Figure 1  Cocoa supply chain

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The cocoa sector is at a crossroads: the importance of sustainable cocoa production is being increasingly recognized by producers, governments, companies, NGOs and consumers. In two recent reports, Tropical Commodity Coalition drew attention to the pertinent issues and pointed to the way forward. In 2007, *Sweetness follows* gave an overview of the world cocoa market and its main stakeholders, and reviewed the efforts of different stakeholders towards making the sector more sustainable. The report concludes that none of the existing programmes link the social, environmental and economic pillars of sustainable development. It stresses that, to seriously address rural poverty and environmental degradation, the main point of departure should be the cocoa farming system. In 2008, *Breaking the vicious circle in the cocoa sector by scaling up training for cocoa smallholders*, focused on the main support programmes for cocoa farmers. It shows that training and capacity building are important means to break the cycle of poverty that entraps cocoa producers. However, individual company programs and sector initiatives, though well meant, are just not enough; they reach very few farmers. To bring about a real change will require large investments in the human capital in producing countries.

In 2008, Oxfam International presented a detailed sector analysis *Towards a sustainable cocoa chain*. It concludes that the chocolate manufacturers should be proactive and inform the consumer on how they ensure the ingredients in their chocolate and confectionery products are produced and traded in an economically, ecologically and socially responsible manner.

Sadly, there is no evidence, as yet, of sustainable strategies for capacity building of cocoa producers, backed by sizeable capital investments, or of efforts to keep the consumers informed. *Cocoa Barometer 2009* aims to fuel the discussion on a sustainable cocoa sector and make it more transparent and clear. The cocoa value chain is complex and not easily accessible. With the assistance of specialised research agencies such as Food World R & C, Crem and Profundo, Tropical Commodity Coalition was able to gather information on the major developments in the cocoa sector and the part played by grinders and chocolate manufacturers to make the sector more sustainable.

Tropical Commodity Coalition wishes to make the developments taking place in the cocoa sector visible to consumers, NGOs, unions, governments and industry. We hope this report contributes to the much needed discussion on how to sustain the cocoa sector, now and in the future. In words and figures, *Cocoa Barometer 2009* addresses the main stakeholders involved in grinding cocoa beans and manufacturing chocolate. As certification is taking off and becoming more widespread, an overview of the availability of certified cocoa, and its procurement by multinational manufacturers, has been included.

Tropical Commodity Coalition will present the Cocoa Barometer 2009 at the Second Roundtable for a Sustainable Cocoa Economy in Trinidad 2009, in an effort to build shared understanding of sustainability at the global level. The report will also be used for discussions, with individual companies, NGOs and trade associations, and on sector initiatives and consumer initiatives.
International Cocoa Organization (ICCO) estimates that 90% of the global cocoa production comes from some 3 million smallholders. The cocoa bean is grown and processed on their farms using labour-intensive methods, and is often the main source of family income. Primary cocoa production employs around 14 million workers worldwide. Since many decades, Western Africa has been the most important region for cocoa cultivation. In just four countries, Ivory Coast, Ghana, Nigeria and Cameroon, more than 2 million smallholders and their families, produce about 70% of the world production of cocoa beans.

The current market prices of cocoa, in London and New York, are the highest recorded since 1985. This is mainly due to a poor harvest, diminishing buffer stocks and rising demand. Cocoa production in Ivory Coast, the main producer, was 40 percent less than that of the last season. The 2008/09 cocoa harvest has been affected by crop diseases and plagues, and the resultant crop loss is estimated at 400,000 tonnes of cocoa beans. The problems in Ivory Coast are so severe that a “complete collapse of the sector cannot be ruled out if there is no action.”

In addition, buffer stocks are diminishing, as illustrated by a plummeting grinding ratio. In 2007/08, the grinding ratio dropped to 41%, the lowest level since 1986.

The world production of cocoa beans in 2007/08 was about 3.7 million tonnes. Although the current economic downturn is likely to affect the future demand for chocolate products, ICCO envisages a requirement of at least 4.4 million tonnes by 2012, to meet the growing grinding demand.

To meet this demand, world-wide production has to increase, within a short period, by nearly twenty percent.

**Industry initiatives, sector initiatives and country strategies**

The policy response of cocoa growing countries to these demand dynamics is of utmost importance to the farmers. Although Ghana and Indonesia show significant willingness to invest in their respective cocoa sectors, governmental resources to prepare the small-scale farmers for this huge production increase are limited. The lack of investment in public structures such as research institutes, extension services and marketing boards, in most producing countries, has left producers without proper facilities and support in terms of know-how, inputs such as planting material, technology and in some countries marketing. Capacity building, training, information and knowledge sharing among millions of small-scale farmers require nationwide institutions. Restructuring is time consuming and costly and asks for a long term commitment and perspective from the producing countries.

The involvement of companies in different initiatives to optimise the functioning of the cocoa value chain for cocoa farmers and workers is set out in Figure 2. Taking into consideration the needs and projected increases in cocoa production, the efforts to improve the situation look very fragmented. All grinders and some chocolate manufacturers are involved in Ivory Coast and Ghana, at a national level, in single segregated programmes or in sector initiatives with a limited scope.
More companies need to support the national cocoa sectors with reasonable investments, like Cadbury who recently pledged Euro 34 million for a long-term commitment of 10 years to reach 500,000 farmers in Ghana.

All the scheduled individual industry training programs, taken together, will only reach 280,500 of the 2 million West African farmers by 2010, which is less than 14 percent. The industry sector initiatives like WCF will support 150,000 farmers by 2010 via STCP, and another 150,000 farmers by 2012 via the Gates Foundation. These two initiatives will cover another 15-16 percent of the West African farmers. The projections are that by 2012, one third of all the cocoa farmers in Western Africa are trained. The trained farmers are assumed to increase their production by 25%, and produce an additional 232,000 tonnes per year. Nonetheless, the demand is growing much faster; in 2012 an additional production of 600,000 tonnes of cocoa beans would be required to guarantee an acceptable demand-supply ratio. Significant efforts to invest in the human capital of farmers are urgent and necessary to meet the expected quality and quantity of cocoa beans.

Presently, Cargill and Mars are investing intensively in Vietnam to support and establish plantations to produce 100,000 tonnes of high quality cocoa in 2012 to meet the expected production shortfalls in West Africa. It will be wise and worthwhile to make a similar investment to increase production and quality through the West African farmer.
Figure 2: Industry initiatives, sector initiatives and country strategies to improve cocoa bean production in Ivory Coast and Ghana by 2012

40,000 trained by WCF, STCP, B&M Gates Foundation
100,500 trained by individual company initiatives
659,500 other farmers
800,000 farmers in Ivory Coast produced in 2007/08

1,385,000 tonnes cocoa versus aim of 1,635,000 t. in 2012

Individual company initiatives
ADM: SERAP training (25,000 farmers)
SIFCA training (10,000 farmers)
ADM/OLAM traceable cocoa (12,000 farmers)
Cargill: Farmer Field School training (17,000 farmers)
Farmer Quality Program (10,000 farmers)
Cocoa Community Logistics Program (6,500 farmers)
Barry Callebaut: Quality Partner Program (15,000 farmers)
Nestle: Partnership Program (3,000 farmers)
Kraft/Amarjaro/RA: (2,000 farmers)

Appropriate training can increase a farmer’s productivity by 25%. The 140,500 trained farmers will increase production by 60,800 tonnes.

Aim for 2012: growth of 18% to 1,635,000 tonnes

The increase of 60,800 tonnes is not enough to achieve the aim of 18% growth to 1,635,000 tonnes in 2012 in Ivory Coast.

The supply of cocoa from Ivory Coast is not secure, in the medium term. Over 1 million smallholders have lost interest in cocoa cultivation due to poor returns. Ongoing civil war and political instability aggravates the problem. Many cocoa plantations are old and need replanting. But, the infrastructure (credit systems, extension services, improved varieties, market access) and economic impetus for regular replanting is lacking.
32,000 trained by WCF, STCP, B&M Gates Foundation
180,000 trained by individual company initiatives, (150,000 Cadbury)
233,000 other farmers
445,000 farmers in Ghana produced in 2007/08

690,000 tonnes cocoa versus aim of 882,000 t in 2012

Appropriate training can increase a farmer's productivity by 25%. The 212,000 trained farmers will increase production by 82,200 tonnes.

Aim for 2012: growth of 28% to 882,000 tonnes

The increase of 82,200 tonnes is not enough to achieve the aim of 28% growth to 882,000 tonnes in 2012 in Ghana.

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**Individual company initiatives**

**Cadbury:** Cocoa Partnership Program (150,000 farmers)

**Cargill:** Rural Education Program (30,000 farmers)

**Country strategy**

In Ghana, the government announced recently its policy to encourage cocoa cultivation to raise bean production to 1 million tons by 2010. But due to recent problems this target may not be achieved.

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10,000 trained farmers
10,000 other farmers
10,000 tonnes production
One of the key features of the cocoa chain (Figure 1) is the growing dominance of international companies in trading, processing and manufacturing activities. ADM, Barry Callebaut and Cargill are the most important grinders. Together with Petra Foods and Blommer they control over 50% of the worldwide production of grindings and liquid chocolate (Figure 3). Considering the volume of their investments in capacity expansions and new factories the market share of these companies will certainly expand during the coming years.

Interestingly, the crucial position of these grinders is not apparent from the supply chain. The grinders are the closest to the farmers and have to collaborate with other grinders and governments to secure quality production and volume. In most countries, the regional infrastructure for marketing and extension has deteriorated and needs to be strengthened.

The dynamics in the supply chain is evident in the establishment of new grinding facilities in producing countries and in the establishment of new liquid chocolate production facilities in consuming countries. Grinders develop into producers of liquid chocolate and supply chocolate manufacturers like Mars and Nestlé. For example, ADM recently acquired the German factory of Schokinag with a liquid chocolate production capacity in excess of 60,000 tonnes. By 2012, the chocolate manufacturers will outsource up to 20-25 percent of their liquid chocolate production to third parties, the grinders. This is equivalent to 350,000 to 550,000 tonnes of liquid chocolate. The ongoing concentration process in the grinding segment of the supply chain is obvious. In 2012, Barry Callebaut will have a market share of about 50-55 percent, producing 1.4 million tonnes of liquid chocolate worldwide (Figure 3).

Grinding volumes are expected to increase at an average of 1.5-2 percent a year due to increasing demand in the emerging markets in Brazil, China, India and Russia. In 2007/08 the total grinding volume of cocoa beans was 3,744,000 tonnes, of which 38 percent was processed in cocoa growing countries and 62 percent in the cocoa importing and consuming countries. Comparison of grinding volumes shows that beans are processed predominantly in the consumption regions. However, it is clear that higher volumes in the future will be processed in the cocoa producing countries.

Investing in grinding facilities in West Africa is stimulated by European Union policies. EU has no import restrictions for cocoa beans, but has different import tariffs for processed cocoa (butter, paste and powder) for the EPA countries, SPGL countries and Third countries (Figure 4). Processed cocoa can be imported tax-free into the EU when it originates from any of the least developed countries (EPA), like Ghana, Ivory Coast and Cameroon. EU levies an import tariff on processed cocoa products originating from other countries, such as Brazil, Indonesia, Malaysia, Nigeria and Ecuador. Consequently, the import tariffs protect the cocoa processing industry in the EU, discouraging the non-EPA cocoa producing countries from setting up their own processing industry to add local value to their cocoa exports. Nevertheless, Ivory Coast and Ghana have identified mechanisms to stimulate local processing by reducing the export tax on cocoa powder, butter and paste.
**Figure 3** Cocoa processing companies and their grindings and liquid chocolate production

<table>
<thead>
<tr>
<th>Company</th>
<th>Headquarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADM</td>
<td>USA</td>
</tr>
<tr>
<td>Cargill</td>
<td>USA</td>
</tr>
<tr>
<td>Barry Callebaut</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Petra Foods</td>
<td>Singapore</td>
</tr>
<tr>
<td>Blommer</td>
<td>USA</td>
</tr>
</tbody>
</table>

**Production of grindings in 2006/7**

- **ADM**: 500
- **Cargill**: 520
- **Barry Callebaut**: 440
- **Petra Foods**: 250
- **Blommer**: 190

**Liquid chocolate production in 2007/8**

- **ADM**: 220 (+10%)
- **Cargill**: 300 (+10%)
- **Barry Callebaut**: 900 (+25%)
- **Petra Foods**: 75 (+5%)
- **Blommer**: 190 (+5%)

Liquid chocolate production increase by outsourcing of global brands in 2012

**Location of new grinding factories**

- **ADM**: Cameroon, Ghana, Germany, Netherlands
- **Cargill**: Ghana, Germany, Netherlands
- **Barry Callebaut**: Russia, China, Japan, Malaysia
- **Petra Foods**: Germany, Brazil
- **Blommer**: —

Figures in 1,000 tonnes
Ivory Coast is not only the largest cocoa bean producer, but also the biggest processor in the producing countries with 9.5% of the grinding volume, worldwide. The foreign multinationals ADM, Barry Callebaut and Cargill dominate the local grinding market of Ivory Coast accounting for more than 70% of the volume. Recently Ghana welcomed foreign grinders after years of restrictive policies (Figure 5). In 2008, Cargill inaugurated a large grinding installation with an initial capacity of 65,000 tonnes, and ADM will follow in 2009 with 30,000 tonnes. With this expansion, only 40% of the cocoa beans in Ghana will be processed by local companies. Evidently, the producing countries will not derive the full benefit of adding value by processing.
Figure 6 Major chocolate manufacturers and their share of the world market in 2007

<table>
<thead>
<tr>
<th>Company &amp; marketshare</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.7 %</td>
</tr>
<tr>
<td>12.5 %</td>
</tr>
<tr>
<td>8.3 %</td>
</tr>
<tr>
<td>7.8 %</td>
</tr>
<tr>
<td>7.3 %</td>
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<tr>
<td>6.8 %</td>
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</tbody>
</table>

**Production locations**
- MARS: Europe, China, Russia, USA, Brazil, Mexico
- Nestlé: All continents, Nigeria, South Africa
- Hershey's: USA, Mexico, Brazil, India
- Kraft Foods: Europe, USA, Argentina, Mexico
- Cadbury: USA, Mexico, Brazil, India
- Ferrero: Europe, Russia, Poland, Rumania

**Expanding to**
- MARS: Russia, Dubai
- Nestlé: Europe, China
- Hershey's: Russia, East Europe
- Kraft Foods: Europe, Russia, New Zealand, Australia, Argentina, Africa
- Cadbury: Russia, Germany, India
- Ferrero: Europe, Russia
Global consumption of chocolate and other cocoa products is dominated by Europe (49%) and North America (22%). In 2008, the average consumption of chocolate confectionary in Europe was 5.2 kilos per head. The demand for cocoa is expected to increase in the emerging markets: Brazil, China, India and Russia. In terms of concentration, the chocolate and confectionery market worldwide is dominated by six companies: Cadbury, Ferrero, Hershey, Kraft, Mars and Nestlé (Figure 6). In 2007, the total chocolate confectionary market was estimated to be worth €54 billion and these six companies, collectively, had a market share of nearly 60 percent.

As a strategy for recognition as a global chocolate manufacturer, and to maintain that status, most companies commit increasing amounts of capital for product innovation, development, branding and marketing. Three types of outsourcing are evident in the industry. Firstly, outsourcing of primary processing—pressing cocoa beans into liquor, butter and powder; secondly, outsourcing of liquid chocolate which is expected to increase from the present level of about 10 percent up to 20-25 percent in 2012 and thirdly, chocolate manufacturers outsource the final consumer products to other companies, as for example, Nestlé gave the Lion candy bar production to Barry Callebaut.

Most major chocolate products are not branded worldwide, as yet. All major chocolate manufacturers are active in creating real global brands to secure their position in the old and new markets, with what appears to be unrestrained expenditure on marketing. Mars is probably, the most advanced in developing truly global brands. Chocolate manufacturers design specific flavours for different markets and countries to suit consumer preference. Hershey, for example, focused on the American market with its typical American taste chocolate, for many decades. They have recently started production in Mexico and Brazil to enter the new emerging markets. Cadbury is a British company that concentrated on the USA, Australia and New Zealand, and has lately shifted to 12 new core markets, including the BRIC countries and South Africa.

Marketing budgets

Marketing expenses of the major chocolate manufacturers are enormous, and on the rise, for example Ferrero has spent in 2008 more than 19% for marketing expenses. Figure 7 illustrates the dimension of marketing expenses of the six major chocolate manufacturers for global branding and to establish new markets.

If the six major chocolate manufacturers: Nestlé, Mars, Cadbury, Ferrero, Kraft and Hershey diverted just one percent of their marketing expenses (i.e. $86,000,000 dollars) into holistic training programmes and institutions for farmers, 50% of all cocoa farmers in the biggest cocoa producing country, Ivory Coast, could be reached in one year.

The general chocolate market is saturated in the most important consumer areas and grows at a meagre 1-2 percent per year. Premium chocolate market expands at more than 10% and fetches higher profits. Therefore, investment in new premium products is an important strategy for most manufacturers.
The 6 major chocolate manufacturers spent about **20%** of their annual budget on marketing

= $8,600,000,000 per year

1% ($86,000,000) of marketing expenses could be used to train 430,000 farmers (50% of all farmers in Ivory Coast)
5 Cocoa certification trends

Various multinational acquired specialty companies, e.g. Hershey acquired Dagoba Organic and LCC/Scharffen Berger, Cadbury purchased Green & Black's, Mars entered the premium market in 2008 by introducing M&M Premiums in the USA, and in 2008 Nestlé announced the conversion of the Cailler factory to a central research & development facility to develop premium chocolates.

Due to more and more discussion on healthy lifestyles and the dangers of being obese, the development of healthy chocolate products is now a priority for chocolate manufacturers. Barry Callebaut, Mars and Nestlé devote a large proportion of their research and development budget to create chocolate products that enhance health & wellbeing by reducing the sugar content and/or eliminating antioxidants.

Another important development, as illustrated in the following chapter, is the proliferation of codes of conduct and certification in the cocoa sector. Sustainability through consumer labels with certification is starting to be seen as a good business practice. A good example in the Netherlands is Verkade's (United Biscuits) decision to have all their chocolate products Fair Trade certified, in 2009.

Codes of conduct and certification of cocoa have proliferated in recent years in response to the growing consumer concern about food production methods and their impact on the poor and the environment. Certification is the procedure by which a certification body gives a written assurance that the quality of the cocoa and the production process has been assessed, and that both conform to the specified requirements. Four global production standards are relevant for the cocoa sector, namely Fairtrade, Organic, Rainforest Alliance and Utz Certified.

Codes of conduct require suppliers to meet standards on food safety, working conditions and environmentally-friendly production practices. This market-based approach to the sustainable development of the cocoa sector has given the producers many opportunities, for example, training, access to new markets, and enhanced efficiency and revenues. The adoption and implementation of these codes could directly improve and protect the economic, social and environmental conditions of a cocoa grower. However, full access to benefits, for those most in need, is restricted by various obstacles, for example, limited demand, investment and audit costs.

The supply of certified cocoa is increasing rapidly. In 2010, certified cocoa is expected to top 100,000 tonnes, equal to 3% of the world market. All production standards expect an increasing demand for certified cocoa in the near future to more than 40% (Figure 8). The knowledge of certification procedures and training is at hand in the producing countries but pressure from consumers, trade unions and NGOs is indispensable to realize their full potential. The companies’ perspective on certification is mostly to create a safe and trustworthy production chain for the consumers. However, without outside pressure, their policy would not...
necessarily be directed at promoting and safeguarding sustainable production chains, including all the relevant economical, ecological and social aspects.

Figure 9 shows the interest of grinders in certification, and the dynamics of the market. The biggest push for the market will come from Cargill, if it manages to sell 36,000 tonnes of Utz Certified beans as certified beans to their major chocolate manufactures in 2010. ADM delivers organic cocoa and Fairtrade cocoa to the United Kingdom. ADM also runs a traceable cocoa cultivation program producing more than 20,000 tonnes for selected customers in Ivory Coast. Barry Callebaut processes Organic and Fairtrade cocoa on a bigger scale and is involved in organic cocoa production projects in Tanzania, Uganda, Dominican Republic and Brazil. Recently, Blommer started off certification projects with Olam in Ivory Coast with Rainforest Alliance. In fact, every grinder, except Petra Food, is familiar with traceability and the requirements for certification.

Figure 10 shows that Cadbury is the first multinational chocolate manufacturer to use certified Fairtrade cocoa for a conventional chocolate product on the British and Irish market. Herewith the procurement of Fairtrade cocoa produced in Ghana will triple from around 5,000 tonnes to 15,000 tonnes annually. Cadbury’s announcement is in line with its Cocoa Partnership Program, an initiative to improve the working and living conditions of 500,000 Ghanaian cocoa farmers in the next ten years.

Cadbury, Hershey and Mars have begun to take an interest in consumer labels and source a small proportion of their cocoa under the Organic production standards. Although these mainstream manufacturers are getting involved, it appears they see certified products as no more than niche products in their brand portfolio. Cadbury bought Green & Black's for the high quality organic chocolate segment and Hershey acquired Dagoba for organic specialty chocolate. Hershey also entered into an alliance with Starbucks Coffee Company. Together they will create and market a new Starbucks-branded premium sustainable chocolate line in the USA. Until now, certified products of Hershey and Cadbury were only produced by daughter companies. Mars is very hesitant about marketing certified products; so far only online consumers can buy the Mars Organic chocolate bar.

Mars and Nestlé are participating in the development of an Utz Certified cocoa standard. Until now, no concrete commitment regarding buying intentions and volumes of certified cocoa beans has been publicised. Some 36,000 tonnes of certified cocoa would be available in 2010. If Mars and Nestlé are really interested in procuring cocoa from certified producers, this offers them a unique opportunity to start off with a certified mainstream product.

Kraft is presently engaged in the development of a Rainforest Alliance chocolate, but there is no firm announcement on the introduction of this certified product. If Kraft is committed, the volume of Rainforest Alliance certified beans that will be available in 2010 is sufficient for a mainstream product. A specific niche market has been discovered by Mars and Kraft selling Rainforest Alliance chocolate drinks in the United Kingdom. Here, multinationals like MacDonald’s and IKEA stimulate the introduction of certified products. Important chocolate manufacturers like Ferrero, Kraft and Nestlé have not shown any clear commitment as yet, in procuring certified cocoa to support farmers who comply with minimal social and environmental standards.
Figure 8  Expected availability of certified cocoa in 2009 and 2010

Figure 9  Cocoa grinders and their production standards in 2009
**Figure 10** Chocolate manufacturers and their consumer labels in 2009

<table>
<thead>
<tr>
<th>Global brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mars</td>
</tr>
<tr>
<td>Nestle</td>
</tr>
<tr>
<td>Hershey</td>
</tr>
<tr>
<td>Kraft Foods</td>
</tr>
<tr>
<td>Cadbury</td>
</tr>
<tr>
<td>Ferrero</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Certified cocoa 2009 Blended into mainstream products</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTZ</td>
</tr>
<tr>
<td>Rainforest</td>
</tr>
<tr>
<td>ECO</td>
</tr>
<tr>
<td>Green</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Certified cocoa 2009 Premium products</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTZ</td>
</tr>
<tr>
<td>Rainforest</td>
</tr>
<tr>
<td>ECO</td>
</tr>
<tr>
<td>Green</td>
</tr>
</tbody>
</table>

- Mars online chocolate bar in USA
- Dagoba chocolate in USA
- Green&Black's chocolate
Consumer demand for chocolate is directly related to the economic development of a country. Hence, cocoa markets with their own consumer preferences will, no doubt, emerge in Brazil, Russia, India, Japan and China. Consumption of chocolate is still heavily concentrated in just two areas of the world: Europe and USA. More specifically, just 5 countries, USA, Germany, France, UK and Russia consume over 50% of the world chocolate production. Less than 20% of all chocolate is consumed in the producing countries in Latin America, Africa and Asia. In general, total consumption is expected to rise by 1-2% per annum over the next few years. The growth rate of consumption over the last 5 years was 2% per year in Europe, 3% per year in the USA, over 6% per year in the newly emerging markets and over 12% in the high premium quality segment. The consumer demand in Europe and the United States shows an increase for specialty chocolate products, with a high content of cocoa from specific countries.

The Netherlands is seen as a good testing ground for introducing sustainable products. In the Netherlands, the retail sector is the main distribution channel for chocolate products. Six retailers dominate the market in the Netherlands and their chocolate products reach around 16 million consumers. Ahold and SuperUnie have almost 60% of the Dutch market share. The consumer can choose from a bewildering variety of brands and supermarket private label chocolate products. As a matter of fact, consumers in the Netherlands can choose to buy chocolate from three market segments: expensive high-quality premium chocolate, different brands of mainstream quality chocolate, and inexpensive bulk low-value chocolate. Certified chocolate is available in the premium chocolate and mainstream quality chocolate segments (Figure 11). The fact that a price discounter like Lidl and a large confectioner like Verkade (United Biscuits) are able to introduce 100% certified chocolate into the mainstream market, should encourage other supermarkets and confectioners to do likewise. In addition, marketing for sustainable products in general could stimulate the perception and decision of the final consumer.
Figure 11 Availability of certified chocolate in the Dutch retail sector

<table>
<thead>
<tr>
<th>Name &amp; Holding</th>
<th>Dutch market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahold</td>
<td>29.8%</td>
</tr>
<tr>
<td>SuperUnie</td>
<td>29.5%</td>
</tr>
<tr>
<td>Schuitema</td>
<td>14.0%</td>
</tr>
<tr>
<td>Laurus</td>
<td>7.5%</td>
</tr>
<tr>
<td>Lidl Stiftung &amp; Co</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

**High-quality premium chocolate** *(10% of total market)*

**Mainstream quality chocolate** *(55% of total market)*

**Bulk low-value chocolate** *(35% of total market)*
7 Conclusions

Cocoa production
The worldwide demand for cocoa beans is on the rise. The present bean production must be raised by nearly 20 percent if we are to satisfy the expected demand of 4.4 million tonnes in 2012. Considering the bleak situation in Ivory Coast, the most important cocoa producing country, this will be a formidable challenge for all stakeholders involved. Most smallholders do not receive adequate training, either by government or companies. In Western Africa, the current individual company and industry training programmes, scheduled until end 2010, will reach less than 14% of the cocoa farmers. All in all, the sector faces a severe shortage in the coming years; an adequate demand-supply ratio cannot be guaranteed. Significant efforts to invest in the human capital of farmers are necessary to meet the expected quality and quantity of cocoa beans.

Cocoa grinding
The grinders are closest to the farmers in the cocoa value chain. Within a short span of time, the grinders have become the most powerful stakeholders in the chain due mainly to the ongoing concentration process in grinding and outsourcing of liquid chocolate. On the one hand, the three grinders ADM, Barry Callebaut and Cargill are establishing more grinding factories in the producing countries, and on the other hand, they are taking over more and more of liquid chocolate production from chocolate manufacturers, at the other end of the chain. Interestingly, these grinders are not visible to the end consumer, hence less vulnerable to criticism compared to chocolate manufacturers with known brands. Nevertheless, grinders have a pivotal role to play in addressing the social, environmental and economic problems at farm level. To ensure quality cocoa, now and in the future, grinders, together with the governments of their main suppliers, must invest heavily to develop a more sustainable cocoa chain: they must invest in small cocoa farmers.

Chocolate manufacturing
The core-business of manufacturers in the cocoa value chain has moved towards marketing and branding of chocolate products and product development. The interweaving of grinding and manufacturing and the dynamics of the sector are illustrated in Figure 12. The well-known chocolate manufacturers’ claim of having little power over their value chain is untenable. Clearly, these manufacturers could easily be the driving force to stimulate markets for sustainable chocolate products. On a yearly basis, these companies invest huge sums of money on marketing to create a global image for their products, and to introduce new products to the market. One percent of the annual marketing budget, of the six major chocolate manufacturers, is a staggering sum of US$ 86,000,000. If only this one percent is dedicated to farmer training programmes, it would more than sufficient to engage half the Ivorian Coast cocoa farmers in a one year cocoa improvement programme. At the same time, sustainable production could become an integral part of the positioning and marketing of their portfolio of brands. Consequently, chocolate manufacturers could contribute to raise substantially the consumer awareness on sustainable issues in consuming and producing countries.
Cocoa certification

Furthermore, chocolate manufacturers could source certified cocoa and produce labelled products to improve the social, environmental and economic conditions at the very inception of the chain: the cocoa farming system. In 2010, 100,000 tonnes of certified cocoa will be in the market. The negligible share of certified cocoa procured by the six main chocolate manufacturers suggests they have no immediate plans for the large scale use of certified cocoa. So far, it is used only for a few highly visible products, like labelled fancy chocolate drinks, online chocolate bars and specialty products. Nonetheless, consumers clearly show concern about cocoa production and its impact on people and the environment. The successful introduction of different certified chocolate bars in the Dutch market over the last few years is promising. The fact that a price discounter like Lidl and a large well-known confectionary brand like Verkade are able to successfully introduce 100% certified chocolate products to the mainstream market is encouraging.

Change

Without producers there will be no chocolate and without consumers there will be no market for the farmers’ products. It is, as simple as that. Both ends of the chain need investments to be sustainable. However, the industry seems inclined to invest vast sums of money at only one end of the chain: the consumers, and on one topic: branding. Industry is underestimating the situation at the other end of the chain: the cocoa bean producers. In the long run this would be unsustainable for the whole cocoa sector. This must change, and change now. We must address the social, environmental and economic needs of the producers. Then, and only then, can we be assured of an adequate supply of quality cocoa, now and in the future.
Sources for figures

Fig 2: - Estimation for 2012 by ICCO, statistical data, annual forecasts of production  http://www.icco.org
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- Press release: Gates Foundation, Partners Pledge $90 Million to Boost Incomes of Small Farmers in Africa (19-02-09) www.gatesfoundation.org
- Cadbury Cocoa Partnership Program http://www.cadbury.com

Fig 3: Adapted from Profundo (2008) “Selected issues in cocoa trading and financing” - research paper prepared for the Tropical Commodity Coalition

Fig 4: - Numbers adapted from ICCO Quarterly Bulletin of Cocoa Statistics Vol. XXXIV No 2, Cocoa year 2007/8
- Data adapted from company annual reports, company websites, trade magazines
- Data adapted from company annual reports, company websites, trade magazines
- TCP/ITTA http://www.treecrops.org
- photo: Soni David, ITTA/STCP
- Personal communications from the different standard setting bodies
- Data adapted from individual company websites
- Press release: Cadbury gobbles Green & Black’s (13-05-05) http://www.guardian.co.uk
- Research done by the Tropical Commodity Coalition in October 2008, prices are in €/100 g
- Personal communication from VBZ (02-2009)

Sources

- TCC (2008) “Breaking the vicious circle in the cocoa sector by scaling up training for cocoa smallholders”

Colophon

Text: Tropical Commodity coalition: Bärbel Weiligmann, Sjoerd Panhuysen, Mieke van Reenen & Oxfam Novib: Gine Zwart
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Footnotes

1 Green, M (2009) “Ivory Coast cocoa industry stares at bleak future” in Financial Times 14-01-09
2 ICCO (2008) Annual forecasts of production and consumption
3 ICCO (2008) Annual forecasts of production and consumption
5 Barry Callebaut, Investor’s presentation, 2008
7 EPA countries are the least developed countries. SPGL countries are more developed countries, which still are granted (slightly) preferential import tariffs by the European Union. Third countries are all other countries, most of which are (fairly) developed countries.

Abbreviations

ADM Archer Daniels Midland
BRIC Brazil, Russia, India and China
CAOBISCO Association of the Chocolate, Biscuit and Confectionary Industries of the EU
CEO Chief Executive Officer
COCOBOD Ghana Cocoa Board
CSR Corporate Social Responsibility
EPA Economic Partnership Agreements (with the European Commission)
EU European Union
ICCO International Cocoa Organization
ICI International Cocoa Initiative
IFOAM International Federation of Organic Agriculture Movements
IITA International Institute for Tropical Agriculture
ILRF International Labor Rights Forum
NGO Non Governmental Organization
R & D Research and Development
RA Rainforest Alliance
STCP Sustainable Tree Crops Program
TCC Tropical Commodity Coalition
UN United Nations
USA United States of America
WCF World Cocoa Foundation

Participants
Tropical Commodity Coalition (TCC) comprises eight non-governmental organisations: Hivos, Oxfam-Novib, Solidaridad, Oikos, Somo, Fairfood, India Committee of the Netherlands, BothEnds and two trade unions, FNV Bondgenoten, CNV Bedrijvenbond. It cooperates with NGOs and trade unions in coffee, tea and cocoa producing countries to improve the social, environmental and economic conditions at the beginning of the coffee, tea and cocoa value chains.

TCC addresses the social, environmental and economic conditions in the coffee, tea and cocoa chains through organising informed debates, in both the South and the North. The TCC ensures coordination of the members’ activities where needed and compiles lessons learnt and promotes the interchange of strategies to build shared understanding and approaches to sustainability in these commodities. TCC shares its knowledge and influences policies and plans of companies, standard bodies, CSR initiatives, governments, NGOs and unions to develop and implement sustainable practices efficiently throughout the coffee, tea and cocoa chains. TCC creates an enabling environment for civil society stakeholders from producing countries to join and take an active part in the sustainable commodity debate.

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