

ETHICS IN THE CHOCOLATE VALUE CHAIN



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In September 2001, some of the big names of the global chocolate industry such as Nestlé and Barry Callebaut signed the Harkin-Engel protocol. They committed to eradicate the worst forms of child labour in the cultivation and processing of cocoa beans.

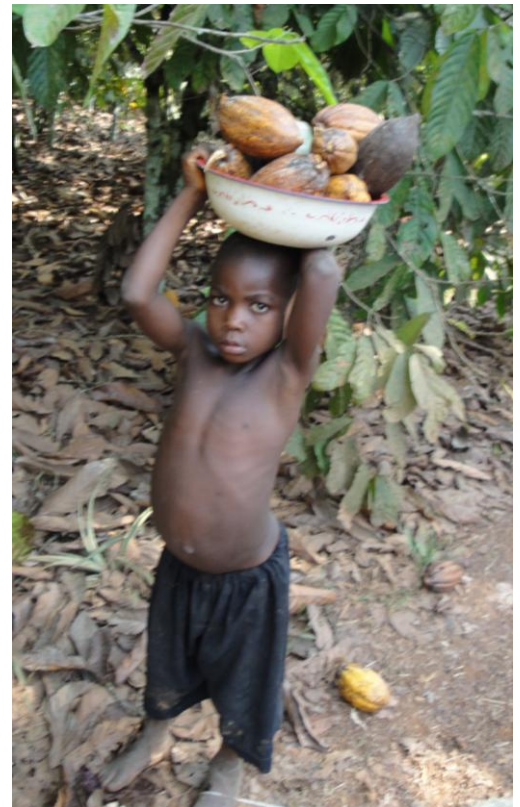
Ten years later, in March 2011, the University of Tulane mandated by the American government published a report to assess and document these commitments. It was harsh: None of the goals set by this protocol were fully achieved.

Millions of lives depend on it

The chocolate industry attracts so much attention because the decisions taken by the main operators of the sector have fundamental consequences for the 40 million people in West Africa and Latin America who depend on cocoa for their livelihood. Yet, today the outlook of the cocoa culture is far from bright as non-governmental organisations report on the many excesses against the most elementary humanitarian, social and environmental rules.

The diagnosis is indeed painful, in terms of working conditions and the impact on natural resources, but **it is in the area of child labour that the findings are especially severe.** Surveys conducted between 2009 and 2011 show that more than 250 000 children are used and exploited in cocoa plantations in West Africa (mainly in Ivory Coast). 15 000 others, aged 9 to 16, are victims of trafficking, treated as slaves and forced to work at the African cocoa, coffee and cotton plantations¹.

Oxfam-Wereldwinkels is investigating the issue. For this Belgian NGO, **there is obviously a structural problem:** *"Their inadequate income forces producers to look for cheap labour and leads to trafficking children and unacceptable working conditions on plantations."*²



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A complexe chain

The process that turns the bean of the cocoa tree into our preferred chocolate bar is part of a complex global structure with many actors. Who does what? And when? And what issues appear at which link in the chain?

Shattered production

Almost 90% of the world production comes from very small farms (2 to 5 hectares on average).

This situation gets more complicated due to the striking absence of farmers organisations that could have compensated the disengagement of governments since the liberalisation of the sector between 1990 to 2000. Small producers are isolated and not informed about price fluctuations, which make them prey to the intermediaries who buy up their crops below market prices.

Such shattered production is actually one of the main obstacles to implementing global solutions.

¹ Sources: Alter Eco, World Cocoa Foundation. Cocoa market update May 2010 - Fairtrade foundation. Fair trade and cocoa August 2011 - Tropical commodity coalition - Cocoa barometer 2010 - sweetness follows 2nd edition. TCC August 2009 - CIT International Labour Organisation - BD Bern Declaration.

² Source: Interview with Marieke Poissonnier, Policy Advisor on Commodities at Oxfam-Wereldwinkels, by IZICOM on 26 September 2011



The harsh laws of the market

Cocoa is the third most traded food commodity in the world (after coffee and sugar). It generates a business turnover of almost 80 billion dollars a year³.

The main producing countries are Ivory Coast (33% of production), Ghana (21%), Nigeria (7%) and Cameroon (6%).

For more than two years now market cocoa prices have gone up but the farmers see little of this and in general their income stagnates (to about 1 dollar a day per person, for a family of 6 to 7 individuals fully depending on this revenue⁴).

Very strong concentration

From the farmer, who extracts the beans from the pods that are collected from the cocoa trees, to your favourite supermarket, the chocolate chain consists of many stages.

Yet, today this processing-manufacturing-marketing process is in the hands of a small number of companies in control of almost the whole value chain.

Just three multinationals (Cargill, ADM and Barry Callebaut) turn dried beans into cocoa butter, paste or powder (40% of world production or about 1.5 million tons per year)⁵. The industrial processing to chocolate is dominated by Barry Callebaut, the world leader, ADM (Archer Daniels Midland Company) and Blommer. Together they hold almost 70% of the market⁶.

Finally, five companies (Mars, Nestlé, Hershey, Kraft/Cadbury and Ferrero) centralise almost 60% of chocolate sales⁷.

These multinationals ought to invest more resources in reducing endemic poverty among African cocoa growers by

for instance encouraging the latter to get organised and by fostering ownership by farmer organisations of added-value activities (such as the first stages of the cocoa bean processing). The study of data is indeed clear about this: **since the 1970s, the revenues of producers have continuously dropped even when the prices went up and the profits made by the chocolate sector multinationals increased.**

This is a beginning

For more than 10 years NGOs have endeavoured to alert public authorities, enterprises and consumers about the social and environmental situation of African cocoa growers. Such advocacy fostered initiatives that aim at resolving the many problems in this production chain.

The results vary strongly between joint initiatives and initiatives of an individual company.

Mixed results for joint initiatives

The report submitted by the University of Tulane shows the weak results of the Harkin-Engel protocol and highlights the fact that the signing companies have not achieved a single goal of the six goals set by the protocol.

The programme helped raise public awareness and led to the establishment of the International Cocoa Initiative. But the main commitments agreed upon by the signing multinationals have not been met, especially with regards to financial commitments and the application of International Labour Organisation (ILO) standards in the cocoa sector in Ivory Coast and Ghana.

³ Source: Fairtrade Max Havelaar France, "Le goût amer du Chocolat" - www.maxhavelaarfrance.com/spip.php?rubrique349

⁴ Source: Idem.

⁵ Source: Oxfam, "Towards a sustainable cocoa chain: Power and possibilities within the cocoa and chocolate sector", 2009

⁶ Source: Agritrade, Rapport cadre : cacao, May 2008, and www.unctad.org/infocomm

⁷ Source: Oxfam, "Towards a sustainable cocoa chain: Power and possibilities within the cocoa and chocolate sector", 2009

A contrario, the initiatives set up to ensure a continuous and qualitative production have achieved more significant results. For instance, within the World Cocoa Foundation (created in 2000 by chocolate manufacturers to counter the trend towards declining cocoa production), cocoa growers support programmes have been set up with the goal to transmit more productive and profitable farming practices, to support the creation of producers cooperatives and associations, to promote agrodiversity, to promote access to education and to contribute to research⁸.

This approach was strongly supported by the Bill and Melinda Gates Foundation and according to its representatives it increased the revenues of some of the 420 000 planters who have benefited under the programme over the last ten years⁹.

Company initiatives

Beside the joint initiatives, some larger brands of the industry have set up their own social and economic programmes to support small producers.

In 2009 the American company Mars committed to source exclusively certified cocoa (Rainforest Alliance and UTZ Certified) by 2020. It is investing millions of dollars every year to support this transition of growers to a sustainable production that respects the environment and communities.

In the same year, Cadbury announced its intention to invest more than 53 million euros to have its famous Dairy Milk chocolate bars fair trade certified by Fairtrade International.

And Nestlé launched its "Cocoa Plan" in 2009 (valued at 110 million Swiss francs for 10 years) with the ambition to provide seedlings to farmers and to train them in modern cocoa cultivation techniques.

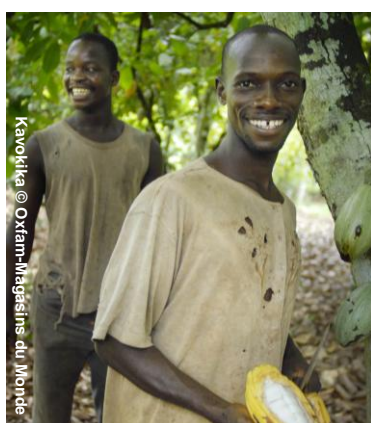
Assessments of these different initiatives highlight a strong trend towards credibility: the efforts made by companies and their close collaboration with recognized fair and sustainable certification bodies are generally considered far more credible than the own initiatives of multinationals.

Guido Palazzo, professor of business ethics at the Université de Lausanne, authored a remarkable study about the social and environmental performance of companies in the coffee, cocoa, IT and pharmaceutical sectors.



He insists on this difference, which to him is fundamental.

He illustrates his case with the fact that the **"Cocoa Plan" from Nestlé "did not work with third party certification or the application of external standards"** and that it works with *"a long list of projects with a social and environmental impact that is difficult to measure"* especially with regards to *"the difficult working conditions on the cocoa farms"*.¹⁰ **The Mars project on the contrary is given as an example of a transparent and ambitious initiative**, which could *"bring on fundamental changes to the chocolate industry by forcing other big companies to take significant measures towards sustainable supply of cocoa"*.¹¹



"Thanks to the fair trade premium, the cooperative has established a healthcare centre, health insurance, education for children, literacy classes for adults and AIDS prevention.

Moreover, the cooperative contributes to the rehabilitation of the groves, introduces sustainable cultivation techniques and organises transport and storage. Sometimes, it can prefinance sales.

Almost all children go to school and if they still work part-time in the groves of their parents, they don't do dangerous work anymore."

Fulbert Dago, Director of Kavokiva
A cocoa growers cooperative in Ivory Coast.

⁸ Source: "Cocoa, a lever for development", a brochure of the Trade for Development Centre of BTC available on www.befair.be

⁹ Geert Waelkens, representative of the World Cocoa Foundation in Europe, quoted in "Cocoa, a lever for development", a brochure of the Trade for Development Centre of BTC, published in February 2011 and available on www.befair.be

¹⁰ Source: Novethic, "Le plan cacao de Nestlé sur la sellette" – online since 19 September 2011 - www.novethic.fr

¹¹ Source: Idem.

Belgian Chocolate

Since 2009 the Dutch chocolate industry, which is the first importer worldwide, is committing to a joint programme. All chocolate that is consumed in the country is to be produced on the basis of sustainable cocoa by 2025.

Belgium is known for melting or crunchy chocolate delicacies. Yet, to keep these incomparable flavours from being marred by bitterness, it is time to commit to guaranteeing decent living conditions for millions of men and women who produce cocoa.

This is the idea behind the joint initiative of Oxfam-Wereldwinkels and Transparency International. On 12 October 2011 they organised a first meeting with stakeholders (chocolate makers, NGOs, federations etc.) with the support of the Trade for Development Centre of BTC, the Belgian development agency, and Kauri. This meeting, named "Ethics and transparency in the chocolate sector in Belgium", aimed at establishing foundations for a joint project. It allowed highlighting the various views of the different actors.

Shared awareness

Whereas NGOs and certification agencies (Rainforest Alliance, Fairtrade International, etc.) consider the main issue to be related to a lack of revenues for producers, the companies for their part point at the geopolitical instability of these regions (especially Ivory Coast) as well as the shortcomings of national authorities.

But on many points, the analyses of chocolate makers, industry players, public authorities and humanitarian organisations coincide.

The unorganised nature of the production chain and the poor environmental state of the plantations especially is what all stakeholders identify as important issues.

This first exchange of ideas shows that the various operators are aware of the need to provide a coordinated and multidimensional response and that they are willing to make efforts through partnerships that bring together public and private sector.

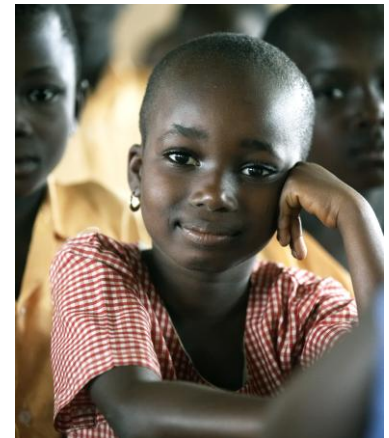
Credible fair and sustainable certification

Even though most initiatives show encouraging results, it must be highlighted that fair and sustainable certification systems significantly contribute to dealing with problems encountered in the production chains.

Traceability of the product from the plantation, transparency of the external evaluation system, producers support, guaranteed purchase prices... These are all criteria on which the certified brands clearly differ from others.

As an example, a 2010 Tulane university report stated that certification provides credible assurance that cocoa is being produced in line with International Labour Organisation (ILO) Convention 182 on child labour.

The fair and sustainable certification systems indeed offer answers to issues that were raised by all parties. They support the organisation of structured and democratic (and therefore legitimate) communities, foster ownership of agroecological techniques by the different actors in the value chain and they guarantee correct and stable incomes. This cocoa growers support guarantees in the long run a sustainable and qualitative supply of labelled products that are valued by consumers.



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All this will be done transparently and with respect for everyone's role and position. Certified cocoa growers organisations (currently less than 2% of the whole) benefit from working conditions and resources that enable them to develop and offer their members better perspectives for sustainable growth.

Our chocolate will lose its flavour if we do not act.

Tens of thousands of children are exploited, beaten and closed up. That leaves a bad taste in our mouth.

Together, chocolate makers, suppliers, associations, public authorities and consumers can give a better taste to our chocolate, the sweet taste of justice.

Find out more:

Cocoa - A lever for development. A brochure of the Trade for Development Centre of BTC, can be downloaded from www.befair.be, under "Publications".

Gourmet Gardens en Cepicafé, two projects financed by the Trade for Development Centre of BTC. Download the project sheets on www.befair.be, "publications".