

FAIRTRADE FOUNDATION COMMODITY BRIEFING: COCOA

SUMMARY

The global cocoa industry

- In 2010 the global chocolate confectionery market was worth \$79.4bn – with the UK market alone worth \$5.9bn.
- Around 3.5 million tonnes of cocoa beans are produced each year, with a value of \$10bn.
- Five to six million small farms produce 90 per cent of the world's cocoa.
- Around 60 per cent of cocoa is grown by small-scale farmers in the West African states of Côte d'Ivoire and Ghana.
- Close to 50 million people depend on cocoa for their livelihood.

Why Fairtrade is needed

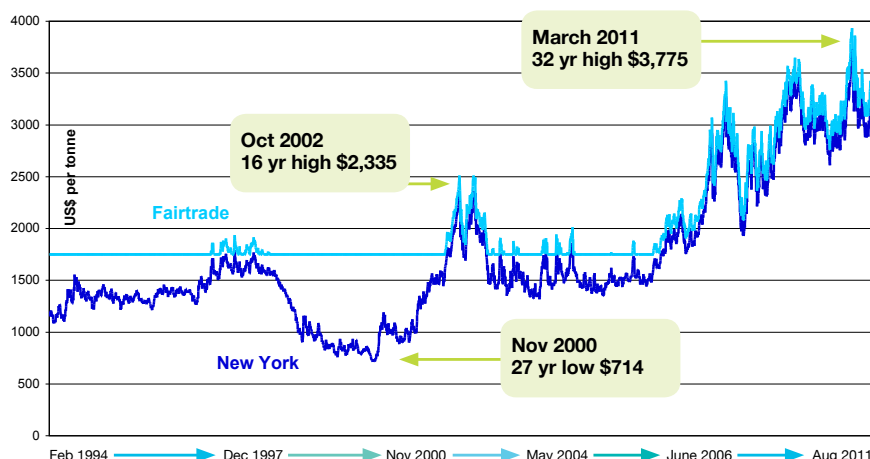
Cocoa farmers are not getting a fair price

- Most of the money from the cocoa trade is made after the beans have been processed into chocolate products – cocoa growers typically receive around 6 per cent of the final price of chocolate paid by consumers, down from 16 per cent 20 years ago.
- Much of the world price of cocoa beans is absorbed by traders, processors and government taxes before farmers receive their cut. But farm costs, fuel, food and household expenses continue to rise for farmers. And, in real terms, farmers have seen the value of their crop fall almost every year since the late 1970s. It is only in recent years – amid growing concerns in the industry about sustainable cocoa supplies – that this trend has begun to reverse.

Volatile cocoa prices lead to instability for farmers

- World cocoa prices are set at commodity exchanges in London and New York.
- Cocoa prices can fluctuate significantly (Figure 1), sometimes even dropping below the actual cost of production, making it hard for farmers to predict their income, budget accordingly and provide for their families.
- Favourable weather leads to high production and, when combined with low demand, pushes prices down. Conversely, adverse weather, low production and high demand push prices up.
- Low global stocks push prices up and vice versa.
- Other factors influence prices – the recent political crisis in Côte d'Ivoire fuelled fears of a cocoa shortage, driving prices to a 32-year high in March 2011.
- Speculators – hedge funds and investment funds betting on price movements – add to price volatility and regulators are under increasing pressure to limit this activity.

Figure 1: The Cocoa Market 1994 – 2011: Comparison of Fairtrade & New York Prices



NB

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

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

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

Cocoa communities urgently need development

- Cocoa growers, especially in West Africa, are predominantly family farmers living on \$2 a day or less.
- They grow staple food crops such as yam, plantains and cassava but depend on cash from cocoa to pay for necessities like clothing, medical bills and school fees.
- Cocoa communities typically lack access to adequate education, healthcare, electricity and clean water.
- Extreme poverty forces families to send children to work rather than school, leading to low school attendance and high rates of illiteracy.

Farmers are at the bottom of the global supply chain

- Most farmers sell their beans to local traders who work on behalf of international companies.
- While there is a trend towards expanding processing in producer countries, most value-added processing and desperately needed jobs are exported to rich countries along with the beans.

- Cocoa is a highly concentrated market. ADM, Barry Callebaut, and Cargill carry out 40 per cent of cocoa grinding to produce liquid chocolate for the baking and confectionery industries.
- Kraft/Cadbury, Mars, Nestlé and Hershey account for 57 per cent of global retail chocolate sales.

Productivity is in decline

Production and productivity have declined, threatening the entire industry:

- Small farmers have neither the incentive nor resources to invest in fertilisers and pesticides or in replacing ageing, disease-prone trees that are past peak productivity.
- Young people are deserting cocoa and turning to rubber production for higher prices or heading for the cities.
- If the current ageing population of cocoa farmers is not replaced a shortage of cocoa could see chocolate become an expensive luxury rather than an everyday purchase.

How Fairtrade works

Fairtrade supports empowerment of cocoa farmers

Many cocoa farmers have turned to Fairtrade to address key social and environmental challenges.

Uniquely, Fairtrade empowers farmers to meet these challenges by ensuring a fair price and additional income for agricultural improvements such as processing facilities to improve the price they receive for their beans or in community projects such as clinics, classrooms and clean water. Fairtrade also supports farmers to strengthen their co-operatives, provide members with technical and marketing services and implement programmes to increase yield and quality, enabling them to offer reliable, secure and sustainable supplies of cocoa beans to chocolate companies.

Key provisions and objectives of Fairtrade Standards:

- A minimum price of \$2,000/tonne for Fairtrade Certified cocoa beans, or the market price if higher.
- An additional Fairtrade Premium of \$200/tonne for investment in community, business and environmental projects.
- An extra \$300/tonne for Fairtrade Certified organic cocoa beans.
- Pre-finance (credit) of up to 60 per cent of the purchase price.
- Promotion of long-term trading partnerships and equitable business relationships.

- Environmental standards promote sound agricultural practices and environmental stewardship: minimising use of agrochemicals, responsible management of waste, maintenance of soil fertility and water resources, no use of genetically modified organisms.
- Forced labour and child labour are prohibited.

Fairtrade's impact for cocoa farmers

There are now 62 Fairtrade Certified cocoa producer organisations representing more than 120,000 farmers across 18 countries – Belize, Bolivia, Cameroon, Colombia, Costa Rica, Côte d'Ivoire, Dominican Republic, Ecuador, Ghana, Haiti, India, Nicaragua, Panama, Papua New Guinea, Peru, São Tomé, Sierra Leone and Sri Lanka.

In 2010 Fairtrade cocoa generated \$5.1m in Fairtrade Premiums, mainly in West Africa. Farmers hold meetings to discuss how to invest the premium then elect a committee to manage selected projects and regularly update members with progress reports.

- In Ghana extra income from the Fairtrade Premium has helped build hundreds of water boreholes, two day-care centres, public toilets and a mobile health programme.
- In Côte d'Ivoire an agronomist has been hired to improve farming techniques and boost yields, a health centre has been built, an ambulance purchased and a free health insurance scheme with affordable medicines set up.

- In Dominican Republic cocoa farmers have invested in processing and warehouse facilities and technical training to improve yields and convert to organic production. Schools have been built and repaired, with scholarships and equipment provided to students from poorer families. And a clinic, free medical checks and clean water projects are improving the health of the community.

Fairtrade building public awareness

UK consumers are concerned about the impact of their purchases and want to be reassured that products from developing countries are ethically and responsibly produced. A recent survey¹ found that UK consumers continue to have high expectations of how companies operate in developing countries: over 80 per cent said companies should protect the environment and ensure farmers and workers are paid fairly and have safe working conditions.

Recognition of the FAIRTRADE Mark has grown to 77 per cent of UK consumers and nine out of ten consumers trust Fairtrade.² So purchasing Fairtrade goods gives consumers a powerful and credible way of addressing these concerns and reducing poverty through their everyday shopping.

Fairtrade makes commercial sense

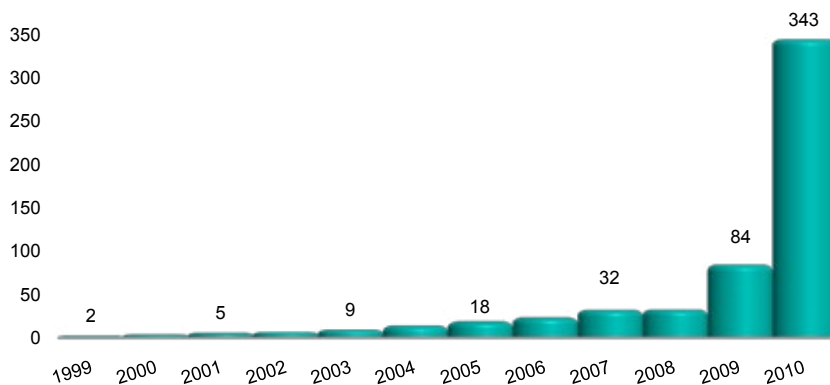
Businesses that work with Fairtrade are investing in long-term trading relations with producers to secure reliable and consistent supplies of cocoa beans. Businesses that respond to consumer demands to treat suppliers fairly and respect the environment put themselves in a win-win scenario in which doing the right thing enhances brand reputation. Three out of four UK consumers see third-party certification as the best way to verify companies' claims about social sustainability. And with three-quarters of consumers also saying the FAIRTRADE Mark on products had a positive impact on brand perceptions, the independent scrutiny of the Mark can play an important role for businesses in managing the reputation of their brands with consumers and in demonstrating their sustainability credentials.

A growing Fairtrade chocolate market

Global Fairtrade cocoa sales doubled to an estimated 30,000 tonnes in 2010. In the UK more than 120 companies now market over 500 Fairtrade chocolate confectionery products. With a retail value of £343m in 2010, Fairtrade sales now make up around 10 per cent of UK chocolate confectionery sales.

Figure 2: How UK retail sales of Fairtrade chocolate confectionery have grown (£m)

Source: Fairtrade Foundation



¹ GlobeScan June 2011; ² TNS March 2011

To read the full Fairtrade Foundation Cocoa Briefing, visit
www.fairtrade.org.uk/cocoabriefing

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

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