

Ethical cocoa schemes no panacea for struggling farmers

Wednesday 30 May 2018, by [IONOVA Ana](#) (Date first published: 19 April 2018).

LONDON (Reuters) - Global chocolate makers are buying more cocoa sourced through schemes aimed at stamping out poverty as they rush to make their supply chains more ethical ahead of self-imposed 2020 deadlines.

The trouble for cocoa farmers is the premiums they receive for beans sold under the biggest and most popular of these ethical sustainability schemes are falling.

Under fire for not doing enough to stop deforestation, child labor and low wages in the industry, big chocolate makers from Mars to Hershey to Ferrero have promised to only buy cocoa certified as ethical and sustainable by 2020.

The volume of cocoa sold through schemes such as Fairtrade, Rainforest Alliance and UTZ Certified has climbed sharply in the past few years as companies work towards their targets.

Cocoa sales from the top three certifiers rose from 564,769 tonnes in 2013 to 953,458 tonnes in 2016, equivalent to about 20 percent of global supply.

But data from UTZ, the biggest scheme which markets more than half of the world's independently certified cocoa, shows premiums farmers receive for beans sold under its label have fallen by a third in the last five years.

"We do feel current conditions are detrimental to the longer-term sustainability of the value chain," Tim McCoy of the World Cocoa Foundation, which represents more than 100 companies, said about low incomes for farmers.

The premium farmers receive from buyers for their UTZ-certified cocoa has declined from 122 euros (\$150) in 2013 to 83 euros last year, according to data published by the certifier this week.

Since farmers don't sell their whole crop on UTZ terms, this means they earned an average premium of just 67 euros per tonne in 2017 from the scheme, according to a Reuters calculation that assumes the rest of their cocoa is sold on the conventional market with no premium.

"(UTZ) has more clients, but they're having less impact," said Fernando Morales-de la Cruz, founder of Cacao for Change, a campaign group pushing for higher earnings for farmers.

POVERTY LINE

Part of the reason premiums have dropped is an oversupply of cocoa which pushed world prices to a nine-year low last year. Yet ethical schemes are partly designed to help farmers escape poverty and withstand shocks better by ensuring more cash gets into their hands.

Farmers in West Africa grow two-thirds of the world's cocoa but most live below the World Bank's poverty line of \$2 a day.

UTZ is just one of the schemes available to chocolate companies looking to show consumers their supply chains are not benefiting from exploitation and creating poverty.

But it is growing rapidly in popularity and has more than doubled its certified cocoa volumes from 691,490 tonnes in 2013 to 1.45 million in 2017, according to its data.

Critics say its success has been partly because it does not make firms pay farmers a certain price for their cocoa. By contrast, Fairtrade insists on price floors and a fixed premium, the only major certifier to set such requirements.

"From a buyer's perspective, you simply pay less for the same type of product," said Dietmar Stoian, a sustainability and value chain expert at Bioversity International. "It's great for your cost structure but it's not great for the cocoa farmer."

Alex Morgan, chief markets officer at Rainforest Alliance, argues that falling premiums do not necessarily point to worsening conditions for farmers, since they may be selling more cocoa or building more resilient businesses.

Hershey declined to comment specifically on the fall in premiums but told Reuters they were taking comprehensive action to bring farmers out of poverty, partly by equipping them with skills and tools to boost productivity.

U.S. confectionery maker Mars said it recognizes low farmer incomes are a challenge and is exploring ways to improve livelihoods. A key strategy has been investing in mapping the cocoa genome to find more productive, disease-resistant varieties.

"We believe strongly in using good science to improve the health, productivity and quality of cocoa plants," a spokeswoman for Mars Wrigley confectionery said in an email.

Italy's Ferrero did not respond to emailed questions about cocoa farmers' incomes.

OUT OF FAVOR

Independent certification groups give a stamp of approval to farmers whose cocoa is produced under practices judged fair. In return, companies can brand their chocolate bars to assure consumers they were produced ethically.

But Fairtrade, which puts living wages at the center of its model, has struggled to expand its presence. While UTZ's market share has climbed to more than 60 percent in 2016 from 48 percent in 2013, Fairtrade's slice of certified cocoa production rose from 12 percent to just 15 percent.

"Standards such as Fairtrade have been shown to work well during price shocks," said Aarti Krishnan, senior research officer at the Overseas Development Institute. "But they seem to be making less business sense to a lot of companies."

Fairtrade's requirements include a floor price of \$2,000 per tonne of cocoa and a fixed premium of \$200 per tonne.

While Ivory Coast and Ghana, the world's two biggest cocoa producers, also provide a floor prices, they are adjusted each year to reflect global markets. After the collapse in prices last year, Ivory

Coast slashed payments to farmers by more than a third to \$1,290 per tonne (700 CFA per kg).

Fairtrade says its floor price and premium provide a crucial safety net when world prices drop and that they give farmers stability to make long-term investments in their farms.

But the model appears to be less appealing to chocolate companies as they look for viable ways to meet their ambitious 2020 sustainability goals, experts say.

“That’s just around the corner. All of them will have to dramatically increase their purchases of certified cocoa,” Bioversity’s Stoian said. “But it’s been a challenge to sell a higher volume in the Fairtrade-certified channels.”

Cocoa growers certified by Fairtrade produced 291,917 tonnes of cocoa in 2016 - about 6 percent of global production - but sold less than half under the label, Fairtrade data shows.

Farmers are often forced to sell their leftover certified beans on the cheaper conventional market. As a result, Fairtrade producers end up with a premium of roughly \$94 per tonne on average, a Reuters calculation based on certifier data shows.

Some farmers hold multiple certifications, however, and can sell some of their remaining beans through UTZ or Rainforest Alliance.

MARKET STRATEGIES

The UTZ system includes a premium but leaves buyers to negotiate the amount. Rainforest Alliance, which merged with UTZ last year, has no official premium structure but says most farmers are paid above the conventional market price.

In 2016, farmers sold 54 percent of the 1.2 million tonnes of cocoa certified by UTZ through the scheme and certified sales surged to 80 percent of the total in 2017, the data showed.

While Fairtrade’s market share is stagnating, it has never reduced its price buffers and has no plans to do so in a review this year because it sees them as key to improving welfare and creating sustainable business models.

“The low prices are putting pressure on farmers,” said Jon Walker, senior cocoa advisor at Fairtrade International. “But I fail to see why that would then say to us that the Fairtrade price should decrease.”

But rivals UTZ and Rainforest Alliance say the way to pull cocoa farmers out of poverty is not through artificial security nets such as fixed premiums, but by improving agricultural practices so farmers can grow and sell more cocoa.

This chimes with the chocolate industry’s approach to improving farmers’ incomes and Morgan at Rainforest Alliance said it is probably the alignment in strategies that attracts firms to its market-based schemes - rather than lower premiums.

This month, Hershey, which has annual sales of more than \$7.5 billion, pledged to spend half a billion dollars by 2030 - with a focus on West Africa - to increase productivity, raise household incomes and eliminate child labor and deforestation.

Hershey said its sustainability interventions have already helped farmers boost productivity by 20 percent and the company plans to extend its efforts by using smartphones to send growers video and

text messages with tips on agricultural practices.

“I think there are many different approaches to get to the same outcome, which is improved livelihoods,” said Susanna Zhu, Hershey’s chief procurement officer.

Nestle, which has set its own targets but has not committed to buying 100 percent certified cocoa, also said it was building more resilient cocoa communities by distributing higher-yielding seeds and training farmers on better practices.

But many farmers have little access to credit and struggle to implement new methods and training, said Friedel Hutz-Adams, a researcher at the Sudwind Institute, a German think-tank.

And even if farmers succeed in boosting yields, the extra cocoa would likely depress prices further. Ivory Coast, for example, has said it is suspending company schemes distributing higher-yielding cocoa seeds for this very reason.

“If a lot of farmers increase productivity, there will be a massive oversupply,” Hutz-Adams said. “The market would be ruined.”

Ana Ionova

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