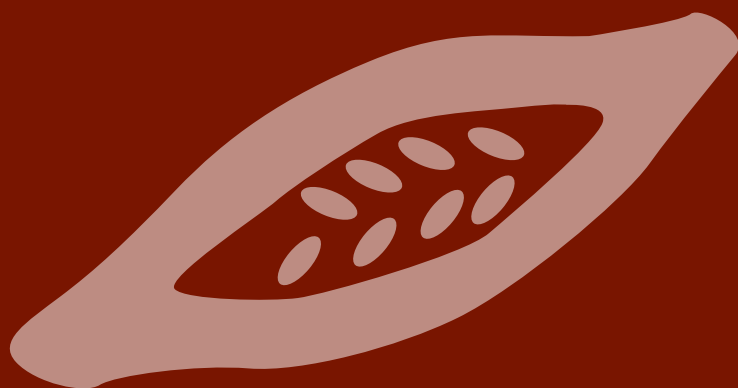


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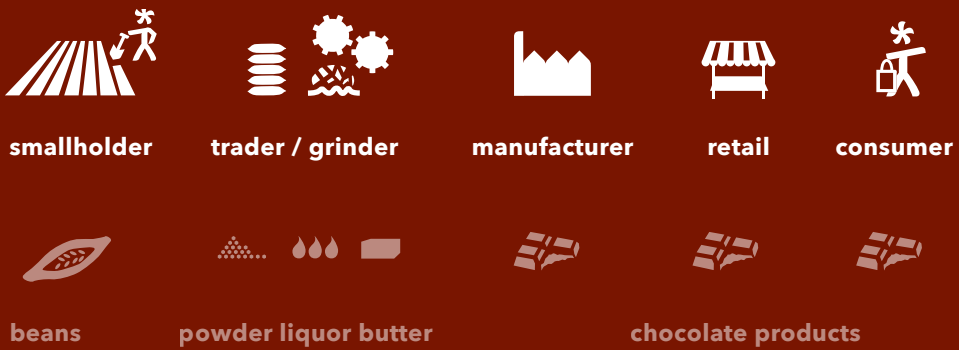
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Cocoa Barometer 2018

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Friedel Huetz-Adams

Supply chain



Scope and intentions of the Cocoa Barometer 2018

The Cocoa Barometer 2018 provides an overview of the current sustainability developments in the cocoa sector, and highlights critical issues that are not receiving sufficient attention at present. It is an endeavour to stimulate and enable stakeholders to communicate and discuss these critical issues. The authors have chosen to focus on West Africa, because of its dominance in cocoa production and the significant challenges it faces. The two special thematic focus points of this Barometer are “Ensuring a Living Income” and “Transparency and Accountability”.

1. Introduction

The world market price for cocoa saw a steep decline between September 2016 and February 2017. Smallholder cocoa farmers, already struggling with poverty, saw their cocoa income decline by as much as 30%-40% within a couple of months, with the exception of Ghana, where the government is subsidising the cocoa price indirectly. Though prices are presently climbing again, farmers bear the risks of a volatile price, and there is no concerted effort by industry or governments to alleviate even a part of the burden of this income shock.

The price collapse is directly linked to a strong increase of cocoa production in the past years, partly driven by new production areas set up at the expense of native forests. This can be equally attributed to corporate disinterest in the environmental effects of the supply of cheap cocoa, and to an almost completely absent government enforcement of environmentally protected areas. More than ninety per cent of West Africa's original forests are gone.

Child labour remains at very high levels in the cocoa sector, with an estimated 2.1 million children working in cocoa fields in the Ivory Coast and Ghana alone. Child labour is due to a combination of root causes, including structural poverty, increased cocoa production, and a lack of schools and other infrastructure. Not a single company or government is anywhere near reaching the sector-wide objective of the elimination of child labour, and not even near their commitments of a 70% reduction of child labour by 2020.

Sector-wide efforts to improve the lives of farmers, communities and the environment are having little impact; the scope of proposed solutions is not even in the ballpark of addressing the scope of the problem.

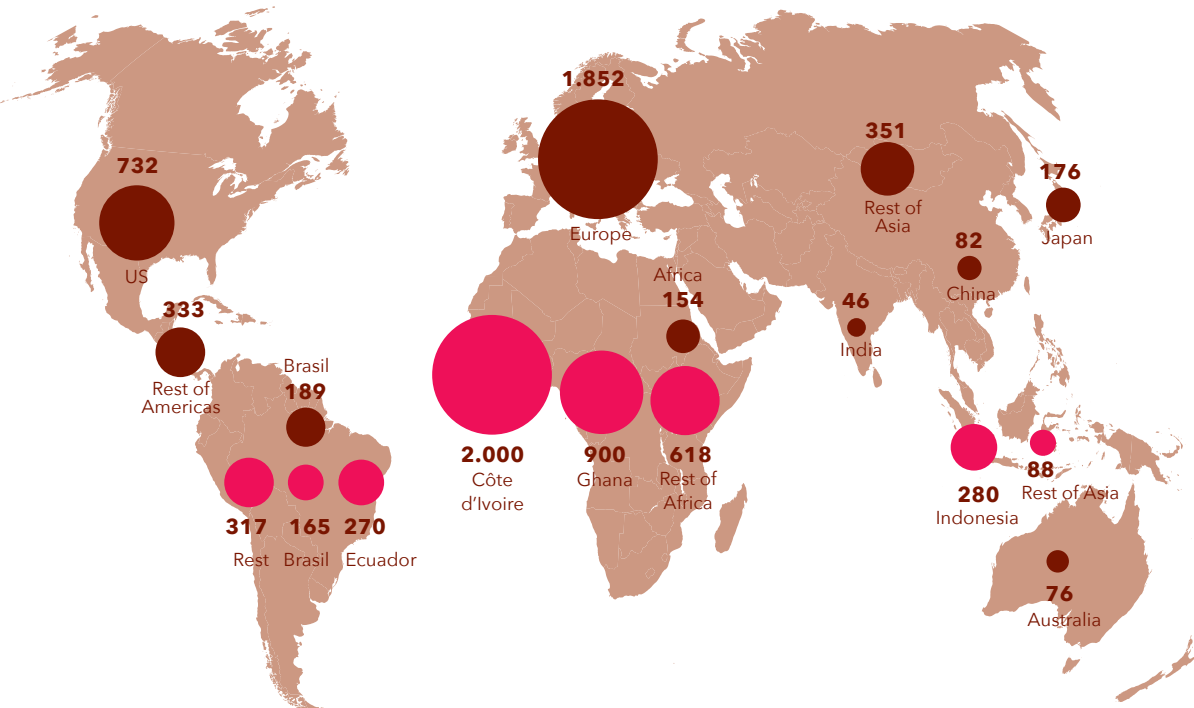
While many of the current programs in cocoa focus on technical solutions around improving farming practices, the underlying problems at the root of the issues deal with power and political economy; how the market defines price, the lack of bargaining power farmers, market concentration of multinationals, and a lack of transparency and accountability of both governments and companies.

The previous two Barometers were instrumental in kick-starting the conversation on farmer livelihoods. Now that a living income is seen as a keystone for the cocoa sector, this Barometer goes in depth into this could be achieved, in the focus area “Ensuring a Living Income”. In addition, cocoa farming need to see a viable local infrastructure, including schools, health care, and access to markets. There is a key role for both companies and specifically governments to play on that level. The second focus area on “Transparency and Accountability” takes a deeper look into the prerequisites for this.

Production / Consumption

Cocoa Production in 1,000 tonnes 2017/18

Source: ICCO 2018, Table 2, 40



2. Developments

Developments

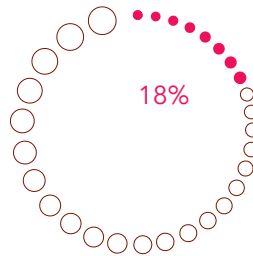
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Scale of efforts vs. scale of problem

One of the painful questions the cocoa sector has to ask itself is whether the sustainability efforts made in the past decade in the cocoa sector have led to actual impact. An even more painful question is, whether the scope of solutions is even in the ballpark of the scope of the problem. All indicators point to a lack of sector-wide ambition, and therefore a lack of urgency. If the cocoa sector continues with business as usual, it will be decades - if ever - before human rights are respected and the environment is protected.

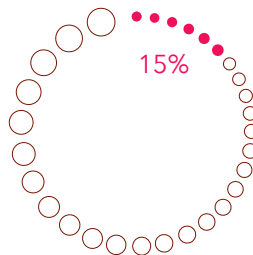
Scale of solutions vs. problem

Number of children
in cocoa in West Africa:
2,200,000
(Source ICI)



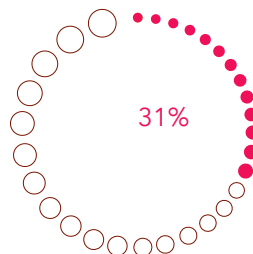
Number of children in
ICI CLMRS ambition for
2020: **400,000**

Number of farmers in
Côte d'Ivoire and Ghana:
2,000,000
(Source CocoaAction)



Number of farmers in
CocoaAction ambition
for 2020: **300,000**

Living income:
\$2.51
(Source Fairtrade)



Current farmer income:
\$0.78

Price Decline

The world market price for cocoa saw a steep fall between September 2016 and February 2017. More than a third of its value was wiped out, with a tonne of cocoa going from above US\$3,000 to below US\$1,900 in a matter of months. Despite various voices warning that a focus on production increase policies would lead to a price collapse*, most companies and governments were not prepared when it happened.

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World Market Price and Farm Gate Price

The **World Market Price** for cocoa is published daily as a calculated average of the price for cocoa futures at the London and New York commodity exchanges. The prices at these exchanges are affected by different variables: the relationship between demand, stocks, and current and future supply. Traders pay slightly different prices for cocoa from different countries due to requirements concerning quality and delivery date.

The **Farm Gate Price** is the price the farmer receives for his/her cocoa. In most cocoa producing countries, fluctuations in the world market price have an immediate influence on the farm gate price. However, the situation in Côte d'Ivoire and Ghana is different. Both countries have national cocoa marketing boards that pre-sell part of their harvest in the year before the harvest season starts. The marketing boards (the Conseil du Café-Cacao or CCC, in Côte d'Ivoire, and the COCOBOD in Ghana) then determine a fixed price around the 1st of October of each year, the beginning of the annual main-crop season.

In Côte d'Ivoire, the farm gate price is fixed at around 60% of the value at which the CCC has been able to make these pre-sales. After last year's price decline, the CCC slashed farm gate prices by 36% at the mid-crop pricing in April 2017.

In Ghana, the price is also more or less a percentage of the world market price (according to the COCOBOD, around 70%; in reality usually significantly lower). However, after the price collapse,

* As we wrote in the 2015 Cocoa Barometer, the "present [industry] focus on increasing farm productivity [could] lead to an oversupply of cocoa and to decreasing prices." At the 2014 World Cocoa Conference in Amsterdam, the Executive Director of the ICCO claimed that if governments were to stick to their production increase policies, the global cocoa price would collapse.

COCOBOD has maintained the pre-collapse prices. It is still not clear how long the COCOBOD will be able to maintain this higher level. Due to high inflation in Ghana, though, the real price paid for cocoa at the farm gate has decreased significantly since the price decline.

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Oversupply Drives Prices Down

At the beginning of the 2016/17 season, reports of a good harvest caused market participants to expect a world market price decrease, from just over US\$3,000 to at worst \$2,600 per tonne. But the cocoa price went down much further within months, to below US\$2,000.

The 2015/16 season had led to a global supply deficit, reducing global stocks to the lowest levels since 1985. After the 2016/17 season, the situation changed; now there is a structural oversupply that could last for years to come.¹

At the beginning of the crisis, it can be argued that problems were aggravated by mistakes of the cocoa authorities in the world's largest cocoa producer, Côte d'Ivoire (see box below). The speed of the price decline can be partially explained through some speculators panicking and selling their cocoa investments, further destabilising the market. The increasing use of algorithms being used by speculators at the stock market² has also caused a significant increase of the speed of speculation, which is likely to have contributed to the speed of the decline.

Since the collapse, cocoa has been steadily trading around the US\$2,000 mark, with an upturn starting in February 2018 based on revised forecasts; the oversupply in the ongoing harvesting season might be less high than expected.

Possible Causes of Increased Production

Global production of cocoa has risen significantly in the previous years. Ivorian cocoa production alone in 2016/2017 was 600,000 tonnes higher than just three years before (a 40% increase at the country level, amounting to 15% of total global production)³. There are several reasons for this increased production.

After several years of bad weather conditions for cocoa due to an El Niño and regional weather patterns not favourable for cocoa, weather conditions in West Africa were exceptionally good for cocoa in 2016/17.

Another major factor is the large number of new cocoa farms that have

been established in protected forests over the past five years that have started producing significant tonnages of cocoa, adding to the oversupply.

Additionally, a sector-wide focus on productivity increase and farmer training in every company sustainability programme, coupled with higher farm gate prices over the past years, has contributed to an increase of production.

Lastly, though to a lesser degree, national policies to stimulate cocoa production also saw an increase in two Latin America cocoa nations: Ecuador and Peru.

Côte d'Ivoire's role in the price decline

The Conseil du Café-Cacao (CCC), the state run Ivorian marketing board, is responsible for the establishment and the execution of price stabilisation systems based on the forward sale of cocoa. The implementation of a guaranteed minimum price in 2012 improved the situation of farmers, specifically in remote areas, who previously often received only a small percentage of the world market price from local traders. The minimum price rose from 725 CFA (US\$1,229) in the harvesting season 2012/13 to 1,100 CFA (US\$1,881) at the beginning of the season 2016/17.*

However, during the 2016/17 harvest season, the CCC ran into major problems.

The CCC forward-sells approximately 80% of the expected harvest, months before the crop is harvested, with the remaining 20% to be sold during the season. At the time of the forward sales for the 2016/17 season, the world market price was roughly US\$3,000.

Approximately 350,000 tonnes of cocoa were sold to local national traders. Unlike the large multinational traders, they were not obliged to hedge (or presell) their cocoa. Having forward-bought at a price of roughly US\$ 3,000, they later faced a world market price of US\$2,000. Without sufficient financial reserves it became obvious by the end of 2016 that most local traders would not take - and therefore not pay for - the cocoa from middlemen or cooperatives. These local traders defaulted on their contracts, putting even more unsold cocoa onto a market already in a state of oversupply.

* exchange rate October 2016

By this time the price had gone down to US\$2,000. But the CCC was still guaranteeing a minimum price to farmers based on the US\$3,000 of the pre-sales. However, the 20% of the expected harvest - about 360,000 tonnes - that was not sold forward still had to be auctioned. Because of the higher than expected harvest, there was also an additional 500,000 tonnes of cocoa which came onto the market. The 350,000 tonnes that the unhedged local traders defaulted on further exacerbated the problem. Possibly half the Ivorian crop of the 2016/17 season was all of a sudden 'floating' on the market.

Meanwhile, the global cocoa traders were aware of the existence of hundreds of thousands tonnes of cocoa either unsold or defaulted on by local traders. In a period of declining prices, they leaned back and waited until the troubles of the CCC mounted and prices declined further.⁴

Stalled demand

A stagnation of demand for cocoa in consuming countries has further exacerbated the oversupply. Contrary to company projections only a few years ago of rising global demand, demand for cocoa has been more or less stable between 2012 and 2016. Economic crises in emerging economies such as Brazil and Russia (where cocoa consumption decreased), a shrinking appetite for cocoa in the USA and the stagnating chocolate appetite of potential giants such as China and India, have contributed to this stabilization⁵. In most European countries, the demand for cocoa is saturated and might even decrease due to the ongoing discussion about high amounts of sugar and fat in many chocolate products.

Poverty deepens

Smallholder cocoa farmers in Côte d'Ivoire, already struggling with poverty, have seen their income from cocoa (by far their most important income source) decline by as much as 30%-40% from one year to the next. Subsidies have protected farmers in Ghana, at least for the last two years, while producers in other countries felt the price decline immediately. Farmers cannot switch easily to another commodity when the price drops, given the long life-span of cocoa trees and the fact that farmers do not have any savings or social protection schemes or access to credit/finance.

Asymmetrical price transmission

Since the mid-1980's, transmission of price fluctuations in cocoa has been asymmetric; this means that while retail prices often rise quickly

when the price for cocoa goes up, they only drop slowly – if at all – when cocoa prices go down.⁶ Though many companies and retailers claim they transfer the price decrease to their clients this generally is not expected to happen in full, neither does it happen immediately. This means that with falling prices of cocoa beans, all participants in the value chain except farmers are likely to see an increase of their profit margins, even if it is only temporary.⁷

Farmers bear all the risks

While companies can hedge cocoa at the stock exchange and further reduce the risks, farmers are at the losing end of the supply chain. They bear virtually all the risks of price volatility, whilst having the weakest economic reserves in the entire supply chain.

Where is the money going?

While company sustainability departments are investing hundreds of millions into projects over the years, their purchasing departments have saved roughly US\$1,000 per tonne of cocoa due to the price decline. This adds up to approximately US\$4,7 billion of reduced purchasing costs in the 2017/2018 crop compared to the previous year. Though hard data is absent, it is safe to assume that some actors are making a lot of money off the price collapse, while farmers and sustainability suffer. Where did this money go?

Sustainability suffers

Though events have been too recent to produce conclusive data, many experts in the sector expect that the price drop, and the ensuing exacerbation of poverty, will have a severe impact on the sustainability efforts of the sector. “The price decline of cocoa will de facto erase all of the sustainability gains that have been achieved in the past ten years”, said a senior sector representative in March 2017 at a Chatham House rules meeting in London, a sentiment echoed by many senior executives in the cocoa industry since.

Conclusions & Recommendations

Low prices (as well as price fluctuations) are a major threat to all efforts to achieve sustainable cocoa sector. As such, the price decline after September 2016 is one of the most urgent issues the sector should address. Farmers bear the risks of a volatile price, while other market actors have means to adapt and even make windfall profits.

Social developments

Gender

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On average, in West Africa women run approximately a quarter of the cocoa plantations. Often, they have an even more limited access than men to land rights, extension services, credits and certification. They are also often underrepresented in farmers' organisations, public meetings and leadership roles in communities. Although there are differences between the tasks of men and women, women are engaged in most of the steps of cocoa production, from preparing seedlings to selling beans. In addition to supporting cocoa production, women are involved in household activities and food production, which adds up to a heavy workload (FLA 2015: 17-19). The standard-setting organisations, most of the major company programs, and development projects run by NGOs or state agencies have included specific programs for women into their agendas. However, in many cases a sustainable improvement of the situation of women also includes a change of mind of the men in the communities. The transformation from traditional, often restrictive customs to more equality between men and women needs greater efforts than are underway presently. There is a major responsibility for governments in producing nations in this regard.

Living income

Since our focus on living income in the 2015 Cocoa Barometer, living income and farmer livelihoods have become keystones in the cocoa conversation, with some promising steps being taken.* This start of an alignment should in the short term lead to coordinated activities to increase farmer's income levels.

Community of Practice

A broadly supported multi-stakeholder 'Community of Practice' on Living Income** has become one of the central drivers for this conversation,

* The Cocoa Barometer 2015 provides a detailed description of the background of the living income discussion.

** This Community of Practice is co-led by ISEAL, the Sustainable Food Lab, and GIZ. Though it focuses on Living Income in many commodities, cocoa is one of its focal areas.

supporting the exchange of information and concrete research, as well as aligning a variety of disparate actors. Learning from the Global Living Wage Coalition, and approaching the concept of smallholder farmer income from a cross-commodity perspective, a lot of this conversation has been focused around methodological questions, as well as setting out important first priorities concerning data collection and research goals.

Company poverty commitments

In addition, several multinationals have made commitments to eliminate poverty. Barry Callebaut, as part of their “Forever Chocolate” plan, have committed to eliminating structural poverty in their cocoa supply by 2025. Mars’ “Sustainable in a Generation” plan has the stated ambition that everyone in their extended supply chain should earn a sufficient income for a decent living.

How these ambitions will be achieved is still unclear, and there is no evidence at present that farmers are earning more due to these commitments. In fact, there are very few policies developed or implemented to achieve these goals. Still, this is a very late but positive trend. A value chain that accepts structural poverty as inevitable can never be called sustainable.

Research

For a long time, there was not enough information available to be able to determine what a living income should be. There are many variables that need to be taken into account, e.g. the number of household members, the farm size or the cost of living. These variables differ from region to region, and a lot of the data was simply not available. However, Fairtrade International’s recent report submits a first attempt to calculate a living income for cocoa farmers in Côte d’Ivoire of \$2.51 per day, and compares this to actual farmers’ income of \$0.78 per day. They conclude that a “household income is not sufficient to make a living income.” On average, cocoa farmer households earn only 37% of a living income in rural Côte d’Ivoire.⁸

The Global Living Wage Coalition, GIZ and the Sustainable Food Lab are gathering for a living income for cocoa farmers in Ghana and Côte d’Ivoire, based on the widely accepted Anker Methodology. Results of this are expected in autumn 2018.

Complexity of income calculations and choices of methodology

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The Cocoa Barometer 2015 published figures on per capita household income based on the available data from different studies at the time. A recent study by KIT, which will be published after this Barometer goes to print, surveyed 1500 farmers each in Côte d'Ivoire and Ghana, and engaged participants in 38 focus group discussions in each country. The study contributes to a growing body of knowledge on farm sizes, productivity, profitability and the poverty and wealth of cocoa households.

Many KIT findings support those of previous studies, often adding nuance or updating details. However, in some cases the KIT study challenges certain beliefs, based on chosen methodologies. They triangulates three approaches to measuring wealth and poverty - 1) a household income model populated by data from the study 2) the Poverty Probability Index (PPI) and 3) the DHS (Demographic and Health Survey) Wealth Index.

KIT argues that whilst many cocoa farmers are relatively poor, most cocoa farmers in Ghana and Côte d'Ivoire do not fall below national or international poverty lines. Rather than being in extreme poverty, farmers explain that cocoa income enables them to cover basic living costs and allows them to make modest investments that help them get ahead.*

Where the KIT, the Cocoa Barometer, Fairtrade's recent report and many others agree, however, is that cocoa farmers are falling well short of achieving the necessary objective of a living income, a concept that is becoming increasingly accepted as the key objective for the sector.

* It is important to mention that the KIT research was conducted prior to the 2016/17 price collapse, and reduced income, especially in Côte d'Ivoire, is not factored into their analysis.

Conclusions & Recommendations

Living income and farmer livelihoods have become keystones in the cocoa conversation. For this to progress, companies need to commit to end structural poverty in their supply chains, and make data available. Not only dialogue, but also coordinated activities to reduce poverty levels among farmers are essential.

Child labour*

Not a single company or government is anywhere near the sector-wide objective to eliminate child labour. It is high time for efforts to be increased. In that light, it is important to stress that child labour is a symptom of deeper problems; without tackling systemic poverty and a lack of local infrastructures, child labour will not be eradicated.

More child labour

The release of the 2015 Tulane Report on the worst forms of child labour in cocoa production caused a stir. Despite more than a decade of efforts, the numbers on child labour are still very high; although there was a slight relative decline of child labour, an increase in cocoa production had led to an absolute increase of child labourers to 2.1 million children in West Africa alone.

Root causes

As a result, thinking around child labour in the cocoa supply chain has been changing over the past years. Random audits and adopting a zero-tolerance policy on paper for any forms of child labour seem to have a counter-productive effect, making child labour hidden, but no less prevalent. Root causes – such as farmer poverty, absence of and access to good schools, inadequate local infrastructure, lack of awareness etc. – must be addressed.

Child Labour Monitoring and Remediation Systems

Some companies are starting to communicate more transparently about the size of the problem of child labour in their supply chains. Nestlé, in collaboration with the International Cocoa Initiative (ICI), has piloted Child Labour Monitoring and Remediation Systems (CLMRS). Several other companies are now incorporating a form of CLMRS into their supply chains, with around 100,000 currently registered with ICI, and around 400,000 targeted for 2020 (which is between 15% and 20% of all children working in cocoa).

The initial results of these CLMRSs are promising; of a sample group of a thousand children, a child labour reduction of about 50% was achieved in three years.⁹

* It is important to differentiate between child/light work, child labour and the worst forms of child labour. **Child/light work** can be summarised as a child that sometimes helps out on a farm; with work is that is not hazardous to children, and that does not interfere with their schooling or their possibility to 'be a child'. **Child labour** is work that – although it is not hazardous – does interfere with the child's schooling. **The Worst Forms of Child Labour** (WFCL) is the official definition of the forms of child labour that are hazardous to a child's wellbeing, and/or constitute trafficking, slavery, forced labour, etc.

CLMRS explained

A Child Labour Monitoring and Remediation System, or CLMRS, is a community-based instrument to identify and remediate child labour. Per community, a local liaison regularly visits every family, and speaks to both parents and children. When child labour is spotted or self-declared by the child, this is flagged in a central database, analysed, and suitable remediation is then implemented. Various forms of remediation are possible, from extending birth certificates or school material, to starting an additional income-generating project for the women of the village. Once a child is entered into this system, the child will continue to be monitored for school attendance and the occurrence of child labour.

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Scaling up to national interventions

In a parallel process to the needed scaling up of CLMRSs at company level - as discussed elsewhere in this Barometer, ensuring Human Rights Due Diligence is first and foremost a corporate responsibility - there is a role for national governments as well. The CLMRS is a useful tool to get insights and evidence on underlying issues and root causes and the needed remediation actions. However, it is a labour and capital intensive process, and finding the capable manpower to scale up a monitoring system village by village for an entire country is an almost impossible task. As such, a natural next step should be for national governments - in collaboration with the companies - to take the interventions that had the most effect, and deploy them at national scale through coordinated campaigns (i.e. strengthening national access to education, extensive school canteens programs, driving birth registration, etc.). This would optimise the use of the scarce resources available. Additionally, it is important to harmonize government-based national child labour monitoring systems (such as SOSTECI in Côte d'Ivoire and GCLMS in Ghana) with company-run CLMRSs.

Harkin Engel

The Harkin Engel framework is the continuation of the 2001 Harkin Engel Protocol, an industry commitment to end child labour in cocoa by 2005 that the signatories did not even come close to fulfilling. Despite the deadline being pushed back several times to 2020 it is now nearing its deadline, and the intended objective of a 70% reduction of child labour will be impossible to achieve unless the signatories - large chocolate and cocoa companies, as well as producing governments - step up their efforts significantly.

Conclusions & Recommendations

Child labour has increased with the growth of cocoa production, and the price decline will most likely also negatively affect child labour. Though Child Labour Monitoring and Remediation Systems are useful project-based approaches, more comprehensive national interventions will be necessary to achieve the necessary scale. As child labour is a symptom of deeper problems, the income of cocoa farmers must increase, and local infrastructure must be improved. It is a matter of urgency for efforts to be increased – in funding as well as in ambition and political will – as current levels of engagement will not succeed in eliminating child labour.

Deforestation, land use and climate change

Historically, cocoa has been a “slash-and-burn” crop. Rainforests would be cut down for new cocoa fields, and after the trees grew old in forty or fifty years, the cocoa planters would move on to new parts of the forest and start the cycle all over again. However, this is no longer an option; more than ninety per cent of West Africa’s original forests are gone, and any remaining forest must be protected. The challenge is now to turn cocoa into a sedentary crop.

Deforestation

Global cocoa production has increased fourfold since 1960. This has been directly at the expense of native forests, specifically in West Africa, but also in Indonesia and Latin America. The most affected countries are Ghana and Côte d’Ivoire. Over the past year, deforestation has become a hot topic in the cocoa sector, with the industry-led launch of the Cocoa and Forests Initiative, the NGO Mighty Earth publishing a landmark report on this topic¹⁰, and many individual companies claiming to engage in anti-deforestation projects. This deforestation can be equally attributed to corporate disinterest in the environmental effects of their supply of cheap cocoa, and to an almost completely absent government enforcement of environmentally protected areas.

Côte d’Ivoire

In Côte d’Ivoire, the area covered by rainforest decreased from 16 million hectares in 1960 – which was half of the country – to less than 2 million hectares in 2010.¹¹ The rate of destruction of primary forests has further increased since then, not least due to a civil war that led to tens of thousands of migrant cocoa farmers being forced to leave their plantations and look for new land. Many of them went into national parks and ‘forêts classées’, protected areas, where they cut down the rain forest and planted cocoa trees.¹²

An absence of government enforcement of protected areas combined with a willingness of companies to turn a blind eye provided an enabling environment allowing unfettered deforestation to continue. It is an open secret in Côte d'Ivoire that more than a million people are living in parks and forêts classées, attracted by the possibilities of earning an income. These illegal cocoa villages often have clinics, schools, cell towers, and operate in the open, with full knowledge of all local authorities.

In the past two years, government evictions have taken place, drawing criticism on their brutality and disregard for human rights.¹³ It is essential that going forward, the Ivorian government couples ambitious climate protection with a clear protection of human rights.

According to different sources - including government officials - at least 30% or even 40% of the Ivorian cocoa harvest currently comes from inside classified or protected areas, which technically makes it illegal. This has devastating consequences not only for biodiversity and the local microclimate (including desertification and changing weather patterns), but is also the main cause for the present oversupply of cocoa: in the past two to three years, many of the newly established farms have started to come into production, turning out significant amounts of cocoa.

Ghana

The situation in Ghana is similar, with both legal and illegal deforestation for cocoa in protected areas. The increase of farm areas including cocoa plantations has led to a loss of rainforests at a pace of 2% per year during the last decades.¹⁴ The rate even accelerated to 6.1% between 2000 and 2011, with cocoa as an important driver.¹⁵ The country has lost most of its primary forests and the few remaining protected areas are endangered.



A segment of original rainforest about the size of the Netherlands was cut down to grow the amount of cocoa similar to that consumed in the European Union.

Land tenure

Many farmers have no official land titles, often having received the right to use the land according to informal or traditional tenure systems. But lack of tenure security is a major constraint to a variety of necessary sustainability measures. In many cocoa growing communities, tenure is even more problematic for women, who historically and culturally struggle to obtain the right to own land. Though women do a lot of the work, they often are not the decision-makers on the farms.

Unclear land ownership can lead to lower investments, as tenure insecurity is a major barrier to obtaining credits to invest in farms. Even if investments can be obtained, it is not certain the land remains theirs if farmers start to fell cocoa trees, either to rejuvenate the plantation or to diversify production. Even the removal of diseased trees or natural disasters that destroy trees can lead to the loss of land rights, as can making the move towards agroforestry. Ownership of forest trees is, at least in West Africa, often connected to land titles. This is a barrier to crop diversification, and especially to agroforestry and other necessary reforestation processes.^{16 17}

Tenure in Côte d'Ivoire

Land tenure in Côte d'Ivoire is as much about identity as it is about ownership, and is often disputed between traditional users of land and migrants (be they internal migrants from the north of the country or from neighbouring countries). Many migrant farmers have lived on the farms for decades but still have no formal right to the land. During the civil war, many of them were forced to leave the land they – and sometimes their forefathers – had converted, going into the uninhabited national parks, where they set up new cocoa plantations. This is partly the cause of the current oversupply and price collapse.

Tenure in Ghana

Unspecific or out-dated regulations in the land laws can lead to devastating consequences for farmers. Farmers in Ghana for example could not own the timber trees on their farms until recently. Therefore, local chiefs or other local authorities often gave logging companies permission to cut down remaining timber trees on cocoa plantations, causing the destruction of a large part of the cocoa farm. In 2016 the law was changed – now farmers can register timber trees, but in a complicated and bureaucratic system. Such tenure challenges discourage farmers to invest in their farms, thereby causing a barrier to more sustainable systems.

Pensions and land reform

Many cocoa farmers are ageing, but old age does not exempt farmers from having to do the backbreaking labour. A possible solution could be to introduce national pension schemes in West Africa, much like what was done in land-redistribution policies in Western Europe in the 1960's and 1970's.

Elderly farmers would be able to receive a lifetime pension, in return for giving up their farming land to the government. The government could then use this land to instil tenure reforms, making new – and larger – farms available to a younger generation, many of whom could be offered these farms in lieu of their vacating the cocoa farms in currently classified forests. An extra requirement could be that the new farmer commits to an agroforestry approach for at least the first years of the newly established farm. This could also be combined with a set of technological improvements and extension services to make the new farm more professional.

Such a solution could be a win-win situation for all parties involved; elderly farmers can have an opportunity to stop labouring, younger farmers can become modern and professional cocoa farms, protected forests are made available for reforestation, yields can go up, and governments have a means to enable national agricultural policies to reduce overproduction.

Climate Change

Over the past years, the main cocoa producing regions globally have seen weather negatively impacting cocoa production. For example, the Harmattan - a dry wind blowing from the Sahara towards the Gulf of Guinea - has been lasting longer, and been encroaching in areas where it previously did not come often. Adverse weather patterns from time to time are not unusual, but the accumulation of these events during the past years is striking, with a strong correlation between deforestation and rainfall loss.¹⁸

The loss of forests and shadow trees amplify the impact of climate change, especially in West Africa, where natural forest cover in Ghana, Côte d'Ivoire and Burkina Faso has declined by more than 70% in the past three decades.

Climate change - and specifically microclimate change in West Africa - is already having a massive impact on cocoa production. Research by CIAT and others has also shown that large parts of cocoa lands in West Africa will become much less appropriate for cocoa production in the coming decades, due to climate change.¹⁹

Land degradation

Artisanal and small-scale gold mining (ASM), or Galamsey, has become a major problem in cocoa growing areas in Ghana. In recent years, the number of miners - and the damage they cause - has risen steeply. Rising mineral prices and the struggle to earn a living from agriculture have led to explosive growth in the Artisanal and small-scale mining sector globally. The use of mercury to extract the gold is causing severe environmental damage; the poisoned wastewater is not suitable to drink or to use for irrigation, and contaminated mud run-off from the mines causes additional destruction to rivers and lakes.

In many cocoa-growing regions where there is gold, farmers short of money allow small-scale miners to use their land for mining, in exchange

for cash compensation, leading to a further loss of land for cocoa farming. Until recently, this usually meant working with shovels and simple pans, but some now come with bulldozers, huge pumps and workers.

Côte d'Ivoire is increasingly confronted with these issues as well. Not only is the number of small-scale miners rising there too, but also some of the rivers coming from Ghana bring their pollution into the neighbouring country.

The logging industry also adds to deforestation and land degradation, with the rights to cut timber trees often not being controlled by the cocoa farmers on whose land these trees stand. A careful first step has just been taken in Ghana, where some cocoa farmers recently obtained the rights to non-cocoa trees on their land. However, this process was very long and time-consuming. If such developments are to happen at scale, a lot more support needs to be given to farmers, and the bureaucracy around it must be greatly simplified.

Conclusions & Recommendations

In dealing with deforestation, governments and industry must address several important elements. National deforestation plans are not enough; a global moratorium on deforestation is needed to ensure cocoa transitions from a slash-and-burn crop to a sedentary commodity. This must be coupled with land tenure reform, and policies to stimulate agroforestry. It is essential that human rights are upheld when protecting forests; forced evictions coupled with violence have no place in a sustainable cocoa sector.

Infrastructure, Public Spending and Corruption

The past years have seen governments claiming to roll out infrastructure to rural areas. These investments are desperately needed, as many cocoa growing areas have a dire shortage of good schools, roads, healthcare, access to market, and many other public goods, specifically in West Africa. According to government claims, roads, ambulances, schools, extension services are increasingly available in rural communities.

However, there is a gap between the claims and actual delivered services. Last year, a statement was issued by Ghana's COCOBOD on their 'cocoa roads' project; many contracts had been awarded by public servants at costs higher than the organisation could afford, and at least 30 of the 230 awarded projects could not be traced to any town or community.²⁰ At the time of publication of this Barometer, the previous CEO of COCOBOD

was defendant in several lawsuits on corruption charges around diverting tens of millions of dollars.

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Whilst these examples come from Ghana, they are symptomatic of a broader problem affecting all cocoa producing nations, where public funds seem to be misused. Anti-corruption measures are only implemented piecemeal, usually after a change of power due to elections, such as the Ghanaian example above.

There is little transparency or accountability on how contracts are awarded to manufacturers and processors, as well as whether local traders are paying farmers the farm gate price. Though hard evidence is absent, it is an open secret that local traders have regularly undercut the minimum farm gate price in Côte d'Ivoire since the price collapse began. In many countries, traders often cheat farmers by adjusting their scales to weigh the cocoa bags.

Not at least due to these shortcomings, many companies have invested directly in local infrastructure, such as building new schools. Though such efforts are easy to report on, the long-term sustainability and the impact of the measures is often not transparent.

It is a matter of importance to address the shortcomings in governance in cocoa producing countries, and for the sector to come up with a comprehensive strategy to foster transparency and accountability within the cocoa supply chain.

Conclusions & Recommendations

Transparency and accountability is needed around public spending and support measures for cocoa farmers. It is a matter of importance or the sector to come up with a comprehensive strategy to foster transparency and accountability.

Legislative Frameworks

Voluntary collaboration

Voluntary corporate social responsibility initiatives by companies alone cannot prevent human rights violations and environmental degradation. However, that is all we seem to have. National cocoa platforms in consuming countries - such as GISCO, or the Dutch and Swiss platforms for sustainable cocoa - are based on voluntary commitments. Major industry collaborations such as CocoaAction and the Cocoa and Forests Initiative - as well as all of the voluntary standards - all operate on a basis of voluntary collaboration. In consuming nations, there is no legal threshold for sustainability, and although there are universal human rights,

there are very few mandatory enforcement mechanisms in supply chains. This allows for many free riders in the system: every company that does not have comprehensive sustainability goals, is free riding on the fact that some do.

Legislation

Some of the core challenges in cocoa production will require legislation in consuming countries, which are the home to almost all the major chocolate companies, both at national and at regional levels (such as the EU). The goal of such legislation should be to ensure that corporations that operate in those countries are compelled to respect human rights and the environment worldwide, not only within company operations, but also for their whole supply chain. This would entail the establishment of a human rights due diligence process to identify, prevent, mitigate and account for how they address impacts on human rights as grounded in the United Nations Guiding Principles on Business and Human Rights (UNGPs). Due diligence in this context includes a risk assessment, measures to prevent and eliminate possible human rights violations and environmental damage, as well as comprehensive reporting on the policies in place and actions taken. Additionally, consuming nations and producing nations alike should set up legal mechanisms for victims of human rights violations to have an 'access to remedy'.

Lack of alignment

Presently, at least 14 member states of the European Union are developing - or have already finished - national action plans to implement the UNGPs. Other countries around the world are also working on programs to guarantee human rights within the value chains. The lack of alignment in these efforts makes it easier for companies that want to avoid responsibility to campaign against mandatory legislation or to find loopholes. The EU should try to coordinate at least the efforts in Europe to create a level playing field.

National legislation

"In early 2017, the French government adopted the "Duty of Vigilance" law, requiring multinationals operating in France over a certain threshold of employees in their supply chain, to establish mechanisms to prevent human rights violations in their supply chains. A child labour law is currently under review by the Dutch Senate, after having been approved in the Second Chamber. In Switzerland, a law on mandatory human rights due diligence is currently being discussed in Parliament. The German government introduced a voluntary National Action Plan, which includes a review in 2020. If at least 50% of companies with more than 500 employees don't report within this National Action Plan, a law might

be introduced to make such reporting mandatory. In 2016, the US Senate closed a loophole in the Tariff Act of 1930 that previously allowed the import of products containing ingredients made with slave labour if U.S. production was insufficient to meet U.S. consumers' demand. The 2015 UK Modern Slavery Act, though focussing largely on slavery and trafficking within the United Kingdom, requires big businesses to publicly report on their efforts to 'stop the use of slave labour by its suppliers'. In Australia, similar legislation is now being introduced in the form of a Modern Slavery Bill.

Although these legislative changes are positive and may have a long-term collective impact, they are still new and their focus on due diligence does not make up for an overall lack of any means to drive remedy when problems are found. Additionally, it will be important to understand whether and how these regulatory requirements benefit or exclude smallholder cocoa farmers.

UN Treaty on human rights

In a parallel process, a group of states led by Ecuador and South Africa are pressuring within the United Nations to move away from voluntary guidelines and implement a treaty on human rights in value chains. This effort has met fierce opposition of industrialised countries, including the EU member states.

Conclusions & Recommendations

Voluntary corporate social responsibility initiatives by companies alone cannot prevent human rights violations and environmental degradation. Some of the core challenges will require legislation in the countries that are home to the largest companies. Such legislation should be based on the United Nations Guiding Principles on Business and Human Rights. There should be coordination for a common process, preferably at EU level, or even at UN level.

Sector-wide efforts

Increased dialogue but little impact

Various global cocoa conferences and dialogues have created recurring opportunities for decision makers and thought leaders in the sector to exchange ideas and align on urgent issues. Increasingly, farmers and civil society representatives are being included as speakers and content providers for these meetings. In some cocoa producing countries, an increase in dialogue is also taking place; Côte d'Ivoire has instituted a public private partnership platform with working groups and regular meetings, with Ghana planning to revitalise a similar multi-stakeholder

initiative. Indonesia, Peru and Ecuador already have regular meetings of stakeholders. Not only has the conversation started to include more of the relevant actors, it has also become more constructive, looking for solutions and acknowledging challenges, where problems were previously denied or downplayed. While this is a positive step forward, this increased dialogue seems not to have led to any substantial impact; farmers are still poor, child labour is still rife, gender inequality remains the rule rather than the exception, and environmental degradation is a daily reality.

Emergency Meetings

Following the collapse in prices, the International Cocoa Organisation (ICCO) convened a series of emergency meetings, bringing together top representatives from cocoa producing nations, multinationals, farmer organisations, and civil society. Though initially this speedy response provided the impression that short-term actions might be taken to alleviate the worst effects of the price collapse, the process has slowed down, with few concrete measures as a result. Cocoa producing government representatives did not go much farther than expressing unrealistic intentions to solve the oversupply problem by increasing cocoa consumption in producing nations; the chocolate industry stated that they were not going to collectively change any policies or practices despite the clear risk of increased poverty for cocoa farmers.

Joint Cocoa Commission

More recently, the Ivorian and Ghanaian governments have set up a Joint Cocoa Commission. This new platform - hosted by the African Development Bank - is aiming to align and reform cocoa policies in the world's two leading cocoa producing countries. A week later, the presidents of Ghana and Côte d'Ivoire signed an agreement to start extensive cooperation on aligning their cocoa strategies, including national minimum prices and supply management intentions. Though in early stages, alignment on farm gate prices, buffer-stock mechanisms to protect against extreme market volatility, a joint strategy to combat the Cocoa Swollen Shoot Virus disease, and other activities to create an enabling environment for policy change seem to be part of these steps. With previous attempts at alignment failing due to a combination of a lack of political will and the integrity required for such collaborations to succeed, we cautiously welcome this development.

Cocoa Action

When Cocoa Action, the WCF-hosted joint sustainability strategy platform for large chocolate and cocoa companies, was launched several years ago, it was welcomed as a first step in highly needed pre-competitive collaboration. Participating companies are starting to align projects and

goals based on the key performance indicators identified, bringing to light some of the weaknesses of Cocoa Action. It only measures productivity increase, while failing to track net incomes or trends in dollars earned from cocoa. Unless farmer livelihood becomes a key measurement within this system, Cocoa Action will not be credible as an instrument to alleviate poverty. Cocoa Action only reports on an aggregated level, meaning that individual company activities are not communicated. The risk of free riders or individual member companies not taking their share of the burden is significant. The scope of Cocoa Action also leaves a lot to be desired; its target of 'reaching' 300,000 farmers is only a fraction of the number of farmers that supply the members of Cocoa Action. Whether Cocoa Action is on track to even delivering on this target of 300,000 farmers is unclear; initial reporting on progress suggests this is not the case. A further point of concern is that other actors, such as governments, civil society, and farmers have had very little input into the operation and future design of the system. This has resulted in a considerable bias of solutions towards industry-favoured approaches. Moving forward, a more inclusive and multi-stakeholder is essential.

Cocoa and Forests Initiative

In collaboration between the World Cocoa Foundation, the IDH Sustainable Trade Initiative, and the Prince of Wales, the global cocoa sector in 2017 announced a new platform against deforestation; the Cocoa and Forests Initiative. It is a platform between industry, major donors, and the governments of Ghana and Côte d'Ivoire. At the Bonn COP23 summit in November, all actors pledged to bring a halt to deforestation in these two countries, coupled with individual country action plans.

This is an important step in a region that has seen almost all of its forests cut down. However, a global moratorium on deforestation for cocoa should be part of the initiative, to ensure that no new rainforests get cut down in other cocoa producing countries. Cocoa has been found to be a driver of substantial deforestation in Indonesia, Cameroon, Ecuador, Peru, and beyond.

Global Cocoa Agenda

One of the major outcomes of the first World Cocoa Conference in 2012 was the Global Cocoa Agenda (GCA). This is a roadmap towards a more sustainable cocoa sector, outlining roles, responsibilities and actions for all major stakeholder groups involved in a sustainable cocoa sector; from producing governments and consuming governments to industry actors, civil society, and farmers.

It is far from perfect, but the Global Cocoa Agenda and its annexes are the most comprehensive attempt at defining what a 'shared responsibility' for sustainable cocoa production could look like. Though collaborations on specific topics – such as the Cocoa and Forests Initiative, the Harkin Engel Framework or the Joint Cocoa Commission – often go deeper and are more ambitious, this is the only program to try to encompass all of the various challenges in the cocoa sector, and with all of the actors.

However, six years later a decent monitoring system for the GCA is still missing, which has allowed many actors to misrepresent progress made and responsibility taken. The challenges in setting up such a framework are not so much technical – how to measure which actions should not be too complicated – but much more political; transparency and accountability are necessary steps that must be made by all involved actors.

Research

In previous Barometers, we have often stressed the need for publicly available, recent, and reliable data on topics such as farmer income, costs, and child labour. In that light, there is a positive trend of research being published on topics such as farmer income and impact of certification. However, it is striking that much of the available information has been collected and paid for by NGOs and development organisations, while many major companies collect comprehensive sets of data without publishing them. The cocoa sector will not be able to know whether efforts are sufficient to tackle the challenges it faces until the size of the problems is clear.

Farmer organisation

Almost all of the sector-wide efforts in cocoa reach only those farmers that are already (loosely) organised in cooperatives. The majority of cocoa farmers, however, are not organised, and are not being reached. Concerted sector-wide strategies must be developed to reach these 'higher hanging' fruits.

Alignment

Many initiatives and approaches have been described in this chapter. Work needs to be undertaken to align these activities, especially in regards to a comprehensive set of common indicators that enable objective measurement of impact and progress of the collective efforts. Along with this alignment, they need to be updated, to ensure that they are responding to the current environment, and are sufficiently ambitious.

Technical solutions to a political problem

Almost all of the current efforts to increase farmer income are based on technical solutions (increased production, crop diversification, use of agrochemicals and new planting material, increased efforts to improve farming techniques). However, the challenges facing the cocoa sector – and almost all other commodities as well – are often not technical, but deal with power and political economy, such as price formation, the asymmetrical bargaining power of farmers, unbridled market concentration of multinationals, and a lack of transparency and accountability.

Conclusions & Recommendations

While there is an increased dialogue within the cocoa sector, this dialogue seems not to have led to any substantial impact. The number of sector wide efforts proves that there are still major problems. National platforms, international platforms, subject specific platforms all exist beside each other. Much more alignment is necessary.

Almost all of the efforts in the cocoa sector are based on technical solutions. However, the challenges facing the cocoa sector are often not technical, but deal with power and political economy. Tackling political problems with technical solutions will not foster a sustainable cocoa sector, but simply install another form of a business-as-usual scenario.

Developments in Producing Countries

Côte d'Ivoire

The Ivorian engagement in sustainability recently has been dominated by two major discussions: the collapse of the price of cocoa and deforestation.

At the beginning of April 2017, the CCC had to lower the farm gate price from 1,100 CFA to 700 CFA per kilo (from around \$1.77 to around \$1.13 per kilo)*. Even then, according to many off-record witnesses, the guaranteed price has not been enforced since the onset of the price crisis. The reduction in cocoa export taxes also made the Ivorian government cut budgets across the board by nearly 10%.** The handling of the price

* Exchange rate March 2017

** It didn't help that – at the same time as the price collapse and declining cocoa revenue – the Ivorian government had to deal with army mutinies and major strikes of civil servants, the former of which have been paid off at astronomical costs. <https://www.reuters.com/article/ivorycoast-economy/update-2-hit-by-falling-cocoa-prices-ivory-coast-slashes-budget-idUSL8N1HS29L>

collapse has led to a major overhaul of top management of the CCC, with all its senior executives being replaced over the course of 2017. What this will do for the future engagement of the CCC in sustainability in the cocoa sector is unclear at the time of writing.

In collaboration with the Cocoa and Forests initiative, the Ivorian government has now set up an action plan to combat deforestation. The government's enforced protection of designated classified areas will be essential. At the same time, previous violent evictions of smallholder communities from protected forests, such as the tens of thousands of farmers evicted from Mount Peko in July 2016*, make clear that forest protection must go hand in hand with ensuring that the human rights of farmers are respected when the government moves to preserve the environment. Recent policy changes by the CCC seem to acknowledge the Ivorian role in the current oversupply, with a moratorium on planting material being instated for all of the country and quite a sizeable amount of land designated for the removal of cocoa trees, although it is unclear what will happen with this land in the future.

Ghana

After the elections in late 2016 brought about a change of government, many members from the senior staff of the COCOBOD were fired due to allegations of corruption and fraud. Programs originally meant to support farmers in cocoa producing regions, like the corruption ridden road-building scheme, were stopped or scaled down. Though this is a good thing, it is essential that anti-corruption measures be continued throughout the entire duration of this government, not just as a politically expedient means to create a break with a previous administration.

The COCOBOD and the Ghanaian government have organised multi-stakeholder discussions on how to proceed with the sector, suggesting the possibility of policy changes on agrochemicals, seedlings, and pricing.

The price decline has had major effects. Due to a combination of forward sales and a stabilisation fund that purportedly was financed through previous years of higher cocoa prices, COCOBOD has been able to maintain a stable minimum price during the 2016/17 and 2017/2018 seasons. Though this is an excellent way to alleviate the immediate effects of the price volatility on smallholder farmers, it is increasingly stimulating cross-border smuggling from Côte d'Ivoire. At the same time, it is a costly exercise. Though the effect of a stable price in Ghanaian cedi, the local

* <https://www.hrw.org/news/2016/09/15/human-cost-environmental-protection-Côte-d'Ivoire>

currency, is reduced by the high inflation in Ghana, the COCOBOD and Ghanaian government are presently losing hundreds of millions of dollars as they are not able to cover costs and collect taxes as usual.

Nigeria

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For several years, the Nigerian government has had intentions to double or even triple cocoa production. Despite these plans, cocoa production has more or less remained stable. There is no aligned policy of the responsible ministries of the federal government and the governments of the cocoa producing states. There are plans to set up a Cocoa Corporation of Nigeria (CCN), which would be governed mainly by the private sector and would support farmers to set up a sustainable cocoa sector. Though all stakeholders in Nigeria are aware of the urgent need to invest into the cocoa sector to make it a thriving economy, sector reform is not making progress due to unclear roles and responsibilities.

Cameroon

The farmers on the liberalised cocoa market in Cameroon were also affected immediately by the decrease of the cocoa price. Similarly to Nigeria, there is an ongoing discussion in Cameroon as to whether or not the government should reform the market. Presently, responsibilities are split between different ministries and umbrella organisations of producers, traders and exporters. Many stakeholders are calling for a major reform of the political framework of the cocoa sector.

Ecuador

Cocoa production in Ecuador grew significantly during the last years, and the country is now the most important producer in Latin America. The previous government reformed the institutional framework of the sector and set up policies to support farmers within a liberalised system. It also supported local producers to set up production facilities and develop own chocolate brands. Many cocoa farmers work on diversified plantations and invested in higher yielding cocoa varieties. Additionally, the country produces roughly two thirds of the world harvest of Fine or Flavour Cocoa. While the government tries to support farmers, specifically those living in remote areas are still dependent on local traders who often pay relatively low prices. This has worsened significantly since the decrease of the world market price. After elections in mid-2017, a new government has taken power, its policies on cocoa are still uncertain at the time of writing.

Peru

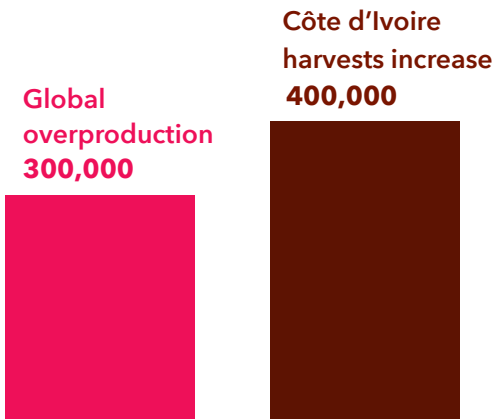
Peru is a relatively new player on the international cocoa market. The country has a long history of cocoa production for local markets and has seen a very strong increase in cocoa production within the last years. Even

though it is still small compared specifically to Côte d'Ivoire and Ghana, the country might play a more and important role on the cocoa market in the future. The government is encouraging farmers to increase cocoa production, especially with massive funding by USAID, which supports farmers replacing coca with cocoa.

Indonesia

Despite the Indonesian government's stated aim to increase cocoa production massively - there are published ambitions to become the biggest cocoa producer worldwide - cocoa production in Indonesia has steadily declined over recent years. Despite receiving a relatively high percentage of the cocoa world market price, farmers are leaving the cocoa sector and changing to crops that are more lucrative or to jobs outside of agriculture. Meanwhile, the local cocoa processing industry was stimulated by a tax on exports of raw cocoa beans, thereby stimulating grinding companies to set up factories. Nowadays, there is an overcapacity of grinding factories in Indonesia. To keep its cocoa processing industry viable, the country is now a net cocoa importer, of especially West African beans.

**Cocoa production increase:
Global overproduction / harvest increase Côte d'Ivoire**



Conclusions & Recommendations

Producing nations should align cocoa policies – including supply management and holistic agricultural policies – to ensure significant improvements for cocoa farmers. Transparency and integrity are key principles within this alignment.

Developments in Consuming Countries

Western Europe, the United States, and Australasia are not only the largest bloc of consuming nations; they are also the seats for almost all of the headquarters for the large cocoa and chocolate multinationals. As such, they have a doubly important role to play in making the cocoa sector respect human rights and protect the environment.

Consumer awareness

Over the last decade, consumer awareness of issues surrounding cocoa production has increased. Fuelled by numerous campaigns, particularly focused on child labour and more recently deforestation, media and public awareness is a major driving force behind the move to (higher) standards and certification in the chocolate industry. At the same time, such campaigns can run the risk of overly simplifying some of the underlying reasons driving child labour and deforestation, such as poverty and lack of infrastructure. Solutions to these issues will require multifaceted approaches.

National platforms

National platforms have proved to be a valuable instrument to stimulate the dialogue between the different stakeholders along the value chain. However, the chocolate industry comprises many players of global and regional scope. Therefore, a stronger focus on multi-stakeholder dialogues on a European or global level could be a step forward. Organised in a transparent and efficient way, such an initiative could facilitate the exchange of the experiences of the national platforms. At the same time, dialogue platforms also consume a lot of personal and financial resources, creating barriers for NGOs to actively take part, often also excluding farmers from participating, while companies generally have more resources to do so. Dialogue platforms are not an end in itself; they are only worth the effort if they lead to real change on the ground.

The largest and most active national platform is the German Sustainable Cocoa Initiative (GISCO). Though it is the most active, there still is a clear lack of ambition; the only quantified goal is to increase the amount of certified cocoa to 70% by 2020. Its pilot project in Côte d'Ivoire, Pro Planteurs uses a lot of resources, but it is unclear whether this programme

will have the desired impact and if it can serve as a role model for holistic approaches.

Despite being a front runner several years ago, the Dutch national platform “Choco Working Group” has slowed down considerably, mostly revolving around monitoring a commitment to a roll out of 100% certified cocoa consumption by 2025. The group is currently evaluating how the Choco Working Group can be revived, and what that would mean in terms of ambitions, organisation and actions. It remains to be seen whether the Choco Working Group can add value for members on top of other (international) multi-stakeholder platforms that bring stakeholders together more regularly and have a more focused and effective exchange.

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Recently, the Swiss platform for sustainable cocoa was set up. However, its lack of ambitions is disappointing, considering the importance and size of the Swiss chocolate sector globally. Rather than focus on the value chain of Swiss companies, the platform limits its sustainability goals to the cocoa products that are physically imported into Switzerland, thereby disregarding cocoa traded, processed and manufactured into chocolate by Swiss companies abroad. Moreover, there is no definition of ‘sustainable cocoa’, neither is there a commitment to tackling key problems in the cocoa sector.

It is disappointing that there is still no significant coordinated action on steps forward in many other major European consuming and manufacturing countries such as Belgium, the United Kingdom, France, and Italy.

In the United States, the Department of Labor is continuing their work within the Child Labor Cocoa Coordinating Group (CLCCG), providing annual overviews of progress made by companies in tackling child labour. The CLCCG has now commissioned the University of Chicago to set up a survey on the incidence of the worst forms of child labour in West Africa’s cocoa production. It does not seem likely that there will be an American national platform like some of its European counterparts any time in the near future. Although Green America and the International Labor Rights Forum proposed such an initiative, the American chocolate companies referred to Cocoa Action as their preferred space for collaboration, despite the fact that it is not a multi-stakeholder initiative.

Retailers

Retailers play a crucial role for the efforts to increase the sustainability of the cocoa sector for two reasons. Firstly, they put a lot of pressure on chocolate producers, trying to get the lowest prices possible. This

conflicts with the necessity to pay more for cocoa at farm level, and with the necessity to invest more in sustainability. Secondly, more and more cocoa is sold as an own brand of the big retailers. As such, they become chocolate companies themselves. For example, on the biggest market in Europe, in Germany, nearly a third of the chocolate sales comes from own brands.²¹ Thirdly, as we showed in the previous Cocoa Barometer, retailers earn a significant portion of the profits in the cocoa value chain. As such, they also bear responsibilities.

Including retailers into the global discussions about cocoa is a challenge, as many of them are large players on a national or regional level, but not globally. However, retailers should be more aware that their local – but universal – pressure on chocolate prices is a significant problem in the global discussion on farmer poverty and that they have a responsibility for issues in their cocoa supply chains as well. They should become part of the discussion and live up to their responsibility, not only on national levels, but also on the global level.

Trade agreements

Many of the biggest cocoa producing countries, including Côte d'Ivoire and Ghana, have so-called Economic Partnership Agreements (EPA) with the European Union. These bilateral trade agreements are disputed as the European Union tries to use them to open the markets of the former colonies of some of its members. Cocoa producers and grinders profit from these agreements, which give them free access to the European market. Countries that refused to sign the trade agreements face no problems for raw cocoa beans but barriers for processed cocoa products. Nigerian producers, for example, pay tariffs up to 6.1% for cocoa products. Due to the intensive competition on the grinding sector and the low margins, this more or less excludes Nigerian grinders from the European market. Countries that are not part of the EPA system, such as Ecuador and Peru, face similar barriers.

Conclusions & Recommendations

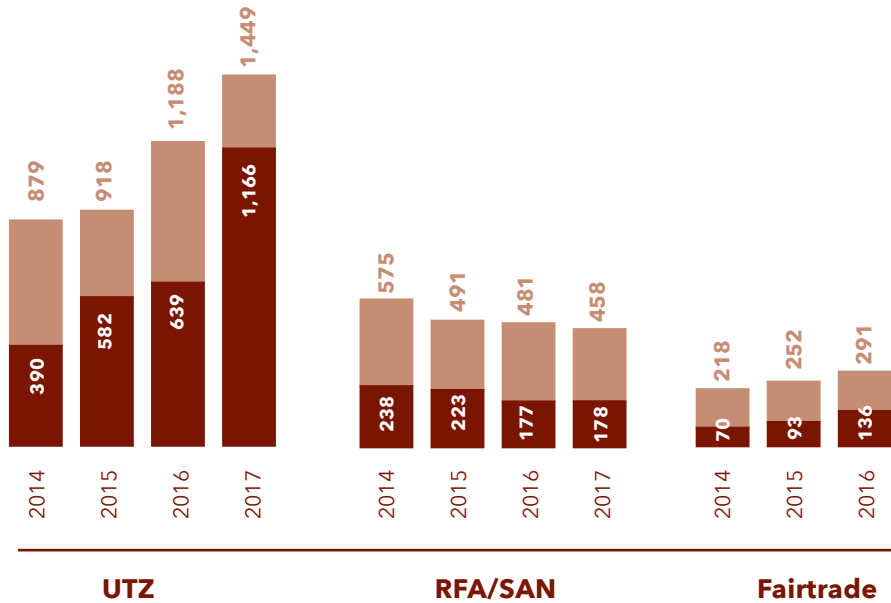
Consuming nations are not just important because of their consumption, but because they are the home of the large cocoa and chocolate multinationals. Platforms working on national strategies need to lead to actual change, not just more dialogue. There should be much more alignment at a transnational level to achieve proper impact. Retailers must be much more engaged in the global cocoa dialogue.

3. Certification

Certification

Produced/sold as Certified

(data from questionnaire)



When the only tool you have is a hammer, a lot of your problems start looking like nails. For a long time, in the cocoa sector, it seemed like the only tool available to achieve sustainability was certification. With an increase in efforts, in data and research, and in actual experience, the sector now has a much wider range of interventions at its disposal. Additionally, the standard organisations are starting to diversify in their activities, becoming more involved in capacity building and advocacy. All standard organisations are deeply involved in the debate about a living income and conducting research on how to achieve it.

The terms “certified cocoa” and “sustainable cocoa” are still often – mistakenly – used interchangeably, especially in ‘sustainability commitments’, such as those made by several national platforms and by major companies. Though certification can be an important step for companies in improving their supply chain, becoming sustainable will require a lot more, including joint efforts with other companies, as well as significant government involvement.

Standards and living income

None of the standards have been able to significantly contribute to farmers achieving a living income, or even to lift farmers out of structural poverty. Though average income of certified farmers might be slightly higher, the overall impact is relatively low; the average certified cocoa farmer is still poor.^{22 23 24 25 26}

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Though standard-setting organisations are aware of these problems, the competition between certification schemes has put them under pressure. Chocolate companies and retailers have a tendency to look for the cheapest label, neglecting the potential negative effects of this price pressure. The race for certified volumes has not led to the bar being raised.

Additionally, standard-setting organisations have no direct control over a variety of variable that are essential to farmers' livelihoods, including access to infrastructure (schools, health care, roads and access to markets, etc.), the quality and enforcement of land laws, availability of inputs, etc.

Fairtrade

Fairtrade is the only one of the three major standards that has a minimum price (of US\$ 2,000 per tonne as export price) . With the 2016/17 price crash, for the first time in a decade, Fairtrade had to activate the minimum price in Côte d'Ivoire for a few months. This means that the Fairtrade minimum price is most likely far too low to be able to ensure that farmers escape poverty. In addition to the minimum price, Fairtrade is also the only one of the three major standards to have a fixed premium of US\$ 200 per tonne, providing some protection to farmers from their weak bargaining position at the bottom of the supply chain.

Fairtrade is currently in the final stages of a much-needed major review of their pricing systems in cocoa. This review is critically assessing both the guaranteed minimum price and their premiums, as Fairtrade's research shows that the average cocoa farmer is only earning 37% of a living income in rural Côte d'Ivoire, while the median percentage this even much lower (25%).²⁷ Fairtrade's choice to do this review, and publicise the results, are an important step forward, and other standards are encouraged to follow suit.

UTZ/Rainforest

The two other major standards in cocoa, UTZ and Rainforest Alliance, have merged, as of January 2018, and will go on under the name of Rainforest Alliance. By mid-2019 the two standards will be operating under one - still to be developed - standard. This merger is an opportunity to develop

instruments and new approaches to make a living income for certified farmers a reality. Neither UTZ nor Rainforest have systems in place to protect farmers from market developments such as the current price crash. Lessons could be learned from Fairtrade on fixed premiums and minimum prices. The new standard will need to go beyond just agronomical solutions, and address the power imbalances in the supply chain, and specifically the pricing of cocoa, to ensure a living income for smallholder cocoa farmers.

CEN/ISO

After many years of being developed, the global CEN/ISO standard is almost complete. In a global vote, it will either be approved or disapproved later this year. Many elements of the standard are by now already incorporated into the existing standards, or into company-owned standards. There are still many questions as to how and if the CEN/ISO will be used in practice, as there will be no central organisation responsible for its implementation.

Company-owned projects

Some companies such as Hershey's and Mars continue to roll out 100% certification commitments - often in conjunction with additional sustainability programmes. Other companies are now choosing to develop their own in-house sustainability programmes, such as Mondelez's Cocoa Life programme, which has taken over their Fairtrade certification in Ghana.

Though it can be a good thing that companies choose to take ownership of their sustainability efforts, rather than outsourcing responsibility to a standard body, there are also concerns around this, specifically about transparency and reliability of reporting, making farmers - who are already struggling with a severe power asymmetry in the relationship to their purchasers - even more dependent on the large cocoa companies.

Components

In the critique on certification, the various components are often mistakenly used interchangeably, or seen as a single issue. The first component is that standard bodies (such as Fairtrade, UTZ, or Rainforest Alliance/SAN) set a standard for cocoa, outlining requirements for sustainable cocoa production. The second is that auditing organisations conduct an audit to certify that the requirements of the standard are met. The third is that cocoa companies purchase the certified cocoa. The fourth component is the marketing body, liaised to the standard body, which promotes the label.

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Premiums

Although certified farmers might only receive a slight net income increase, the premiums do make a difference for the operation of the cooperatives of which the farmers are members. Even for this reason alone, certification remains an important tool, provided this makes cooperatives stronger, and not dependent on buyer or this buyer's vision of sustainability.

One of the major challenges, however, is to see how cooperatives and certification can roll out their reach beyond the easily organised farmers towards the harder to reach, more distant farmers. This might be easier if all certified cocoa could be sold as certified, and therefore at a premium; depending on the standard, between 20% and 60% of cocoa that is produced as certified does not get sold as certified.

Overpromise/Underdeliver

It is essential that standards guard their messaging, ensuring that they do not overpromise and underdeliver. Especially on topics such as poverty alleviation or adherence to human rights, there seems to be a gap between what consumers expect they are buying, and what standards can reasonably claim to be selling. Also at the beginning of the supply chain, there is often a gap between farmer expectation and reality. When expectations are not met, this can lead to an all-round disillusionment that would disadvantage everyone in the sector. Certification should become much more transparent both towards consumers, and towards farmers and cooperatives.

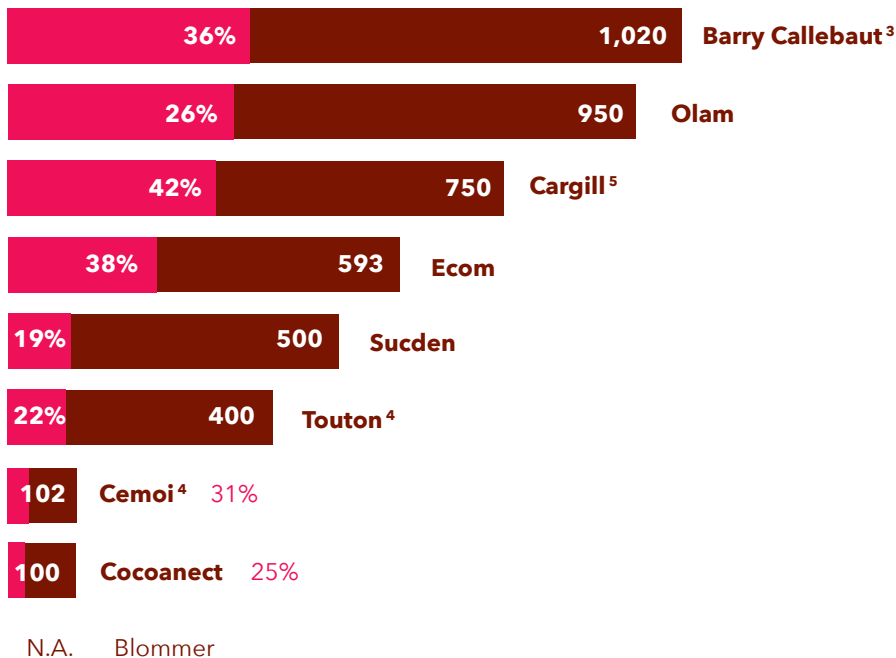
Companies:

Certified cocoa* / used cocoa 2017¹

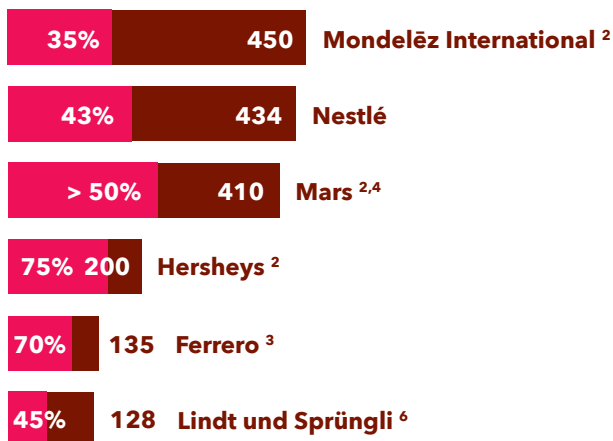
* certified or own project verified cocoa

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Trader/Grinders



Chocolate Producers



(1) most companies referred to ICCO conversion rates: Cocoa butter 1.33, Cocoa paste/liquor 1.25, Cocoa Powder and cocoa cake 1.18

(2) cocoa demand estimated

(3) 1.9.16-31.8.17

(4) 2016

(5) 01.06.2016 - 31.05.2017

(6) traceable and verified

Conclusions & Recommendations

All standards should include living income as a key requirement in their codes of conduct. This should include a minimum farm gate price – based on living income calculations. This could be coupled with a flexible premium. In parallel, farmers should not be dependent on their bargaining power for the height of their premium. Further downstream, it would be interesting to explore whether standards could require Human Rights Due Diligence (HRDD) as part of their Trader Code of Conduct; as long as legislation is missing, it would be interesting to require companies or retailers wanting to sell a product with a certification label on it to comply with at minimum a Living Income and HRDD standard.

4. Ensuring a Living Income

Ensuring a Living Income

Achieving a living income is a human right.* However, it is still not clear what an average cocoa growing family currently earns, or what they should earn to achieve a living income. However, in the past years, various new studies have become available. The – at best incomplete – calculations that were made in the previous Cocoa Barometers can now be supplemented by field-researched data. This provides a range of income calculations. However, the main outcome is that the majority of cocoa farmers still live well below the poverty line.

Poverty

Poverty lies at the root of almost all of the challenges facing the cocoa sector, whether it is child labour, deforestation, infant malnutrition, or a raft of other problems. As such, the prime challenge for all in the cocoa sector should be the elimination of poverty. One of the key starting points, as we have advocated for several years now, is a common approach to a living income.

Publicly available data

More and more companies are starting to define key performance indicators (KPIs) for more sustainable cocoa procurement. The next step is to identify the gap between the present situation and what is defined as sustainable. Only very little research discussing this gap is publicly available. Often, companies commission studies but do not publish the results. However, when they do get published – such as Barry Callebaut's 2017 research into farmer income, and Fairtrade's recent research into living income – it is clear that the gap between the current and the situation is large.

* The preamble to the founding document of the International Labour Organisation in 1919 declares the necessity for a “payment adequate to maintain a reasonable standard of living that is understood in their time and country”. The Universal Declaration of Human Rights states that “just and favourable remuneration” is a basic right, not just for the labourer, but also for the labourer's family (UN 1948: Article 23(3)). The UN International Covenant on Economic, Social and Cultural rights is even more specific, naming a “decent living for themselves and their family” a basic right (UN 1966: Article 7). Furthermore, the ‘UN Guiding Principles on Business and Human Rights’ state that it is the duty of governments to protect people from human rights violations, and that it is the responsibility of companies to respect these human rights (UN 2011).

Income/Poverty Key Performance Indicators

Part of the questionnaire sent by the authors of the Cocoa Barometer to the major cocoa and chocolate companies was the question if companies have “farmer income and/or reducing farmer poverty” as Key Performance Indicators (KPIs). In a change from previous Barometers, several companies sent their KPIs and even figures on achievement. It is not possible to validate these figures without access to the supporting databases, but the fact they exist and were shared is an indicator that at least some of the major companies now acknowledge the huge gap between the present income of farmers and either a living income or at least a minimum income according to World Bank Poverty Standards.

Price

It is obvious that the present cocoa price is too low to close the gap between present income and living income. Many company employees acknowledge this in private conversations. Cocoa traders and grinders for example told the authors that they know that the price for cocoa has to be significantly higher. However, to find a solution for that, many still rely on the market. Despite having acknowledged the problem, cocoa traders and grinders often stress they will only increase prices if chocolate companies are going to pay for increasing procurement costs. Many chocolate companies meanwhile blame price pressure from retailers. The debate - if even begun at all - has been stuck at this point for more than a decade now.

Definition of Living Income

Living income is the net income a household would need to earn to enable all members of the household to afford a decent standard of living. Elements of a decent standard of living include: food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events. As it is defined as a net income, the costs for farming are included into this calculation.*

* This is the definition of the “Community of Practice” on Living Income, hosted by GIZ, ISEAL, and Sustainable Food Lab.

Variables affecting income

Farmers and adult family members have a certain number of labour days they can spend per year. How much income they derive from this labour depends on a combination of various crucial factors. The yield per hectare, size of the fields, and of course the prices for the products they harvest together determine whether a farmer earns a sufficient income for her or his household. All of these elements must be taken into consideration to ensure a sufficient level of income. For example, it would be strange to expect a farmer to escape poverty with a very low productivity, but at the same time it would be unreasonable to demand a spectacular yield for a farmer to earn a decent livelihood, as there are constraints to yield increase, such as unsustainable levels of pesticide use, an unrealistic amount of additional labour required, or unachievable demands for credit and financing. These variables of **yield, land, and price**, encompass a variety of challenges that must be tackled as a whole.

Yield

Farmers should be supported and encouraged to increase yield. A major challenge in increasing yield is how to do so sustainably, and without it getting in the way of the other needed interventions.

There is a clear role for companies to fundamentally change their approach; promoting not just a one-sided productivity drive, but using net income, not beans per hectare, as a key metric. This needs to be coupled with diversification in general – and agroforestry in particular – and a limited and smart use of agrochemicals. Governments have a crucial role in ensuring holistic agricultural policies and providing decent public infrastructure such as access to markets and extension services.

Increasing yields offers a window of opportunity to decrease areas planted with cocoa trees. These areas might be converted to diversified crops (see below) or be converted back to natural forests to restore biodiversity and roll back some of the adverse effects of deforestation.

Net income, not yield, as key metric

Though an important step, increasing yield is not the panacea that will solve the cocoa sector's problems, contrary to popular belief among companies. As the current price decline has shown, relying on yield increase to solve income problems will not work as a stand-alone. Yield increase can contribute positively to an increased farmer income, provided that prices do not decline, and the financial and labour costs do not increase faster than yield increase can compensate. However, increasing total productivity of all cocoa farms will only exacerbate the

current global oversupply of cocoa, leading to an even further decline of focus. It also requires more investments and labour. Even at the price levels prior to the collapse, many farmers were too poor to invest in more sustainable and more productive cocoa farming.

Cocoa Action and Productivity

From an industry perspective, increasing yield is a way to ensure a stable future low-cost supply of cocoa. It is therefore no surprise that many of the current industry approaches to cocoa sustainability are almost exclusively based on increasing productivity per hectare. In fact, yield per hectare is the main Key Performance Indicator for industry-wide sustainability programme Cocoa Action. This should be changed to include metrics on net farmer income.

Diversification

Crop diversification should be an important ingredient of any productivity increase programme. Diversified crops make farmers less reliant on a single commodity, making them more resilient. Crop diversification can also lead to an increased biodiversity, both in flora and in fauna. Additionally, diversification – especially agroforestry – can inform long-term climate change mitigation and adaptation strategies.

At the same time, research shows that many cocoa growing households already have quite a diversified set of income. But farmers still rely heavily on cocoa, as this crop usually promises the highest income, at least in many of the main cocoa producing areas of West Africa.²⁸ It has to be carefully assessed if cocoa growing households have the (labour) resources for further diversification. Also, if there are no markets for diversified products, farmers should not invest in diversification. Simultaneously, producing governments should concentrate on agricultural policies, supporting local markets for food crops. They should also invest in infrastructure, specifically in roads, to reduce transport costs of perishable products to local markets.

Agrochemicals

Though the use of fungicides and pesticides can be an important protection against crop diseases, there has been insufficient action within the cocoa sector about the negative side effects of agrochemical use, including hazardous working conditions for those applying agrochemicals,

contamination of ecosystems, and even more resistant strains of pests and diseases due to improper application. The arbitrary manner of distribution, especially in Ghana, has also led to widespread corruption as agrochemicals earmarked for free of charge distribution to farmers were sold from the local market or even the neighbouring countries.

The distribution and application of agrochemicals has often been haphazard at best, coupled with insufficient knowledge of its application. Preliminary results show that specifically the use of fertilisers may have only a very limited impact if they are used on plantations with old tree stocks. The use of pesticides is costly and will only lead to improved incomes if it is done in time, applied in a good manner and combined with other good agricultural practices.

Rejuvenation

Especially in West Africa, most cocoa trees are ageing and becoming less productive. A massive rejuvenation drive is going to be necessary, especially with disease-resistant varieties, and will reduce the need for agrochemicals. But rejuvenation is a costly exercise, and it would take approximately four years after rejuvenation to start making any money at all. With the price level of 2017, farmers are at a greater risk if they invest in rejuvenation. According to data collected by the GIZ, the profit from the renewed plantation – even when using good agricultural practices and having a higher productivity – would in Côte d’Ivoire add up to only about €31 per year per hectare, over 25 years.²⁹ To make the rejuvenation a profitable business, price levels have to increase significantly.

Training

Most projects of cocoa companies and development cooperation agencies are aimed at providing training for farmers. Often, farmers do not attend these trainings or do not apply what they learn due to a lack of investment capital. In one study, 85% of cocoa farmers in eastern parts of Ivory Coast declared no need for further trainings; they had learned enough already, what they needed was investment capital to implement what they had learned.³⁰ Trainers and company employees who worked in West Africa often tell similar stories. Another major problem in West Africa, but also in most other cocoa producing areas, is the weakness of the cooperatives. Often they are not effective in organising farmers and facilitating training. Even if that were the case, most farmers are not organised at all, which makes it even more difficult to reach them with training.

Shortage of labour (and health care as a productivity increase tool)

One of the most effective measures to support cocoa growing families is to increase access to health care facilities and clean drinking water. Improving health and reducing productivity loss due to illness, is also a prime tool to reduce child labour, as a shortage of adult hired labour is a key determinant on the incidence of child labour.

For example, malaria is one of the leading causes of death for children under five in Côte d'Ivoire. It is endemic in cocoa growing regions, especially during the rainy season. Malaria can exacerbate anaemia and other indicators of malnutrition. In Côte d'Ivoire, according to one study, vegetable farmers diagnosed as sick from malaria for more than two days of a growing season had 47% lower yields and 53% lower revenues than farmers who missed no more than two days of work. Moreover, when farmers fall ill they are likely to rely more heavily on family members to help with tasks on the farm, including children.³¹ Additionally, when children fall sick, members of the farming household tend to work less to care for their children.

Labour and land

Reaching an ideal income from the cocoa farm is dependent on labour; to run a larger farm, hired work is necessary. Many smallholder farmers depend in part on hired labour, during the main harvest months, but also for specific tasks such as pruning or spraying. Even farmers with a small farm size hire labourers, although the number of labour days per hectare of cocoa varies significantly.

There is no data publicly available on how much labour a farmer should ideally invest per hectare, nor what that means for the ideal size of the plantation. Research has found farmers with larger plantations invest a significantly lower amount of labour, leading to much lower yields per hectare.³²

Depending on the costs of hired labour^{*} and the price for cocoa, farms with hired labourers and higher productivity potentially earn less than farmers who work a smaller farm with less hours and lower yields, as the costs for hired labour are often significantly higher than a farmer's income. In 2014, farmers in Ghana pay US\$5 a day for wageworkers, with a similar rate in Côte d'Ivoire between US\$4-6³³. As such, a viable farm is not just determined by its size, but also by the availability of labour, and sufficient farm income (and therefore cocoa price) to afford hired labour.

Price

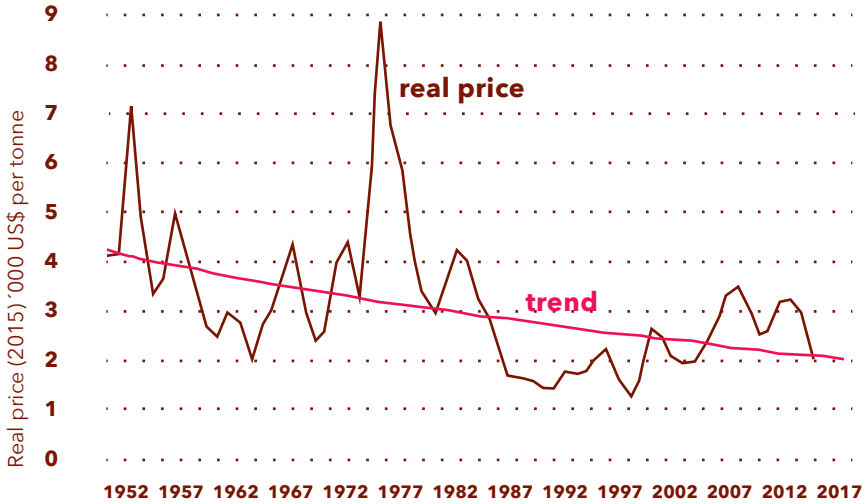
More than a year has passed since the price of cocoa collapsed at the end of 2016. Farmers have been the hardest hit, while also having the least capacity to cushion the shock. Some reports from farmers indicate that not only are they not earning a living income, they are now growing cocoa at a loss. Still, there is no concerted effort by industry or governments to alleviate even a part of the burden of this income shock for the already impoverished smallholder farmers.**

An increase in the farm gate price is especially needed. At the same time, the long-term trend of cocoa prices points downwards.³⁴ A recent paper commissioned by the Dutch government argues "farmers need both a major price increase for their cocoa and a substantial increase in productivity in order to make a decent living out of cocoa"³⁵. This is no longer a point only argued by activist campaigners or independent researchers; many senior executives in the cocoa sector can now be heard making the same claim in the global cocoa dialogue.

* In addition to living income for farmers, there is also a debate on living wage for workers. It might be possible that present wages are far below a living wage. Though a living wage would probably put even more price pressure on farmers, it is a necessary step to achieve a sustainable cocoa sector.

** In Ghana, the Cocobod has subsidized the farm gate price since the crisis, keeping the price at the same pre-crash level, at a cost of perhaps US\$400 million. It is unclear how much longer the Ghanaian government will be able to continue with this policy.

Long-term cocoa price trends



Source: LMC 2018³⁶

Not only is it necessary to look at ways to influence farm gate prices to protect farmers from price shocks, it is also essential in increasing farm income in general. Even at the price levels of mid-2016, before the decline, most cocoa farmers did not earn a living income.

Pay more

Paying the farmers more is the fastest, most efficient, and simplest way to address insufficient income in the short term. This should start immediately; the effects of the price collapse will be too devastating otherwise. Obviously, this short-term measure must be coupled with other measures to avoid a long-term unintended negative consequence of increasing oversupply. Such measures are detailed extensively in this chapter.

Anti-Trust

Making collective agreements on minimum price levels is against the law, but there are indicators that authorities would allow conversations to take place, provided they are meant to protect human rights and combat poverty. The ongoing discussion on living wage shows a way forward; the sector should agree on means of calculating what a living income should be, and should provide sufficient political will to make this the key metric. In the follow-up, every individual company could go and pay this reasonable price. This would be based on the decision of individual companies to adopt the results of the living income calculation, and not on a collective agreement.

It is time for the companies to take the moral imperative, and raise farm gate prices to ensure a living income for cocoa farming families living in structural, destitute poverty. Though there might be concerns around collusion if this were to be decided upon at a collective level, there is no reason why individual companies should not be able to unilaterally decide to pay their farmers more.

Futures Market

Since the liberalisation of the cocoa markets in the 1980's, under pressure from the IMF and World Bank, the sector has largely avoided talking about how to raise farm gate prices. 'The Market' was expected to balance supply and demand, thereby leading to the 'right price'. However, the market has failed the majority of cocoa farmers; they are extremely poor. The time has come to address some of the core design flaws of the system.* In cocoa, especially, prices are set at the futures market, which is increasingly becoming dictated by computer-algorithms. Most market actors claim they have no choice but to follow the future market's dynamics. Therefore, a first necessary step is to find ways to understand and curb the power of the algorithms in the market.

Premiums

Presently, the part of the premium paid by standard setting organisations that gets distributed to cocoa farmers themselves leads to a marginal income increase. Even the fixed Fairtrade premium is less than 10% of the present world market price and most of it is used to cover certification costs or to support the cooperative.³⁷ For households not having a living income, even a marginal increase is important. However, there is a large gap between the level of income alleviation consumers think they are contributing to, and the reality on the cocoa farms.

Flexible Premiums

A possible way for companies to pay a higher price is through a flexible premium. In such a system, the premium would go up when the world market price goes down. Some smaller companies already successfully work with a form of flexible premiums based on farm gate price

* Although countervailing powers do lead to a reasonable balance of price for most of the supply chain, the recent SEO research states "the main reason for the persistent poverty among cocoa farmers is the fact that most of them are price takers, with little or no market power." Nienke Oomes, Bert Tieben, et al. Market Concentration and Price Formation in the Global Cocoa Value Chain, SEO Amsterdam Economics, p.1.

developments.* Using a flexible premium approach, the risk of price volatility can be shared between farmer and companies. In essence, this would be the most realistic way to put in place a price floor or other risk-sharing mechanisms.

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Traceability and long-term trade relationships

Full supply chain transparency and direct, fair, and long-term business relationships between farmers and companies are necessary steps, for a variety of reasons. Firstly, it provides long-term stability to cocoa farmers, also facilitating access to credit and investments. It also provides the prerequisites to meet the United Nations Protect, Respect and Remedy Framework, where companies have a responsibility to ensure they respect human rights in their value chains.

Increasingly, chocolate producers know exactly where the cocoa they use comes from. Having become deeply involved in the trade on the ground in West Africa, they are often directly connected to farmer organisations and cooperatives.

Now that companies have this knowledge, this has to be translated into both supply chain traceability as well as long-term trade relationships, including a responsible price setting.

Supply Management

If the only interventions were price-based industry-led solutions, however, there would be an increased oversupply of cocoa within a few years. Price intervention must be coupled with a more long-term policy approach from producing nations' governments looking at a coherent agricultural policy, and at some level of global supply management. As such, there is also a crucial role for cocoa producing nations' governments to take their responsibility on this issue more seriously. However, most cocoa producing governments are still persisting in national cocoa plans that aim to increase cocoa production massively, thereby threatening to flood the market even more than it already is.

At national level, governments must develop and implement agricultural policies commensurate to the size of the challenges. This would include the promotion of, and accessibility to, diversified sources of income and access to credit. Pension schemes and reforestation drives as described earlier in this chapter should be part of this as well.

* A full explanation of how a flexible premium system could work has been developed by the Südwind Institut, and can be downloaded here (goo.gl/dyYTq1)

There are various approaches to limiting the supply of cocoa, including the instalment of buffer stock funds, quotas, the introduction of an OPEC-like collaboration between the major cocoa producing nations, and the physical limitation of cocoa supplies through alternative uses of stockpiles.

Effective supply control would need to be achieved both within the individual countries, as well as on a global level. At both national and global levels, this would require the establishment of workable mechanisms for (re)allocating individual production rights, monitoring quality and production methods, overcoming rent seeking, corruption and tax avoidance, workable mechanisms for monitoring national production and trade, (re)allocating production rights between countries, and overcoming free rider problems.

Clear lessons have to be learned from the international commodity agreements that functioned until the 1980's; as these largely failed due to a combination of not properly addressing the issues mentioned above coupled with ideological motives to deregulate and liberalise the global commodities markets.³⁸

Despite these past failures, however, technology and traceability is far more advanced today. There is also broad international agreement under the UN Protect, Respect and Remedy Framework that all companies have a responsibility to respect human rights in their supply chains. Given these trends, it should be possible to revisit old ideas with new tools in hand to make them effective strategies.

In all situations, a supply management solution would require significant political will. It would also require a higher level of trust and integrity at government levels than currently exists.

Conclusions & Recommendations

New approaches are necessary to effectively achieve a living income. Cocoa farming will not be sustainable until it can provide a living income to the hard working farmers. Net farmer income must become a Key Performance Indicator for the sector, and data on this must be shared. Farmers should be supported and encouraged to increase yield in a sustainable manner, including through diversification, proper use of agrochemicals and rejuvenation. Even then, the price is too low to close the gap between current income and living income. In the short term, companies should pay a higher farm gate price, potentially through flexible premiums or unilateral price hikes. In the medium term, government based supply management solutions should be put in place to control the amount of cocoa available. This should be coupled with holistic national agricultural policies that also look at reforestation, crop diversification, land reforms, and pension schemes.

5. Transparency & Accountability

Transparency & Accountability

Transparency and Accountability are essential steps towards safeguarding human rights and implementing sustainability, not end goals. They allow for a variety of improvements: better managing and accelerating progress; identifying gaps in current approaches – both in terms of additional investments as well as additional impacts needed; preventing transgressions from taking place; facilitating mitigation of effects of transgressions for farmers and cocoa growing communities; and will bring to light available synergies and opportunities among different stakeholders.

The main obstacles to Transparency and Accountability at present are not technical, but political; there needs to be sufficient will within all stakeholder groups in the sector. Both governments and companies play a critical role in establishing Transparency & Accountability. If they work together, the sector will be in a much better position to address challenges in cocoa more effectively.

Human Rights Due Diligence

Transparency and Accountability are important tools in implementing human rights. According to the UN Guiding Principles on Business and Human Rights (UNGPs), corporations have to undertake human rights due diligence (HRDD). This requires companies to analyse, prevent, mitigate, remediate and report on risks in their supply chain, not only for their own operations, but also for those of their suppliers.

This will require several steps, beginning with mandatory reporting on relevant key measures, such as reporting on responsible risk management capacities and practices (for example, on child labour, this would mean reporting on cases identified as a result of those practices, as opposed to claims of zero child labour). This reporting would have to be based on standard, common definitions. This will, in turn, require harmonization of transparency legislation across different jurisdictions and markets, to avoid a regulatory fragmentation per nation.

A good starting point for such harmonisation would be implementing the HRDD standards that are set forth in ILO Protocols, the UNGPs and OECD Guidelines. In a smallholder context, many of the identified challenges are linked to structural causes beyond a single company's purview. The indicators used when performing HRDD should capture the underlying changes that would be required, and should also require engagement with the other responsible stakeholders, such as national governments.

Cross commodity learning: Unilever fully published Palm Oil supply chain

Knowledge and openness about a company's supply chain (e.g. where their products come from, and under which conditions they were cultivated and/or produced) builds trust towards investors and customers, increases compliance, and shows company confidence in their own human rights due diligence mechanisms. In recent months, Unilever provided a list of all the mills and subcontractors for their global palm oil supply chain. Such communication in the cocoa sector would be an excellent next step for cocoa multinationals to take as well. It is essential to note that this is a first step that increases chances of identifying and remedying risks.

Grievance Mechanisms

Transparency can also help victims of human rights violations in a supply chain to find access to grievance mechanisms for the remedy of these violations, ranging from forced labour to paying below the minimum wage. This 'access to remedy' is the third pillar of the UN Protect, Respect, and Remedy Framework besides the government's duty to protect, and the company's responsibility to respect. Grievance mechanisms can be in the form of judicial, administrative, legislative, or other appropriate means. Individuals, trade unions and NGOs should be able to file complaints in case of company or government non-compliance.

Corporate Reporting

Corporate reporting on cocoa sustainability and human rights is often based on a principle of only communicating successes. Lessons learned are seldom made public, resulting in many companies trying the same unsuccessful approaches. Additionally, most communication is based

solely on outcomes and numbers in absolute terms and not on the impact that these expenditures might have had, nor on how they relate to the size of the challenge.

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Collaborative efforts such as Cocoa Action are struggling to find reliable data, and when they do, they report on a highly aggregated level.

Data from projects is kept proprietary, even when they are co-funded with publicly financed development support from consuming governments, such as through financial support from the IDH Sustainable Trade Initiative or other similar initiatives.

Indicators need to be measurable, and results need to be publicly available for measuring progress. Care should be taken to ensure data is comparable, e.g. through collaborating on indicators and coordination of reporting periods. For all shared data projects, baseline studies should be carried out, and living income benchmarks should be an integral part of the design. Lastly, data should be based on impact, not effort; for example, it is not the building of a school that is the relevant data, but whether school attendance rates went up and illiteracy went down.

Nestlé/FLA reporting on child labour and plans of action

The collaboration between Nestlé and the Fair Labor Association (FLA) is a good example of transparency in the cocoa sector. For several years now, the FLA has conducted annual investigations into the occurrence of labour issues within Nestlé's Cocoa Plan, focussing on child labour. The outcomes of these investigations are then publicly reported, and require Nestlé to publish an action plan within a set timeframe. One of the recommendations was the development and implementation of a child labour monitoring and remediation systems. This CLMRS - and its results - has been described in chapter XY.

Public Services and Resources

The provision of social, educational and health services, the development of local communities, and the protection of the environment, are mainly the responsibility of national governments and local authorities. Cocoa growing communities suffer from a lack of schools and teaching material, have insufficient access to health care and clean drinking water, bad roads, no electricity, and other insufficient public infrastructure. For national and

local governments to improve these public services, extensive financial investments are required. While recognising that governments have sovereignty on expenditure, there is a real need for financial transparency on revenues from various forms of cocoa taxes and export tariffs, as well as transparency on expenditures on public services and the financing and levels of national Cocoa Sustainability Funds or buffer stock systems, if present.

In environmental protection, the current double catastrophe of deforestation and the pricing crisis is an important case in point. The past years have seen a vast increase of cocoa production, especially in Côte d'Ivoire. With no supply chain traceability, companies have been willingly (and often knowingly) purchasing vast amounts of cocoa from areas that should have been protected natural parks for years. Governments have not been enforcing the protection of classified areas. Transparency in sourcing, as well as effectiveness of enforcement efforts, forms the foundation of any functional protection of public resources.

Additionally, local civil society, farmers and farmer-based organisations, as well as individual citizens, would be able to play a more involved role when governments and companies operate in a transparent and accountable manner. They would be empowered to demand improvements in local infrastructure and provisions, have stronger bargaining positions towards large commercial entities, and are more informed to make decisions on collective steps forward.

Standards

For standards such as UTZ, Rainforest and Fairtrade, Transparency and Accountability should also include reporting on impact on livelihoods and labour conditions, not just on efforts of remediation. Additionally, standards must be more transparent on payments of premiums and farm gate price, both to cooperatives as to farmers.

Summary

Transparency and Accountability are essential steps for both companies and governments towards safeguarding human rights and implementing sustainability. Human Rights Due Diligence should be implemented at EU level. Grievance mechanisms for victims of human rights should also be developed and put in place at a mandatory level.

Additionally, a more balanced perspective on corporate reporting should be adopted by companies; not just communicating successes and intentions, but also being open errors and failures so that sector-wide lessons can be learned.

While recognising that governments have sovereignty on expenditure, there is a real need for financial transparency on revenues from various forms of cocoa taxes and export tariffs, as well as transparency on expenditures on social, educational and health services, the development of local communities, and the protection of the environment.

6. Conclusions

Key Recommendations

Conclusions

Sector-wide efforts to improve the lives of farmers, communities and the environment made in the past decades have not led to significant impact. The scope of proposed solutions is not even in the ballpark of the scope of the problem. If business as usual continues, it will be decades - if ever - before human rights will be respected and before environmental protection will be a basis for sustainability in the cocoa sector.

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On paying a higher price, companies claim to be in a prisoner's dilemma; they acknowledge that they are not paying enough for cocoa, but unless the whole sector - first and foremost their competitors - also deal with the price issue, they are unwilling to be front-runners and pay more. As a result, the sector sticks to price competition, ignoring its effects on human rights.

Investments to make cocoa production more sustainable are far too low to have sufficient impact, and there is not enough alignment or ambition to tackle the sector's challenges. Common approaches need to be implemented to achieve sector wide progress. The initiative for this lead should come from governments and leading chocolate and cocoa companies alike.

The present approach - with a multitude of different strategies and hundreds of projects - will not be successful, especially as there are almost no efforts to challenge the underlying issues around power and political economy. A renewed sense of urgency must be coupled with alignment and action commensurate to the size of the challenges.

Key Recommendations

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For companies

- Commit to achieve a living income for farmers. Include not only productivity aims, but also implement a price strategy. Where necessary, unilaterally pay a higher farm gate price until structural price solutions have been found.
- Make net income the key performance indicator of any sustainability programme.
- Design and implement CLMRS to cover the entire supply chain within a specified time frame.
- Publish data regularly on farmer livelihoods, human rights, and impacts of projects.

For voluntary standards

- Make Living Income - and the ensuing pricing consequences - a key requirement.
- Explore possibilities to require Human Rights Due Diligence (HRDD) as part of Trader Codes of Conduct

For governments of cocoa consuming nations

- Introduce human rights due diligence through mandatory regulatory frameworks both in consuming nations, as well as on a global level.
- Make publication of data mandatory for projects that are publicly (co) funded.
- Facilitate debate and concrete action about the massive market concentration and resulting power imbalances, especially regarding the position of smallholders.
- Review and remediate where existing competition laws hinder sustainability, especially regarding fair pricing policies.
- Support and engage with industry and producing governments in defining and requiring living income standards.

For governments of cocoa producing countries

- Develop and implement holistic national agricultural policies, supporting farmers to diversify from cocoa and implement good agricultural practices.
- Increase transparency and accountability of spending and efforts.
- Improve rural infrastructure, including roads, schools and health care.
- Align cocoa policies on a regional and global level to avoid further oversupply.
- Implement and enforce protection of remaining forests, combined with the reforestation of illegally deforested areas, whilst ensuring protection of human rights, including those of farmers who operate in protected areas.
- Design and implement due diligence/monitoring systems at scale, leveraging learnings from CLRMS to roll out preventive and responsive interventions at scale.

Cross-cutting issues for all stakeholders

- Move from voluntary to mandatory requirements, on human rights as well as on transparency and accountability.
- Implement a sector wide commitment to living income
- Develop transparency and accountability mechanisms both on a global level, in cocoa producing nations, as well in supply chains down to the farm-gate level
- Develop tools to share the burden of price volatility (e.g. via flexible premiums, supply management and long-term contracts between farmers/cooperatives and cocoa and chocolate companies.)
- Commit to a global moratorium on deforestation. Include agroforestry and reforestation as key strategies.
- Engage with a renewed and increased urgency to scale up efforts so they are commensurate to the size of the problem, with a specific focus on the hard to reach farmers. Implement changes not only at a technical level, but also address issues around power and political economy.

Justifications

Colophon

Notes

Justification of figures and tables

Scale of solutions vs. scope of the problem (page 6)

The data for this infographic was publicly available in the case of CocoaAction and Fairtrade. The International Cocoa Initiative graciously provided their data. The authors of the Barometer do not wish to imply that these organisations are doing an insufficient job, but simply that the scale of the interventions chosen by the sector as a whole are dwarfed by the size of the challenges.

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Deforestation (page 20)

Cocoa consumption in the European Union: 1.9 million tonnes
500 kg per hectare * 1.9 million tonnes = 3,8 million hectare
3,8 million hectares = 38,000 km² = more than the land size of the Netherlands

Growth of cocoa production (page 33)

The average production of Ivorian cocoa in the seasons 2010/11, 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16 was around 1,600,000 metric tonnes (mt). Cocoa production in 2016/17 and 1017/18 is around 2,000,000 mt, an increase of about 400,000 mt. (ICCO Quarterly Bulletins)

The overproduction in 2016/17 was around 300,000 metric tonnes, according to the ICCO Quarterly Bulletin, Volume XLIV no 1, page 50, table 1.

Certification tonnages (page 38)

Data kindly provided by UTZ, Rainforest Alliance and Fairtrade

Company tonnages (page 42)

Data kindly provided by the companies.

Colophon

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

The 2018 Cocoa Barometer is based on publicly available data as well as the off-record information provided to the authors. The authors welcome any corrections to data provided, and challenge all actors of the cocoa sector to be much more forthcoming with public data on the core challenges the sector faces.

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The 2018 Cocoa Barometer is available as digital download, as are the separate infographics used in this document. We encourage the use of this data in other publications, provided proper references are given.

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Participating organisations

ABVV-FGTB/Horval (Belgium) *

FNV (Netherlands) *

Green America (USA) *

Hivos (Netherlands)

Inkota Netzwerk (Germany) *

International Labor Rights Forum (USA)

Mondiaal FNV (Netherlands)

Oxfam America (USA)

Oxfam Novib (Netherlands) *

Oxfam Wereldwinkels (Belgium) *

Public Eye (Switzerland) *

Solidaridad (Netherlands)

Stop The Traffik (Australia/Netherlands) *

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VOICE Network (Global)

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Endnotes

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