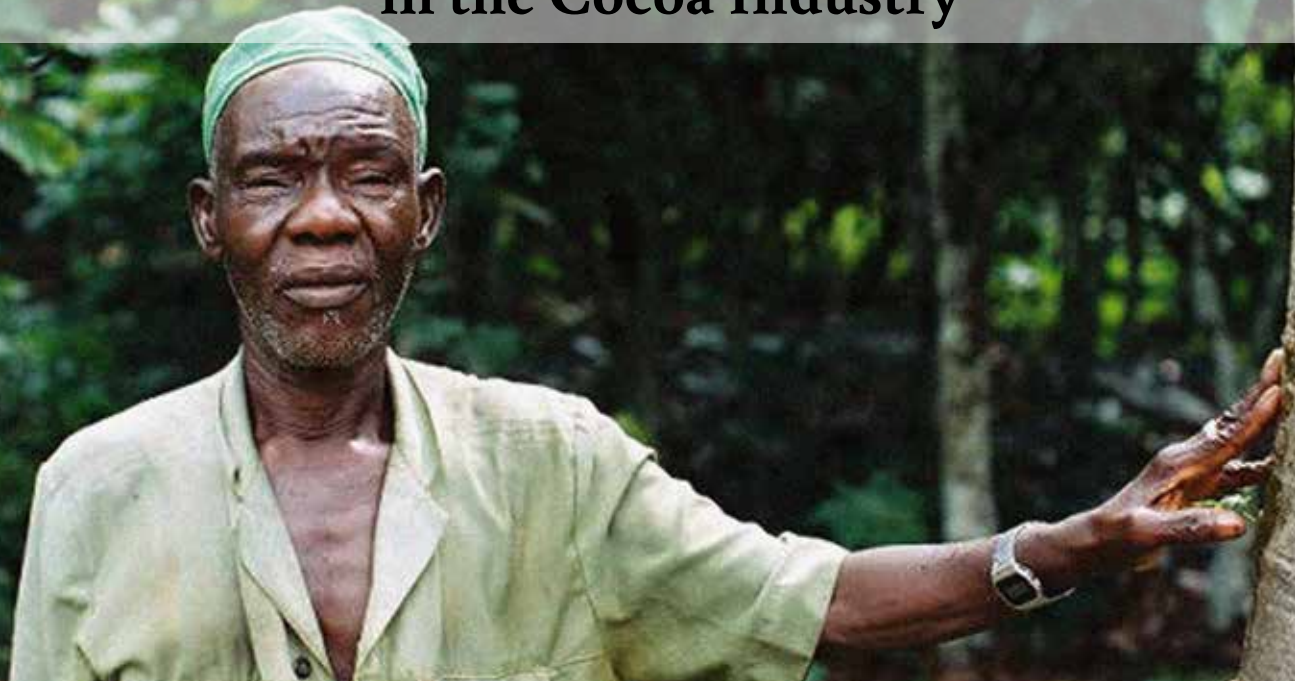




# THE FAIRNESS GAP

Farmer Incomes and Root Cause  
Solutions to Ending Child Labor  
in the Cocoa Industry







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## **INTERNATIONAL LABOR RIGHTS FORUM (ILRF)**

The International Labor Rights Forum (ILRF) is a human rights advocacy organization dedicated to achieving dignity and justice for workers worldwide. Founded in 1986 and based in Washington D.C. ILRF works with trade unions and community-based labor rights advocates to expose violations of workers' rights, including child and forced labor, discrimination, and violations of workers' rights to organize and bargain collectively. Our field research helps to build and promote worker-driven organizations and solutions. We develop, propose, test, and assess government and corporate policies to ensure that global trade, procurement, and development practices support workers' rights. Through raising public awareness about working conditions in global low-wage industries — especially in the garment and agriculture industries — we educate consumers to push companies and governments for change.

*Acknowledgements:* Adeline Lambert is the principal author of this report. Judy Gearhart, Abby McGill and Haley Wrinkle contributed writing, research, and editing. Niava Landry designed and coordinated farmer surveys and field research in Cote D'Ivoire. Hannah Darnton contributed Free2Work research. Kelsey Lesko and Haley Wrinkle are the designers. Photos are by U. Roberto Romano / ILRF.





*The Fairness Gap*

# Foreword

When reports began to emerge in the mid-1990s about poor labor conditions in the cocoa industry, including labor trafficking and the worst forms of child labor, no major chocolate maker was willing to accept responsibility. After years of negotiations, campaigns, and public outcry, the chocolate industry has begun to recognize the need for changes in supply chain accountability. Despite myriad projects aimed at improving education, increasing productivity, and implementing cocoa certification, the collective impact has been limited and the industry has been unable to solve the root cause of the problem: the very low prices paid to farmers.

This report is the product of nearly two years of research and dialogue with diverse actors in the industry. We surveyed farmers, chocolate companies, and certification programs. We spoke with government representatives, cooperative managers, farmer associations and unions. In all of these conversations we encountered both optimism and frustration and some trends that give cause for hope that future solutions will be more holistic and sustainable.

Some farmers, unable to make a living from cocoa, are beginning to ‘vote with their feet’ by moving into other industries such as palm and rubber. This trend may help unite different interests because now there is both a moral imperative and a market incentive to increase the price farmers can secure for their cocoa. Although approaches still vary, and some are better informed than others, we have found a sincere interest among nearly all stakeholders in ending child labor in the cocoa industry.

This report is intended to help advance a new phase of advocacy and dialogue. We aim to identify strategies and points of collaboration in the industry and to

lift up the perspectives of farmers. Industry and civil society, national and international actors alike all have a role to play. Continuing and sustaining progress will require frank discussions about how to end persistent poverty among cocoa farmers in West Africa. We need to agree upon best practice interventions and strategies for incentivizing transparency, accountability and greater pre-competitive industry collaboration. We need to ensure farmers have access – to information, to market, and to support – so that they can lead the improvements they want to see.

Judy Gearhart

A handwritten signature in blue ink, appearing to read 'Judy Gearhart', positioned above the photograph.



Judy Gearhart and Adeline Lambert visit a cocoa-growing community participating a Mars-funded social project.





## *The Fairness Gap*

# Executive Summary

The governments of Ghana and Cote D'Ivoire have made substantial progress in building schools and creating a culture that increasingly prioritizes education. Yet child labor and poverty persist. This report analyzes the root causes of why farmers are not receiving fair, sustainable prices for their cocoa, and what factors disempower them in an industry that sees growing profits for multi-national chocolate companies.

Our analysis finds that in Ghana and Côte d'Ivoire many cocoa farming families survive on real incomes of about 40 cents per dependent per day. Such meager earnings leave farmers vulnerable to even minor economic or climate shocks. Many farmers must borrow money to purchase inputs for their crop or to pre-sell their cocoa in order to finance the harvest and transport their cocoa, thus forcing many into cyclical patterns of indebtedness. The low wages these farmers receive lock them, their families and their communities into poverty that passes from generation to generation of cocoa farmers.

Such low earnings also make it difficult for farmers to pay hired laborers to harvest the crop at the legally required minimum wage, fueling the need for child labor and, especially in Côte d'Ivoire, the trafficking of casual workers (including children) from neighboring Mali and Burkina Faso. Estimates indicate that 500,000 to 1.5 million children are engaged in agricultural labor on cocoa farms<sup>1</sup> – much of which is considered hazardous child labor. Half of children surveyed reported some kind of injury.<sup>2</sup> Even more concerning, recent research indicates that child trafficking may be on the rise.<sup>3</sup>

We find several factors that inhibit farmer empowerment and perpetuate low wages. Most notably, the majority of cocoa farmers have neither

sufficient information about nor access to the complex systems that set prices in the international cocoa market. Farmers, who often work small plots of land in isolated cocoa communities, lack the organization required to take an active role in the decision-making processes that affect them at the industry, government or certification levels. National cocoa price-setting mechanisms that determine cocoa prices each year are challenged in their ability to ensure sufficient farmer input into the process, because the lack of organization and communication among farmers compared to corporate and government actors further exacerbates the imbalance of power.

To address farmer incomes, several chocolate companies have focused on helping farmers improve the quantity and quality of their cocoa. Unfortunately, these programs have not yet demonstrated a net income gain to farmers and in many regions farmers report facing both a shortage of day laborers and financial constraints limiting their ability to hire help during the harvest. At a workshop co-facilitated by ILRF at the University of Cocody in Côte d'Ivoire, one farmer stated, "This is the first time anyone has ever spoken to us about our income."

Chocolate companies have also turned to cocoa certification as a way to ensure that their cocoa is ethically produced and to prevent child labor. The results of certification efforts have been mixed, however, and many companies have preferred programs that prioritize increasing yield and quality as a means to better incomes rather than certifications that guarantee premium pricing for farmers. Although certification has helped establish some level of traceability in the cocoa supply chain, significant problems persist with the reliability and feasibility of those systems. Meanwhile, many farmers

## THE ROOT CAUSE OF THE PROBLEM IS THE VERY LOW PRICES PAID TO COCOA FARMERS.

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report a lack of transparency under certification schemes.

Although encouraging that companies and governments have recognized a great need for investment in the cocoa sector, the interventions must be measured against their ability to empower farmers and improve livelihoods – indicators that represent a sustainable and ethical way of doing business.

Full recommendations from the research can be found on page 43, but some of the most important immediate steps include:

*For Certification Programs:* Provide more transparency on fee structures and the impact of their programs on farmers' *net* income; improve child labor risk identification procedures and remediation policies; include farmer groups at the highest levels of standards setting and implementation bodies; and reduce the financial burden on cooperatives that have double and triple certifications by establishing mutual recognition and working together, rather than competitively, to inform and orient farmers.

*For Chocolate Companies:* Monitor labor conditions at the farm and cooperative level; respond quickly to abuses of decent work standards and ensure remediation procedures are effective; provide a public impact analysis for social projects; and collaborate with West African governments to strengthen farmer support infrastructure in cocoa-growing communities.

*For Cocoa Traders:* Facilitate supply chain transparency to the farm or cooperative level and use your influence with price-setting boards to ensure farmers receive at least the guaranteed percentage of

the international commodity price; and fund social programs on the ground to improve conditions for cocoa farmers and their communities.

*For Governments:* Enable greater participation of farmers in price setting mechanisms; improve the distribution of support programs for farmers; work with chocolate companies to improve farmer access to basic infrastructure; coordinate with other cocoa-producing countries to ensure stable prices globally and pursue best practices for ensuring farmers receive a higher portion of the international price; and provide public reporting on the impact of trafficking remediation centers, including the number of children reunited with their families.

*For Multi-Stakeholder Initiatives and International Development Community:* Invest in programs that empower civil society and support the growth of farmers' associations and unions; ensure adequate farmer involvement in multi-stakeholder spaces; provide scholarship and travel funds with a transparent mechanism for farmer access; and engage with West African governments to better identify where and why child trafficking is occurring in the cocoa sector.

*For Consumers:* Pressure global companies to ensure the highest standards of transparency in their supply chain and to ensure farmers receive a higher price for their cocoa and buy from chocolate companies that source directly from cocoa farmers, ensure supply chain traceability and guarantee farmers receive a living wage.

*For Farmers and Farmer Support Organizations:* Strengthen your own networks and capacity to advocate for farmers' needs and the needs of cocoa growing communities.





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*The Fairness Gap*

# Methodology

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This report presents a review of the current challenges that cocoa farmers face, including the market pressures that keep farmers from obtaining a decent livelihood and the poverty that leads families to resort to child labor to make ends meet. During 2012 and 2013 ILRF conducted desk research and field research covering the perspectives of farmers, cooperatives, certification systems, and chocolate companies. In 2014 we vetted our findings with farmers, farmer support organizations and other industry experts.

*Field visits in Ghana:* ILRF sent a researcher to Ghana twice to conduct focus group discussions in 7 villages with the participation of around 200 farmers. These focus group discussions produced information that was consistent among hundreds of farmers and across villages.

*Field surveys in Côte d'Ivoire:* In addition to conducting informal field visits in Côte d'Ivoire in 2012, ILRF contracted a team of researchers to conduct a formal survey of farmers and cooperatives in seven regions of the country to capture the information

presented in this paper. A total of 31 cooperatives were randomly chosen and surveyed, and two farmers chosen from each cooperative were also surveyed.<sup>4</sup> These results were presented at a conference held with farmers associations in Abidjan in January 2014. Additional interviews with cocoa farmers were carried out following the conference to obtain feedback about the findings and participants corroborated the findings.<sup>5</sup>

*Surveys with the leading cocoa certification bodies:*

In 2013, ILRF conducted an extensive survey with Fairtrade International (FLO), Fair Trade USA (FTUSA), Rainforest Alliance, UTZ Certified, and the Fair For Life (IMO) certification body.<sup>6</sup>

*Standardized analysis of company corporate social responsibility management systems:* In 2013 ILRF gathered company self-reported data through the Free2Work project in partnership with the Not For Sale Campaign. Free2Work measures the extent to which companies use good supply chain management practices to ensure better conditions for farmers.



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*Section 1*

**SECURING SUSTAINABLE LIVELIHOODS  
AND ENDING CHILD LABOR IN COCOA**

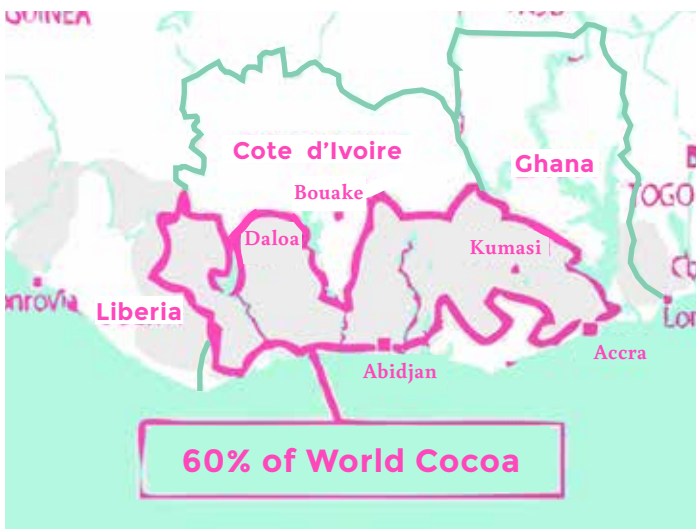




## The Challenge

# Cocoa Farming

Ghana and Côte d'Ivoire produce about 60% of the roughly 5 million metric tons of cocoa beans supplied to world markets each year.<sup>7</sup> Other producers of the crop are scattered throughout the globe, and are generally located within 20 degrees of the equator, where the climate is most suitable for the crop. The maps below highlight the cocoa-growing regions for these two powerhouse cocoa producers.

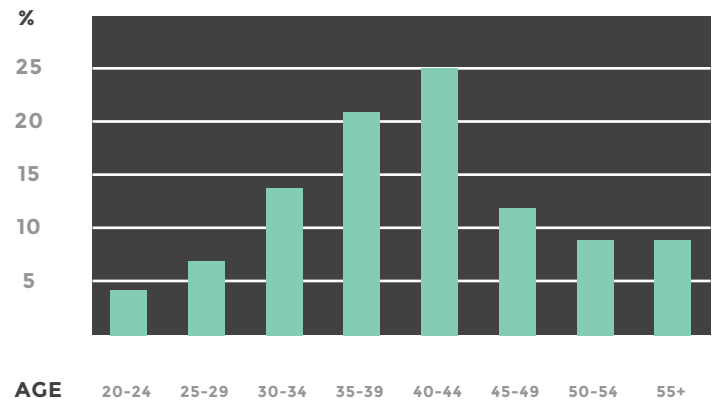


Source: Agricultural Research for Development (CIRAD), 2007

that production is heavily decentralized among an estimated 4.5 million small-scale cocoa producers worldwide.<sup>9</sup>

On the farms we visited in Côte d'Ivoire, most farmers were middle-aged men. While there was a large distribution of ages for cocoa farmers, 75 percent were over 35, with the largest group, 25 percent, falling into the 40-45 age range (See Chart 1). In Ghana, the average age of a cocoa farmer is 52 years.<sup>10</sup>

Age distribution of cocoa farmers in Côte d'Ivoire [Chart 1]



Source: ILRF Surveys in Cote d'Ivoire

## PROFILE OF A FARMER

Farmers have been producing cocoa in Ghana and Côte d'Ivoire for several generations, but recent demographic trends reveal an aging population. Incomes generated from cocoa farming are too low to support a family, and young farmers are looking for other opportunities that can provide better livelihoods.

Ninety percent of the world's cocoa is produced on small, independent farms of 1 to 5 hectares (2.5 to 12 acres).<sup>8</sup> Small farm sizes in the cocoa industry mean

One cause of the aging demographics is the amount of work it takes to harvest and sell cocoa, and the low price that is received for the work. Young people are seeking out other more lucrative professions. Some are choosing to farm other crops which fetch higher prices, such as palm and rubber, while others choose to move to the capital for better careers. Several of the farmers we spoke to mentioned the challenge in finding day laborers to help with the harvest. One cocoa farmer who attended the ILRF workshop said he could not find enough day laborers to harvest his four acres of cocoa because many had moved on to other sectors. He then had to go to Burkina Faso to recruit

## “FARMERS’ LIVELIHOODS ARE DETERMINED BY TWO IMPORTANT FACTORS: COCOA PRICES AND FARM YIELDS.”

### HIRED LABOR

Most farmers employ at least one hired laborer to help maintain and harvest their small plots of land. Hired labor is typically sourced from neighboring countries such as Mali and Burkina Faso. These workers and their families are considered the most marginalized actors in the cocoa supply chain. Not only are they involved in precarious (non-permanent) work, they are the least educated, and they typically do not speak the local language.

In addition, these workers are even more impoverished than the producers that employ them. Since smallholder farmers make poverty incomes themselves, they have very little

leftover to pay their hired laborers. Field research in Côte d’Ivoire revealed that hired workers receive poverty level wages. ILRF surveys revealed that hired workers receive between \$209 and \$1045 per year, which is far below the minimum wage set by the government (around \$4 per day, or \$1460 per year, although it is set lower for agricultural workers).

The problem of these marginalized workers is further exacerbated when children migrate with hired workers, or come on their own, and are unable to attend school due to language barriers and income constraints.

day laborers. The changing demographics have led to concerns about whether the next generation of cocoa farmers will be willing to carry on the family farms and, for the cocoa industry, whether or not there is sufficient labor to match the world’s growing demand for cocoa.

In Ghana and Côte d’Ivoire, the average household size is around 6 people, and in cocoa communities, farms provide the main source of income for families.<sup>11</sup> These producers live on poverty incomes, and as Table 1 demonstrates, their livelihoods are determined by two important factors: cocoa prices and farm yields. There are many variables that contribute to varying incomes for cocoa farming families, including farm size, farm yield, access to outside sources of income, and access to government subsidized inputs. In Ghana, for instance, the government runs programs that distribute crop inputs for free throughout the country, which could explain the lower input costs

in Ghana, although Côte d’Ivoire provides some subsidies as well. There are limitations to the input estimates, however. In our discussions and surveys with farmers in both Ghana and Côte d’Ivoire farmers discuss the challenges to accessing subsidized inputs (see Empowerment in Section 2 for further discussion). The labor costs are also difficult to estimate, as payment systems vary from farm to farm, and most payments are made informally.

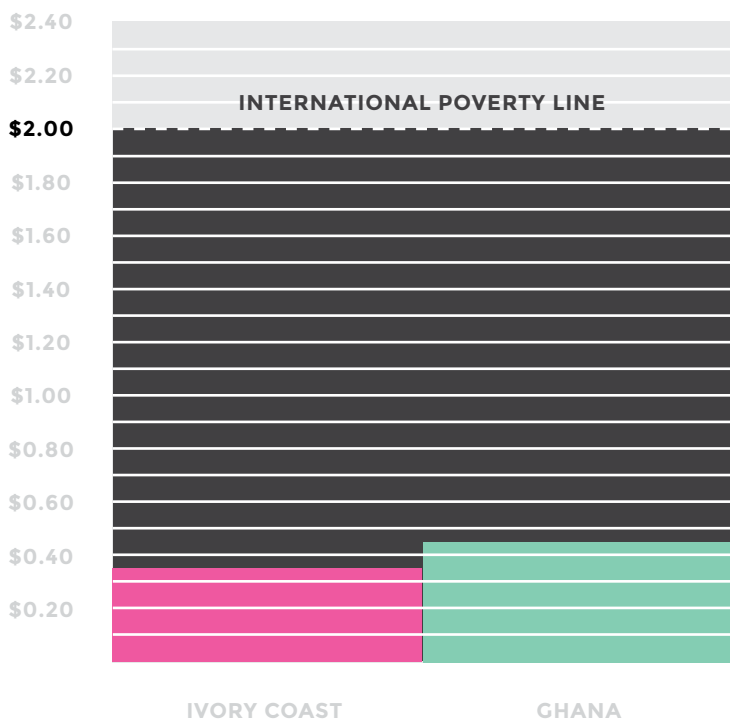
In the cocoa sector, poverty has been the primary cause of child labor, as farming families are forced to rely on the labor of their children – or ‘nieces and nephews entrusted to their care’ which is often a euphemism for bonded child labor – to make it through the harvest.

## INCOME OF A COCOA FARMER

**COCOA PRODUCERS' Average Yearly INCOME** [Table 1]

	Côte d'Ivoire	Ghana
Regulated farmgate <sup>12</sup> price for 2013/2014 season (in local currency)	850 CFA/kg	5.12 GHS/kg
Regulated farmgate price for 2013/2014 season (per kg, in USD)	\$1.61 <sup>13</sup>	\$1.60 <sup>14</sup>
Average productivity <sup>15</sup>	500 kg/hectare	500 kg/hectare
Standard farm size <sup>16</sup>	2-5 hectares	2-5 hectares
<b>Estimated annual GROSS income range</b>	<b>\$1,610 - \$4,025</b>	<b>\$1,600 - \$4,000</b>
Labor costs <sup>17</sup>	\$400 - \$2000 <sup>18</sup>	\$430 - \$860 <sup>19</sup>
Input costs	\$454.70 - \$1136.75	\$186.88 - \$467.19
<b>Estimated annual NET income range</b>	<b>\$755.30 - \$888.25</b>	<b>\$983.12 - \$2672.81</b>

### COCOA PRODUCERS ESTIMATED *Daily* INCOME *Per Dependent* (USD)



**Above:**

Farmer livelihoods are determined by two important factors: cocoa prices and farm yields.

**Left:**

These estimates imply that a farmer with 2 hectares of land and average productivity will make about \$755.30 per year in Côte d'Ivoire and \$983.12 in Ghana, which is \$2.07 per day and \$2.69 per day respectively. In a family of six, that implies a subsistence of 34 cents per person per day in Côte d'Ivoire and 45 cents per person per day in Ghana.





## *The Challenge*

# Child Labor / Child Protection

Estimates put the number of child laborers in the cocoa sector in Côte d'Ivoire and Ghana at 500,000-1,500,000 children.<sup>20</sup> Children who work on cocoa farms are exposed to several hazards, including dangerous tools, dust, flames, smoke, hazardous chemicals, or hard, physical labor such as carrying heavy loads.

In addition to the physical consequences of their labor, cocoa farming often interferes with children's education. In Ghana, only around 75% of children attend school.<sup>21</sup> In Côte d'Ivoire, the problem is even more severe: only 59% of young boys attend school, while only 51% of girls are in school.<sup>22</sup>

As children are unable to attend school, either because they lack access to a school or because they work, the consequences follow them throughout their life. Illiteracy (43% in Côte d'Ivoire and 28.5% in Ghana<sup>23</sup>) and innumeracy places heavy burdens on the ability of farmers to do their work, especially when it comes to negotiating contracts and prices for their crops.

### **CHILD LABOR ON COCOA FARMS**

Children can be found working on many different tasks related to cocoa farming. They use machetes and other dangerous tools to remove cocoa pods from trees and to open the cocoa pods to remove the beans. They carry heavy loads of cocoa beans from the field to drying racks, and from drying racks to purchase locations. They are exposed to dangerous chemicals such as pesticides and fertilizers, and often endure long hours in the sun.

Tulane University, which was tasked by the US Department of State to provide oversight of public and private initiatives to eliminate the worst forms of

child labor, reported a very high incidence of children performing dangerous activities in both Côte d'Ivoire and Ghana. Tulane's report found that approximately 80% of children working in cocoa reported carrying heavy loads, while 60% participated in land clearing. In Ghana, approximately 80% of children working in cocoa reported carrying heavy loads, while 57% reported using machetes or long cutlasses.<sup>24</sup> The working hours for children in the cocoa sector are variable, but on average children work an estimated 20 hours per week in Côte d'Ivoire and 10 hours per week in Ghana.<sup>25</sup>

Nearly all of the activities associated with cocoa farming have been identified as the "worst forms of child labor" by the governments of both Ghana and Côte d'Ivoire, which means no children under the age of 18 should be engaged in this work, even on a family farm.<sup>26</sup>

+ In March 2005, Côte d'Ivoire's Ministry of Public Service and Employment released a list of dangerous types of work that are forbidden to be performed by children under the age of 18. This list includes: cutting of trees, burning of fields, application of chemicals (e.g., insecticides, herbicides, fungicides, etc.), application of chemical fertilizer, chemical treatment of fields/plants, and carrying of heavy loads.<sup>27</sup>

+ Ghana issued a Hazardous Child Labor Activity Framework for the Cocoa Sector, which prohibits children younger than age 18 from engaging in certain hazardous activities such as felling trees, burning bushes, applying chemicals, carrying heavy loads, using machetes for weeding, harvesting with a hook, and working on a farm for more than 3 hours per day or more than 18 hours per week.<sup>28</sup>

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## AID AND DEVELOPMENT PROJECTS

In the last ten years, chocolate companies have spent a large amount of resources on building schools, health centers, boreholes (wells), and other projects that are intended to provide alternative activities for children and improve their health. Where social projects to reduce child labor exist, it is very likely that more kids are in school and fewer children are engaged in hazardous work. However, building schools does not fundamentally change the nature of the cocoa supply chain, and the resources spent on these schools can be staggering. Some companies have spent upwards of \$150,000 to build one school.<sup>29</sup> The money that companies have put into social projects

might be better spent on improving the livelihoods of the farmers on whom they depend for their cocoa supply, and whose children are the ones engaged in dangerous work. Poverty is the root cause of child labor in the cocoa sector, and unfortunately, building schools cannot always solve the problem of family poverty.

In addition, chocolate companies have been in a perpetual state of pilot projects, where school building programs, community development efforts, and other social projects are tested in cocoa growing communities. Companies have not been willing to commit to scale up these initiatives, making school-building projects lack a vision for the future. In March

## HARKIN-ENGEL PROTOCOL

The Harkin-Engel Protocol is an international agreement signed on September 19, 2001 by the Chocolate Manufacturers Association and the World Cocoa Foundation, two organizations that represent nearly all of the largest chocolate brands in the world.

Under increased pressure to address child labor in the cocoa industry, chocolate companies joined with the governments of Ghana and Côte d'Ivoire to create and implement an industry-wide certification standard to indicate that cocoa was not being produced with the worst forms of child labor. The Protocol was witnessed by U.S. Senator Tom Harkin (D-IA) and U.S. Representative Eliot Engel (D-NY), along with several civil society groups.

The deadline to meet the goals of the agreement was July 2005, but extensions

were granted in 2008 and 2010. The industry repeatedly failed to reach the objectives of the protocol and in 2010, a new agreement called the 2010 Joint Declaration and Framework of Action was signed, creating new objectives for the industry. Instead of creating an industry-wide certification of no child labor, chocolate companies committed to reducing the worst forms of child labor by 70% by the year 2020.

The 2010 Framework of Action led to the creation of the Child Labor Cocoa Coordinating Group (CLCCG), which has helped increase transparency about the way companies are spending money to reduce child labor. Companies are required to report out publicly on their goals and achievements with the money pledged and stakeholders are invited to engage in discussions on challenges to progress.

## “TRAFFICKED CHILDREN ARE OFTEN ABUSED BY LANDOWNERS AND ARE RARELY PAID.”

2013, the government of Côte d'Ivoire reported that 36,000 schoolrooms are needed to achieve universal access to education in the country – and that does not begin to address the need to find, train and effectively manage the teachers for those schools.<sup>30</sup> Although the First Lady's office in Cote D'Ivoire has increased communication and collaboration among initiatives, disparate school-building projects create redundancies and hardly make a dent in addressing the educational need in cocoa communities.

Companies have also been unwilling to work together in a pre-competitive way on many projects. Aside from the joint projects of the International Cocoa Initiative and the World Cocoa Foundation, each major chocolate company and many cocoa traders are implementing social projects around the country that seek the same goal, but are not executed in coordination with each other. These isolated efforts cause redundancy in research and knowledge attribution on best practices. Cocoa farming communities would benefit greatly from more coordination among companies and experts in social services.

### CHILD TRAFFICKING

After more than a decade of effort to reduce child labor on cocoa farms in West Africa, child trafficking continues to plague the region. In its analysis of the trafficking problem, Tulane University found that Côte d'Ivoire is the predominant destination for trafficked cocoa workers, who generally come from Burkina Faso and Mali.<sup>31</sup> Trafficked children are often abused by landowners and are rarely paid. The First Lady of Burkina Faso has reported that the trafficking of children from Burkina Faso to the cocoa farms of Côte d'Ivoire tripled from 588 children in 2010 to 1,895 children in 2012.<sup>32</sup>

Sadly, there has been a considerable lack of focus on this issue at the civil society, certification, company, and government levels, and companies are denying any responsibility for trafficked children in their supply chain.<sup>33</sup>

Law enforcement response on child trafficking is also deficient. In 2012-2013 the Government of Côte d'Ivoire conducted only 15 investigations into trafficking cases, leading to only eight prosecutions and two convictions. Neither of the convictions was for persons engaged in trafficking children on cocoa farms.<sup>34</sup>

Trafficked children that are identified by the Government of Côte d'Ivoire are typically sent back to the communities from which they came (often located in Mali or Burkina Faso) with little oversight or monitoring to protect them from being trafficked again. If returning to their families is not possible, they may be sent to migrant communities within Côte d'Ivoire of Burkinabes or Malians, depending on where the child comes from originally, in the hopes that a local family will care for the child. In 2012-2013, the government identified, rescued, and provided care and repatriation assistance to four child trafficking victims from Benin and Burkina Faso.<sup>35</sup>

Currently, the government does not have a formalized referral mechanism in place between itself and local NGOs. However, there is some hope in Côte d'Ivoire with the implementation of the National Plan of Action on Child Labour. In 2011 and 2013, the government signed Memorandums of Understanding with the governments of Mali and Burkina Faso.<sup>37</sup> Côte d'Ivoire has planned to create two care facilities for trafficking victims and is employing a more child-centered approach to address this issue. The effectiveness of this new approach is not yet clear.



## *The Challenge*

# Cocoa Supply Chains

The challenge in stopping child labor and child trafficking is exacerbated by the difficulties farmers have in transporting their cocoa to market. Getting 500-2500kg of cocoa – the average harvest for one farm - from isolated villages in West Africa to the international market is not an easy task. Farmers face a complex supply chain filled with many actors and a precarious balance of power among companies, traders, and governments. **Given the fragmented supply chain, their lack of access to credit and market information, and the increasing consolidation of cocoa traders, farmers are left with very little negotiating power and poverty incomes.**

## **COCOA FARMING**

Farmers in the cocoa sector operate either individually or as members of cocoa cooperatives. Cooperatives typically provide farmers with certain benefits, such as financing and credit, loans for school, and better bargaining positions with cocoa buyers. Cooperatives have on average 500 member farmers, but can range from less than 100 to several thousand members.<sup>38</sup> Cooperatives also help organize farmers to seek benefits through certification and other programs aimed at improving farmer yield.

In both Ghana and Côte d'Ivoire, farmers face many challenges in navigating a complex industry. While each country has its own unique supply chain for cocoa, farmers in both countries must deal with issues relating to government regulation, a buyer's market, and access to credit.

In both countries, the government is heavily involved in regulating the cocoa sector through government bodies (COCOBOD in Ghana and the Conseil du Café-Cacao in Côte d'Ivoire). Farmers in both countries sell to middlemen who typically have control over

the terms of a sourcing agreement. Government regulations are meant to help secure the guaranteed farmgate price that is set each year (see Price and Negotiation Power in Section 2 below for further discussion). Cooperatives exist in both markets, but the majority of farmers operate individually. When farmers operate individually, they are severely limited in their access to credit and market information. Farmers in both countries report that loans are very hard to come by, and when they do get loans, interest rates make repayment extremely difficult.

The main difference between the cocoa markets in Ghana and Côte d'Ivoire is the amount of government regulation in each country. In Ghana, the country has a very strong hand in quality control and regulation of which companies are allowed to purchase cocoa. Ghana's government buys all of the cocoa beans produced in the country and manages all of the cocoa exports.

Although Côte d'Ivoire's cocoa market is much less structured, the government has become increasingly involved in quality and price management and in regulating cocoa exports.

The following pages outline the supply chains of Ghana and Côte d'Ivoire and describe how in each separate structure farmers face a market where buyers set the terms of the cocoa industry and the complexity of the supply chain keeps farmers from being fully-informed about market information.

## COCOA FARMING STEPS

**1:** Cocoa is harvested from pods which grow on the trunk or main branches of a cocoa tree. Because cocoa trees are extremely susceptible to diseases, pesticides are typically applied to the trees to protect the crop.



**2:** When the pods mature, farmers or hired laborers remove them from the cocoa tree with machetes or other steel tools.



**3.** The pods are then split open to expose dozens of beans embedded in a white, creamy pulp.



**4.** The beans are removed from the pod.

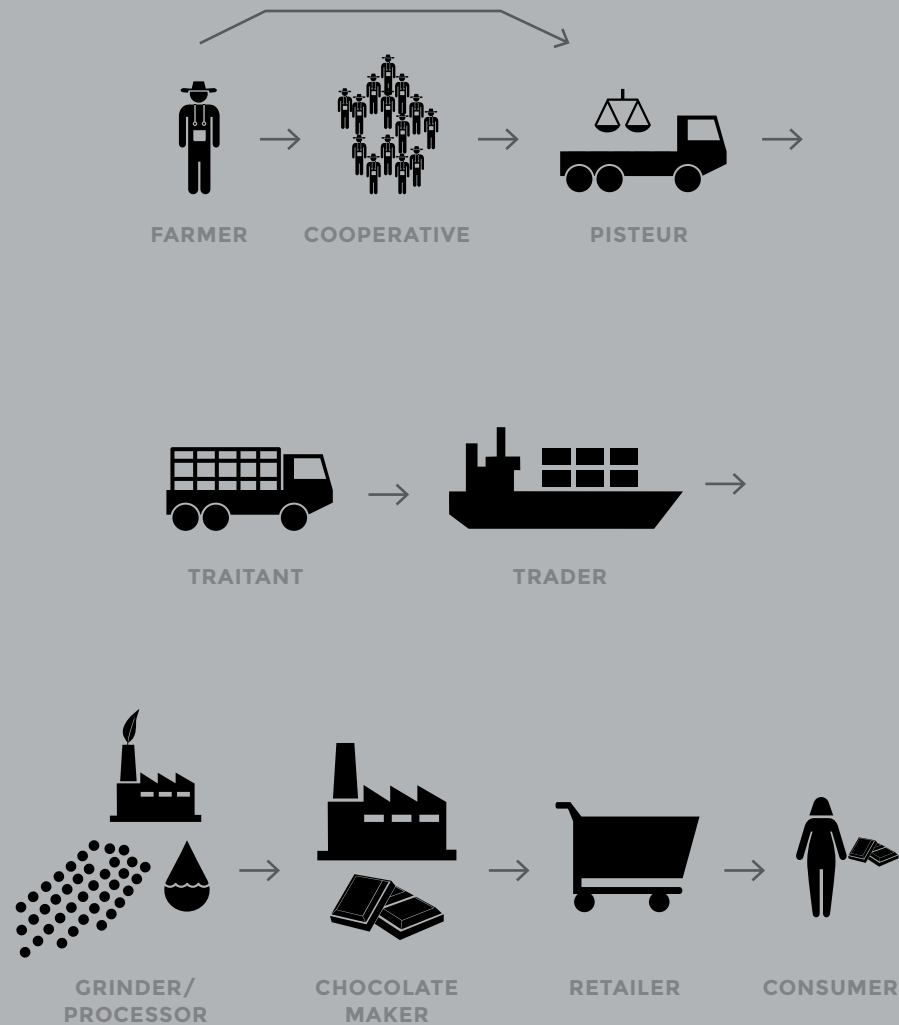


**5.** The beans are laid out on grates for several days of fermentation and drying.



**6.** After the beans have been sufficiently dried, they are packed into sacks and are ready to leave the farm.

## SUPPLY CHAIN IN CÔTE D'IVOIRE



The majority (80-85%) of cocoa produced in Côte d'Ivoire occurs in the “unorganized” sector, where farmers do not participate in a cooperative and instead sell their cocoa individually to middlemen, called “pisteurs.” Pisteurs travel from farm to farm to buy cocoa, paying up front in cash as opposed to a cooperative, which often has to delay payment to its farmers. A typical pisteur works with 25-30 farmers, and pisteurs sell to traitants who are licensed by the government to trade cocoa. Traitants buy from an average of 5-6 pisteurs, but can sometimes work with up to 200 pisteurs. It is estimated that there are around 1,000 traitants operating in Côte d'Ivoire. Traitants then sell their cocoa to large cocoa traders.

Farmers can also participate in a cooperative, which typically contracts with large cocoa traders, such as Cargill, for the purchase of their cocoa. Cooperatives can also sell to middlemen like pisteurs and traitants.

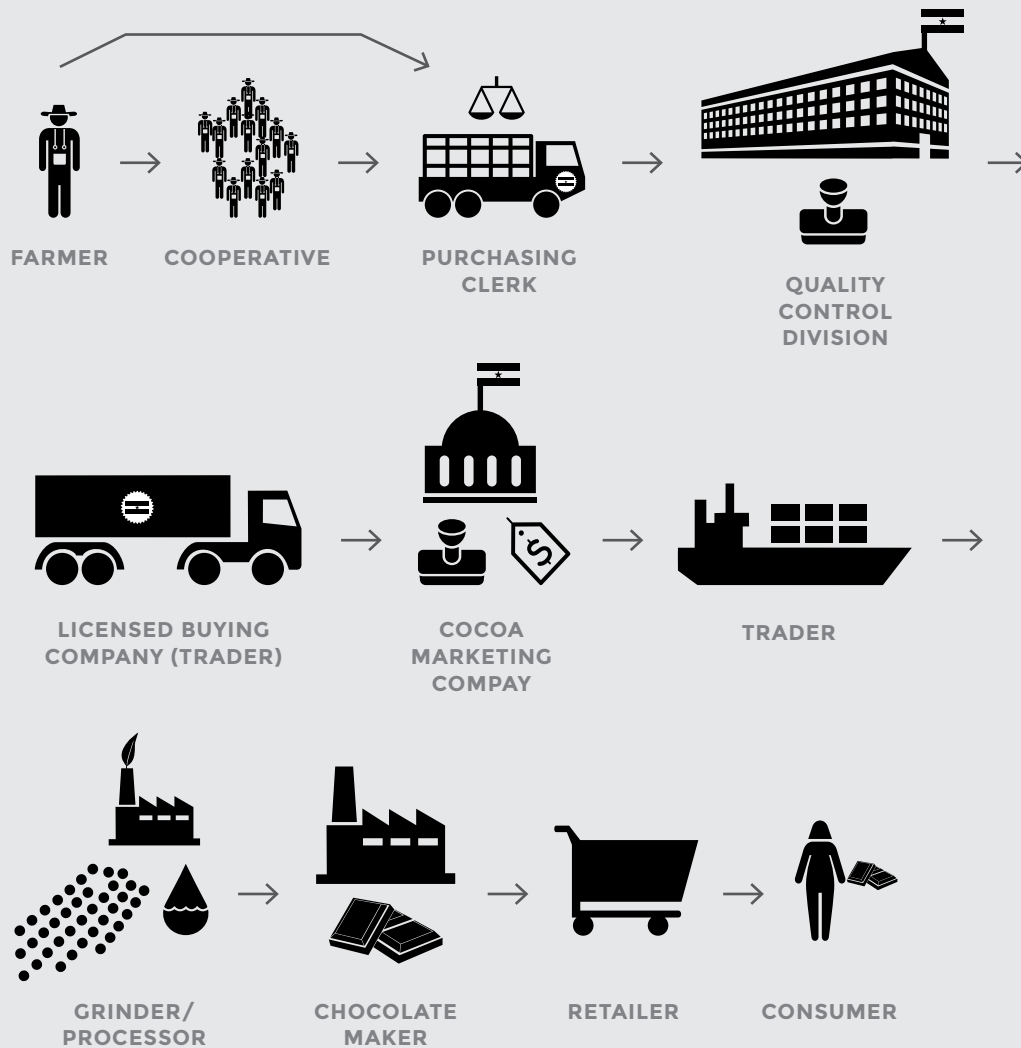
For many years, the cocoa industry in Côte d'Ivoire remained largely unregulated by the government and left farmers vulnerable to the volatility of the

international cocoa market. However, in 2012, the government initiated a new platform to increase regulation and protections for farmers under the Conseil du Café-Cacao (CCC). The CCC sets producer prices for each season and sells the future production of cocoa to cocoa traders during auctions that take place before the harvest.

Once cocoa is purchased by large exporting companies, the cocoa moves towards the port. At the port, the government also regulates the price at which traders can purchase the cocoa, which is an effort to keep smaller traders from being squeezed out of the market.

After exportation, they are either taken to a chocolate factory owned by branded companies, or they are taken to other intermediary companies for processing (into cocoa liquor, cocoa cake, cocoa butter, or bulk chocolate) before being passed on to chocolate brands.

## SUPPLY CHAIN IN GHANA



Ghana's cocoa industry is heavily regulated by the Government of Ghana through the state-run marketing board, COCOBOD, which controls buying practices, quality checks, and overall cocoa sustainability. Each season, COCOBOD authorizes a limited number of cocoa traders (who are called Licensed Buying Companies, or "LBCs") to purchase cocoa beans from farmers. LBCs hire local Purchasing Clerks to purchase cocoa from farms or cooperatives. These Purchasing Clerks are often farmers themselves, in addition to their work as sourcing agents for cocoa traders. LBCs are required to pay a minimum farmgate price which is set each year by a Producer Price Review Committee (PPRC). The PPRC and its decision-making process is discussed in more detail in Section 2.

In 2013, COCOBOD authorized 27 LBCs to purchase cocoa in Ghana, and there are approximately 2,700 locations where cocoa can be bought by LBCs through their local Purchasing Clerks. The Produce Buying Company, which is state-owned, is the largest LBC and captures about 37% of the market, while Akafo

Adamfo, Ecom, and Olam are the second, third and fourth largest buyers of cocoa in Ghana.

Once the cocoa has been consolidated and bagged at the local villages by Purchasing Clerks it is taken to large district warehouses, owned and operated by LBCs, where it is checked, graded, and sealed by the state-owned Quality Control Division (on behalf of COCOBOD). It is then ready to be transported to one of Ghana's ports, where all LBCs sell the beans to the state-run Cocoa Marketing Company (CMC) at a pre-determined price. The CMC regulates all cocoa purchases and handles all exports.

Once cocoa traders purchase the beans from the CMC, the cocoa is either prepared to be exported out of the country or it is sent to local cocoa grinders to be roasted, shelled, and ground. As is the case in Côte d'Ivoire, cocoa that is exported from Ghana is either sent to a cocoa processing company such as Blommer, Cargill, or Barry Callebaut, or it is sent directly to chocolate companies that process their own cocoa to be made into chocolate.

## “ THE COCOA MARKET HAS BECOME INCREASINGLY CONSOLIDATED.”

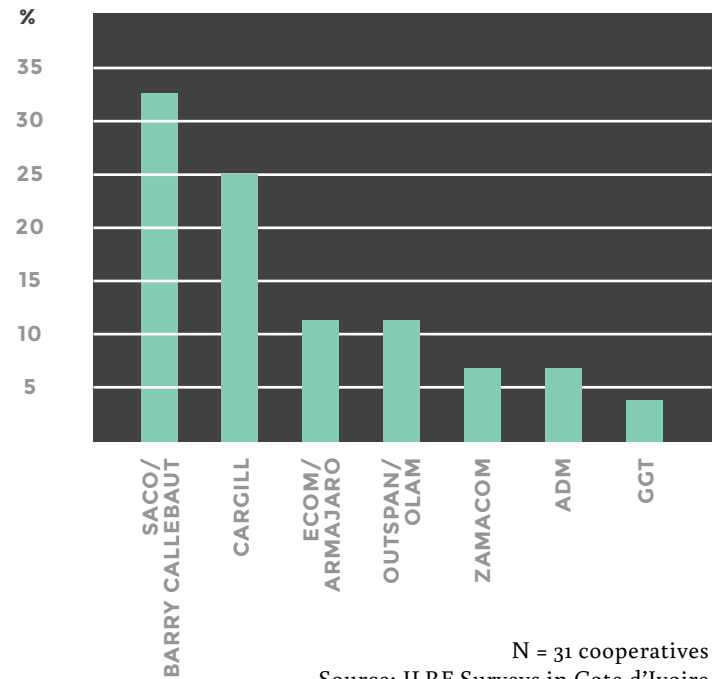
### MARKET CONSOLIDATION

Despite government efforts to regulate and set cocoa prices, their influence on prices is relatively weak due to the increasing consolidation among traders. The cocoa market has become increasingly consolidated over several years as fewer cocoa traders and processors take up more of the value chain in the chocolate industry, creating an oligopsonistic market with hundreds of thousands of cocoa farmers and a handful of buyers. It is these cocoa traders that control the world’s cocoa.

The top cocoa trading and processing companies include Barry Callebaut, Cargill, Archer Daniels Midland (ADM), Olam, and Ecom. In 2012, Barry Callebaut acquired the cocoa division of Petra Foods, increasing the company’s share of the cocoa market to 30 percent.<sup>39</sup> In 2014, Ecom purchased the cocoa trader, Armajaro.<sup>40</sup> With the recent consolidations, 75 percent of the cocoa market is now dominated by 5 companies: Barry Callebaut controls around 24% of the market, Cargill has 15%, ADM has 14%, Ecom has 12% and Olam has 11% of the market. There are concerns that this consolidation will allow the top companies to exert too much influence over the industry.<sup>41</sup>

Our research in Côte d’Ivoire revealed findings consistent with world statistics on the top cocoa traders. Most of the cooperatives that were interviewed sold their cocoa to SACO, Barry Callebaut’s local operator, with Cargill, Armajaro, and Outspan (the local operator of Olam) being the other major traders. (See Chart 2)

*Distribution of Buyers in Sample in Côte d’Ivoire [Chart 2]*



As the cocoa market experiences increasing consolidation among buyers, the effects are felt at the farm level. In Ghana, a farmer survey found that in the four cocoa growing regions surveyed, more than 75% of farmers sold their cocoa to only one Licensed Buying Company (cocoa trader), demonstrating a lack of competition that places the balance of power in the hands of the buyer.<sup>42</sup>

One limiting factor in improving the supply chain structures for both countries is the lack of farmer organization. Whether in the form of cooperatives, farmers associations, or unions, farmer organizing can provide venues to bring together a collective voice of concerns and opinions to counteract the power that currently resides with cocoa buyers.



## *Section 2*

# PRICE SETTING AND FARMER EMPOWERMENT





## The Fairness Gap

# Pricing & Negotiating Power

There are three main avenues that stakeholders have been using to achieve better livelihoods for farmers in the cocoa sector: pricing mechanisms; yield and quality improvement projects; and farmer empowerment. The governments of Côte d'Ivoire and Ghana use price stabilization to keep farmers protected from fluctuating prices on the international market and ensure they receive a specific margin of supply chain profits. Companies and certification schemes use yield and quality improvement projects to help farmers sell more cocoa at a higher price and ensure the future of the cocoa supply. Finally, cocoa unions, cocoa cooperatives, governments, and civil society organizations are seeking to improve farmer livelihoods by empowering farmers to voice their needs and demand their rights in the international market. We posit that not enough has been invested to date in this third avenue for change.

Cocoa has been a globally traded commodity since the time of Christopher Columbus, and New York commodity traders have been dealing in cocoa futures contracts since 1925. Today, cocoa futures contracts are traded on the NYSE LIFFE futures and options exchange in Europe, and the ICE Futures U.S. exchange in the United States. Large players in the cocoa trade can hedge their risk against price changes on these markets, and speculative traders can purchase shares in the cocoa harvest.<sup>43</sup> The International Cocoa Organization (ICCO) averages the most recent three months of futures trading on these two markets to determine the international cocoa price (often referred to as the London price).<sup>44</sup> Market prices can vary based on weather patterns, yield predictions, political stability, predictions about future demand, or changes in industry structure.

In Ghana and Côte d'Ivoire, minimum cocoa prices are determined every year by national price boards

that have been put in place to ensure price stability for farmers, since the price of cocoa on the global market is in a constant state of flux. While price boards protect farmers from price shocks, there are diverging views on the boards' effectiveness in enabling better producer prices than liberalized markets would.<sup>45</sup> While there are various facets to this debate, we focus here on the extent to which farmers have input on the price setting process and we identify some challenges to the effective use of this mechanism. Ideally, collectively represented farmers should have an equal say in price decisions and negotiations through governance structures.

Ensuring that farmers are fundamental players in price-setting is undoubtedly a challenge, given the geographic dispersion of farmers and the lack of communication infrastructure. In both Ghana and Côte d'Ivoire, cocoa trading companies' interests appear to be disproportionately represented. Fortunately, there is some openness to correcting this imbalance as regional actors in the cocoa trade are increasingly realizing that farmers must receive a larger share of the ultimate value of cocoa if the trade is to remain sustainable. One repercussion of not securing competitive prices for farmers, for example, is cross-border smuggling. In July 2014, a 41% drop in Ghana's currency value meant those able to organize transport smuggled their beans into Côte d'Ivoire to earn a higher price. As a result, the *Wall Street Journal* reported, Ecobank Transnational recommended that Ghana's cocoa-industry regulator substantially raise the fixed farmgate prices that producers receive for their beans in order to stop the smuggling.<sup>46</sup>

## PRICING IN CÔTE D'IVOIRE

The farmgate price in Côte d'Ivoire is set by the Cocoa and Coffee Council (CCC), which is comprised of

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twelve members in total: six from the government (including members from the Office of the President and several cabinets), one representative from the cocoa processing industry, one from the cocoa exporting industry, one from the banks and insurance sectors, and three representatives of cocoa farmers. The three cocoa farmers come from three different cocoa producing zones in Côte d'Ivoire.

In 2012, the first year Côte d'Ivoire set fixed farmgate prices, cocoa farmers were guaranteed a minimum price of 725 CFA per kg of cocoa, which was around 60 percent of the international market price.<sup>47</sup> This new price guarantee raised farmers' average incomes by about 9 percent over the previous year (the average price for cocoa in 2011 was around 667 CFA<sup>48</sup>), marking a significant gain for farmers across the country.

Unfortunately, in the following year farmers did not benefit from higher cocoa prices on the international market. In October 2013, the CCC agreed to raise the minimum price for cocoa by 3.4% over the previous year, from 725 CFA to 750 CFA, even though the price of cocoa on the international market had risen 17% since June 2013. Cocoa market analysts predicted that the regulated price increase of 25 CFA would do very little to increase the incomes of cocoa farmers over the previous year due to inflation and low production.<sup>49</sup>

While the new pricing mechanism in Côte d'Ivoire is primarily meant to benefit farmers, cocoa trading companies have still been able to maintain a disproportionate amount of control over the process. Although there are seats reserved for cocoa farmer representatives on the price setting board, the dispersion of farmers throughout the country makes it exceedingly difficult to establish robust farmer participation or advocacy. **In addition, the Ivorian**

**government stands to lose much needed resources if they set the price too high as a result of an agreement made with exporters in 2012.** When Côte d'Ivoire first launched the new auction system in early 2012, GEPEX (Groupement Professionnel des Exportateurs de Café et de Cacao de Côte d'Ivoire), a group of exporters that represents about 55 percent of Ivorian cocoa exports, initiated a month-long boycott in protest.<sup>50</sup> As a result, the government agreed to set up a stabilization fund that could be drawn upon by companies if international prices dip too low.

There is also a cap on how much traders can pay for beans at the port, a regulation put in place to protect smaller traders from being priced out of the market.<sup>51</sup> Because of the fixed margin between the farmgate price and the port price, few farmers are in a position to negotiate much higher prices than what is determined by the government price boards. It is rare to find farmers that have negotiated higher prices for their cocoa without some third party assisting them (such as a cooperative or a certification scheme). Thus, the price floor effectively has tended to become a price ceiling.

## **PRICING IN GHANA**

Concerns about a lack of farmer representation are echoed in Ghana. Each year, the price of cocoa is determined by a Producer Price Review Committee. This committee is composed of representatives from COCOBOD, the government, each of the 27 licensed buying companies (LBCs), but only one farmer representative.<sup>52</sup> The committee collectively makes decisions on both the FOB price (the export price) of cocoa and the percentage of that price that will go to farmers (the farmgate price).<sup>53</sup>

## “ FARMERS CONTINUE TO RECEIVE LOW PORTIONS OF THE VALUE CHAIN.”

The farmer representative on the PPRC, or “Chief Farmer”, as he is called, is a representative from the Ghana Cocoa, Coffee and Shea Nut Farmers Association which has been labeled by farmers, NGOs, and industry stakeholders as a “government front group” that purportedly represents cocoa farmers, but many farmers we interviewed noted the association’s many political ties. Interviews with farmers, farmer groups, and civil society organizations in many regions across the country revealed that cocoa producers have little to no voice in the determination of the price that they receive for their cocoa.<sup>54</sup>

Farmers we met with voiced complaints that they have never been consulted about what the price of cocoa should be, and reported they are completely uninformed about the process to determine it.<sup>55</sup> **Even in years where the farmgate price for farmers has risen, many farmers do not know that they are in fact getting a smaller portion of the overall export price, because the export price has risen higher in proportion to the farmgate price over the previous year.**

In 2013, the PPRC determined that it would not raise the farmgate price for farmers from the previous year, even though the international price of cocoa had reached a two year high of US\$2700 per metric ton in October of that year.<sup>56</sup> Thus, in the 2013/2014 season, farmers in Ghana continued to receive GH¢ 3,392, per metric ton of cocoa sold.<sup>57</sup> The price stagnation combined with the a 20 percent depreciation of the Ghanaian cedi against the dollar meant that the farmgate price of cocoa in Ghana was much lower than it should have been - in February 2014, farmers were receiving only 45% of the world cocoa price of US\$3097.<sup>58</sup> The decision to keep farmgate prices low while international prices continued to rise ran counter to promises made to farmers that they would

receive at least 70 percent of the international price of cocoa.<sup>59</sup>

Further exacerbating their income struggles, in 2013 Ghanaian farmers were not paid their yearly bonuses for the first time in several years and they lost important subsidies. The 2.2 million bags of fertilizers that farmers typically receive from the government was scaled back to 500,000 bags and the mass spraying program that helped control cocoa tree diseases was cut in half.<sup>60</sup>

Price determination in both Ghana and Côte d’Ivoire is largely done behind closed doors with the power resting mostly with governments and companies. During years of high cocoa prices, farmers do not receive the share of the international cocoa prices that they are promised - specifically, 60 percent in Côte d’Ivoire and 70 percent in Ghana.

Chart 3 provides a snapshot of how much producers in Côte d’Ivoire and Ghana have been receiving as a share of the overall international market price. The data shows that in the last ten years, aside from the 2011/2012 crop year where farmers received 86 percent of the international cocoa price, farmers in Ghana have never received more than 70 percent. In Côte d’Ivoire, farmers only received more than 60 percent of the international price once in the last decade, instead averaging around 50 percent, even when international prices were very high. When international prices dipped very low, the price ratio for farmers dipped even lower proportionally - to nearly 40 percent in the case of Ghana, and 30 percent in the case of Côte d’Ivoire.

Thus, even with the stabilization of prices at the national level, farmers continue to receive low portions of the value chain during rough years, and

do not always see higher incomes during years of high market prices. (See Chart 3)

*Average farmgate prices as a percentage of the average international price [Chart 3]*



Côte d'Ivoire: —

Ghana: —

Source: Various Sources. See Appendix for full table.

By comparison, other cocoa producing countries have been able to achieve a farmgate price that is 80-90 percent of the export price. In January 2014 Nigeria's farmgate price for cocoa was around 91 percent of the international cocoa price.<sup>61</sup> In Cameroon, the farmgate prices were recorded at 89 percent of the international cocoa price in May 2013.<sup>62</sup> These countries have very different environments and different mechanisms for determining farmgate prices, but their examples demonstrate that in the West African cocoa commodity market, achieving a farmgate price that is equal to 70 percent of the world cocoa price is attainable.



## *The Fairness Gap*

# Yield & Quality Improvement

Over the last decade, companies have been engaging in productivity programs under the auspices of farmer livelihood improvement. Whether or not their efforts are succeeding and leading to short-term increases in farmer income, there are concerns over the future impact of such policies once scaled.

Low productivity in West Africa's cocoa sector has been a cause for concern for large chocolate makers and cocoa traders, as West Africa is a critical market for most stakeholders in the cocoa supply chain. Nestle, for example, sources 37% of its cocoa from Côte d'Ivoire alone.<sup>63</sup> Across the industry, companies and market analysts alike are concerned that the cocoa supply will not keep up with the growing demand in the coming years, and that because of low prices and low yields, farmers in West Africa will continue to exit the cocoa market.

Cocoa farms in Ghana and Côte d'Ivoire produce around 200-500 kilograms per hectare, while the average farm in Malaysia produces 800-1000 kg/ha and the average farm in Indonesia produces 1000-2000 kg/ha.<sup>64</sup> In addition to low yields, the quality of cocoa in West Africa is known to be subpar to that of Central and South America and other parts of the world, where high-end chocolate companies typically source their cocoa. The reasons for West Africa's low yields and poor quality are diverse:

- + limited use of pesticides and fertilizers due to high costs and low income;
- + lack of Good Agricultural Practices (GAP), such as pruning and shading;
- + ageing trees; and
- + and a high incidence of plant disease.

The multi-tiered supply chain has also led to lower quality beans: in Côte d'Ivoire, smaller middlemen buyers are often not averse to buying beans that have

not been sufficiently dried and fermented because they compete with so many other middlemen. When beans are not prepared properly, they produce lower quality cocoa.

Companies have been attempting to address this issue by investing millions of dollars into projects that boost productivity and improve agricultural practices. Nearly every major chocolate company now has programs in place to train farmers on GAP, develop new hybrid trees that are resistant to diseases, and distribute inputs such as seedlings, pesticides and fertilizers to replant and maintain trees. These efforts are generally marketed as not just a form of securing the future of the cocoa supply chain, which they are, but as ways to improve the livelihoods of farmers in West Africa.

Two key questions need to be asked, however, about yield and productivity programs: 1) will large-scale yield improvement projects be mutually beneficial for both companies and farmers in the long run; and 2) what are the near-term net gains to farmers, especially if they need to hire more day laborers to bring in a larger harvest?

To date, none of the companies investing in yield improvement programs have been able to validate the net income gains to farmers. Meanwhile, our interviews with Ivorian farmers revealed that farmers have trouble finding and being able to pay day laborers. Many estimated that they barely earn what a day laborer is meant to be paid by law.<sup>65</sup> In addition, price-setting mechanisms at the national level in both Ghana and Côte d'Ivoire place constraints on how much of a premium a farmer can receive for better quality cocoa. Cocoa prices are regulated at both the farm and the port, leaving a very specific margin that cocoa traders are able to capture.

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As for gross income gains, a study commissioned by the International Cocoa Organization did report that productivity trainings led to overall increased incomes for farmers.<sup>66</sup> Additionally, in our surveys with cocoa farmers and cooperatives, some respondents cited positive experiences with yield and quality improvement projects and the resultant increase in productivity. In one interview, a farmer reported, *“I inherited a large plantation from my uncle, but unfortunately this plantation was getting old. This resulted in a low harvest, as some of the cocoa beans were already rotten. But then I decided to participate in the orchard regeneration project ICRAF. The plants of my cocoa plantation were all grafted. Within a few months I had larger cocoa pods than before and my production increased significantly.”*

While at the farmer level there is evidence that these programs have increased incomes somewhat, no cost-benefit analysis exists showing net income gains to farmers. In addition, there remain broader concerns that this is a temporary fix. The history of cocoa and similar industries is replete with examples of overproduction leading to crashing prices. The price of cocoa on the world market is heavily affected by productivity and yields on the ground.

## THE BOOM-BUST CYCLE

One of the most well-documented examples of overproduction and crashing prices is the entry of Vietnam into the world coffee market. Between 1990 and 2000, more than one million hectares of coffee was planted in the country, making Vietnam the second largest coffee producer in the world. With world production increasing at 30% per year, the coffee market saw a precipitous decline in international coffee prices, leading to a serious negative impact on the livelihoods of farmers around the world.<sup>67</sup>

Market analysts for the cocoa economy have predicted that given current levels of production and demand growth, cocoa demand will outstrip supply year after year.<sup>68</sup> This has led many companies to disregard any concerns about the effect of large-scale production programs on the price of cocoa received by farmers. Given the history of cocoa prices and the effects of production cycles in the past, however, these concerns cannot be overlooked.<sup>69</sup> In the early 1960s, Ghana experienced both a peak in cocoa production and the lowest cocoa price in history (\$211/MT). More recently, in 2000, an oversupply of beans led to a 27-year low in prices of \$714 per metric ton.<sup>70</sup> While the price of cocoa is now regulated in the top two cocoa producing countries, these mechanisms have yet to provide a sufficient buffer against price fluctuations and they have failed to secure greater gains for farmers when international prices are high. Although both governments have expressed good intentions, the impact of these programs will be hard to improve unless farmer representation can parallel the current, heavy industry influence in price determination.

## IMPACTS ON THE LABOR MARKET

Productivity programs sponsored by companies have also failed to address the lingering concern of the impact that improved yields will have on the labor market. While the cocoa sector is largely dominated by smallholder farmers, the industry relies heavily on hired labor and migrant labor. As productivity programs increase the workload of individual farms and certification and other initiatives reduce the use of child labor, the need for hired labor will continue to increase. As the labor force grows, the need for more protections for marginalized workers will be even more critical.



## *The Fairness Gap*

# Empowerment

Cocoa farmers in West Africa are isolated from the international market and typically operate in an unorganized sector. Without the influence of collective negotiating, individual farmers face a lack of empowerment, manifested in their peripheral roles in price decision-making, certification standard setting, and in government programs intended to help farmers.

Because of poor road infrastructure, it can take several hours for a farmer to cover just a few miles in a truck, and the telecommunications infrastructure is severely deficient. As a result of the decentralized market, a vast network of middlemen, whether in the form of pisteurs in Côte d'Ivoire or purchasing clerks in Ghana, has become responsible for driving from farm to farm, collecting sacks of cocoa beans and delivering them to cocoa traders. Most farmers do not have the capacity (neither a truck nor the time) to deliver their beans themselves.

This structure has put negotiating power in the hands of middlemen, while farmers are merely price-takers. **As a University of Tennessee study demonstrates, in the cocoa industry “market information...is asymmetric in favor of the buyer, resulting in significantly lower prices being received by farmers.”**<sup>71</sup> While farmers in Ghana and Côte d'Ivoire face regulated prices that shelter them from the volatility of the market, they are still exposed to a market imbalance in price decision-making mechanisms, in certification premium negotiations, and in contracts with traders.

### **GOVERNMENT POLICIES**

Informal interviews with hundreds of farmers across Ghana revealed that there are many issues with the way the government regulates the cocoa sector due

to a lack of farmer representation at the government level. Farmers reveal discontentment with cocoa price determination, government programs, and the distribution of subsidized inputs.

Farmers are concerned about the corruption happening in programs that are intended to help cocoa communities. Ghana has instituted a scholarship program that is meant to award the children of cocoa producing families with financial assistance for their education. This program has not actually reached farmers, however, and instead is typically awarded to government employees working at the top levels of the cocoa supply chain. Discussions with influential cocoa traders also confirmed this to be true.<sup>72</sup>

The government also engages in the distribution of free pesticides, seedlings, and other inputs to cocoa growing communities to help farmers maintain good plantations. Farmers reported, however, that the distribution is heavily politicized, and pesticides end up in communities that favor the ruling political party. These inputs also make their way onto the black market; although they are meant to be free for farmers and even have labels stating “Not For Sale,” they are found in shops all over the country and even across the border in Côte d'Ivoire.

With increased farmer organizing and better representation at the national level, these programs and policies can be implemented with more fairness and a redirection of benefits to those that need it the most.



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## **FARMER EMPOWERMENT THROUGH ORGANIZING**

Farmer organizations are important for fostering political, economic, and social empowerment. Organizations can provide farmers with access to better and more timely information on the domestic and international market. Because cooperatives can help scale up the production of cocoa, they expose the farmers to multiple buyers with which they can negotiate higher prices and better contracts. Farmer organizations can also enable the pooling of resources to purchase inputs such as seedlings and fertilizer, and can potentially limit quality-related risks for individual farmers.<sup>73</sup>

In 2013, the National Alliance of Coffee & Cocoa Producers, a national cocoa growers association in Côte d'Ivoire, announced the creation of an agricultural bank that will help farmers in 400 cocoa cooperatives gain access to credit and better organize farmers to create a more balanced cocoa industry. As access to credit is a chief concern among cocoa farmers, this new scheme could greatly benefit farmers and cooperatives while providing a place for farmers to voice issues and concerns within the cocoa industry and enjoy better representation at the national level.

Other farmers associations have been growing in strength in Côte d'Ivoire and Ghana. In Côte D'Ivoire, the trade unions and emerging farmer associations, such as the General Union of Coffee and Cocoa Producers (UGPCCI for its acronym in French) aim

to improve information flows to farmers. They seek to address farmer access to pricing information, access to market (through better roads), and access to credit. In Ghana, the General Agriculture Workers Union (GAWU), an IUF affiliate, has been working with the ILO to organize farmers and create better representation of farmer interests at the national level. In addition, the Concerned Private Cocoa Farmers Association (CoPCoFa) seeks to improve farming techniques, reduce exploitation and corruption in the cocoa sector, train members on their legal rights, and seek more representation for farmers in the price-setting mechanism.

Not all farmers associations and cooperatives have been beneficial for cocoa farmers. Cooperatives can often be weak, mismanaged, or controlled by companies through unfair contracts. Through field research in Côte d'Ivoire, nearly a quarter of the farmers surveyed expressed concern over the rampant corruption by “fictitious cooperatives” that exist solely to take money from farmers.

Part of the empowerment process is gaining knowledge about corrupt practices and leading the sector toward initiatives that benefit all workers. In order to ensure the proper functioning of a cooperative, there must be adequate transparency and farmer participation in the management of the cooperative. Farmers that are educated about their rights and responsibilities as members of cooperatives will be less likely to be caught in a fictitious cooperative deal.



## *Section 3*

# INDUSTRY EFFORTS, CERTIFICATIONS, AND FARMER ORGANIZING





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## *Current Solutions*

# Company Efforts

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Over the past fifteen years, cocoa and chocolate companies have sustained a long transformation from ignorance and denial about the child labor in their supply chains to making commitments to take more responsibility for its eradication. Companies are now spending millions of dollars on efforts to improve farm productivity, build schools, and certify their cocoa supply. These efforts receive mixed reviews, as they don't always directly or effectively target the root cause of child labor, which is poverty.

While most of the company efforts over the last fifteen years have lacked transparency in their missions and scope, recent updates to the Harkin-Engel Protocol have encouraged openness to a limited number of projects. In 2013 and 2014, several major chocolate companies reported out on their efforts to reduce child labor to the Child Labor Cocoa Coordinating Group (CLCCG). The CLCCG was a mandate of the 2010 Framework of Action, an update to the Harkin-Engel Protocol signed by chocolate companies, the US Department of Labor, and the governments of Ghana and Côte d'Ivoire. The CLCCG requires companies to report their activities and total funds contributed to fight child labor in cocoa, which is summarized in Table 2. These commitments do not cover the industry's total monetary contribution to child labor elimination efforts - only the commitments that companies choose to report to the CLCCG and that fall under the CLCCG's

requirements. Yet the transparency advanced by the CLCCG should be encouraged and expanded. We need to work past the lack of comprehensive and comparable data reported about company investments in remediation of child labor and solutions focused on prevention such as improving farmer livelihoods.

Measuring company commitments based on dollar values does not necessarily reflect the seriousness or sophistication of a company's efforts to improve cocoa livelihoods; however it does provide one benchmark for commitment.

We note that while these projects are not a full solution to addressing child labor, the Harkin-Engel Protocol and the CLCCG have motivated and spurred significant social programs and created greater transparency around company commitments. Company projects that fall under the CLCCG's umbrella of funding are dedicated mainly to social endeavors such as building schools, wells, and health centers. Although laudable endeavors, these projects are often limited in their ability to effectively incorporate farmers' perspectives. At a workshop co-facilitated by ILRF at the University of Cocody, farmers addressed their concerns about this lack of input. One farmer stated, "People come to our village and talk to us about stopping child labor and helping to build schools, but no one asks about our needs."

*Company Commitments under the Child Labor Cocoa Coordinating Group [Table 2]*

Company	Total Committed Funds	Avg. Commitment per Year
Mars	\$2.7 million for 2011-2013	\$904,000
Mondelez (Kraft)	\$2.32 million for 2009-2012	\$580,000
Ferrero	\$1.14 million for 2012-2013	\$570,000
Nestle	\$1.5 million for 2012-2015	\$375,000
Hershey	\$600,000 for 2011-2014	\$150,000
Barry Callebaut	\$300,000 for 2012-2014	\$100,000

Source: Child Labor Cocoa Coordinating Group Report, 2013

## COMPANY POLICIES & PRACTICES

Beyond social projects and financial commitments, chocolate companies differ in the extent to which they use good supply chain management practices to ensure better conditions for farmers. Using company, self-reported data gathered through the Free2Work project, we created an analysis of company performance on a set of indicators. (See appendix for a full list of these companies' brands.)

We found that the bulk of company efforts are taking place through certifications; companies' non-certified supply chains are for the most part completely lacking in ethical management practices aside from the existence of unenforced codes of conduct, with the exception of Nestle.

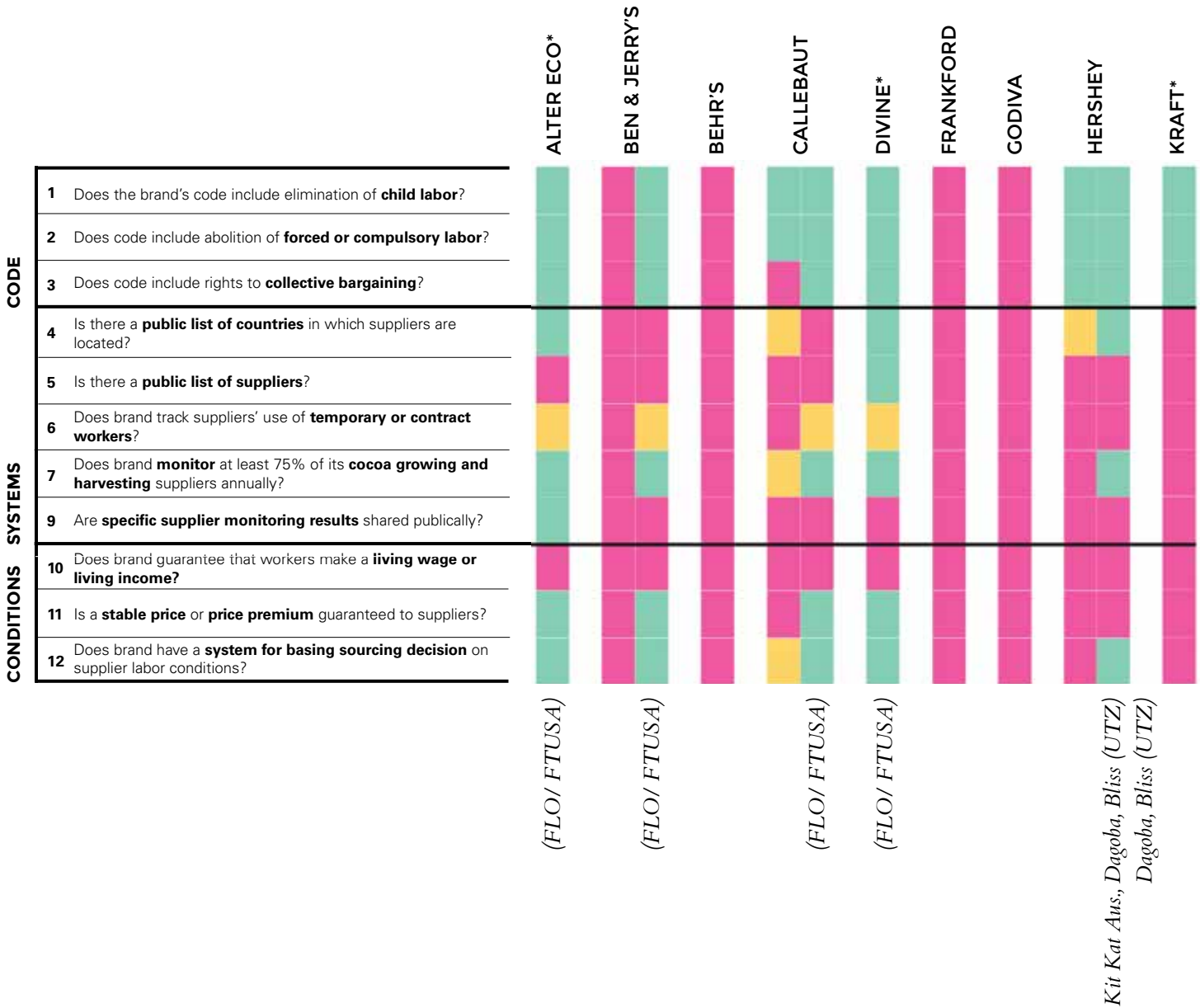
It is rare for a company to publicly list the countries where it sources its cocoa, and even rarer to list its suppliers (traders or farmers). Only two companies,

Divine and Rapunzel — both small ventures focused on ethical practices — disclosed all of their suppliers publicly. Nestle disclosed some of its suppliers in 2012 through the Fair Labor Association (FLA).

Of the large companies, Callebaut, Mars and Nestle were the only to report any monitoring of their non-certified suppliers. Only Alter Eco, another small ethically-focused brand, makes all of its audit reports available to the public; Nestle has also made some significant initial disclosures through the FLA.

Most importantly, the *impact* of most companies' practices on farmers' conditions is unknown at best, which means that in most cases there is ample room for exploitation. No chocolate company has ever guaranteed a living wage or living income in the cocoa sector, and only products certified by Fairtrade, Fair Trade USA, and Rapunzel's small Hand in Hand project guarantee prices and premiums to producers.

# COMPANY POLICIES & PRACTICES



## METHODOLOGY

In 2013, Free2Work conducted research into the extent several large companies use good supply chain management practices to ensure better conditions for farmers.. A survey was sent to all the companies listed above, and used in conjunction with publically available records about policies to analyze each company based on the criteria listed. Survey responses were only received from companies identified with an astriks(\*). Specific product lines analyzed are identified at the bottom of

the chart, with the certification system used, where applicable, indicated in parentheses. When this research was conducted, FTUSA was relying on FLO certifications. Since then, FTUSA has separated from FLO, and this research does not assess the impact or policies of current FTUSA programming. Due to the limited nature of this analysis, this list is not comprehensive, and some additional high-performing brands were not included in the assessment.



Key: yes partial no



# Who Benefits from Certification?

In the last few years, many major chocolate companies have made commitments to purchase “certified” cocoa: cocoa that has been produced under specific social, environmental, and/or quality standards. With the increasing demand for sustainable cocoa, certifying bodies have a potentially large influence on the future of the cocoa crop. Certification has been a step forward in the fair trade negotiation process between small producers and large buyers. It is not, however, a full solution for improving the livelihoods of farmers or preventing child labor. First, certification does not ensure the complete traceability of cocoa from farm to chocolate bar so it is difficult to identify which companies should be held accountable for remediation of standards violations. Second, not all certifications prioritize increasing the prices farmers receive as a primary goal. Indeed, some programs simply rely on yield and quality improvement as a method for increasing incomes. As certification increases in influence in the coming years, it is critical to ensure that these systems will benefit workers in the long term and include the full participation of farmers in their implementation.

There are currently four main bodies that certify cocoa beans in West Africa: Fairtrade International (FLO), Fair Trade USA (FTUSA), Rainforest Alliance, and UTZ Certified. In 2009, 84,000 metric tons (MT) of the 4.2 million MT cocoa supply was certified by Rainforest Alliance, UTZ certified, and/or FLO. It is estimated that by 2020, 2.23 million metric tons of cocoa will be certified.<sup>74</sup> A brief description of each cocoa certification follows:

*Fairtrade International (FLO):* This 25-year old program emphasizes farmer empowerment and takes a community-centered approach to improving livelihoods by encouraging cooperatives and

incentivizing the pooling of resources and pursuit of collaborative projects among farmers.

*Fair Trade USA (FTUSA):* After splitting from FLO in 2011, FTUSA has continued to use Fairtrade International’s “Smallholder Producer Standard” while also launching their own program, which was just beginning to certify 2,500 farmers in 7 cooperatives to supply Hershey with certified cocoa when we surveyed them in 2013. It is estimated that these farmers will supply around 3000-4000 metric tons of cocoa for Hershey.<sup>75</sup>

*Rainforest Alliance:* Established in the late 1980s, Rainforest launched in Africa’s cocoa sector in the 2000s with a primary focus on biodiversity and environmental sustainability and some social standards.

*UTZ Certified:* Established in the early 2000s, UTZ came to Ghana’s cocoa sector in 2009 and to Côte d’Ivoire’s in 2012.<sup>76</sup> UTZ places a heavy emphasis on improving efficiency, quality, and yields as a means to better livelihoods and employs projects to diversify income streams to lower price risks on individual crops.<sup>77</sup>

## TWO CERTIFICATION PHILOSOPHIES

The four cocoa certification systems follow two main philosophies to arrive at improving incomes: either they aim to give farmers a better price for their cocoa (FLO, FTUSA), or they aim to improve product quality and productivity to drive overall market-based income gains (Rainforest Alliance, UTZ Certified).



## CERTIFIED COCOA PROJECTIONS

+ In 2011, 46,000 metric tons of the world's cocoa was sold as FLO certified. By 2020, it is estimated that FLO certifications will cover 535,000 metric tons of cocoa.

+ In 2011, 65,000 metric tons of the world's cocoa was sold as Rainforest Alliance certified. By 2020, it is estimated that Rainforest Alliance certifications will cover 900,000 metric tons of cocoa.

+ In 2011, 43,000 metric tons of the world's cocoa was sold as UTZ certified. By 2020, it is estimated that UTZ certifications will cover 800,000 metric tons of cocoa.

+ FTUSA is currently certifying 2500 farmers in 7 cooperatives to supply Hershey with certified cocoa. It is estimated that these farmers will supply around 3000-4000 metric tons of cocoa for Hershey.<sup>78</sup>

Sources: Cocoa Barometer 2012 and Conversations with FTUSA.

## “FAIR” PRICES

Fairtrade International (FLO) was created to give farmers fairer profit shares.<sup>79</sup> FLO cocoa buyers pay a higher price and part of the profits is passed on to the cocoa farmers in the form of a guaranteed fixed price as well as a premium payment for cooperatives to democratically manage and reinvest in their farms. Although some critics have complained that not enough of the price premium charged to buyers is passed onto farmers, our research showed that FLO is paying a higher premium for cocoa than other certification programs. Notably, the higher guaranteed fixed price is not currently a particular FLO benefit since the market price has been higher for several years.

FLO helps to build and strengthen farmer cooperatives and encourage collective decision making processes. Thus farmers determine together how to invest the price premium, which is meant to strengthen their organization and encourage mutual

support. Relying on the cooperative to manage the investment of the price premium, however, makes it difficult to determine how much of the price premium is used to improve farmer incomes.

## PRODUCTIVITY

Like corporate yield improvement programs, a number of certification systems focus on improving farm productivity as a route to improved farmer income. Specifically, UTZ Certified and Rainforest Alliance cite the facilitation of better quality cocoa and better yields as their main strategies to improving farmer livelihoods. These programs have helped improve farmers' yields and quality of crop, and productivity training is one of the main benefits that farmers cite when they are asked their opinion about the effects of certification. There is no independent cost benefit analysis, however, to confirm net income gains resulting from the investments farmers make in these programs.

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## FARMER PERSPECTIVES

Interviewing farmers and cooperative managers for this study, it became clear that many are managing multiple certifications and have a hard time making a clear distinction among systems. Farmers report that the quality standards required by the various certification systems have strengthened their ability to negotiate prices with traders:

*“We didn’t use to do too many selection steps after drying the cocoa and focused on having a high weight when bagging the cocoa. But through the certification projects we have learned about good selection practices and now have a product of high quality that allows us to negotiate certain benefits with the buyers.”*

*“Before, the planters worked carelessly, without differentiating between cocoa beans of different quality. But with the certification projects they managed to introduce harvest standards to separate good cocoa beans from bad ones.”*

What was clear throughout the farmer interviews was the lack of information available to them about the specific costs and benefits of each program. Overcoming the lack of information and coordination among these programs and the duplicative fees are concrete steps that could greatly improve the impact each of these programs.

FLO certifications were the first to take hold in West Africa, but increasingly traders have sought out other certifications causing farmers to seek second and third certifications. It’s not clear why this shift has occurred. Two cooperative representatives posited that traders prefer other certifications with lower premiums. Whatever the cause of the shift, the lack

of coordination among certifiers is creating confusion and duplicating expenses for farmers.

Following ILRF’s January 2014 workshop with farmers, one farmer related that when a cocoa trader came to their cooperative and explained the different certification programs to them, they chose Rainforest because they were told it paid the highest premiums. Later they learned, however, that they’d have to pay half the premium for two years to pay for the certification fees incurred. Then, in the second year the trader said they would not need as much Rainforest certified cocoa, so just when farmers expected to earn the full premium, the order for certified cocoa dropped off. It was clear from his report that they did not learn about the certification fees directly from Rainforest and that there is a fair amount of miscommunication about the programs available and the lack of a guaranteed or stable market.

What must be addressed is the impact that 100% certification from several major chocolate companies will have on premiums between certified farmers and cocoa traders, specifically in certification initiatives where the premium is negotiated between farmers and buyers and there is no regulation or minimum premium guaranteed. While these efforts have led to short-term market income boosts, there is concern about the impact of such policies once scaled. Once all farms are labeled with a certification standard, farmers in the UTZ and Rainforest systems will have fewer opportunities to negotiate for a higher premium because of the increased supply of certified cocoa. And although Fairtrade guarantees the price premium level, they cannot assure farmers of a stable market, in light of the competition.

## CERTIFICATION IMPACT ON FARMER INCOME

Given that all of the social certification systems aim to improve farmer incomes, one comparative benchmark is their price impact. As Table 3 demonstrates, however, even before the cost of certification is accounted for, these premiums by themselves, which are at most a 15% increase in price paid, are not significant enough to raise farmers out of poverty.

*Cocoa Certification Premiums and Price/Premium Determination Process [Table 3]*

	Highest and lowest premiums paid in the last cocoa season	Average premium (as reported by ICCO)
<b>FLO</b>	Fixed: \$200/MT	Ghana: \$200/MT Cd'I: \$200/MT
<b>FTUSA</b>	Fixed: \$200/MT	Ghana: \$200/MT Cd'I: \$200/MT
<b>RA</b>	Not provided upon request	Ghana: \$150/MT Cd'I: \$140/MT
<b>UTZ</b>	Lowest: \$92/MT Highest: \$276/MT	Ghana: \$152.4/MT Cd'I: \$140/MT

Source: ILRF Certification Surveys and The International Cocoa Organization, 2012

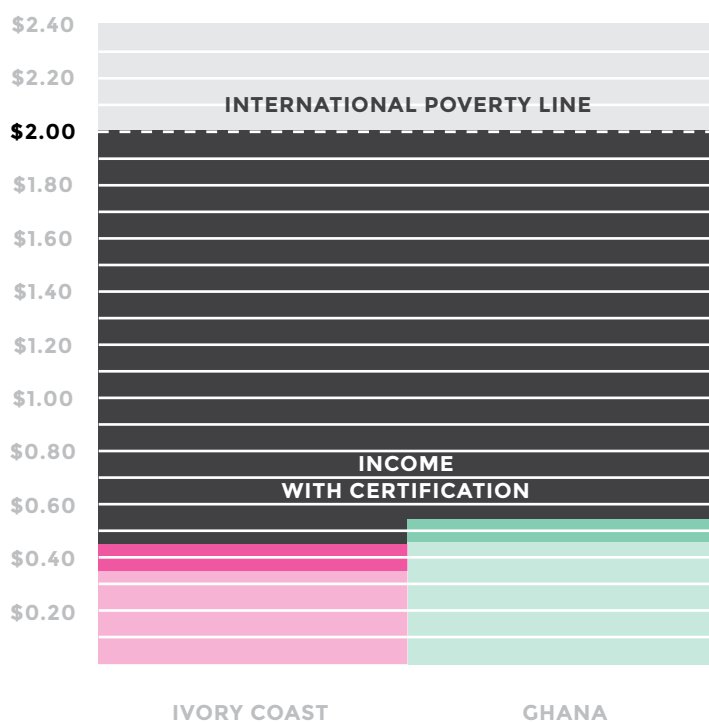
Even if cocoa farmers receive the highest possible premium (\$200/MT) and are awarded the entire premium without paying the cost of the audit, they still would not make enough to lift their families out of poverty. Given an average yield and a farm size of 2 hectares, farmers that receive the maximum possible premium could make a net income of \$955.30 in Côte d'Ivoire (the equivalent of \$2.62 per day, \$0.44 per dependent) and \$1,183.12 in Ghana (the equivalent of \$3.24 per day, \$0.54 per dependent.)<sup>80</sup>

Some of the certification systems do not even guarantee a premium above the market price.

Under the UTZ Certified and Rainforest Alliance certifications, the price is negotiated between the producer and the buyer and the certification is not involved in the price determination process. If the producer and the buyer happen to agree on a price that is above the market price, that is considered the certification's "premium."<sup>81</sup> FLO and Fair Trade USA, on the other hand, have a fixed price and a fixed premium. The fixed price under these two certifications has been irrelevant for several years, however, since the market price has been above the Fairtrade fixed price. The premium has stayed at \$200/metric ton since 2010.

These are rough estimates of the impact of certification because there is a lack of reporting and income data coming from certifiers. Certification systems were built on the idea that transparency will improve the cocoa industry and lead to better livelihoods, but without transparency in the certifications' own program evaluation, the benefits of certified cocoa are at best unclear.

### FARMERS' *estimated* DAILY INCOME PER DEPENDENT WITH CERTIFICATION (USD)



## HIRED LABORER WAGES

While certification systems enforce the minimum wage for hired workers as part of their standard, the minimum wages in Côte d’Ivoire and Ghana are so low (around \$2/day in Ghana and \$4/day in Côte d’Ivoire)<sup>82</sup> that few could survive off one income. Certification bodies also have no mechanism to monitor or enforce the distribution of certification premiums beyond the farmer level. As farm yields increase and child labor decreases, the issue of marginalized hired laborers will only become more urgent. Certifications have an opportunity to improve the lives of all actors in the supply chain by creating more protections in their standards for hired laborers.

## COST OF CERTIFICATION

Each cocoa certifying body has variable costs for yearly certification and audit fees. Table 3 above

*Certification Fees [Table 4]*

showed that farmers selling to certification systems are expected to remain in poverty even before certification costs are accounted for.

Certification fees vary based on geographic region, travel and transportation costs, the size of the group being certified, and in some cases the ability of the certified entity to negotiate a good price for an audit. Table 4 presents the certification costs under each scheme. There is not enough information to measure these certification costs per individual farmer, thus the following are costs per cooperative.

Given the challenge of reaching farmers and improving communications, all of these programs could be more effective if their systems were better synchronized. Currently, farmers and cooperatives are often double or triple certified in order to secure multiple buyers for all of their cocoa and have to pay multiple audit costs in order to keep each certification current. The overlap between each standard makes

	Application & Certification Fees	Audit Fees
<b>FLO</b>	<p>Application: <b>\$700</b></p> <p>Initial Certification (1st 12 months):  <b>\$1909</b> (&lt;50 members) - <b>\$4632</b> (&gt;1000 members)</p> <p>Annual Re-certification:  <b>\$1562</b> (&lt;50 members) - <b>\$3698</b> (&gt;1000 members)</p>	<p>Part of yearly certification fee.</p> <p>Follow up audit fees (when necessary): <b>\$467 per day</b> (including travel and reporting days) plus travel costs and a <b>20% contingency</b>.</p>
<b>FTUSA</b>	None	<b>Variable:</b> based on geographic region and number of farmers.
<b>RA</b>	None	<b>Negotiated</b> between auditor & coop [ICCO reports: <i>In Ghana:</i> <b>\$6500</b> for a 300-500 member coop; <i>In Côte d’Ivoire:</i> <b>\$4331</b> for a 400 member coop].
<b>UTZ</b>	None	<b>Negotiated</b> between auditor & coop [ICCO reports: <i>In Ghana:</i> <b>\$8500</b> for a 1000 member coop; <i>In Côte d’Ivoire:</i> <b>\$7500</b> for a 300 member coop].

these costs redundant and financially burdensome on cooperatives.

## FARMER EMPOWERMENT WITHIN CERTIFICATION SCHEMES

The empowerment of cocoa farmers has always been a key motivating mission of certification programs. Certification initiatives provide consumers with assurances that the cocoa in their products is being produced under ethical working conditions. However, surveys with certified farmers have revealed that transparency of costs, policies, and labor rights is deficient at the farm level. In surveys with cocoa farmers in Côte d’Ivoire, nearly a quarter of the farmers interviewed had no prior knowledge to the costs and standards associated with certification before becoming certified. (See Table 5)

*Knowledge of Certification Standards and Costs [Table 5]*

	Yes	No
Did the farmer receive information related to the cost of certification?	32	11
Was the farmer informed of the certification standards?	33	10
Does the farmer know how decisions about the management of the premium are made?	21	22

N=43

Source: ILRF Surveys in Cote d’Ivoire

One cooperative manager in Côte d’Ivoire reported that certain certification structures have demonstrated that they will freely ignore clauses

stipulated in the contract signed with cooperatives. In the words of a cooperative manager in one district:

*“(...) there are arrangements in the contract that Rainforest Alliance does not comply with, such as the tonnages. For example, this year the certification body assigned us with a tonnage we must reach in the contract that we signed. At the last minute, we were forced to reduce our tonnage of cocoa beans at their behest, because the certifier had reached their global quota. Meanwhile, in order to resolve our problems with internal spending and the high cost of certification, we had made a plan based on earnings from the initial tonnage stated in our contract. Thus, the tonnage predetermined in the contract should have helped us to resolve many of the existing problems in our cooperative, especially the funding problem. But the failure to comply with this provision of the contract upset our plans.”*

Farmer interviews in Ghana revealed many complaints with premiums being distributed late, which has hindered their ability to purchase inputs like chemicals and fertilizer for the following season, particularly since they lack access to credit. In Côte d’Ivoire, 14 out of 24 cooperatives reported that the time it took to receive a premium payment was very long and often delayed.<sup>83</sup>

Farmers in Côte d’Ivoire are also concerned with the way certification allows exporters to exert a bigger influence on cooperatives. Exporters have the opportunity to choose “group administrators,” or ADGs, who are responsible for the certification program in the cooperatives. ADGs are given special status in the cooperative and they receive their monthly salary from two sources: one part (60%) from the exporter and the other part (40%) from the cooperative. The appointment of an ADG by an exporter can cause conflict with the management of

the cooperative, since the ADG is not technically the manager, but has a lot of influence via the exporter and the certification. One farmer stated,

*“[...] at the launch of our certification program, the exporter asked us to recruit a group administrator. So we launched a call for applications [...]. After this, three candidates were shortlisted so the exporter could make his selection. Even though we did not agree with the exporter’s choice, he insisted on the candidate he had picked as ADG. We ended up having a lot of trouble with this ADG in the management of the cooperative. For example, we never came to an agreement about the training programs for farmers and had different points of view on the use of pre-financing and social projects for farmers. These disagreements very often caused the activities of the cooperative to be blocked for several days. After several discussions with the exporter about the ADG’s behavior we informed the exporter that the ADG, even if he is the coordinator of the project, he is not the head of our cooperative.”*

While certification is meant to shift the balance of power toward producers, companies are still able to maintain control over the cooperatives that they purchase from. In one interview a farmer reported:

*“The tonnages that are agreed on in the certifications have to be respected. This year for example, we were certified for 750 tons, but SACO [cocoa exporter] only accepted 250 tons. There has to be clarity in the commercial relations with the cooperatives. After having been certified with SACO for four years, they denied us the payment for the certified cocoa.”*

The key issue in each of the cases where farmer empowerment could be improved upon within certification systems is that farmers require a more representative role in the decision-making process

for certification standards, and the complaints mechanisms for filing concerns with certification bodies over standards and/or buyers is lacking.

## **CHILD LABOR**

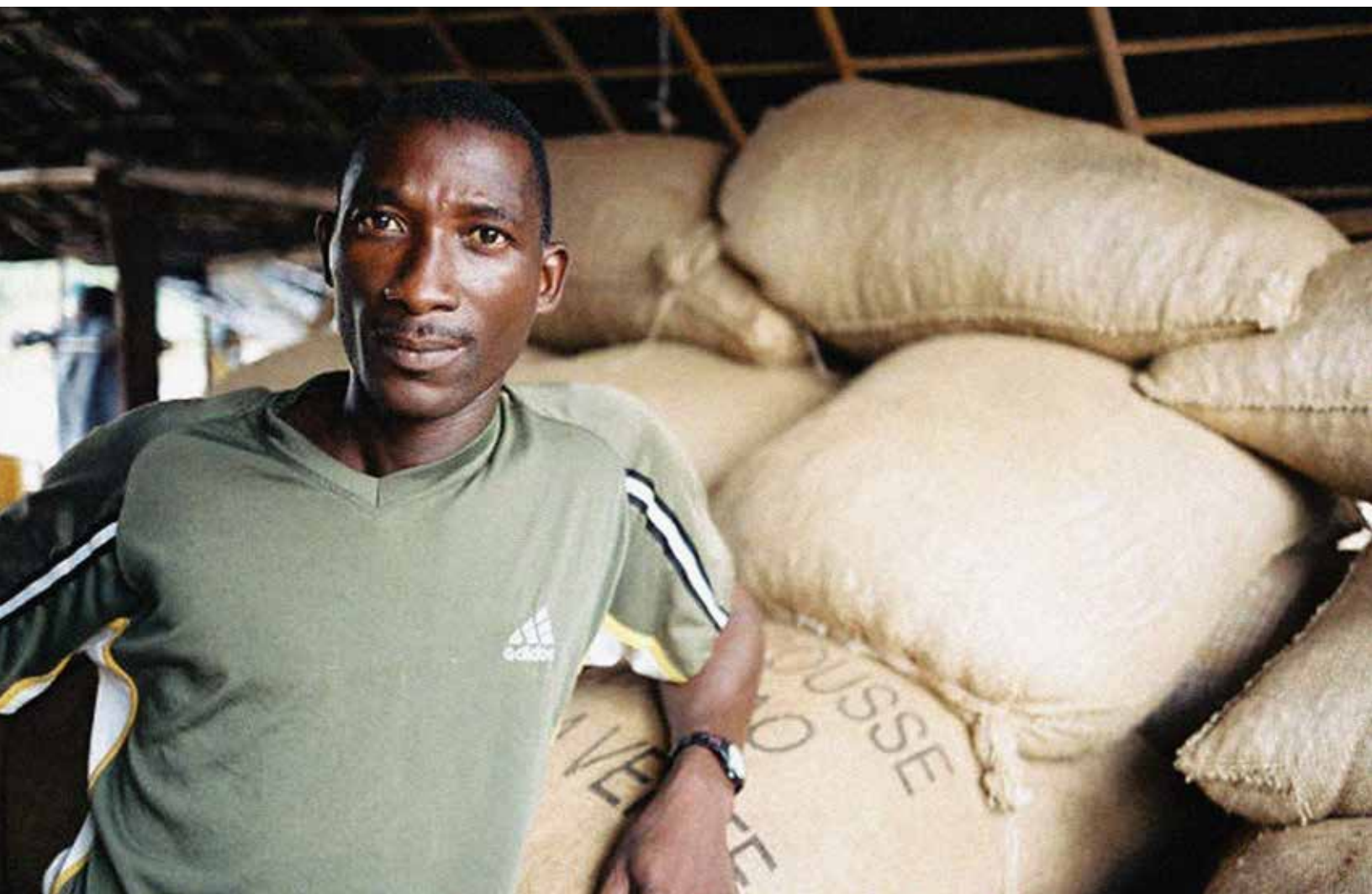
The desire for an eradication of child labor is one of the driving forces behind the demand for certification labels for cocoa products. Thus, how child labor is handled by certification bodies in monitoring, auditing, reporting, and remediating should be of utmost concern in the standards and policies of cocoa certifications.

Through reviews of the various certification standards and follow up interviews with each body, it is clear that there is still much room for development in this area. Aside from the FLO model, certification standards do not have a robust child labor remediation strategy in place. That is, when child labor is found on a certified farm, the certification is faced with a decision of whether to decertify a farm and possibly leave a family worse off economically, or to continue certifying farms that employ children. Each certification body has developed its own policy regarding child labor prevention, identification and remediation, to varying degrees of sophistication and detail. [See Appendix 2 for a more complete explanation of each certification’s child remediation policies.]

With the rapid increase in certification commitments by chocolate companies, it is an important time to assess not only these systems’ current impact on farmers, but the strength of their governance structures to represent farmer interests over the long term. In the face of increasing market consolidation, cocoa farmers must have a stronger voice not only in the international cocoa market but in the certification systems themselves.

## *Section 4*

# INCREASING TRANSPARENCY AND ESTABLISHING SHARED RESPONSIBILITY





# Recommendations

Since the signing of the Framework of Action in 2010, many major chocolate companies have taken drastic action to invest in corporate social responsibility. The last four years have been a happy change from the previous nine years, where companies joined multi-stakeholder initiatives and did little more than express interest in reducing child labor in the industry. Despite these transformations, however, companies and other stakeholders have a long way to go before cocoa farmers and their families are able to gain a decent livelihood.

## **CERTIFICATION PROGRAMS:**

1. Provide more transparency to both cocoa farmers and civil society on fee structures and impact on farmer income. Distribute that information in an easy-to-understand format throughout cocoa-growing communities to help farmers make informed decisions.
2. Include farmer groups and representatives at the highest levels of standards-setting and implementation bodies.
3. Improve child labor risk identification procedures in cocoa farming communities and remediation policies for cases where child labor is found among certified farms so victims are compensated and farmers/coops receive support to fix the problem.
4. Work at a pre-competitive level to provide farmers with information about the market, access to credit, and a framework of mutual recognition among certification programs in order to reduce the financial burden on cooperatives that have double and triple certification.

## **CHOCOLATE COMPANIES:**

1. Focus on the integrity of your own supply chains by engaging directly with traders and certifiers to monitor labor standards at the farm and cooperative level, establishing a system of engagement and transparency and enabling a rapid response network to respond whenever abuses of decent work standards such as child labor or labor trafficking are found and to implement remediation procedures.
2. Work pre-competitively with other chocolate companies to provide a public impact analysis on income and school enrollment in communities where companies have implemented social projects (whether they are projects dealing with yield/quality improvement, hybrid tree planting, school building, etc...)
3. Collaborate with West African governments to ensure projects undertaken in those countries strengthen infrastructure in ways that improve farmer livelihoods and cocoa-growing communities.

## **TRADERS:**

1. Collaborate with local traders and farmers to allow supply chain transparency to the farm or cooperative level.
2. Make public commitments to invest a specific portion of cocoa profits into cocoa communities designated to alleviate violations of decent labor standards.
3. Use your influence with price-setting bodies in Ghana and Côte d'Ivoire to ensure cocoa farmers receive at least the guaranteed percentage of the international commodity price.



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## **GOVERNMENTS:**

1. Enable greater participation of farmers in price setting mechanisms, by developing a standing space for dialogue with farmer support organizations, distinct from cooperatives, traders or businesses.
2. Improve quality controls on the distribution of support programs for farmers, such as fertilizer, pesticide, and seedling distribution programs and scholarship programs.
3. Improve farmer access to basic infrastructure, including schools, roads, and credit and loan opportunities, and work with chocolate companies that operate social projects in your countries to ensure these projects align with these objectives.
4. Coordinate with other cocoa-producing countries pursue best practices for ensuring farmers receive a higher portion of the international price and to secure stable prices globally.
5. Provide public reporting on the impact of trafficking remediation centers, including the number of children permanently reunited with their families.

## **MULTI-STAKEHOLDER INITIATIVES AND INTERNATIONAL DEVELOPMENT COMMUNITY:**

1. Invest in programs that empower civil society, foster transparency, and support the growth of farmers' associations and farmer unions in cocoa-growing communities in western Africa.

2. Ensure adequate farmer and civil society involvement in multi-stakeholder spaces, including at the International Cocoa Initiative, the World Cocoa Foundation, and the International Cocoa Organization. No major cocoa meeting intended to engage stakeholders, should set high barriers to entry or take place without robust participation of the people that the programs are intended to help.
3. To ensure equanimity and access to farmers and farmer advocacy organizations, scholarship and travel funds need to be established with a transparent mechanism for farmers to access these resources.
4. Engage with West African governments to better identify where and why child trafficking is occurring in the cocoa sector.

## **CONSUMERS:**

1. Pressure global companies to ensure the highest standards of transparency in their supply chain and to ensure farmers receive a price for their cocoa that allows for a living wage.
2. Buy from chocolate companies that source directly from cocoa farmers, have complete and public supply chain traceability, and ensure all farmers they source from receive a living wage (such as Divine, Equal Exchange, Tcho, etc).

## **FARMERS AND FARMER SUPPORT ORGANIZATIONS:**

1. Strengthen your own networks and capacity to communicate with and advocate for farmers' needs and the needs of cocoa growing communities.





*Appendix 1: Ghana and Côte d'Ivoire Farmgate Prices as a Share of International Cocoa Price*

<b>Year</b>	<b>Int'l Market Price (USD)</b>	<b>% Ghana / Market Price</b>	<b>Price Paid to Farmers in Ghana (USD)</b>	<b>% Ivory Coast/ Market Price</b>	<b>Price Paid to Farmers in Ivory Coast (USD)</b>
993/1994	968	0.34	329.12	0.37	358.16
1994/1995	954	0.48	457.92	0.42	400.68
1995/1996	983	0.43	422.69	0.44	432.52
1996/1997	1117	0.47	524.99	0.4	446.8
1997/1998	1269	0.47	596.43	0.41	520.29
1998/1999	944	0.73	689.12	0.74	698.56
1999/2000	685	0.72	493.2	0.52	356.2
2000/2001	775	0.51	395.25	0.51	395.25
2001/2002	1231	0.39	480.09	0.55	677.05
2002/2003	1369	0.54	739.26	0.58	794.02
2003/2004	1047	0.66	691.02	0.43	450.21
2004/2005	1049	0.63	660.84	0.41	430.09
2005/2006	1068	0.63	672.84	0.41	437.88
2006/2007	1854	0.54	1001.16	0.41	760.14
2007/2008	2516	0.41	1036	0.32	794
2008/2009	2598	0.54	1394.87	0.41	1071.47
2009/2010	3246	0.47	1523	0.44	1417.28
2010/2011	3104	0.7	2169	0.57	1782.59
2011/2012	2396	0.86	2050	0.55	1326.15
2012/2013	2359	0.66	1560	0.6	1425.89
2013/2014	2782	0.48	1349	0.56	1547.42

Sources available upon request.

UTZ	Rainforest Alliance
<p><i>Prevention:</i></p> <p>The UTZ Code of Conduct requires that producers are trained on child labor and that awareness raising takes place in communities. One lead farmer per community is responsible for monitoring labor rights and is responsible for the complaints that workers file. The certificate holder should perform a participatory risk assessment on labor rights and implement an action plan on how to address those risks.</p> <p><i>Identification:</i></p> <p>Child labor is identified through external audits, internal inspections and external sources. The certificate holder should report cases of exploitation/trafficking to relevant authorities.</p> <p><i>Remediation:</i></p> <p>The Internal Control System deals with child labor according to internal rules. When child labor is found, auditors are required to inform UTZ immediately. Auditors give corrective actions to solve noncompliance. Groups are required to report cases of worst forms of child labor or trafficking to the relevant authorities for remediation according to national policies. UTZ asks local partners specialized in child rights issues to assist where needed.</p> <p>UTZ has agreed on a Memorandum of Understanding with the International Cocoa Initiative (ICI) to strengthen systems to prevent, identify and remediate child labor in UTZ certified groups. UTZ is piloting projects Côte d'Ivoire and outcomes will be integrated in the code revision.</p>	<p><i>Prevention:</i></p> <p>Education and sensitization are critical components of the Rainforest Alliance farmer training programs. When the risk assessment of the group shows a tendency of farms to engage in child labor, appropriate mitigation actions are made to correct the tendencies. Most groups have internal child labor monitoring teams which helps to identify vulnerable children and address the challenges with the parents and/or guardians before it becomes a child labor situation.</p> <p><i>Identification:</i></p> <p>The audit team records the evidence that support the findings (documents, photographs, records of interviews, etc). The findings are discussed in the closing audit meeting and in a report.</p> <p><i>Remediation:</i></p> <p>The Technical Assistance program cooperates with the National Programs, Local NGOs and the International Cocoa Initiative and indirectly supports remediation where necessary. If a farm fails to comply with any of the criteria, the certificate for the whole group is denied.</p>
	<p><b>FTUSA</b></p>
	<p><i>Identification:</i></p> <p>Children who are suspected of being underage are interviewed and questioning includes as wide a variety of age verification</p>

**(FTUSA cont...)**

methods as possible, as determined by local context. Auditors also look for behavior that would indicate something to hide. Where possible, photographs are taken as additional evidence. Additional resources such as local schools, NGOs, and government agencies are also considered and interviewed, if necessary, to inform the audit process and identify any possible occurrences or locally known risks.

*Remediation:*

If child labor is found, the child must be removed from all work immediately and his/her safety must be ensured. The producer organization is temporarily suspended and is required to develop a corrective action plan and remediation program for the children and the entire Producer Organization, which includes a clear statement against child labor and defines projects with expert partner organizations to ensure protection of children.

Where appropriate, and where doing so would not endanger the child, the relevant government agency should be informed. Where there is an active NGO present with appropriate expertise, they may be utilized as a resource. In the absence of such an NGO, FTUSA will connect the Producer Organization with an expert service provider.

The Producer Organization is responsible for implementing the remediation procedures and corrective action plan, which will be subsequently audited to ensure compliance. The Producer Organization must consult with the child's family about how to pay for the child to continue schooling, as well as look for employment opportunities

for the adults in the family. The Producer Organization must also keep records of any former child workers, including their age, a description of their work, and the relevant remediation policy that is in effect. The Producer Organization is flagged as high risk and recommended for an unannounced audit to verify implementation of the remediation plan. FTUSA will permanently decertify a Producer Organization if it is shown that the non-compliance was not addressed.

**FLO**

*Prevention:*

Producers are encouraged to build a self-monitoring system if the risk of child labor is high. FLO has mandatory Child Protection Policy and Procedures and all who are involved in supporting producers are trained by the Senior Advisor Social Compliance and Development (Informal Sectors), including child rights partners.

*Identification:*

FLO consults with child rights partners in undertaking assessments to identify child labor. Auditors are asked to verify compliance with standards prohibiting child labor at member level society level and organizational level. Auditors use guidelines to help identify child labor. At the household level, auditors gather information about family/household details, socioeconomic circumstances, the schooling status of children in the household, and whether caregivers have had any training on child labor. At the society level, auditors gather information about demographics, schools, and incidences of child labor at worksites.

**(FLO cont...)**

*Remediation:*

In the case of child labor being identified the auditor is required to immediately inform the certification analyst who informs the Regional Manager and Head of Certification. The case is referred immediately to the relevant child protection agency in the country for remediation. The case is also referred to a partner organization in the region for immediate action and remediation to ensure the safety and long term wellbeing of the child.

The organization must demonstrate that they have developed a remediation policy and program to ensure the protection of children. Producer organizations are required to implement rights based responses, including plans for prevention. Producers are then encouraged to build a self-monitoring system if they haven't already. FLO-CERT will not continue to work with a producer organization that is not fully committed to remediating the identified child labor.

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*Appendix 3: Chocolate Brand Ownership as of 2013  
(Companies' brands represented in Free2Work ratings)*

**ALTER ECO**

**Brands with Certified Products**

Alter Eco (FLO/ FTUSA)

**BARRY CALLEBAUT**

**Brands: Non-Certified Products**

Bensdorp

Cacao Barry

Callebaut

Caprimo

Carma

Le Royal

Van Houten

Van Leer

**Brands with Certified Products**

Callebaut (FLO/FTUSA)

Le Royal (FLO/FTUSA)

Van Houten (FLO/FTUSA)

**BEN & JERRY'S**

**Brands with Non-Certified Products**

Ben & Jerry's

**Brands with Certified Products**

Ben & Jerry's (FLO/ FTUSA)

**DIVINE**

**Brands with Certified Products**

Divine (FLO/ FTUSA)

**THE HERSHEY COMPANY**

**Brands with Non-Certified Products**

5th Ave

Almond Joy

Brookside

Cadbury (US)

Heath

Hershey's

Hershey's Symphony

Kit Kat (US)

Mauna Loa Nuts

Milk Duds

Mounds

Mr. Goodbar

Pot of Gold

Reese's

Rolo

Scharffen Berger

Skor

Symphony

Take 5

Whatchamacallit

Whoppers

York Peppermint Patty

Zagnut

**Brands with Certified Products**

Kit Kat Australia (UTZ)

Dagoba (RA)

Hershey's Bliss (RA)

**KRAFT FOODS**

Bakers

Milka

**GENERAL MILLS**

**Brands with Non-Certified Products**

Betty Crocker

Haagan Dazs (UK/ AUS)

Larabar

**Brands with Certified Products**

Larabar (FLO/FTUSA)

**LINDT & SPRUNGLI**

**Brands with Non-Certified Products**

Caffarel

Ghirardelli



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Hofbauer  
Lindt

## **MARS**

### **Brands with Non-Certified Products**

3 Musketeers  
American Heritage Chocolate  
Amicelli  
Bounty  
Celebrations Combos  
Dove  
Generation Max  
Kudos  
M&M's  
Maltesers  
Mars  
Milky Way  
Munch  
Revels  
Snickers  
Topic  
Tracker  
Twix

### **Brands with Certified Products**

Dove [Dark Chocolate] (RA)  
Galaxy (RA)

## **MONDELEZ**

### **Brands with Non-Certified Products**

Alpen Gold  
Boost  
Bournville  
Cadbury (AUS)  
Caramello  
Caramilk  
Cherry Ripe  
Crème Egg (AUS)  
Chomp  
Cote D'Or

Crunchie  
Curly Wurly  
Double Decker  
Dream  
Favourite  
Flake  
Freia  
Freddo  
Fry's Turkish Delight Bar  
Fudge  
Heroes  
Kent (Turkey)  
Koko  
Lacta  
Marabou  
Milk Tray  
Mini Eggs  
Moro  
Mr. Big  
Old Gold  
Picnic  
Poulain  
Snack  
Starbar  
Time Out  
Toblerone  
Trebor  
Twirl  
Wispa

### **Brands with Certified Products**

Cadbury Dairy Milk [UK/ AUS] (FLO/ FTUSA)  
Green & Blacks (FLO/ FTUSA)

## **NESTLE**

### **Brands with Non-Certified Products**

100 Grand  
Abuelita  
Aero  
Baby Ruth

Butterfinger

Cailler

Carlos V

Chunky

Crunch

Dreyer's

Extreme

Goobers

Haagen Dazs (US)

Milo

Movenpick

Nesquik

Nestle

Oh Henry!

Orion

Ovaltine

Raisinets

Sno-Caps

Wonka Chocolate

**Brands with Certified Products**

Kit Kat [UK/ AUS] (UTZ)

**RAPUNZEL**

**Brands with Certified Products**

Rapunzel (Hand in Hand)

**RUSSELL STOVER'S CANDIES**

**Brands with Non-Certified Products**

Pangburn's

Russell Stover

Weight Watchers by Whitman

Whitman's

**SEE'S CANDIES**

**Brands with Non-Certified Products**

See's Candies

**TOOTSIE ROLL**

**Brands with Non-Certified Products**

Andes

Cella's Chocolate-Covered Cherries

Charleston Chew

Junoir Mints

Tootsie Pop

Tootsie Roll

**TRADER JOE'S (PRIVATE LABEL)**

**Brands with Non-Certified Products**

Trader Joe's

**WHOLE FOODS (PRIVATE LABELS)**

**Brands with Non-Certified Products**

Allegro Coffee Company

**Brands with Certified Products**

Allegro (FLO/FTUSA)

Allegro (RAN)

## END NOTES

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<sup>1</sup> International Cocoa Initiative. Presented at, “Confronting Child Labor in Global Agricultural Supply Chains”, UC Davis; April 4, 2014.

<sup>2</sup> Tulane University, “Third Annual Report: Oversight of Public and Private Initiatives to Eliminate the Worst Forms of Child Labor in the Cocoa Sector in Côte d’Ivoire and in Ghana,” New Orleans, Payson Center for International Development and Technology Transfer; September 30, 2009. <http://www.childlabor-payson.org/>.

<sup>3</sup> “I. Coast, Burkina Faso ink deal to fight child trafficking,” reliefweb.int, October 17, 2013, accessed November 17, 2014, <http://reliefweb.int/report/c%3%B4te-divoire/icoast-burkina-faso-ink-deal-fight-child-trafficking>.

<sup>4</sup> The 31 cooperatives come from a database of certified/non-certified cooperatives from the Conseil Cafe Cacao. The survey did not cover hired laborers. While land tenancy issues in Côte d’Ivoire have created confusion over farm ownership, the farmers surveyed were currently farming the land and had full ownership over the beans they harvested.

<sup>5</sup> A report on the findings of this study is available upon request.

<sup>6</sup> Fair For Life does not currently have any operations in West Africa, and thus was left out of our final analysis.

<sup>7</sup> ICCO Quarterly Bulletin of Cocoa Statistics, Vol. XXXIX, No. 2, Cocoa year 2012/13, accessed November 17, 2014, [http://www.icco.org/about-us/international-cocoa-agreements/cat\\_view/30-related-documents/46-statistics-production.html.php](http://www.icco.org/about-us/international-cocoa-agreements/cat_view/30-related-documents/46-statistics-production.html.php).

<sup>8</sup> World Cocoa Foundation, “Cocoa Livelihoods Program,” November 14, 2012, accessed November 17, 2014, <http://www.nsi-ins.ca/wp-content/uploads/2012/12/Cocoa-Livelihoods-Program.pdf>.

<sup>9</sup> Responsible Cocoa, “The Challenge,” accessed November 17, 2014, <http://responsiblecocoa.com/the-challenge/>.

<sup>10</sup> Dawuni Mohammed et al., “Cocoa Value Chain-Implication for the Smallholder Farmer in Ghana,” accessed November 17, 2014, [http://www.swdsi.org/swdsi2012/proceedings\\_2012/papers/Papers/PA157.pdf](http://www.swdsi.org/swdsi2012/proceedings_2012/papers/Papers/PA157.pdf).

<sup>11</sup> World Cocoa Foundation, Ibid.

<sup>12</sup> The “farmgate” price is the price that farmers receive when it leaves their farm.

<sup>13</sup> USD:CFA exchange rate calculated on 17 November 2014 and estimated at 1:526.98

<sup>14</sup> USD:GHS exchange rate calculated on 18 November 2014 and estimated at 1:3.18

<sup>15</sup> The VOICE Network. “Cocoa Barometer 2012,” <http://www.cocoabarometer.org/>.

<sup>16</sup> World Cocoa Foundation, Ibid.

<sup>17</sup> For our estimate in Cote d’Ivoire we reference ILRF surveys. For our estimate in Ghana, we assume payment of the minimum wage, which is GHS 6.00 per day. Our research indicates that farms need around 1 laborer for every 2 hectares of land, and laborers work around 230 days of the year. Thus, the labor cost estimate ranges from 1 to 2 laborers for 230 days.

<sup>18</sup> Estimated using ICCO’s estimate on input costs per MT in Côte d’Ivoire, combined with average yield per hectare. See The International Cocoa Organization, “Study on the costs, advantages and disadvantages of cocoa certification,” October 2012.

<sup>19</sup> Ibid. A 15 percent increase was added to Ghana’s input cost estimate, as the ICCO publication was published in 2012 and Ghana experienced an unusually high inflation rate of around 15 percent in 2013. It should also be noted that Ghana’s government scaled back its fertilizer distribution and mass spraying program in 2013, so the actual input costs may be much higher as a result.

<sup>20</sup> International Cocoa Initiative. Presented at, “Confronting Child Labor in Global Agricultural Supply Chains”, UC Davis; April 4, 2014.

<sup>21</sup> UNICEF. “At a glance: Ghana”. [http://www.unicef.org/infobycountry/ghana\\_statistics.html](http://www.unicef.org/infobycountry/ghana_statistics.html).

<sup>22</sup> UNICEF. “At a glance: Côte d’Ivoire”. [http://www.unicef.org/infobycountry/cotedivoire\\_statistics.html](http://www.unicef.org/infobycountry/cotedivoire_statistics.html).

<sup>23</sup> UNICEF, “Ghana”, UNICEF, “Côte d’Ivoire,” Ibid.

<sup>24</sup> Tulane University, “Third Annual Report,” Ibid.

<sup>25</sup> Tulane University, “Final Report: Oversight of Public and Private Initiatives to Eliminate the Worst Forms of Child Labor in the Cocoa Sector in Côte d’Ivoire and in Ghana,” New Orleans, Payson Center for International Development and Technology Transfer; March 31, 2011. <http://www.childlabor-payson.org/>.

<sup>26</sup> In addition, ILO Convention 182, articles 2 and 3 state that children under 18 should not be engaged in “work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety, or morals of children.”

<sup>27</sup> Government of Côte d’Ivoire, Ministry of Public Service and Employment, “Arrêté no. 2250 portant détermination de la liste des travaux dangereux interdits aux enfants de moins de dix huit (18) ans,” March 14, 2005.

<sup>28</sup> Government of Ghana, “Hazardous Child Labour Activity Framework for the Cocoa Sector,” enacted June 2008.

<sup>29</sup> “The Child Labor Cocoa Coordinating Group 2012 Annual Report,” p. 81, March 12, 2013, accessed November 17, 2014 <http://www.dol.gov/ilab/issues/child-labor/cocoa/2012-CLCCG-Report.pdf>.

<sup>30</sup> Reported at a meeting of the Child Labor Cocoa Coordinating group, March 12, 2013, presenting findings of the 2012 Annual Report.

<sup>31</sup> Tulane University, “Third Annual Report,” Ibid.

<sup>32</sup> “I. Coast, Burkina Faso ink deal to fight child trafficking,” reliefweb.int, October 17, 2013, accessed November 17, 2014, <http://reliefweb.int/report/c/C3%B4te-divoire/icoast-burkina-faso-ink-deal-fight-child-trafficking>.

<sup>33</sup> Annie-Rose Harrison-Dunn, “Nestle, Cargill and ADM face child slavery case,” ConfectionaryNews.com, January 30, 2014, accessed November 17, 2014, <http://www.confectionerynews.com/Manufacturers/Nestle-Cargill-and-ADM-face-child-slavery-case>.

<sup>34</sup> United States Department of State, “Trafficking in Persons Report 2013” accessed November 17, 2014, <http://www.state.gov/j/tip/rls/tiprpt/2013/index.htm>.

<sup>35</sup> Ibid.

<sup>37</sup> Dominique Ouattara, “Fight against cross-border child trafficking,” October 31, 2013, accessed November 17, 2014, <http://dominiqueouattara.ci/en/news/fight-against-cross-border-child-trafficking>.

<sup>38</sup> Fair Labor Association “Sustainable Management of Nestlé’s Cocoa Supply Chain in the Ivory Coast-Focus on Labor Standards,” June 2012, accessed November 17, 2014, [http://www.fairlabor.org/sites/default/files/documents/reports/cocoa-report-final\\_o.pdf](http://www.fairlabor.org/sites/default/files/documents/reports/cocoa-report-final_o.pdf).

<sup>39</sup> James Shotter and Emiko Terazono, “Barry Callebaut strikes \$950m cocoa deal,” FT.com, December 12, 2012, accessed November 17, 2014, <http://www.ft.com/intl/cms/s/o/do7580ea-4430-11e2-952a-00144feabdco.html#axzz3JSogz8pn>.

<sup>40</sup> “Cargill buying ADM’s chocolate unit in North American expansion,” Reuters.com, September 2, 2014, accessed November 17, 2014, <http://www.reuters.com/article/2014/09/02/archer-daniels-ma-cargill-idUSL1NoR3oUJ20140902>; and Baudelaire Mieu et al. “Armajaro Sees Ecom Deal Threatened by Ivory Coast Ruling,” Bloomberg.com, February 26, 2014, accessed November 17, 2014, <http://www.bloomberg.com/news/2014-02-26/armajaro-sees-ecom-deal-threatened-by-ivory-coast-ruling.html>.

<sup>41</sup> Lina Khan, “Chocolate merger builds big company,” JournalGazette.net, November 17, 2013, accessed November 17, 2014, <http://www.journalgazette.net/article/20131117/BIZ13/31179953>.

<sup>42</sup> Marcella Vigneri and Paulo Santos, “Ghana and the cocoa marketing dilemma: What has liberalization without price competition achieved?” ODI Project Briefing, December 2007, accessed November 17, 2014, <http://www.odi.org.uk/resources/docs/592.pdf>.

<sup>43</sup> ICE Futures U.S., Cocoa Commodities Brochure, Accessed December 12, 2014, [https://www.theice.com/publicdocs/ICE\\_Cocoa\\_Brochure.pdf](https://www.theice.com/publicdocs/ICE_Cocoa_Brochure.pdf)

<sup>44</sup> International Cocoa Organization website, Accessed December 12, 2014, <http://www.icco.org/statistics/cocoa-prices/daily-prices.html>

<sup>45</sup> Christopher Gilbert, “Cocoa Market Liberalization in Retrospect,” Review of Business and Economics, accessed November 17, 2014, <http://www.econ.kuleuven.be/rebel//jaargangen/2001-2010/2009/2009-3/RBE%202009-3%20-%20Cocoa%20Market%20Liberalization%20in%20Retrospect.pdf>

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<sup>48</sup> "Côte d'Ivoire: Cocoa farmers welcome state-imposed prices," IRINnews.org, November 7, 2012, accessed November 17, 2014, <http://www.irinnews.org/printreport.aspx?reportid=96731>.

<sup>49</sup> Olivier Monnier and Isis Almeida, "Ivory Coast Raises Minimum Cocoa Price for Farmers by 3.4%," Bloomberg.com, October 2, 2013, accessed November 17, 2014, <http://www.bloomberg.com/news/2013-10-02/ivory-coast-raises-minimum-cocoa-price-for-farmers-by-3-4-.html>.

<sup>50</sup> The GEPEX group includes Nestle, Cargill, Barry Callebaut, Olam, and Archer Daniels Midland. Another group of exporters, which represents 40 percent of Côte d'Ivoire's cocoa exports, also boycotted the auctions, only to participate later. See "GEPEX exporters end Ivorian cocoa auction boycott," Reuters.com, February 23, 2012, accessed November 17, 2014, <http://www.reuters.com/article/2012/02/23/cocoa-ivorycoast-exporters-idUSL2E8DNDHR20120223>.

<sup>51</sup> "Ivory Coast cocoa prices up on competition, supply concerns," Reuters.com, October 16, 2013, accessed November 17, 2014, <http://www.reuters.com/article/2013/10/16/cocoa-ivorycoast-prices-idINL6NoI62BT20131016>.

<sup>52</sup> COCOBOD. "Internal Marketing." Accessed October 13, 2013, [http://www.cocobod.gh/internal\\_marketing.php](http://www.cocobod.gh/internal_marketing.php).

<sup>53</sup> "Ivory Coast cocoa prices up on competition, supply concerns," Ibid.

<sup>54</sup> ILRF field research in Ghana, 2012.

<sup>55</sup> Ibid.

<sup>56</sup> "Minority spokesperson against decision on cocoa prices," Ghanaweb.com, October 24, 2013, accessed 17 November, 2014, <http://www.ghanaweb.com/GhanaHomePage/business/artikel.php?ID=289717>.

<sup>57</sup> "Ghana leaves 2013/14 farmgate cocoa price unchanged at \$1,560/T," TheAfricaReport.com, October 18 2013, accessed November 17, 2014, [http://www.theafricareport.com/Reuters-Feed/Ghana-leaves-2013/14-farmgate-cocoa-price-unchanged-at-\\$1560/T.html](http://www.theafricareport.com/Reuters-Feed/Ghana-leaves-2013/14-farmgate-cocoa-price-unchanged-at-$1560/T.html).

<sup>58</sup> Assuming an exchange rate of 1USD=2.5175 GHS

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<sup>60</sup> Ibid.

<sup>61</sup> Emele Onu, "Nigeria's Cocoa Output Seen by Industry Rising 10% in 2013/14," Bloomberg.com, January 27, 2014, accessed November 17, 2014, <http://www.bloomberg.com/news/2014-01-27/nigeria-s-cocoa-output-seen-by-industry-rising-10-in-2013-14.html>; and International Cocoa Organization, "Monthly Review of the Market," January 2014, accessed February 13, 2014, [http://www.icco.org/about-us/international-cocoa-agreements/cat\\_view/89-monthly-reviews/90-monthly-review-of-the-market-2014.html](http://www.icco.org/about-us/international-cocoa-agreements/cat_view/89-monthly-reviews/90-monthly-review-of-the-market-2014.html).

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<sup>63</sup> Fair Labor Association, Ibid.

<sup>64</sup> The Hershey Company, "21st Century Cocoa: Hershey's Cocoa Sustainability Strategy," Accessed December 8, 2014, [http://www.thehersheycompany.com/pdfs/21st\\_Century-single\\_page\\_final.pdf](http://www.thehersheycompany.com/pdfs/21st_Century-single_page_final.pdf).

<sup>65</sup> ILRF field research in Côte d'Ivoire, 2014.

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<sup>66</sup>The International Cocoa Organization. Study on the costs, advantages and disadvantages of cocoa certification. October 2012.

<sup>67</sup>Dang Thanh Ha and Gerald Shively, “Coffee Boom, Coffee Bust and Smallholder Response in Vietnam’s Central Highlands,” *Review of Development Economics* 12 (2008): 312-326.

<sup>68</sup>“Demand hopes lift cocoa price to two-year high,” *Agrimoney.com*, accessed 17 November 2014, <http://www.agrimoney.com/news/demand-hopes-lift-cocoa-price-to-two-year-high--6356.html>.

<sup>69</sup>See <http://www.tradingeconomics.com/commodity/cocoa> for a complete history of cocoa prices.

<sup>70</sup>Dave Goodyear, “The Future of Chocolate: Why Cocoa Production is at Risk,” *The Guardian*, accessed November 17, 2014, <http://www.theguardian.com/sustainable-business/fairtrade-partner-zone/chocolate-cocoa-production-risk>.

<sup>71</sup>Michael Wilcox and Philip Abbott, “Can Cocoa Farmer Organizations Countervail Buyer Market Power?” (paper presented at the American Agricultural Economics Association Annual Meeting, Long Beach, California, July 23-26, 2006).

<sup>72</sup>ILRF Field Research in Ghana, 2012

<sup>73</sup>Michael Wilcox and Philip Abbott, “Can Cocoa Farmer Organizations Countervail Buyer Market Power?” (paper presented at the American Agricultural Economics Association Annual Meeting, Long Beach, California, July 23-26, 2006).

<sup>74</sup>“Cocoa Barometer 2012,” *Ibid*.

<sup>75</sup>ILRF conversation with FTUSA, September 2013.

<sup>76</sup>UTZ Certified, “First UTZ CERTIFIED cocoa from Ghana arrives in Amsterdam,” April 19, 2011, accessed November 17, 2014, [https://www.utzcertified.org/images/stories/downloads/PressReleases\\_2010\\_2011/11904press\\_release\\_-\\_ghana.pdf](https://www.utzcertified.org/images/stories/downloads/PressReleases_2010_2011/11904press_release_-_ghana.pdf); and Cargill, “First cocoa co-operatives receive UTZ certification,” September 10, 2009, accessed November 17, 2014, <http://www.cargill.com/news/releases/2009/NA3019789.jsp>.

<sup>77</sup>ILRF certification surveys, conducted fall 2013.

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<sup>79</sup>FTUSA programs were just beginning in West Africa at the time of our field research so our focus is on Fairtrade International (FLO).

<sup>80</sup>See Table 1 for non-certified farmer incomes.

<sup>81</sup>ILRF certification surveys, conducted fall 2013.

<sup>82</sup>Abdul Ahad, “Ivory Coast raises minimum wage by 60 percent,” *BRecorder.com*, November 21, 2013, accessed November 17, 2014, <http://www.brecorder.com/world/global-business-a-economy/145259.html>; and “Minimum wage increase to GHC 6.00,” *VibeGhana.com*, May 3, 2014, accessed November 17, 2014, <http://vibeghana.com/2014/05/03/minimum-wage-increase-to-ghc-6-00/>.

<sup>83</sup>ILRF farmer and cooperative survey, conducted spring 2013.





**THE FAIRNESS GAP**