FAIRTRADE AND COCOA

Around 50 million people globally depend on cocoa for their livelihoods, while governments in producing countries rely on earnings from cocoa to finance economic and social development programmes. This briefing offers an overview of the cocoa industry and explores why Fairtrade is needed, and what it can achieve.

April 2016
COCOA AT A GLANCE

GLOBAL FACTS

- Around 4 million tonnes of cocoa beans are produced each year.

- Demand is expected to exceed 4.5 million tonnes by 2020.

- The global chocolate industry is worth $150bn.

FAIRTRADE FACTS

- There are 129 Fairtrade certified cocoa producer organisations in 20 countries around the world.

- 43% of Premium was spent on agricultural tools and inputs, training, credit services and direct payments to farmers.

- 45% of Premium was spent on strengthening producer organisations (eg warehousing, transport, cocoa drying facilities and tree nurseries).

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COCOA AT A GLANCE
GLOBAL FACTS CONTINUED

Cocoa exports were worth $20.3bn in 2014\(^4\)

The UK chocolate confectionery market was worth £4.3bn in 2014\(^2\)

9 COMPANIES

Côte d’Ivoire and Ghana dominate world cocoa production but many of their cocoa farmers earn less than $1 a day and live in poverty\(^6\)

Cocoa growers receive around 6% of the price of chocolate paid by consumers in rich countries compared with around 16% in the 1980s\(^3\)

Over 90% of the world’s cocoa is grown on 5-6 million small farms\(^5\)

14 million rural workers directly depend on cocoa for their livelihoods\(^6\)

50M PEOPLE

in total depend on cocoa for their livelihoods\(^7\)
1. THE ECONOMICS

Cocoa is the essential raw commodity for the world’s chocolate industry, which was worth $150bn in 2014. Cocoa can only be produced in a belt 10° either side of the equator where the climate and conditions are suitable for growing cocoa trees.

On average, four million tonnes of cocoa beans are produced each year. Production is dominated by Côte d’Ivoire (1.5 million tonnes), Ghana (842,000 tonnes) and Indonesia (447,000 tonnes), which between them account for around 68 percent of the world’s output.

Exports of all cocoa products – cocoa beans, butter, paste and powder – were worth $20.3bn in 2014, more than double the value in 2005 ($8.4bn).

Cocoa is an important source of income and employment for the rural populations of developing countries, particularly for the five to six million small-scale farmers who grow over 90 percent of the world’s cocoa. Further 14 million rural workers directly depend on cocoa for their livelihoods and close to 50 million people in total are dependent on cocoa for their livelihoods. But many cocoa growers, particularly in West Africa, live in poverty and struggle to provide for their families.

Cocoa is a vital source of foreign exchange for governments of developing countries to invest in economic and social development. Cocoa is Côte d’Ivoire’s largest export, worth $2bn in 2013, accounting for 17 percent of all exports. Cocoa is Ghana’s third most important export, worth $1.4bn in 2013 and accounting for 11 percent of all exports, while the cocoa sector provides a livelihood for around six million people, 30 percent of the population.

Global demand for cocoa is expected to exceed 4.5 million tonnes by 2020. While some predictions foresee production stagnating or falling, leading to a global shortage of cocoa, the International Cocoa Organization (ICCO) forecast is that production will broadly keep pace with demand.

Additional data on the global cocoa market is available in the appendix.

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A BRIEF HISTORY OF COCOA

Thought to have originated in the Amazon basin, cocoa was introduced to Europe in the 16th century. In the late 19th century the Swiss developed milk chocolate and the chocolate bar, and production spread to West Africa. Around 30 countries now produce four million tonnes of cocoa a year to supply the $150bn global chocolate industry. Best known as the main ingredient in chocolate, cocoa beans are processed into cocoa liquor, cocoa butter, cocoa cake and cocoa powder.

HOW COCOA IS GROWN

The cocoa tree, Theobroma cacao, thrives where the climate is hot and humid and rainfall is ideally plentiful and well-distributed. The cocoa fruit is harvested twice a year as a main crop (October-March) and a smaller mid-crop (April-September). The tree’s fruit pods contain 30-40 seeds which are extracted then fermented and dried, so becoming cocoa beans. Cocoa is a delicate crop affected by bad weather, while pests and diseases cause crop losses of 30 to 40 percent of global production.

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.

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 resulting 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, known as couverture, for the baking and confectionery industries or converted into bars for the consumer market. Cocoa butter is also used by cosmetic companies as an ingredient in products like soaps and moisturising creams.
2. THE CHALLENGES

Is chocolate facing a crisis?

An internet search for ‘chocolate crisis’ will throw up numerous articles predicting ‘a devastating chocolate crisis’ as ‘the world runs out of chocolate’. Behind these sometimes frivolous stories are serious issues affecting the livelihoods of millions of cocoa growers.

With global demand growing by two percent a year, fears of a chocolate shortage are based on forecasts that demand for cocoa will exceed 4.5 million tonnes by 2020, fuelled by the emerging economies of Eastern Europe, China, India and elsewhere. At the same time, cocoa production is likely to stagnate or fall because of the many challenges facing the sector – particularly the unsustainably low prices paid to farmers, ageing cocoa trees, sustained under-investment at farm level and the dwindling numbers of farmers. In 2014 industry giants including Barry Callebaut reiterated concerns first voiced by Mars in 2012 of a one million tonne shortage of cocoa beans by 2020, which it attributed to ‘unsustainable economic and environmental pressures on cocoa farms’.

The International Cocoa Organization (ICCO) is more optimistic, describing reports of a threat to chocolate supplies as ‘overstated in the extreme’ and not borne out by its own statistics. The ICCO confirms supply deficits in five of the last ten years – as much as 232,000 tonnes in 2012/13 – and forecasts further deficits until 2018. But these deficits were cushioned by cocoa stocks held in consuming countries, currently at 1.6 million tonnes, and seen as sufficient for the next five years, by which time production is expected to pick up.

The difficulties in predicting the market are illustrated by the unexpected production surplus in the 2013/14 cocoa season which saw the two leading producing countries, Côte d’Ivoire and Ghana, post record production, with output in Côte d’Ivoire predicted to top two million tonnes in the coming years. Equally unexpected is the current 2014/15 crop failure in Ghana which is predicted to see output fall by more than 22 percent to 696,000 tonnes. This is attributed to a range of factors including the spread of black pod fungal disease and the government’s failure to supply adequate fungicides and fertilizers.

The sector-wide objective of securing a long-term sustainable cocoa industry will necessarily focus on improving productivity and quality. But wider issues such as remunerative farmer prices, sustainable production practices, child labour and climate change need to be addressed before real progress can be made in ensuring growing cocoa provides a sustainable livelihood for farmers and their communities.

In recent years a number of company, industry and government sustainability initiatives have been established. For example Cocoa Action, a strategy coordinated by the World Cocoa Federation, which states in its 2015 Progress Report that its ‘…ambition to bring together the world’s leading chocolate and cocoa companies represents a new level of collaboration and coordination in an agricultural commodity to advance interventions on a non-competitive, voluntary basis and seeks out best practices in promoting sustainability.’

And the European Committee for Standardization (CEN) and the International Organization for Standardization (ISO) have set up the CEN/ISO cocoa process which aims to create a voluntary framework for sustainable cocoa that could help align industry efforts and bring improved cocoa production into the mainstream.

These schemes are in addition to company schemes and commitments such as Plan Ferrero’s commitment to sustainable cocoa, Mars’ Sustainable Cocoa Initiative, Mondelez’s Cocoa Life and Nestle’s Cocoa Plan.

The ICCO is clear though that this will also require radical changes in the supply chain: ‘There is not enough value in the cocoa supply chain to support economically viable production. Consumers may have to pay more for cocoa and chocolate products, thereby allowing further investments to enhance the sustainability of the cocoa sector by all stakeholders involved, in particular with regard to child labour.’

Industry and certification schemes are working to varying degrees to enable the environment where more sustainable production of cocoa is achievable by addressing the environmental, economic and social aspects of sustainability. Fairtrade believe that for this to happen farmers and their communities must be given a seat at the table. Sustainability initiatives must be created with and preferably by farmers and their communities rather than imposed on them.
Volatile international cocoa prices

Historically cocoa is a highly volatile commodity, with many factors contributing to the unstable prices and boom-bust cycles which have significant consequences for those who depend on it for their livelihood.

New York and London cocoa futures contracts are the international benchmarks for cocoa prices. Figure 1 illustrates how the volatility of New York cocoa prices is affected by imbalances in global supply as well as by political events.

Longer-term price trends are affected by changes in global supply and demand and concentration in the supply chain (eg corporate acquisition and disinvestment in the cocoa trade and processing industry).

Shorter-term influences on prices include: favourable/adverse weather conditions, pests and disease, the cost and availability/lack of pesticides and fertilizers, producers withholding stocks in the expectation of higher prices, political instability in producing countries, and speculative trading on futures markets.

As the world’s largest cocoa producer, Côte d’Ivoire’s weather patterns and volatile domestic 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 international prices slump to a 27-year low of $714 a tonne. Two years later, a failed coup to oust President Lauren Gbagbo led to civil war. The resulting concerns about disruption to cocoa supplies saw prices more than treble to a 16-year high of $2,335.

In 2010, President 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 cost thousands of lives and left the economy in ruins. Concerns about cocoa 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.

In 2014, price increases related to the Ebola outbreak, coupled with political crisis in Côte d’Ivoire, resulted in a 32-year high of $3,775 a tonne. The following year, cocoa fell 42% as bumper W African crop and lower European demand took hold.

Figure 1: The Cocoa Market 1994 – 2016: New York Cocoa Futures Prices.
2. THE CHALLENGES CONTINUED

Europe dominates cocoa grindings

African countries produce 73 percent of the world's cocoa but only process 20.1 percent of it. Seventy-five percent of Africa's cocoa is shipped to Europe and Asia to become chocolate and other cocoa products.

The Netherlands is the centre of Europe's chocolate industry and traditionally the world's leading cocoa grinder. It is also the largest exporter of cocoa paste (27 percent of the total), cocoa butter (26 percent) and cocoa powder (25 percent). So the economies of importing countries benefit from the value added by processing cocoa and manufacturing chocolate products rather than the countries who grow the raw commodity.

But this is changing as foreign-owned companies including Barry Callebaut, Cargill and Olam are investing heavily in processing facilities in producer countries such as Côte d'Ivoire to reduce costs and ensure consistent supplies of cocoa.

With grindings estimated at 560,000 tonnes in 2014/15, Côte d'Ivoire has for the first time overtaken the Netherlands (516,000 tonnes) as the world's largest cocoa grinder. While this is positive for job creation and infrastructure, most of the profits still accrue to foreign-owned companies.

An innovative move in May 2015 saw French company Cémoi open a $6.7m processing plant – Côte d'Ivoire's first industrial-scale chocolate factory – which will market products locally and regionally, making chocolate available and affordable to West Africans for the first time.
Despite myriad projects aimed at improving education, increasing productivity, and implementing cocoa certification, the collective impact has been limited and the industry has been unable to solve the root cause of the child labour problem: the very low prices paid to farmers.


CHILD LABOUR IN COCOA PRODUCTION

Child labour refers to work that is harmful to children’s physical and mental health and wellbeing, and/or interferes with their education, leisure and development. It includes carrying heavy loads, using hazardous chemicals and working with dangerous implements such as machetes. Child labour does not refer to children or adolescents helping on the family farm outside of school hours and during school holidays provided that the work is appropriate to their level of development.

Under pressure from campaigners and consumers, major players in the industry backed the 2001 Harkin-Engel protocol – a commitment to implement voluntary standards to help eliminate the worst forms of child labour (WFCL) in cocoa production. The widespread use of child labour in cocoa production was confirmed by US Department of State estimates that 109,000 children in Côte d’Ivoire’s cocoa industry worked in hazardous conditions on cocoa farms (described as WFCL), mainly on family farms, and up to 10,000 children were victims of human trafficking.

More than a decade later and child labour remains rife in the cocoa sector, despite the Harkin-Engel protocol and a raft of certification schemes and industry programmes including the International Cocoa Initiative. Children in Côte d’Ivoire continue to work on cocoa farms under hazardous conditions, including risk of injury from machetes, physical strain from carrying heavy loads, and exposure to harmful chemicals, while boys from Ghana, Mali, Burkina Faso, Benin, and Togo are found in forced agricultural labour on cocoa plantations in Côte d’Ivoire.

And a new survey published by Tulane University found that the number of child labourers working in cocoa production in Côte d’Ivoire and Ghana had actually increased over the last five years: there are now 2.12 million child labourers, with 2.03 million working in hazardous conditions – increases of 360,000 and 310,000 respectively.

Another recent report on child labour in the cocoa industry welcomes industry initiatives and investment in improving productivity and social infrastructure but also calls on chocolate companies to play a more effective role in ensuring decent conditions in cocoa production. It clearly states that “the root cause of the problem is the very low prices paid to cocoa farmers” and says traders should play a role in ensuring farmers receive a guaranteed percentage of the international commodity price, while consumers are encouraged to pressure companies to ensure farmers are paid a higher price.
Around 70 percent of the world’s cocoa is grown in West Africa, particularly Côte d’Ivoire and Ghana, where cocoa growers are typically subsistence farmers. A typical farm there of two to four hectares with yields of 300 to 400 kilogrammes per hectare can barely provide an income for the average household of six people. Farmers 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 to purchase other necessities. 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 cocoa beans to get cash.

The global chocolate market is worth $150bn and mergers and takeovers have resulted in just nine companies controlling cocoa processing and chocolate manufacture, with global companies like Barry Callebaut and Cargill a major presence across the supply chain. Recent examples include ADM’s sale of its chocolate arm to Cargill and its cocoa business to Olam. Mondelez acquired Cadbury, Ecom bought Armajaro’s coffee and cocoa trading arm, and Barry Callebaut bought Petra Food’s cocoa ingredients business. Olam is now the third largest cocoa processor, with a 16 percent share, after Barry Callebaut (Switzerland), Cargill (US) and leader Barry Callebaut. Barry Callebaut (Switzerland), Cargill (US) and Olam (Singapore) account for about 60 percent of world cocoa processing (also known as grinding).

The biggest chocolate brand manufacturers, Mars (US), Nestlé (Switzerland), Mondelez (US), Hershey’s (US), Ferrero (Italy) and Lindt (Switzerland) account for 40 percent of the market.

Traders and manufacturers capture a significant share of the value and power in the cocoa supply chain. And, as emphasised by Cocoa Barometer 2015, the role of retailers as setters of the final consumer price cannot be overstated – in the UK the top four retailers control a 73 percent share of the grocery market.
Farmers pay the price

At the other end of the supply chain, the cocoa growers’ share continues to shrink while traders, brands, and retailers take a bigger cut than ever. When cocoa prices were high in the 1970s, cocoa accounted for up to 50 percent of the value of a chocolate bar. This fell to 16 percent in the 1980s and today, farmers receive around six percent of the value.49 By comparison, it’s estimated that branded manufacturers capture a 40 per cent share and retailers 35 per cent.50 And a study by the ICCO puts the farmers’ share even lower at between three and five percent of the value of a chocolate bar.51 The lack of influence and weak position of cocoa farmers in the supply chain undermines their ability to negotiate higher prices and is a major factor in the conditions of poverty many of them live in.

Lack of transparency of the costs of processing cocoa, manufacturing chocolate and retailing obscures understanding of the value chain and how the situation of farmers can be improved. Farmers warn that market concentration could reduce their market options and bargaining power and cut their incomes further. Edmond Konan is Executive Secretary of the World Cocoa Producer Association, which was recently formed to lobby for the interests of growers and give them a voice in the industry: ‘We could face a sort of monopolistic situation that would have an impact on the farm gate price.’ He also said companies need to ensure farmers benefit from the industry ‘...because if farmers are not making money they will do something else. They will cut down their cocoa trees and plant other commodities.’52


Antonie Fountain, co-author Cocoa Barometer 2015, Fair Trade Advocacy Office Newsletter, March 2015

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* Local grinding in Ghana is very limited
** These companies are not just involved in grinding stage of the supply chain: Barry Callebaut and Cargill 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

Figure 2: West African cocoa supply chains53
2. THE CHALLENGES CONTINUED

Low incomes
Many West African cocoa farmers earn less than the globally defined poverty level of $2 a day. In Côte d’Ivoire farmers would need to earn four times their current income to reach that level.  
A family of six in Ghana and Côte d’Ivoire with two hectares of land subsist on 34 and 45 cents per person per day respectively.
This forces many farmers into debt as they have to borrow money to buy farm inputs and pre-sell their crop to finance its harvest and transport.

Falling incomes in real terms
In real terms – adjusted for inflation – the market price of cocoa fell almost every year between the late 1970s and 2000. Falling cocoa farmer incomes in real terms have restrained economic development and exacerbated poverty in vulnerable communities. Despite the current upward trend in international cocoa prices, farmers still do not receive an adequate, sustainable income that allows them to provide a decent standard of living for their families.

Lack of organisation
Many small-scale cocoa farmers work independently and sell their crop to local traders for whatever price they are offered. By establishing co-operatives or other farmers’ organisations farmers can pool their resources to reduce costs and benefit from economies of scale. There are also non-financial benefits such as social cohesion and group dynamics that promote community development.

Figure 3: Cocoa prices in real terms 1960-2014

(ICC/World Bank: annual prices in real 2010 US$/kg)
Lack of technical support and rising farm costs
While the global area of cocoa harvested more than doubled from 4.7m hectares to 10m hectares between 1980 and 2013, yields barely improved in the same period, from 350kg/ha to 460 kg/ha.56

In Ghana and Côte d’Ivoire farmers harvest an average of 300-400kg/ha of cocoa beans – up to 50 percent below their potential productivity.57 This is due to outdated farming methods, lack of access to inputs, technology and finance and lack of financial incentives to improve depleted soil fertility or replace ageing trees, many of them more than 25 years old and past peak productivity.

With limited access to credit, farmers struggle to afford fertilizers to increase yields, pesticides to combat pests and disease and pay fuel and transport bills, while lack of training support and poor fermenting and drying techniques reduce the quality of the crop. Productivity and quality in West Africa are hampered by the fact that fewer than 10 percent of cocoa farmers can afford to use fertilizer.58

Climate change
Climate change provides the additional threat of crop failure caused by rising temperatures, unpredictable and reduced rainfall patterns and more frequent and longer dry periods which, in turn, are predicted to increase the number and spread of pests and disease.

Some areas of Côte d’Ivoire and Ghana are likely to become unsuitable for growing cocoa by 2050 and production is likely to be reduced in Indonesia. However, climate change could also mean cocoa production will become possible in other areas but farmers would need help to adapt.59

Lack of market information
Small-scale cocoa farmers generally lack information on market quality requirements and local price movements and are frequently paid less than market prices by traders. Traders often use tampered scales to falsely weigh farmers’ produce and underpay them for their crop.

Inadequate community infrastructure
The lack of investment in rural infrastructure means 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 rainy 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 as far as 35km away.

Poor access to education
Côte d’Ivoire has an adult literacy rate of 41 percent according to the World Bank, while the Education Policy and Data Center reports that 36 percent of youths (ages 15-24) have no formal education and 62 percent of youths have not completed primary education.

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.60 A further spike in the FAO Food Price Index in 2014 underlines the volatility of global food prices.61

2. THE CHALLENGES CONTINUED

...SO CHOCOLATE REALLY IS FACING A CRISIS
The consequence of decades of uncertain or low prices is that many farmers have neither the incentive nor resources to invest in replanting ageing trees 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 51.62 These factors add up to serious concerns across the industry about the long-term sustainability of the supply chain: no cocoa farmers = no chocolate.
3. HOW FAIRTRADE WORKS IN COCOA

3.1 FAIRTRADE IN BRIEF

- Fairtrade Premium for strategic investment (fertilizers, pesticides, fuel, yield and quality)
- Fairtrade Premium for community investment in essential infrastructure (healthcare, education, clean water)
- Facilitates access to export markets
- Supports strong, entrepreneurial and representative farmer organisations
- Access to training and capacity building
- Environmentally friendly and long-term sustainable practices

What differentiates Fairtrade from other certification schemes?

Most major chocolate manufacturers have committed to using 100 percent sustainable and/or certified cocoa by 2020, and Cocoa Barometer 2015 reports that certified chocolate production continues to increase globally, from two percent in 2009, to almost 16 percent of global chocolate sales in 2013. While there is no universally agreed definition of a sustainable cocoa economy and the various initiatives have different frameworks and emphasis, there is broad agreement that the objectives cover social responsibility, environmental stewardship and economic viability. Many certification schemes focus on improving productivity to ensure the industry has sufficient supplies, with farmers potentially benefiting from improved incomes and philanthropic community projects. This approach needs to balance supply and demand for cocoa, so that any increase in production would not result in a decline in prices and a return to the boom and bust situation that has occurred in the past.

Sustainability strategies for chocolate companies include certified cocoa schemes operated by standards bodies (Fairtrade, UTZ Certified, Rainforest Alliance), industry and/or government strategies (CocoaAction, IDH), company own schemes, and a combination of these approaches.

Most recently, in May 2014, the World Cocoa Foundation and 11 leading cocoa and chocolate companies formed CocoaAction, a strategy for a sustainable cocoa industry working with governments and farmers in Côte d’Ivoire and Ghana. This important collaboration between companies focuses on farmer training, access to inputs and community empowerment but does not explicitly seek to address the terms on which cocoa is traded.

Fairtrade certification is unique in its approach to tackling poverty through better terms of trade, a fixed Fairtrade Premium for investment and empowering farmers in their trading relationships.

Fairtrade requires farmers to organise into democratic organisations and create a Fairtrade Development Plan, financed through the Fairtrade Premiums they receive, to address the challenges they face. Fairtrade seeks to enable the creation of strong and viable producer organisations.

Albert Guibré, member of CANN co-operative, Côte d’Ivoire

The cocoa sector cannot be seen as sustainable as long as farmers do not get a decent livelihood from cocoa farming.


Small-scale cocoa farmers have limited options for improving their economic and social situation within conventional supply chains. With Fairtrade, farmers are supported to build accountable organisations with strong governance and business structures to increase their bargaining power, play a more active role in global supply chains and also invest in social development projects. Economies of scale enable them to provide members with a range of services including cocoa marketing, subsidised inputs, distribution of more productive cocoa trees to rehabilitate farms, and agricultural training programmes to increase quality, yields and productivity.
Fairtrade Standards for cocoa
Fairtrade producer organisations are audited against Fairtrade Standards, which provide a framework for a sustainable approach to production that can have long-term economic, social and environmental benefits for farmers and their communities. The Standards are based on a six-year development programme and include a Fairtrade Minimum Price for cocoa and the additional Fairtrade Premium to invest in infrastructure, training, farm equipment and business improvements as well as projects such as healthcare, clean water and education that contribute to flourishing communities.

The main provisions and objectives of Standards are as follows:

Fairtrade Minimum Price and Premium
• The Fairtrade Minimum Price (FMP) is the minimum price that can be paid for Fairtrade certified produce. It aims to cover farmers’ costs of sustainable production and is intended as a safety net for periods of low world market prices. For cocoa, the FMP is set at Free on Board (FOB) level (the price paid at export). In Ghana and Côte d’Ivoire, the government regulates the cocoa sector, and both governments set internal prices for cocoa with the aim to stabilise income for farmers during market fluctuations, so the Fairtrade Minimum Price is a less relevant intervention in this context.

During 2016 Fairtrade will conduct a study to understand the factors that contribute to farmer income in Côte d’Ivoire and the most effective way for Fairtrade to raise farmers’ incomes in West Africa within the current context.

• The Fairtrade Minimum Price for cocoa beans is $2,000 a tonne ($2,300 for organic cocoa).

• When the market price is higher than the Fairtrade Minimum Price, the buyer must pay the higher price. Producers and traders can also negotiate higher prices on the basis of quality and other attributes.

• Producer organisations are paid an additional Premium of $200 a tonne to invest in business or farm development and community and environmental projects which are selected collectively by the General Assembly of members and managed by an elected committee.

• Producer organisations are encouraged to invest 25 percent of the Premium in productivity and quality improvement.

• Trader Standards aim to encourage fairer negotiations and include signing contracts that allow for long-term planning and sustainable production practices.

• Producer organisations can request pre-finance of up to 60 percent of the negotiated contract value.

Organisational development and strengthening
• Fairtrade certified cocoa is open to small producer organisations that are owned and governed by their members.

• A democratic decision-making process must be in place, with all members having an equal right to vote on key issues.

• Producer organisations are supported at no cost by a Fairtrade Liaison Officer employed by local Fairtrade Producer Networks.

Targeted programme in West Africa
At the beginning of 2015 Fairtrade successfully began a new organisational strengthening programme for producer organisations in Côte d’Ivoire. The programme is being rolled out in a phased approach in Côte d’Ivoire and Ghana and consists of the following steps:

Step one
Training in strategic planning
Participatory consultation and self-assessment tools. The results are used to inform Fairtrade training plans and Fairtrade development plans

Step two
Based on the outcomes of Step one, producer organisations select two to three training modules from three thematic areas:

• Farmer outreach; community development; management and governance

Mamadou Savone, in charge of sustainable development and certification, ECOOKIM cocoa co-operative, Côte d’Ivoire

‘One of the first benefits of Fairtrade certification is that they provide a set of Standards which are used as a framework for the relationship between the buyer and the grower. These Standards focus on the wellbeing of growers, including ensuring that their organisations are democratic and that they adopt sustainable agricultural practices. We have some very important projects to invest in to meet the needs of our members and their communities: schools, drinking water, access to healthcare, a warehouse, trucks to transport cocoa, replacement of cocoa plants etc. We have never been able to sell all the certified cocoa of our members since we began certification – at most, we’ve managed to sell 30 to 40 per cent of our annual production. We’d be delighted to benefit from the Fairtrade Premium on 100 per cent of our volumes!’
Environmental and social standards

Environmental standards promote best agricultural practices that are more sustainable, minimise risks and protect biodiversity:

- Minimised use and safe handling and storage of pesticides, herbicides and hazardous chemicals.
- No use of chemicals included in the Fairtrade Prohibited Materials list.
- Integrated pest management including non-chemical pesticides and biological pest controls.
- Appropriate and safe use, storage and disposal of hazardous waste.
- No use of genetically modified organisms.
- Improve soil fertility, reduce and prevent soil erosion.
- Efficient and sustainable use of water resources.
- Maintain buffer zones around bodies of water and conservation areas where pesticides and hazardous chemicals must not be used.
- Re-use of organic waste for composting, mulching and manure.
- Protect and enhance biodiversity by identifying and protecting natural ecosystems, protected areas and conservation areas.
- Work towards efficient energy use and reduction in greenhouse gas emissions.
- Forcible labour and child labour are prohibited.
- No discrimination of members or workers on the basis of race, colour, religion, gender, sexual orientation, age, marital status, disability, HIV/AIDS status, nationality or social origin, political opinion, trade union membership.

Fairtrade Standards include core requirements which are obligatory (e.g. training in handling pesticides) and development requirements which are a process for making continuous improvements within realistic timeframes (e.g. training in integrated pest management). Fairtrade International provides training and guidance in meeting standards, supported by training manuals and in-country liaison officers.

Fairtrade certification includes regular audit by FLOCERT (www.fl-cert.net), a global certification and verification body with the main role of independently certifying Fairtrade products. Producer organisations and traders pay a certification fee which contributes to the cost of the service and which is compulsory for ISO65 accreditation. Producer organisations that lack sufficient financial resources to pay the full Fairtrade certification or renewal fee can apply for a grant of up to 75 percent of the fee. Certification provides the scrutiny that motivates producer organisations and traders to actively and effectively ensure compliance with Fairtrade Standards. It also helps producers to progressively strengthen their organisations by developing and adapting internal systems and processes.
3. HOW FAIRTRADE WORKS IN COCOA CONTINUED

Fairtrade and child and forced labour

Fairtrade recognises that child labour and forced labour remain problems in many parts of the world where it operates. Fairtrade certified producer organisations and traders must prevent and effectively eliminate all forms of child labour, forced labour and human trafficking in their operations to comply with Fairtrade Standards for Small Producer Organizations, Hired Labour, and Contract Production, including Trader Standards.

In recent years, Fairtrade International has dedicated considerable resources to strengthening its work to protect children and vulnerable adults. Child labour and forced labour are not only problems perpetuated by poverty and unfair terms of trade, they are also a result of exploitation, lack of access to social protection and discrimination, among others.

The Fairtrade rights-based approach to child labour elimination

Fairtrade is committed to fighting the root causes of child labour and proactively preventing the abuse and exploitation of children. Fairtrade seeks advice and guidance from expert international non-governmental organisations to ensure that the rights of children are upheld, including their right to live in a safe and protective environment.

Fairtrade works with producer communities to encourage them to establish a Youth-Inclusive, Community-Based Monitoring and Remediation (VICBMR) System on Child Labour in partnership with child rights NGOs so that boys and girls in producer communities can enjoy increased well-being.

A child-centred approach

Fairtrade believes that children and young people in Fairtrade communities, where possible, should play a central role in empowering themselves and their communities to combat poverty, strengthen their position and take more control over their lives. This child-inclusive approach builds on the capacity of those children and young people to contribute to self-monitoring, managing and tackling child labour within their own lives on an ongoing, sustainable basis so they become agents of active change in building prosperous lives in agriculture.

How child labour is addressed in the Fairtrade Standards

Fairtrade prohibits child labour as defined by the International Labour Organisation (ILO) conventions on Minimum Age and the Worst Forms of Child Labour.

Specific criteria in the Fairtrade Standards that apply directly to child labour include:

- Children below the age of 15 cannot be employed by Fairtrade organisations either directly or indirectly.
- Children below the age of 18 cannot undertake work that jeopardises their schooling or their social, moral or physical development.
- Children are only allowed to help on family farms under strict conditions. The work must be age appropriate and take place outside of school hours or during holidays.
- If a small producer organisation is in an area with a high likelihood of child labour, they are encouraged to include a mitigation and elimination plan in their Fairtrade Development Plan.
- If an organisation has identified child labour as a risk, it must implement a policy and procedures to prevent children from being employed.

No product certification system can guarantee that a product is free of child labour. What Fairtrade guarantees is that if any breaches of child labour prohibitions are found, then immediate action is taken to protect the child or children concerned.

Fairtrade works with national child protection agencies and/or child rights organisations when possible to ensure duty bearers engage in safe remediation and secure the long-term wellbeing of children. Fairtrade then works with the producer organisation to help them strengthen their programmes and systems to detect and prevent child labour.

Failure to have adequate systems in place leads to suspension and then decertification if the producer organisation does not address the problem. Fairtrade has chosen to work in products and regions with known risk of child labour because this is where Fairtrade is most needed.

Read more about Fairtrade International’s Child and Forced Labour Programme here.

PRODUCER OWNERSHIP OF FAIRTRADE

Fairtrade International co-ordinates the Fairtrade system at the international level. It sets international Fairtrade Standards, organises support for producers around the world, develops global Fairtrade strategy and promotes trade justice internationally.

Fairtrade farmers and workers are joint shareholders in Fairtrade International through their three regional producer networks. This means they share decision-making responsibilities in the general assembly, on the board of directors and in various committees – including setting Fairtrade Standards and developing global strategies.

At the regional level, Fairtrade producer networks are beginning to take over the producer services function from Fairtrade International, giving producers a greater say in the type of services and support they receive. Fairtrade Africa now handles producer services in Africa and the Middle East, while the producer networks in Latin America and Asia are moving in a similar direction.
4. THE DIFFERENCE FAIRTRADE MAKES TO FARMERS AND THEIR COMMUNITIES

There are now 129 Fairtrade certified cocoa producer organisations across 20 countries in Africa, Latin America, Asia and Oceania. They represent 179,800 farmers, of which 140,000 (78 percent) are in West Africa.

Fairtrade Premium
In 2014, producer organisations sold 70,600 tonnes of Fairtrade cocoa, generating €10.8m in Fairtrade Premium.

Overall, 45 percent of the Premium was invested in strengthening producer organisations. This included 27 percent dedicated to shared facilities and infrastructure, particularly building warehouse facilities for the cocoa crop and storage for inputs; purchasing shared vehicles for crop collection and transport; developing improved facilities for cocoa drying; and establishing tree nurseries for new cocoa trees.

These investments support the proper management, storage, and processing of the cocoa, which are key to ensuring quality and reducing wastage – and so ultimately to increasing sales and income. These shared facilities and services are an essential and much-appreciated support for farmers, who could not make these investments individually.

Forty-three percent of the Premium was used to deliver direct services to farmer members, including agricultural tools and inputs, training, credit services, and direct payments to farmers. The tools and inputs provided to farmers most commonly included machetes for harvesting the cocoa; pesticides and sprayers; wellington boots; and pruners to support better tree management. Training included farmer extension services and the implementation of better agricultural practices at farm level. Farmers received training on productivity and quality improvement; sustainable tree management; pest management; child protection; and environmental protection.

Producer organisations are encouraged to use at least 25 percent of their Premium payments to improve cocoa productivity and quality. Within the various projects and programmes above, it is estimated that 46 percent of the Premium was actually invested in this way.

Direct cash payments to farmers accounted for 31 percent of Premium use, which reflects the high levels of poverty among West African cocoa farmers.68

Figure 4: Fairtrade cocoa – Fairtrade Premium use 2013-14

- 45% Investing in producer organisations
- 12% Services for communities
- 43% Services for farmers
- 31% Payments to farmers
- 0.4% Other services to farmers
- 27% Facilities and infrastructure
- 1% Credit and finance services
- 3% Provision of agricultural tools and inputs
- 1% Implementation of on-farm good practices
- 5% Farmer training in agricultural or business practices
- 2% Education
- 1% Healthcare for farmers and their families
- 2% Healthcare
- 7% Community infrastructure
- 5% Community infrastructure
- 1% Training and capacity building of staff and board members
- 17% Human resources and administration
A. CANN CO-OPERATIVE

‘One of the most important aspects of participation in Fairtrade is a change in behaviour. Fairtrade asks our farmers to think systematically about their work—this has been a major shift in approach.’

Fortin Bley, Secretary General, CANN co-operative, Côte d’Ivoire

Cocoa farmers set up CANN (Coopérative Agricole N’Zrama de N’Douci) in 2005 to bring fair buying practices and better prices to its members and since then its membership has doubled to nearly 600 farmers. Fortin Bley (right), the co-operative’s Secretary General, says it is the additional services offered to members such as access to training programmes and credit facilities which are the key to its growth—services which have been significantly enhanced since Fairtrade certification in 2010.

‘Fairtrade allows our co-operative to deliver on its mission and goals...Fairtrade has meant deeper and more regular contact with the members and stronger management and governance of the co-operative. This has had a significant impact on the quality of the co-operative’s services,’ Bley explains.

The farmers have their share of difficulties. CANN’s members struggle to increase the productivity of their cocoa farms because of ageing cocoa trees, soil degradation and outdated agricultural methods. Poverty levels among farmers mean they lack the finance to make improvements.

The co-operative’s response has been to invest a share of the Fairtrade Premium in programmes that address these issues. Around 60 percent of members have been able to access training on good agricultural practices and 25 percent have purchased subsidised pesticides. The co-operative has handed out kits which include machetes and wellington boots to ease the work of the farmers. Sixty thousand new cocoa seedlings have been distributed to members: the seedlings and plant nurseries were funded by the Nestlé Cocoa Plan while the costs of distribution were funded by the Premium.

The Premium has also been used to rebuild two local primary schools (left). Both had been in ruins, one in the village of Tiemokokro had survived with a single volunteer teacher. Now, after lobbying the school inspector for support, the rebuilt school has a principal, two teachers and three volunteers teaching 200 students. And approximately seven out of ten eligible members have taken advantage of CANN’s scheme to provide advance payments to help with school fees.

CANN has also run training for community members on child labour, evaluated community-level risks and established a child labour remediation fund. ‘Building schools is one thing, but if parents are not educated on the real dangers for their children, the risks are still there,’ explains Bley.

CANN still faces challenges to member loyalty when conventional buyers have greater access to financing, offering members cash on delivery when the co-operative may have to offer payment terms. Yet the quality of services provided by the co-operative has been attractive for local farmers and the growth in membership provides clear evidence of this.

Source: Fairtrade Africa
ECOOKIM co-operative operates in a country that experienced tremendous chaos and unrest during elections in 2010 which disrupted cocoa exports and pushed international cocoa prices to a 32-year high. By contrast, ECOOKIM’s strong, democratic structure and clear sense of direction have been central to its growth and popularity which have seen its member co-operatives increase from eight to 23 in the past year. It now represents 12,000 small-scale farmers and believes that its professionalism and the democracy it demonstrates in its decision-making have helped attract new members.

By ensuring everyone has their say, the additional services that come from Fairtrade and investment of the Fairtrade Premium go precisely where the farmers and communities say they are needed. Warehouses (above) have been built for storing cocoa, and training programmes established to improve farming techniques and fermentation practices. The organisation is investing in inputs, fertilizers, new plants and plant nurseries. An agricultural technician has been hired to advise the farmers and train leaders who support the other farmers in their community.

These changes have led to quality improvement, greater sales, increased income and more hope for the future. One visible sign of the increased revenue which has come with Fairtrade are the motorcycles bought by some farmers – farms can be up to 6km from farmers’ homes, and bicycles and motorbikes have been purchased to make the journey quicker and easier, allowing more time to work. Productivity has increased from 250kg/ha to up to 650kg. Aminata Bamba is the co-operative’s Head of Sustainability, a trained agro-engineer and in charge of training programmes on child labour, Fairtrade Standards and gender issues. “It’s so positive when someone approaches me and says, “I’ve boosted my yield and volume”. Little by little we see a difference in the quality of life here. A woman said to me recently, “Now I have a bed”. Before this she slept on a woven mat.”

‘More and more, people of the community have begun to understand that they need to send their children to school,’ explains Bamba. “If you send your children to school, they can come back to the farm when they have finished their education and help you increase the revenue on your farm through better planning and business management.”

Bamba says that Fairtrade requirements have clear advantages beyond just price and Premium. “We set out a development plan at our General Assembly, which is made up of one delegate for every ten co-operative members. All the decisions are made together on how to use the Premium. Each co-operative decides how they want the Premium to be spent. All members have been part of the discussion.”

This, says Bamba, is the strength of the system. “Fairtrade is about transparency and the way we make decisions together.”

Source: Fairtrade International
5. WHY WORK WITH FAIRTRADE? A SUSTAINABILITY OPTION FOR COCOA SOURCING COMPANIES

Forward-looking businesses understand that investing in long-term sustainable practices and more resilient producer communities is a sound business strategy, especially in commodity markets such as cocoa where prices and yields can fluctuate greatly. And consumers are increasingly demanding sustainability and transparency in the sourcing of their food and other products.

By putting the FAIRTRADE Mark on their products, stocking or serving Fairtrade goods, companies can show their ethical commitment, have a positive impact on producers and get closer to their supply chain.

With UK Fairtrade sales hitting £1.6bn in 2015, sourcing Fairtrade can have a significant business benefit – 93 percent of UK consumers are familiar with the FAIRTRADE Mark, more than 80 percent trust the Mark and more than half of UK consumers say they purchased a Fairtrade certified product in the last six months.

And Fairtrade has the grassroots support of more than 10,000 UK groups – Fairtrade Towns, Schools, Universities and Faith Groups – who run campaigns locally to boost awareness and understanding of trade issues, and promote purchasing Fairtrade products as a way to make a difference to the lives of farmers and workers.

FAIRTRADE OFFERS THE FLEXIBILITY OF TWO MODELS:

The familiar FAIRTRADE Mark has been available on products in the UK for 20 years and certifies that a product meets international Fairtrade Standards.

For a product to carry the FAIRTRADE Mark, all ingredients that can be sourced as Fairtrade must be Fairtrade. For a chocolate bar this means the cocoa and sugar must be Fairtrade as well as ingredients like vanilla, nuts and raisins that are available as Fairtrade.

Cadbury Dairy Milk was the first mainstream chocolate bar to carry the FAIRTRADE Mark and today Mondelez International is the largest buyer of Fairtrade certified cocoa, buying from co-operatives in Ghana and the Dominican Republic for their Cadbury Dairy Milk and Green & Black’s brands respectively.

The new Fairtrade Sourcing Programs are an additional way for businesses to source Fairtrade, and run in parallel to the existing FAIRTRADE Mark. They create a huge opportunity for cocoa, sugar and cotton farmers to sell more of their crops on Fairtrade terms, meaning more Fairtrade benefits for their farms and communities.

Globally, more and more businesses are committing to buying sustainable cocoa, sugar and cotton, for use across complete product ranges, or even their entire business. Fairtrade Sourcing Programs enable companies who are focused on one or two key commodities, rather than certifying end consumer products, to source them from Fairtrade farmers. It’s a great way to increase the positive impact of Fairtrade. If they source 100 percent of that specific Fairtrade ingredient the product packaging can carry the product specific FSP logo:

Mars committed to sourcing 100 percent Fairtrade cocoa for its UK Mars bars in October 2015, a move that will see Fairtrade cocoa co-operatives in West Africa benefit from Fairtrade Premium of more than $2m a year from 2016. A total of 18 companies, including Italian giant Ferrero and German company Riegelein, have begun to source Fairtrade cocoa through the new program.
6. THE DATA

Cocoa producer organisations

There are now 129 Fairtrade certified cocoa producer organisations across 20 countries – Belize, Bolivia, Cameroon, Colombia, Costa Rica, Côte d’Ivoire, Dominican Republic, Ecuador, Ghana, Haiti, Honduras, India, Nicaragua, Panama, Papua New Guinea, Peru, São Tomé, Sierra Leone, Sri Lanka and Togo. They represent 179,800 farmers, of which 140,000 (78 percent) are from West Africa.

Fairtrade cocoa farmers have an average plot of 2.6 hectares (6.4 acres). They produce 218,000 tonnes of Fairtrade certified cocoa, of which nearly 43,500 tonnes are also certified organic. On average, certified cocoa producer organisations sell 33 percent of their production as Fairtrade. In 2014, this amounted to 70,600 tonnes of Fairtrade cocoa, generating €10.8m in Fairtrade Premium.

Global Fairtrade cocoa sales

Global retail sales of Fairtrade cocoa have more than quadrupled from 14,000 tonnes in 2009 to 65,500 tonnes in 2014, mainly due to growth in the UK market. However, Fairtrade only accounts for around 0.5 percent of the world cocoa market.

UK Fairtrade cocoa sales

UK retail sales of Fairtrade cocoa products were worth an estimated £306m in 2015, a 88 percent growth on sales of £162m in 2010.

And with a retail sales value of £159m, Fairtrade had a 36 percent share of the £447m moulded milk and plain chocolate bar market.

Figure 5: How global sales of Fairtrade cocoa have grown (tonnes)
7. CONCLUSION

The $150bn global chocolate market is growing year on year as rising incomes mean more people around the world can afford to indulge their taste for chocolate, whether it’s milk or plain chocolate bars or as an ingredient in ice cream, biscuits and thousands of other composite products. But millions of cocoa farmers who supply the raw commodity still live in poverty and struggle to provide the basic necessities for their families.

The low incomes of cocoa farmers are responsible for impoverished farming communities, blighted by child labour, which lack the essential services such as clean water, electricity, adequate healthcare and education that most of us take for granted. And farmers’ children are turning their backs on cocoa to find more rewarding employment elsewhere, putting the future of the chocolate industry in jeopardy.

In recent years, global companies have increased investment in strategies to improve productivity and ensure their supply of cocoa, as well as in sustainability issues related to child labour, youth protection and climate change. But unless farmers’ incomes are raised and they are enabled to move to more sustainable production that addresses economic, social and environmental challenges, then the chocolate industry as we know it will not be viable.

Fairtrade Standards provide a framework for cocoa farmers to increase their incomes and reduce poverty. By forming or strengthening existing democratic organisations, farmers can increase their negotiating power in the marketplace, improve business systems, access new markets, develop long-term trading partnerships, implement sustainable farming practices and protect the environment.

The Fairtrade Premium provides important economic benefits including cash bonuses for farmers, investment in improving cocoa quality and productivity, training in modern farming techniques and social projects to improve community welfare.

By offering Fairtrade cocoa products, businesses are contributing to a more sustainable future for cocoa farmers, their communities and the environment. And by purchasing Fairtrade cocoa products, consumers are choosing products that change lives.
Main producing countries

Global cocoa production has grown to around four million tonnes a year and is dominated by West African producers Côte d’Ivoire, which produces around 1.5 million tonnes a year, and Ghana (842,000 tonnes). Together with Indonesia (447,000 tonnes), these three countries account for nearly 70 percent of the world’s output. Around 73 percent of cocoa comes from Africa, 16 percent from South America and 11 percent from Asia and Oceania.

Cocoa demand has been increasing by an average of three percent a year since 1999. Production has increased from around 3.5 million tonnes to four million tonnes in the last decade but it is estimated that the sector will need an annual production of at least 4.5 million tonnes of cocoa by 2020 to satisfy the growing global demand driven by Brazil, China and other emerging economies.

Figure 6: Largest producers of cocoa as percentage of world total, 2009-2014

Source: Statistics, ICCO, www.icco.org
Main processing countries
Cocoa grindings, a proxy for demand, stood at an estimated 4.3m tonnes in 2013/14. Regionally, Europe is the leading grinder with 1.6m tonnes or 37 percent of the total, followed by the Americas (918,000 tonnes, 22 percent), Asia and Oceania (890,000 tonnes, 21 percent) and Africa (860,000 tonnes, 20 percent). Europe's market share is slowly declining as grinding increases in origin countries.

The Netherlands is the centre of Europe's chocolate industry and traditionally the world's leading cocoa grinder (535,000 tonnes in 2013/14) followed by Côte d'Ivoire (520,000 tonnes). The Ivorian government’s target is to increase domestic grindings to 50 percent of production by 2020 and is encouraging domestic and foreign companies to invest in increasing processing capacity and building new facilities. This will create more local jobs, increase revenue to the state and contribute to the development of the industry.

The Netherlands is also the largest exporter of cocoa paste (27 percent of the total), cocoa butter (26 percent) and cocoa powder (25 percent).
Main importing countries

Global imports of cocoa beans and semi-finished products – cocoa powder, paste and butter – were worth $17.3bn in 2013. The Netherlands is home to the world’s largest processing industry, accounting for a 14 percent share worth almost $2.5bn in 2013. The US is a close second ($2.1bn), followed by Germany ($1.9bn), Belgium ($1.3bn) and France ($1.1bn). These five countries account for 51.5 percent of imports. Meanwhile, the UK is in ninth position with a 2.9 percent share worth $510m.

Chocolate consumers

The Swiss head the global chocolate league table with a per capita consumption of 9kg of chocolate in 2014 – equivalent to 225 x 40g chocolate bars. Ireland and the UK tied in fourth place with 7.5kg, just behind Germany (7.9kg) and Austria (7.8kg). By comparison, per capita consumption was 0.1kg in India and 0.2kg in China, while in cocoa producer countries Indonesia and Nigeria, consumption was 0.3kg and less than 0.01kg respectively.¹⁴
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