa facts & figures', www.worldcocoafoundation.org; World Cocoa Foundation, *Cocoa market update*, May 2010, p.2

10 Armajaro 'Cocoa Production Outlook in 2020', *World Cocoa Foundation Partner Meeting*, October 2010

11 World Cocoa Foundation, *Cocoa market update*, May 2010, p.2

12 World Cocoa Foundation, *Cocoa market update*, May 2010, p.3

13 World Cocoa Foundation, *Cocoa market update*, May 2010, p.3

14 World Cocoa Foundation, *Cocoa market update*, May 2010, p.3

From bean to bar

A brief history of cocoa

Thought to have originated in the Amazon basin, cocoa was introduced into Europe in the fifteenth century. In the late nineteenth century the Swiss developed milk chocolate and the chocolate bar, and cocoa production spread to West Africa. Around 30 countries now produce 3.5 million tonnes of cocoa a year in a world market worth \$10bn.¹⁵

How cocoa is grown

The cocoa tree is a tropical plant grown in hot, rainy climates mainly 20 degrees north and south of the equator. The tree's fruit pods contain 30-40 seeds which are extracted – usually by machete – before being fermented and dried in the sun, so becoming cocoa beans. Cocoa is a delicate crop affected by bad weather while disease causes crop losses of up to 30 per cent of world production.¹⁶ A cocoa tree takes around five years to produce its first beans and reaches peak production in around 10 years. It will typically produce a large number of pods for a further 12 years.¹⁷

Making chocolate

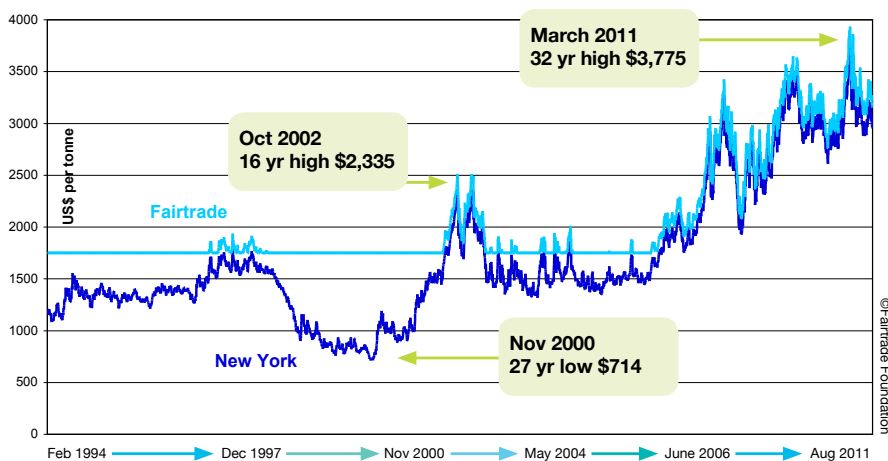
Several steps of processing (known as grinding) are required before cocoa can be made into chocolate. Once the beans have been roasted and shelled, the nib is ground into a paste known as cocoa liquor which is then pressed to extract the cocoa butter. This also leaves a mass known as cocoa cake which is ground into fine cocoa powder mainly used in the baking and confectionery industries.

Cocoa liquor and cocoa butter are blended with ingredients such as milk and sugar and processed into liquid chocolate for the baking and confectionery industries or converted into bars for the consumer market. Cocoa butter is also used by as an ingredient in beauty products like soaps and moisturising creams.

3. CHALLENGES FOR COCOA: AN INDUSTRY UNDER PRESSURE

Cocoa has historically been a highly volatile commodity, which has significant consequences for those who depend on it for their livelihood. See figure 3 below:

Figure 3: The Cocoa Market 1994 – 2011: Comparison of Fairtrade & New York Prices



NB

From 1 Jan 2011:
Fairtrade Price = Fairtrade
Minimum Price of \$2000/tonne
+ \$200/tonne Fairtrade Premium

When the New York price is \$2000
or above, then the Fairtrade Price
= New York price + \$200 premium

The New York price is the
daily settlement price of the 2nd
position Cocoa Futures contract
at ICE Futures U.S.

15 UNCTAD Press Release, *New International Cocoa Agreement Concluded*, 25 June 2010 (includes cocoa beans, cocoa butter/powder)

16 'Cocoa', www.unctad.org/infocomm

17 'Growing the cocoa bean', www.worldcocoafoundation.org

Why is the international price of cocoa so unstable?

Cocoa prices are volatile and influenced by a wide range of factors. They reached a 27-year low (\$714/tonne) at New York in November 2000 and a 32-year high (\$3,775/tonne) in March 2011.

Current high prices are strongly affected by:

- production deficits in three of the last four seasons (2006/07, 2007/08, 2009/10)
- disruption of cocoa exports following the disputed presidential election in Côte d'Ivoire, November 2010.

Longer-term price trends are affected by:

- changes in supply and demand
- the ratio between stocks and grindings¹⁸ (a falling stocks-to-grindings ratio pushes prices up and vice versa)
- corporate acquisition and disinvestment in the cocoa trade and processing industry.

Shorter-term influences on prices include:

- favourable weather conditions (good crop, fall in prices)
- periods of extreme wet or dry weather, crop disease, pest infestation or poor crop maintenance (poor crop, increase in prices)
- cost and availability/lack of pesticides and fertilisers
- producers withholding stocks in the expectation of higher prices
- political instability in producing countries
- speculative trading on futures markets.

As the world's largest cocoa producer, Côte d'Ivoire's weather patterns and volatile politics can have a huge impact on the world cocoa industry. Favourable weather conditions in 2000 contributed to plentiful supplies and high global

stocks which saw prices slump to a 27-year low of \$714 a tonne. Two years later, a failed coup to oust President Laurent Gbagbo led to civil war.

The resulting concerns about disruption to cocoa supplies saw prices climb to a 16-year high of \$2,335. In 2010, Gbagbo's refusal to relinquish power to rival Alassane Ouattara following the disputed November election pushed the country once again into a civil war that killed thousands and left the economy in ruins. Concerns about supplies were exacerbated by a ban on exports that saw nearly half a million tonnes of cocoa held up at the country's ports. This pushed cocoa prices to a 32-year high of \$3,775 a tonne before Gbagbo's arrest ended the conflict in April 2011. With exports back on track and evidence of a bumper West African crop, prices fell sharply to \$3,000 by August, a 20% drop.

Value capture: who gets what?

The global chocolate confectionery market was worth around \$79.4bn in 2010.¹⁹ World cocoa and chocolate processing (grinding) and distribution is controlled by a handful of multinational companies. It is estimated that in 2008, just four of them – Barry Callebaut, ADM, Cadbury, and Hershey – made combined profits from cocoa and chocolate of around £1bn.²⁰

18 The volume of grindings (the industry term for processing cocoa beans into cocoa liquor, cocoa butter and cocoa powder) is equivalent to demand

19 Extrapolated from: *The global chocolate confectionery market is estimated to be worth \$88.3bn in 2014, growing at 2.7 per cent CAGR (2010-14)*, *Business Insights report*, www.foodnavigator.com, 18 May 2011

20 It is impossible to be precise given that many companies do not break down their profits by business segment. Barry Callebaut made a net profit of CHF209.1 million (£121 million) in 2007/08 from chocolate sales, 'Barry Callebaut reports full year results for fiscal year 2007/08', www.barry-callebaut.com; ADM made an operating profit of \$423 million (£256 million) in 2008 (year ending 30 June) from its 'other' business segment that includes its cocoa activities, 'ADM company reports annual results', 4 August 2009, www.adm.com; Cadbury Schweppes reported pre-tax profits of £559 million in 2008, much of which derive from chocolate sales which provide 55 per cent of company revenues, '2008 performance', www.cadbury.com; Hershey reported a net income of \$311 million (£188 million) in 2008, '2008 Annual report to shareholders', www.hersheycompany.com

Futures markets and speculative trading

Like other commodities, cocoa can be traded in two ways: either physically bought or sold on the spot market, or traded on the futures markets in London (Liffe) and New York (ICE).

The trading of futures contracts – a commitment to buy or sell a standardised quantity of cocoa beans at a specified place and time in the future – is a tool used by commercial traders and producers to ‘hedge’ or protect against the risk of loss through future price fluctuations. Futures markets are also used by corporate speculators (hedge funds) and private individuals to gamble on the price of cocoa. According to the World Cocoa Foundation, cocoa futures prices are highly influenced by hedge fund managers and speculators, whose activities serve as a driving force behind short-term volatility.²¹

At the beginning of July 2010, 16 of the world’s biggest cocoa processors complained that speculators were undermining the integrity of Liffe and demanded greater transparency over positions taken by traders. Two weeks later, it emerged that the hedge fund arm of British commodities firm Armajaro had bought 241,000 tonnes of cocoa – about 7 per cent of the world’s total cocoa supply – for \$920m (£648m). With prices at Liffe hitting 33-year highs amid concerns about wet weather and instability affecting production in Côte d’Ivoire, Armajaro was betting that supplies would fall and the steep rise in prices would continue.

This spectacular move intensified concerns over how financial buyers are seizing control of soft commodity markets, sparking volatility and making it hard for small farmers to plan and invest in their businesses. In fact, in the months immediately following Armajaro’s acquisition, good weather boosted production in Côte d’Ivoire and prices fell but Armajaro is said to have avoided large losses on this bet as it had hedged its position on futures markets.

As well as hedge funds and speculators, investment funds [e.g. pension funds] are increasingly buying into commodities because of much better returns than equities.²² A recent report from Christian Aid²³ implicates this activity as a factor in the volatility of commodity prices and record high food prices of January 2010 which are putting staples like maize, rice and wheat beyond the means of the world’s poorest people and significantly increasing political unrest – reminiscent of the soaring prices in 2008 that sparked food riots across more than 30 countries.

Meanwhile farmers on the ground receive a meagre portion of the international price of cocoa – around 36 per cent in Côte d’Ivoire in 2008, with government taxes accounting for a huge 35 per cent.²⁴

West African supply chains, Figure 4 on page 7, show that producers sell their dried beans to local traders who sell them on to exporters, often foreign-owned companies. Most of the money from the cocoa trade is made after the beans

have been processed, notably from the manufacture of chocolate. Growers in West Africa – many of whom have never tasted chocolate – are likely to receive just 3.5 to 6.4 per cent of the final value of a chocolate bar, depending on the percentage of cocoa content. This is compared with 16 per cent in the late 1980s. By contrast, the manufacturers’ share has increased from 56 to 70 per cent, and for retailers from 12 to 17 per cent, over the same period.²⁵

21 World Cocoa Foundation, *Cocoa market update*, May 2010, p.5

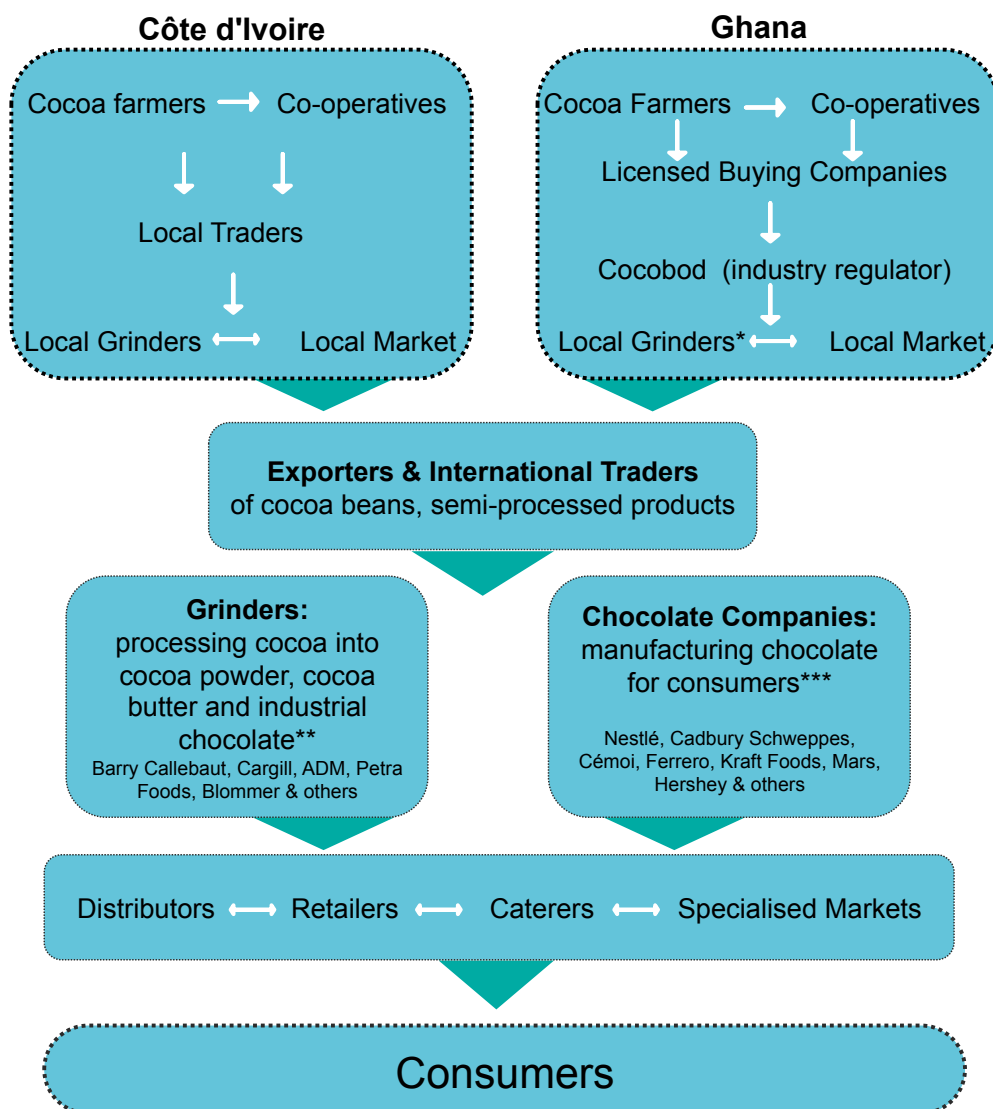
22 Wall Street Journal, 7 June 2011

23 Christian Aid, *Hungry for justice: fighting starvation in an age of plenty*, May 2011

24 Daniel Sellen, World Bank, *Abidjan The Ivorian Cocoa Sector: recent developments*, 2008

25 Agritrade, Executive brief: Cocoa, May 2008, p.5. A figure of 5 per cent is cited in a study from chocolate sales in France in 2002. In an analysis by Christopher Gilbert (‘Value chain analysis and market power in commodity processing with application to the cocoa and coffee sectors’, *Commodity market review*, 2007-2008, FAO, pp.8, 23) 3.5 per cent is cited as the proportion accruing to producers of UK milk chocolate retail prices in 2004, but the average producer price share for UK chocolate for 1996-2005 was 5.7 per cent in Côte d’Ivoire and 6.4 per cent in Ghana.

Figure 4: West African cocoa supply chains²⁶



*Local grinding in Ghana is very limited.

**These companies are not just involved in the grinding stage of the supply chain: Barry Callebaut, Cargill and ADM sell small amounts of individual chocolate; Blommer and Barry Callebaut manufacture chocolate for consumers.

***Some chocolate companies also have their own grinding capacity, but this is limited.

Based on *Towards a Sustainable Cocoa Chain*, Figure 4, p.17, Oxfam International Research Report, January 2009

Cocoa beans are processed into semi-finished products such as cocoa liquor, cocoa butter and cocoa powder. African countries produce 70 per cent of the world's cocoa. But only 18 per cent of it is then processed in Africa compared to Europe which processes 41 per cent.²⁷ Just three companies – Cargill, ADM, and Barry Callebaut – grind 40 per cent of the world's cocoa, amounting to nearly 1.5 million tonnes a year.²⁸ Amsterdam is home to many of their major processing installations, which explains the large volumes of cocoa beans imported by the

Netherlands. The Netherlands is also the world's leading cocoa grinder and largest exporter of cocoa paste (24% of the total), cocoa powder (28%) and cocoa butter (30%).²⁹ Relative newcomer Olam, based in Singapore, is now one of the top four cocoa grinders.

Encouraged by government tax breaks, foreign-owned companies including Cargill, ADM, Barry Callebaut and Olam are investing heavily in cocoa processing facilities in Côte d'Ivoire to reduce costs and ensure they have

26 The material on p.6 is adapted by the publisher from *Towards a Sustainable Cocoa Chain*, 2009, with the permission of Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford OX4 2JY UK, www.oxfam.org.uk. Oxfam GB does not necessarily endorse any text or activities that accompany the materials, nor has it approved the adapted text.

27 World Cocoa Foundation, *Cocoa market update*, May 2010, p.3

28 Oxfam, *Towards a sustainable cocoa chain: Power and possibilities within the cocoa and chocolate sector*, 2009, p.14

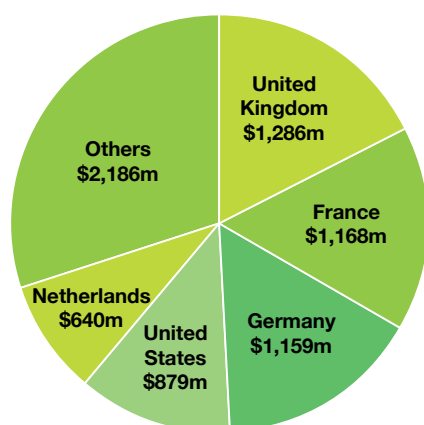
29 Agritrade, *Executive brief: The Cocoa sector in ACP-EU Trade*, October 2009, p.6

consistent supplies of cocoa. With grinding capacity now exceeding 500,000 tonnes, Côte d'Ivoire is poised to overtake the Netherlands as the world's largest cocoa grinder.³⁰

Chocolate manufacturers process cocoa liquor, cocoa butter and cocoa powder to produce a range of cocoa and liquid chocolate products for the baking, confectionery and speciality chocolate industries as well as block chocolate for private brands and supermarket own-label products. Switzerland-based Barry Callebaut makes chocolate for groups such as Nestlé, Kraft and Hershey and dominates world production – precise and current data is hard to obtain but in 2003, it controlled 51 per cent of the market.³¹ The second and third largest companies – US-based ADM and Blommer – controlled a further 20 per cent.³²

Global retail sales are dominated by five companies – Mars, Nestlé, Hershey, Kraft/Cadbury, and Ferrero. Combined, these companies account for 57 per cent of chocolate sales.³³ Cadbury, Mars and Nestlé chocolate brands dominate the UK market while Hershey, Mars and Nestlé control 80 per cent of US sales.³⁴ The last decade has seen a trend for these major brands to phase out cocoa processing and subcontract manufacture to processors like Barry Callebaut and ADM who, in turn, are expanding their production capacity in Europe, the US and Mexico and in producer countries such as Côte d'Ivoire, Malaysia and Mexico.

Figure 5: Top five importers of retail chocolate by value, 2009³⁵



30 Reuters, www.flex-news-food.com, 17 August 2010

31 Agritrade, *Executive brief: Cocoa*, May 2008, p.5

32 'Cocoa', www.unctad.org/infocomm

33 Oxfam, *Towards a sustainable cocoa chain: Power and possibilities within the cocoa and chocolate sector*, 2009, p.15. Cadbury was subsequently taken over by Kraft Foods in an £11.5bn deal on 2 February 2010

34 Oxfam, *Towards a sustainable cocoa chain: Power and possibilities within the cocoa and chocolate sector*, 2009, p.18

35 World Cocoa Foundation, *Cocoa market update*, May 2010, p.3

36 The Worst Forms of Child Labour as defined in ILO Convention 182 of 1999 include: all forms of slavery, the sale and trafficking of children, debt bondage, forced labour, forced recruitment of children for use in armed conflict, the use of children for prostitution, pornography, and trafficking drugs, and work which is likely to harm the health, safety or morals of children.

37 US Department of State, *Country reports on human rights practices: Côte D'Ivoire*, 24 February 2004, www.state.gov

38 US Department of State, *Trafficking in Persons Report*, June 2010, www.state.gov

39 US Department of State, *Country reports on human rights practices: Côte D'Ivoire*, 8 April 2011, www.state.gov

Child labour in cocoa production

In 2004, the US Department of State estimated that 109,000 children in Côte d'Ivoire's cocoa industry worked under 'the worst forms of child labour'³⁶, mainly on family farms, and that up to 10,000 were victims of human trafficking or enslavement.³⁷ Despite improvements, a recent report says boys from Ghana, Mali and Burkina Faso continue to be trafficked for forced labour on agricultural plantations including cocoa farms.³⁸ Child labour remains widespread in the cocoa sector with a quarter of children aged between 5 and 17 living in cocoa-growing regions involved in its production, mainly on family farms or working with parents. Most of these children are exposed to hazardous conditions such as using dangerous tools (94 per cent) and carrying heavy loads (80 per cent) with 51 per cent reporting injuries while at work.³⁹ The 2001 Harkin-Engel protocol – a commitment by the cocoa and chocolate industry to promote voluntary standards to help eliminate child labour – has played some role in driving more engagement with this issue but has clearly been insufficient in transforming the overall picture.

How Fairtrade is tackling child labour

A major cause of the use of child labour is poverty: farmers receive such low prices for their produce that they can't afford to pay hired workers. Even where farmers want their children to attend school, this is often hampered by poor availability of education in rural areas, and parents not being able to afford to buy schoolbooks or pay teachers.

It is natural for children to contribute to the household income by helping out on the family farm in appropriate work that doesn't jeopardise their health or education. But Fairtrade standards prohibit children from being employed in illegal or harmful work. Regular audits are designed to detect instances of child labour and major breaches of Fairtrade standards on the worst forms of child labour can result in suspension of the producer group along with corrective actions to be taken to address the problem. The aim of

this process is to provide training and support to the producer organisation in solving the problem, rather than imposing harsh punitive measures that could have the effect of pushing farmers deeper into poverty and putting even more children at risk. Most importantly Fairtrade helps address the roots of child labour by empowering and strengthening the position of farmers in international supply chains, helping them to become organised within their communities, as well as enabling them to earn a better deal from the sale of their produce.

Many producers are actively tackling child labour and its causes. Kuapa Kokoo, a Fairtrade certified co-operative in Ghana, has set up a wide-ranging Child Labour Programme. Part-paid by the Fairtrade premium, it includes a taskforce to carry out internal checks on farms and train members to identify children at risk, as well as organising Kids' Camps to teach children about their rights. And in January 2011, the co-operative launched a two-year joint programme with the International Labour Organization (ILO) to monitor and combat child labour.

Similarly, the Kavokiva co-operative in Côte d'Ivoire, also Fairtrade certified, has been fighting child labour for many years. Formalised by its Child Labour Charter in 2008, programmes to support the education of children have been supplemented with establishing taskforces to train members to identify child labour and take appropriate action.

More information on how Fairtrade is responding to this issue can be found in a Position Paper on Child Labour and a Factsheet on Child Labour available in the Resources section of the Fairtrade International website at www.fairtrade.net/info_sheets.html.

3. THIS IS WHY FAIRTRADE IS NEEDED

With around 70 per cent of the world's cocoa being grown in West Africa, particularly Côte d'Ivoire and Ghana, cocoa growers are typically subsistence farmers on a very low income. They grow staple foods such as yam, plantains and cassava and perhaps sell small amounts of fruit or vegetables to the local market. Cocoa is grown alongside these food crops and provides

the main cash income that farmers rely on to pay school fees, medical bills and purchase other necessities for the average household of six people. With one main harvest a year, farmers have to budget carefully throughout the rest of the year and often need to take out expensive loans. It is impossible to save money and by the time the next harvest begins farmers are desperate to sell their beans to get cash.

Inadequate infrastructure

As a result of the lack of government investment in infrastructure, villages in cocoa growing areas typically have poor education and healthcare services and lack electricity and decent sanitation, with water only available from communal wells. Access is via poorly maintained roads, often impassable in the wet season, with villages in Ghana typically 10km from the nearest paved road. This is increased to 15km in Côte d'Ivoire, where the closest hospital can be up to 35km away.

Poor education

Illiteracy rates among farmers in cocoa growing communities of Côte d'Ivoire can be as high as 95 per cent. School attendance is low – because schools are simply too far away, or because parents can't afford school fees, books and other costs – and is a major factor behind child labour on cocoa farms.

Food insecurity

Farmers now also face higher food costs and increasingly, food insecurity. The record high prices following the 2008 global financial crisis were topped in February 2011 when agricultural production was disrupted by severe weather.⁴⁰ It is hard to foresee a significant fall in food prices in the near future.

Lack of technical support

Governments in producing countries levy high export taxes on cocoa beans⁴¹ to boost national economies at the expense of farmer incomes. But too little has been re-invested in supporting farmers by providing technical training to improve yields, develop co-operatives, build business capacity or improve market access. In Ghana and Côte d'Ivoire farmers harvest an average of 300kg – 400kg of cocoa beans per hectare per year – up to 50 per cent lower than their potential productivity.⁴² This is due to outdated farming methods, the lack of

40 FAO Initiative on Soaring Food Prices <http://www.fao.org/isfp/isfp-home/en/> accessed May 2011

41 Oxfam, *Towards a sustainable cocoa chain: Power and possibilities within the cocoa and chocolate sector*, 2009, p.13

42 Oxfam, *Towards a sustainable cocoa chain: Power and possibilities within the cocoa and chocolate sector*, 2009, p.6

access to technology and finance and lack of incentives to improve depleted soil fertility or replace ageing trees, many of them more than 25 years old and past peak productivity.

Rising farm costs

Access to credit is limited but the price of fertilisers and pesticides to combat pests and disease continues to rise as do fuel and transport costs, while lack of training support and poor fermenting and drying techniques reduce the quality of the crop.

Climate change

On top of all this, climate change provides the additional threat of crop failure as a result of unpredictable rain patterns and more frequent and longer dry periods which, in turn, are predicted to increase the number and spread of pests and diseases.

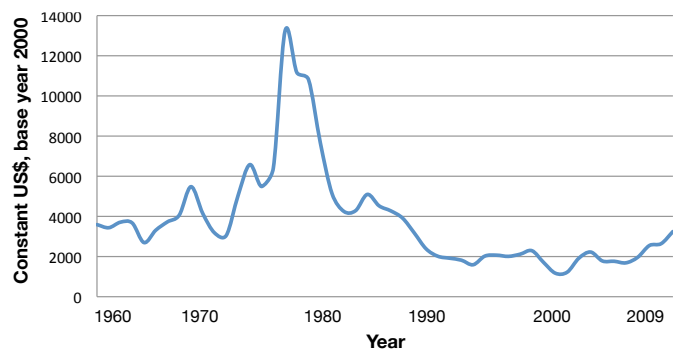
Poor market information

Small-scale cocoa farmers tend to have a lack of understanding about quality requirements and lack information about local price changes and are frequently paid less than market prices by middlemen. Many farmers complain that private traders often use distorted scales to falsely weigh farmers' produce and underpay them for their crop.

Falling incomes in real terms

In real terms – adjusted for inflation – the price farmers receive for their crop has fallen virtually every year since the late 1970s. This has restrained economic development and exacerbated poverty in vulnerable communities. At the same time, profits made by global food giants have steadily grown. It is only in the past few years – amid real industry concerns of a structural deficit in cocoa production – that this downward trend has begun to be reversed. When international cocoa prices rise, farmers tend to benefit but not to the extent that they are automatically guaranteed a decent, sustainable income.

Figure 6: Cocoa prices in real terms



The consequence of decades of uncertain or low prices is that farmers have neither the incentive nor resources to invest in replanting or purchasing expensive inputs necessary to produce a high quality crop. Younger generations who see no future in cocoa are switching to more profitable rubber production or heading for the cities in the hope of finding a more dependable livelihood, but often ending up with an equally uncertain existence on the streets. As a result, the average age of cocoa farmers in West Africa is now 51⁴³, leading to serious concerns across the industry about the long-term sustainability of the supply chain: no cocoa farmers = no chocolate bars.

This is how Fairtrade works for cocoa growers...

Fairtrade aims to support the development of a sustainable cocoa sector where farmers are able to build better livelihoods for themselves, their families and communities through a reliable and sustainable cocoa supply and mutually beneficial long-term trading relationships.

Fairtrade certification for cocoa producers is open only to small farmer organisations which are owned and governed by the farmers themselves and have a democratic decision-making structure and transparent administration in place.

Fairtrade standards encourage the social, economical and environmental development of

43 Binam, J. N., Gockowski, J. and Nkamleu, G. B. (2008), Technical Efficiency and Productivity Potential of Cocoa Farmers in West African Countries. *The Developing Economies*, XLVI-3 (September 2008): p. 254

producers and their organisations. The standards act as a safety net for small farmers against the unpredictable market, ensuring they get a price that covers their average costs of production.

Key provisions and objectives of Fairtrade standards:

- A minimum price of \$2,000/tonne for Fairtrade certified cocoa beans, or the market price if higher
- An additional Fairtrade premium of \$200/tonne for investment in community, business and environmental projects
- An extra \$300/tonne for Fairtrade certified organic cocoa beans
- Producer organisations can request pre-finance (credit) of up to 60 per cent of the purchase price
- Promotion of long-term trading partnerships and equitable business relationships in the trading process
- Environmental standards promote sound agricultural practices and environmental stewardship focusing on minimised and safe use of agrochemicals, proper and safe management of waste, maintenance of soil fertility and water resources, no use of genetically modified organisms
- Forced labour and child labour are prohibited.

The volatility of cocoa prices on world markets makes it hard for farmers to predict their income, plan production and make long-term investment decisions. But one thing is clear: through peaks and troughs, Fairtrade delivers for cocoa producers, giving them a sustainable price and additional premium to invest in community, social and economic projects.

Is Fairtrade cocoa changing the mainstream market?

Consumer pressure

In recent years, effective campaign strategies have exposed problems in supply chains in developing countries, highlighting issues from workers' rights, child labour and climate change to the impact of production on local communities and the environment.

A recent survey⁴⁴ found that UK consumers continue to have high expectations of how companies operate in developing countries: over 80 per cent said companies should protect the environment and ensure farmers and workers are paid fairly and have safe working conditions.

Consumers, then, are increasingly aware of the impact of their purchases and want to be reassured that products are ethically and responsibly produced.

Fairtrade certification is unique

To make appropriate purchases, consumers must negotiate a maze of brand claims, industry initiatives and certification schemes and assess their merits.

While several schemes aim to protect the environment or develop product traceability, Fairtrade is the only certification scheme whose primary purpose is to tackle poverty and empower producers in developing countries. An internationally accredited (ISO 65) independent inspection body upholds Fairtrade standards and underpins the integrity of the certification system – as endorsed by a recent survey⁴⁵ that found nine out of ten consumers trust Fairtrade, significantly higher than for any other ethical label. So purchasing Fairtrade goods gives consumers a powerful and credible way of addressing these concerns and reducing poverty through their everyday shopping.

Fairtrade is also unique as a certification scheme in being supported by a widespread, grassroots campaign, with over 500 local community campaigns in the UK alone as well as thousands of schools, universities and faith groups all campaigning locally in support of Fairtrade and the principles it embodies.

Businesses respond

Smart businesses are responding to consumer demands that companies treat suppliers fairly and respect the environment as a win-win scenario in which doing the right thing enhances brand

44 *GlobeScan* June 2011

45 *TNS* March 2011

reputation. Three out of four UK consumers see third-party certification as the best way to verify companies' claims about social sustainability. And with three-quarters of consumers also saying the FAIRTRADE Mark on products had a positive impact on brand perceptions, the independent scrutiny of the Mark can play an important role for businesses in managing the reputation of their brands with consumers and demonstrating their sustainability credentials to media, investors, suppliers and governments.

Chocolate confectionery companies across the world are concerned about the security of future supplies and share common ground with farmers in needing to improve sustainable production practices and reduce price volatility. In this environment, forward-looking businesses understand the importance of long-term relations with producer partners as a means of ensuring reliable supplies of cocoa, and a growing number of businesses in the UK are benefitting from working with Fairtrade and building stable and secure relationships with certified producer partners.

Developing farmer businesses

Fairtrade standards support the development of farmers' organisations into well-organised businesses, accountable to their members. Economies of scale allow them to provide farmers with technical and marketing services and implement programmes to increase yield and

quality, enabling them to offer companies reliable, secure and sustainable supplies of cocoa beans.

Independent inspection provides the scrutiny that motivates producer organisations to actively and effectively ensure compliance and to progressively strengthen their organisations by developing and adapting internal systems and processes.

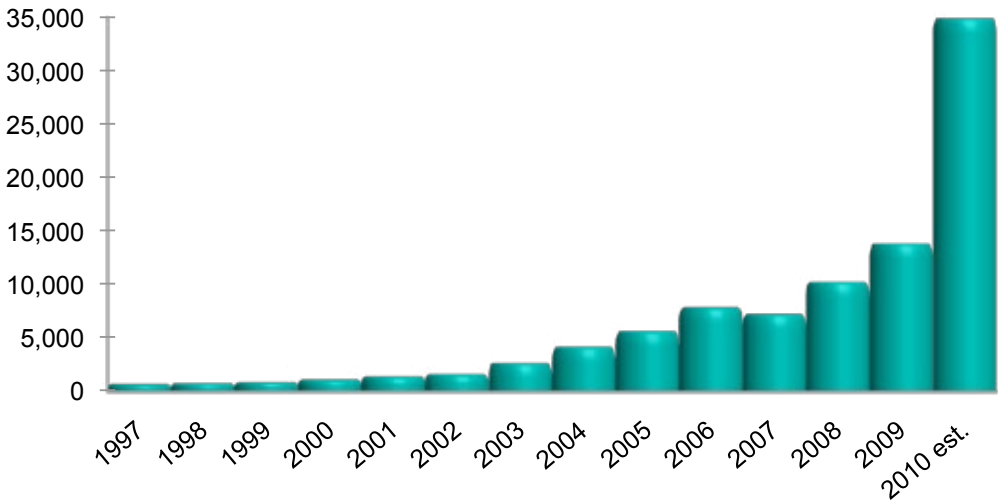
Supporting producer organisations

More broadly, Fairtrade is also investing in Fairtrade Producer Networks in Africa, Asia and Latin America, and in liaison officers to help producers get the best out of the system, and to share best practice in farming techniques and organisational development. Fairtrade Producer Networks are also developing strategic partnerships with financial institutions, regional technical assistance programmes and government outreach projects. The African Fairtrade Cocoa Network, for example, was recently established to support peer learning and information exchange to promote greater access to markets and technical assistance.

Healthy global sales growth

Global sales of Fairtrade cocoa grew from 14,000 tonnes in 2009 to 35,000 tonnes in 2010, up 114 per cent, mainly due to growth in the UK market. Fairtrade accounts for around 0.9 per cent of the world cocoa market and certified producer organisations have an estimated capacity of 109,000 tonnes.

Figure 7: How global sales of Fairtrade cocoa have grown (tonnes)⁴⁶



⁴⁶ Fairtrade Labelling Organizations International (FLO) internal documents and FLO Annual Reports 2002-09

UK chocolate sales soar

More than 120 companies now market over 500 Fairtrade chocolate confectionery products⁴⁷, driving a ten-fold growth in retail sales from £32m in 2008 to £343m in 2010. With the total category worth £3.2bn in 2010⁴⁸, Fairtrade sales now make up around 10 per cent of UK chocolate confectionery sales. See the full range at www.fairtrade.org.uk/chocolateproducts.

Alternative trade organisations lead the way

Fairly traded cocoa and chocolate had been sold by the pioneering alternative trade organisations for many years. Traidcraft, set up in 1979, sells a range of Fairtrade chocolate bars, and has developed snack products like Geobar to build sales for cocoa producers. Cafédirect, the pioneering coffee company, also sells hot chocolate from farmers in the Dominican Republic and São Tomé.

Divine Chocolate is a unique Fairtrade chocolate company set up by Kuapa Kokoo, a co-operative of cocoa farmers in Ghana, so that they could access a greater share of the value of the chocolate made from their cocoa. While most cocoa farmers depend on an income from selling raw cocoa, which is worth a fraction of the value of chocolate, the Kuapa Kokoo farmers benefit not only from the Fairtrade premium when they sell their cocoa, but also from their 45 per cent share of the distributable company profits and having a powerful voice in the brand's overall strategy. By having farmers central to its proposition, Divine has made Kuapa Kokoo famous and company ownership has meant the co-operative has become a real player in the Ghanaian cocoa industry.

Divine's success in mainstream channels has built consumer demand for Fairtrade chocolate

and influenced big brands and retailers to certify some of their products as Fairtrade. The next step is to encourage other manufacturers to empower producers by committing to fair terms of trade in the long term, and giving them a share in the wealth they've helped create.

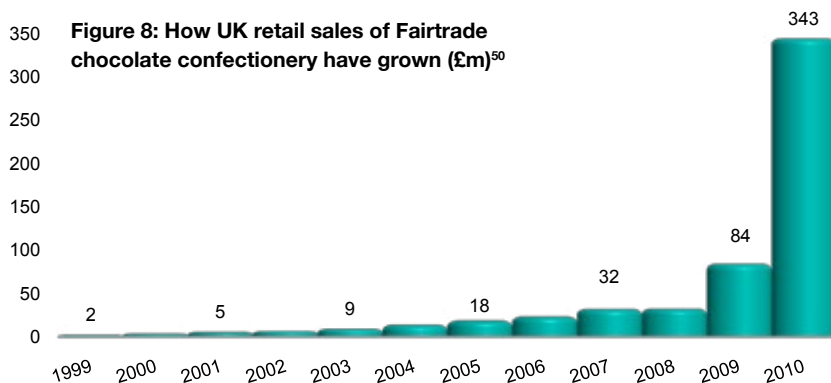
Own-label market opens up

The Co-operative switched all its own-label chocolate to Fairtrade in 2002 and launched the UK's first own-brand Fairtrade product in 2005. Marks & Spencer, Sainsbury's and Waitrose now also have extensive ranges of own-brand Fairtrade chocolate products.

Big brands come on board

In July 2009, Cadbury Dairy Milk became 100 per cent Fairtrade in the UK and Ireland,⁴⁹ the first mass market chocolate bar to gain Fairtrade certification. This was subsequently extended to include Canada, New Zealand, Australia, and Japan – a combined move that quadrupled the amount of cocoa sold under Fairtrade terms for cocoa farmers in Ghana. And in a breakthrough for Fairtrade in Africa, top-selling Cadbury Dairy Milk bars in South Africa will be converted to Fairtrade by the end of 2011 – the first-ever Fairtrade chocolate bar sourced, manufactured and sold entirely in Africa.

January 2010 saw Nestlé switch four-finger bars of Kit Kat to Fairtrade, working with farmers in Côte d'Ivoire. Meanwhile, Green & Black's – whose Maya Gold chocolate bar was the first product to carry the FAIRTRADE Mark in 1994 – announced it will switch its entire range of chocolate bar and beverage products to 100 per cent organic and Fairtrade in 30 countries by the end of 2011. These commitments will initially improve livelihoods of thousands of cocoa farmers in Côte d'Ivoire and Dominican Republic.



47 This category includes chocolate bars, boxes of chocolates and Easter eggs but not composite products such as ice cream and biscuits

48 The Grocer, *Top Product Survey 2010*, 18 December 2010

49 Fairtrade Foundation, 'UK first as Cadbury Dairy Milk takes Fairtrade further into the mainstream', 22 July 2009, www.fairtrade.org.uk

50 Fairtrade Foundation, 'Facts and figures on Fairtrade', www.fairtrade.org.uk/what_is_fairtrade/facts_and_figures.aspx

4. HOW FAIRTRADE BENEFITS FARMERS AND THEIR FAMILIES

'With Fairtrade income we were able to implement a fermentation programme to improve the quality of our cocoa and convert our production to certified organic. This improved our position in the export market. The Fairtrade market is a very important market for the survival of our members.'

Isidoro de la Rosa, Executive Director, Conacado Co-operative, Dominican Republic

Fairtrade impact is growing

There are now 62 Fairtrade certified producer organisations representing more than 120,000 farmers across 18 countries – Belize, Bolivia, Cameroon, Colombia, Costa Rica, Côte d'Ivoire, Dominican Republic, Ecuador, Ghana, Haiti, India, Nicaragua, Panama, Papua New Guinea, Peru, São Tomé, Sierra Leone and Sri Lanka. In 2010 Fairtrade cocoa generated \$5.1m in Fairtrade premiums, mainly in West Africa.

Fairtrade benefits in Ghana

The Kuapa Kokoo cocoa co-operative in Ghana represents 63,000 small-scale growers in 1,400 village societies and has been Fairtrade certified since 1995; it is the only farmer-owned organisation among the private companies in Ghana granted licences to trade cocoa – most farmers have to sell their crop individually to licensed buying companies. Kuapa's members produced 35,000 tonnes of cocoa in 2009, of which 27 per cent was sold as Fairtrade, to be used in hundreds of products, notably Divine chocolate. Kuapa are also now supplying cocoa to Cadbury as part of the company's conversion of Dairy Milk to Fairtrade.

Most Kuapa farmers grow cocoa alongside food on 3-4 hectares of land, with cocoa sales providing almost all their income. Few have access to adequate health care, clean drinking water or electricity, and children are taught in only basic schools. The extra income from the Fairtrade premium has helped build hundreds of water boreholes, public toilets, and two day-care centres as well as helping to fund a mobile health programme which visits the villages. Warehousing has been constructed at Tema port, farmers have been paid end of year bonuses and development officers have been employed to advise on good agricultural practices, set up training programmes in management and leadership skills, and organise HIV/AIDS workshops.

An assessment of the impact of Fairtrade at Kuapa found women's participation in Kuapa has been actively promoted; each co-operative society elects a seven-strong Management Committee of which two must be women.⁵¹ Alternative income generating schemes for the empowerment of women have been set up: tie-dye textiles, soap making, palm nut production and palm oil extraction, corn milling and snail farming for local and export markets.

The premium was found to have had an impact beyond Kuapa members – over 100,000 people in the community have benefitted from free medical attention and prescriptions and the construction of a school building.

Interviews in 2002 with parents, children and teachers indicated that the school building project had 'emphatically' improved school attendance, health and the quality of education. An increased entrepreneurial spirit has also emerged amongst women supported to engage in income-generating activities, with indications of increased wellbeing amongst women, despite increases in their workload. Participation in Kuapa Kokoo and the establishment of the Divine chocolate company in which the producers have a significant ownership stake has also provided member farmers with an increased sense of control.⁵²

51 Fairtrade Foundation, 'Kuapa Kokoo Union', www.fairtrade.org.uk/producers/cacao/kuapa_kokoo_union.aspx

52 L.Ronchi, *Monitoring impact of Fairtrade initiatives: A case study of Kuapa Kokoo and the Day Chocolate Company*, 2002

Fairtrade benefits in Côte d'Ivoire

Membership of Kavokiva co-operative has grown to more than 3,400 farmers in the Daloa department of southeast Côte d'Ivoire, where more than 40 per cent of the country's cocoa is produced. A decade-long period of political crisis, including civil war, saw poverty levels in the country climb to nearly 50 per cent in 2008 along with a slow deterioration of basic social and economic infrastructure such as health and education.

Many of the villages in which Kavokiva members live have no electricity, with drinking water only available from the village well. Access to healthcare is inadequate and the nearest clinic or hospital can be more than 10km away. The illiteracy rate among agricultural communities is as high as 95 per cent, with many schools poorly equipped and too far away for children to attend each day.

Fairtrade certified in 2004 and with increased sales following the conversion of Nestlé's four-finger Kit Kat to Fairtrade, Kavokiva is using the Fairtrade premium to increase production and help meet the social needs of members and their communities.

A qualified agronomist has been hired to improve farming techniques and boost yields. Clean water and healthcare are priorities – farmers can't work on their farms if they are sick – and three new wells with pumps have been constructed. A major achievement has been the construction of a health centre with a doctor, midwife, and two nurses. An ambulance has been purchased to collect patients and a free health insurance scheme with affordable medicines is available to all members.

With access to education a priority but problematic, Kavokiva distributes scholarships to members to pay their children's school fees. And where government schools are too far for children to attend, the premium has helped to build village schools, with their parents' fees contributing to teachers' salaries.

Fairtrade benefits in Dominican Republic

The Dominican Republic is the second poorest country in the Caribbean after Haiti, with forty-two per cent of its population of 9.6 million living below the poverty line. Cocoa is grown by around 40,000 small-scale cocoa growers. One of the main agricultural exports, it is worth around \$60m a year to the economy.

CONACADO is made up of 182 small-scale producer associations with a total membership of 10,000 cocoa farmers. The average farm is 4.3 hectares (10.6 acres). Cocoa is grown under the shade canopy of tall native trees and smaller banana, citrus, and avocado trees whose fruit is sold at the local market. Vegetables are grown for home consumption.

Almost half of members' production is now sold to the Fairtrade market. The additional income has been invested in processing and warehouse facilities to improve the quality of their cocoa, 30 extension officers have been employed to provide technical training to improve yields, convert to organic production and plant new trees. Schools have been built and repaired, with scholarships and equipment provided to students from poorer families. The new IT centre helps children with school work and brings the internet to the community. A clinic, free medical checks, and clean water projects are improving health.

Ramigia Moya is a 68-year-old widow and cocoa farmer whose daughter and son-in-law help on her farm. She now has a tap outside her home providing piped spring water for washing and other household chores.

Mariano Manzuela, a 64-year-old cocoa farmer with a wife and 11 children, is one of the poorest farmers in his community. Fairtrade premium projects have benefitted his family in several ways. He has taken out a loan to extend and repair his house, his children have received scholarships to pay for school expenses and exam fees, and a new classroom is being built at the primary school his youngest son attends. Four of his children are still in school and he hopes they will be able to finish their education, unlike one of his daughters who had to give up her university place as the expenses were too high.

Read more on our Cocoa Producers page www.fairtrade.org.uk/producers

5. CONCLUSION

Cocoa growers continue to face challenges on many fronts: fluctuating prices, ageing and unproductive cocoa trees, depleted soil fertility, the uncertainties of climate change, the rising costs of farm inputs, fuel and transport, lack of access to credit, and lack of negotiating power in the supply chain.

In their daily lives, farmers contend with rising food prices, poor local infrastructure, inadequate healthcare, limited educational opportunities for their children and, in some cases, political instability.

For many years UN agency the International Cocoa Organization (ICCO) has supported projects to develop cocoa production and trade and improve the incomes of smallholder cocoa farmers. In June 2010, under the auspices of the United Nations Conference on Trade and Development (UNCTAD), major cocoa exporting and importing countries signed a new International Cocoa Agreement with the objective of developing a sustainable cocoa trade with increased benefits to all stakeholders, in particular for the smallholder producers.

With demand outstripping supply in three of the last four years and strong growth in demand predicted in emerging economies, multinational companies that process, manufacture and market chocolate products are increasingly concerned about securing reliable supplies of good quality cocoa for the future. In recent years major companies and industry bodies, backed

by producing country governments, have set up more than 60 ongoing cocoa projects designed to address the issue of sustainability and improve the livelihoods of cocoa farmers, largely by focusing on training farmers to improve quality and increase production and productivity.

While these initiatives are to be welcomed, they will not necessarily redress the long-term trend of low and unstable prices which, as described earlier, are a major factor behind the lack of investment in quality control or replacing ageing trees and the consequent fall or stagnation in cocoa production. And, according to the ICCO⁵³, these uncoordinated projects could have the opposite effect: world production could jump by up to 50 per cent to 6 million tonnes, flooding the market and causing a price collapse, as happened in November 2000 when the market slumped to just \$774 per tonne.

Ultimately sustainability can only be achieved in the cocoa sector when smallholder farmers are able to make a decent living and their children can see a viable long term future in the industry. This means more than just increasing production, it also means ensuring that farmers are able to capture a greater share of the value of the industry overall.

Fairtrade standards are a framework for the sustainable production of cocoa within economically sustainable agricultural communities. The standards include a

53 ICCO Press Release, *Uncoordinated projects could make cocoa's boom and bust cycle worse*, the ICCO's Executive Director says, www.icco.org, July 2011

guaranteed minimum price which helps farmers plan their farm and household budgets for the coming year. They also include an additional Fairtrade premium for farmers and their organisations to invest in business improvements, community projects and environmental protection.

In the longer-term, Fairtrade helps producer organisations and farmers weather low and unstable markets by encouraging greater

access to financing, relationship building between buyers and sellers, and improved contract terms.

Many farmers' organisations are currently applying for Fairtrade certification. We are therefore working to increase company engagement towards greater sustainability and more equitable trading practices, recognising the continuing challenges faced by millions of small-scale cocoa farmers around the world.

WHAT YOU CAN DO

- Switch to Fairtrade chocolate or keep enjoying Fairtrade chocolate if you already do.
- Check out the huge selection of Fairtrade cocoa products from cakes and biscuits to ice cream and chocolate spread at www.fairtrade.org.uk/products.
- Look for beauty products like cocoa butter body wash, lip balm and bath cream, which create new sales opportunities for cocoa growers.
- Support brands from dedicated Fair Trade companies like Divine and Traidcraft.
- Ask your supermarket to stock more chocolate and cocoa products carrying the FAIRTRADE Mark and to switch their own label chocolate and cocoa to Fairtrade if it hasn't already.
- Write and ask your favourite chocolate company to switch to Fairtrade.
- Ask your local shops and cafes to offer Fairtrade chocolate, hot chocolate, cakes, biscuits or ice cream. Use our 'Dear Shop Manager' postcards to make this even easier.
- Ask your workplace, local authority, colleges and schools to support Fairtrade wherever they can. Ask your friends and family to do the same.
- Check out WDM's campaign to end the opportunistic speculation in commodity markets that causes dramatic rises and falls in the prices of staple foods – see www.wdm.org.uk.

Fairtrade Foundation, 3rd Floor, Ibex House,
42-47 Minories, London EC3N 1DY
T: +44 (0) 20 7405 5942 F: +44 (0) 20 7977 0101
W: www.fairtrade.org.uk

The Fairtrade Foundation Registered Charity Number: 1043886.
VAT Reg No: 672 5453 23. Company Reg. in England & Wales No. 2733136

