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CONSULTATIVE BOARD ON THE WORLD COCOA ECONOMY

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**SUSTAINABLE COCOA ECONOMY:
A COMPREHENSIVE AND PARTICIPATORY APPROACH**

Note by the secretariat

The present document incorporates all amendments and observations made by the Members of the Consultative Board during its eleventh meeting in December 2006. Unfortunately, the Secretariat was not in a position to elaborate further on some of the indicators.

SUSTAINABLE COCOA ECONOMY: A COMPREHENSIVE AND PARTICIPATORY APPROACH

I. INTRODUCTION

1. The International Cocoa Agreement, 2001 in Article 39 makes specific reference to the issue of sustainability and “*encourages its Members to give due consideration to the development of a sustainable cocoa economy*”. In the light of this mandate, it is incumbent upon all interested parties including the governments of cocoa producing and consuming countries, the international donor community, the cocoa trade, the chocolate industry and organized civil society to work together to find ways to include all three pillars of sustainable development in the decision-making process on issues related to cocoa production and consumption. With this in mind, in 2005 the ICCO Consultative Board on the World Cocoa Economy started to work on the issue. Since then much progress has been made. This document is to serve as background reading and as a starting point for discussions in the planned Round Table Meeting for Sustainable Cocoa of all significant stakeholders in the world cocoa industry towards achieving a sustainable world cocoa economy. This document is meant to provide an open framework so that ideas can flow freely and a positive outcome would result through a participatory and comprehensive approach.

2. There was consensus in the Board that there should not be too much debate into developing any precise wording of a definition of sustainable cocoa or of sustainability but the Consultative Board was mandated to explore what this concept might mean to the cocoa industry, building on acceptance that there are three pillars of sustainability – economic, environmental and social. The ICCO Council agreed to adopt the definition of the *Brundtland* Commission from their work in 1987, which describes sustainable development to be “*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*”. In practice, the Consultative Board proposed that the objective of ICCO Members should be working collectively towards a world cocoa economy that is “*economically viable, ecologically sound and socially acceptable*”.

3. In Figure I, the economic, social and environmental pillars are distinguishable as separate components of sustainability. However, sustainability and thus a sustainable world cocoa economy must be considered as one integrated interdependent whole. The distinctions are only for convenience. In terms of the visual representation shown in Figure I, a truly sustainable world cocoa economy can only be achieved when the three circles completely overlap and when cocoa consumption and cocoa production are simultaneously sustainable and more or less in balance. To achieve this sustainable world cocoa economy, there would need to be an integrated (holistic) approach and progress cannot be made on any one pillar to the detriment of the other two pillars.

4. A visual representation of these three interlinked pillars is illustrated in Figure I below:



Figure I: A diagrammatic representation of sustainability

5. However, in the world cocoa economy of today, we propose that the economic pillar takes priority and precedence over the other two pillars. The main reason for that is that for the smallholder cocoa farmers, economic considerations override both environmental and social concerns. Only when the basic economic needs of the farmers and their families are met, can they be expected to care about social and environmental aspects of their activities. In other words, the first priority in activities towards a sustainable world cocoa economy is to improve the revenues and incomes of the cocoa farmers.

6. Concrete progress on the issue of sustainability in the case of cocoa might give the industry an image of enhanced responsibility and thus achieve a comparative advantage over some other supply chains, but at all times our discussions, and any techniques or ideas adopted, should build on the experiences of other sectors and other interest groups (both with regard to their successes and their failures) to avoid any duplication of effort or errors. However, there are specific features of the world cocoa industry that mean that cocoa specific solutions are likely to be needed – at least in part.

II. CHARACTERISTICS OF THE WORLD COCOA ECONOMY

7. Cocoa is produced in many countries that are typified by low or very low GDP per head - often with poor infrastructure and communications. It is characterised by the predominance of small farmers with an estimated 95% of annual world cocoa production derived from smallholdings in the size range of one to three hectares. The sector is further characterised by price volatility, a declining trend in real prices, concentration of production in a limited number of countries, low productivity and huge crop losses due to pests and diseases. However, with growth in population and rising GDP, global demand for chocolate has continued to grow, with expanding markets for cocoa. Nevertheless, demand in developed markets seems to be slowing and in some cases is flat or even declining.

8. Over the last 100 years or so, there has been a trend for new cocoa plantings in many cocoa producing areas to be established on primary forest land from which the economic timber species had been previously extracted, with the young cocoa being planted under the thinned forest with temporary shade often provided by food crops. This was a very efficient technique but is not a sustainable process. Only very limited areas of primary forest now remain in areas suited to cocoa cultivation – many of these are acting as formal forest reserves.

III. A MODEL FOR IMPROVING SUSTAINABILITY OF THE WORLD COCOA ECONOMY

9. The ICCO Consultative Board started its discussions on a sustainable world cocoa economy with a debate on the possible indicators, because these would be central to understanding the present situation and thereby allow for measuring of improvements towards a more sustainable world cocoa economy. Once indicators are identified, it becomes easier to derive activities to achieve improvements in the agreed indicators, by following a classic continual improvement cycle involving four specific steps:-

- i) data collection (collecting baseline data in the first cycle);
- ii) reporting of data;
- iii) implementation of activities towards a sustainable cocoa economy; and
- iv) independent validation of progress.

10. Such a cycle is demonstrated in Figure II. The cycle starts with data collection. These data can, as appropriate, be expressed in the form of indicators (see below). One can distinguish between data at global, national (regional) and project level.

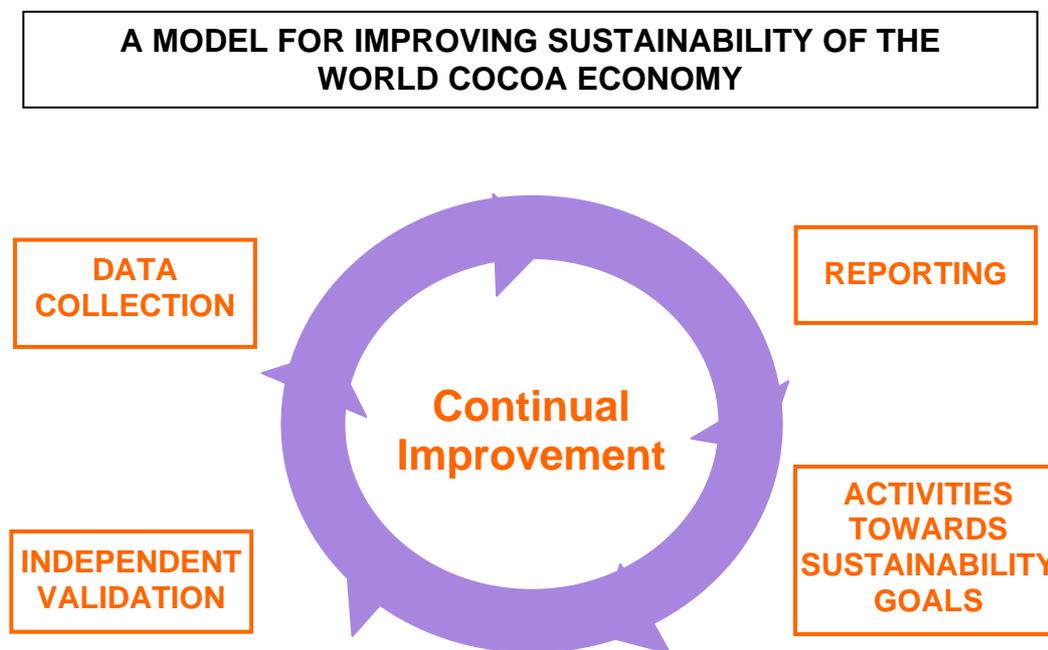


Figure II: A Model for Improving Sustainability

11. At the global and national level, one can agree on the “lifetime” of the cycle to update the data at certain intervals. This can be done by ICCO, supported (in particular for national data) by the relevant institutions in producer and consumer countries. At project level, the ideal situation would be to collect data on the situation on the ground both before and after the implementation of a project. Even if that is done correctly, it is still difficult to determine exactly which results are directly attributable to the project and which are the result from “other” developments and activities.

12. Reporting has to be done in such a way that it is easily accessible to the relevant stakeholders. There could be different tiers of reporting. To ensure that the data reported are meaningful, due care must be taken of accuracy of the information collected. With the same data collected by different agencies in different places, it is of utmost importance to work with internationally agreed definitions and measurement units and to achieve uniformity in methodologies of data collection. Reporting likely has to be done in different languages, to ensure adequate accessibility of the information. Proper records will have to be kept for follow-up analysis and ease of reference.

13. Activities towards sustainability, meant to improve upon the reported situation, must take into consideration the unique characteristics of the world cocoa economy. With the major goals derived from the three pillars of sustainability, it would seem convenient to group activities along the same lines: activities with predominantly economic, social and environmental pillars. In practice, many individual activities will, although touching on all main objectives, predominantly be aimed at one of the three pillars. This should result in priority for the economic pillar until such time as the income situation of the farmers has considerably improved. Subsequently, the totality of activities should

result in a balanced improvement in economic, social and environmental sustainability. In practice, activities incorporating elements of the three pillars could be gradually introduced and integrated into existing policies, programmes and projects. Once the activities are internalized into cocoa farming, cocoa trade, processing and manufacturing, sustainability will become second nature to all the actors in the cocoa and chocolate chain.

14. To complete the cycle, validation or verification of the data is required to compare results achieved with the original situation at the beginning of the cycle. It would be ideal if third party validation could be realized. This would give maximum credibility to the indicators and the progress made would thus improve the standing and image of cocoa and chocolate with the consumers. However, validation has always to be agreed upon in advance and stakeholders might decide to adopt self-assessment, possibly combined with a light form of outside validation, as a first step before progressing to being evaluated by an independent party. The continual improvement model allows the cycle to be repeated to enable continuous improvement against the standards of the original benchmark.

15. To achieve a more sustainable world cocoa economy the industry needs to start taking more focused action as soon as possible. Data on the current situation needs to be collected, publicly reported, activities towards sustainability goals need to be developed and the resulting improvements should then be (independently) validated. These concepts and the guidelines for activities and practices towards sustainability have to be agreed on a global scale and, subsequently, on a national or regional scale for each country for which cocoa is of substantial importance. Policies, programmes and projects implemented by stakeholders should all be geared towards achieving a sustainable cocoa economy. In the light of its global cocoa mandate, the ICCO should play a leading role in the development and implementation of such an action programme and in making the necessary cross border comparisons.

16. There is not only a need for a quantum leap in activities towards sustainability. It is also urgently required to develop guidelines for activities and indicators of sustainability. The indicators would have to exhibit the following characteristics: meaningful to farmers, manufacturers, consumers and officials alike; simple to understand; easy to calculate and require only a modest effort in data collection. During its meetings, the Consultative Board has extensively and fruitfully discussed a significant number of such possible indicators (or measures) of sustainability of both cocoa production and cocoa consumption. Data on some of these will be relatively easy to collect and analyse, others will be very difficult (and thus expensive) to collect and analyse. Some will be more meaningful and others less meaningful in publicly demonstrating movement towards the goal of a more sustainable world cocoa economy. As a rational starting point, it seems wise for ICCO to concentrate work initially on a small number of the most meaningful and relatively easy-to-collect indicators. Some examples of indicators at the global level are the stocks-to-grindings ratio; real world prices; and chocolate consumption per head of population.

IV. SUSTAINABILITY GOALS: OBJECTIVES OF A SUSTAINABLE WORLD COCOA ECONOMY

17. The overall objectives for a sustainable world cocoa economy are:

- i) To increase incomes of cocoa farm families within the cocoa growing communities, by improving efficiency and modernizing cocoa growing, while simultaneously avoiding overproduction of cocoa, and by expanding demand for cocoa through further development of markets for cocoa and chocolate products and by diversification of the cocoa sectors in producing countries (economic pillar);

- ii) To ensure that cocoa is grown, processed and manufactured into cocoa and chocolate products in ways that are consistent with protection of the environment (environmental pillar);
- iii) To improve the social situation of all people involved in cocoa growing, and of those processing cocoa and producing chocolate by enhancing corporate responsibility and involvement (social pillar).

18. The main goal of the process to achieve a sustainable cocoa economy is to secure better livelihoods for cocoa farmers by modernizing cocoa farming through productivity improvements, introduction of systems of best-known farm practices, and improvements in working conditions. Through codes of good farm practices, containing guidelines for sustainable production, farmers should be able to benefit from better market access for cocoa and chocolate products. This is very important in view of new requirements from the consumers. Consumers are asking for “sustainable” cocoa and chocolate products. Consumers increasingly want products which provide a decent living for the farmers, are produced in a socially acceptable way, not harming the environment and which are safe and healthy to enjoy. Delivering such products is in the direct interest of the farmers, the cocoa processors, the traders/exporters and the chocolate manufacturers. The benefits resulting for the farmers and the other stakeholders in the chain in delivering “sustainable cocoa” are reduced costs (after a transition period), improved market access and sustainable increases of consumption.

V. ACTIVITIES TO ACHIEVE SUSTAINABILITY

19. The activities to achieve sustainability could be categorized along the lines of the sustainability goals. However, any categorization is always somewhat arbitrary. For example, activities to reduce losses from pests and diseases have both economic and environmental aspects. The approach taken in this document is that policies and programmes at national level (e.g. taxation policies and agricultural extension services) are categorized under the economic aspects of sustainable production of cocoa beans. On the other hand, farm practices, although having strong economic consequences, are categorized under environmental aspects of production. What is important at the end of the day, is that a balance is achieved among the various pillars to attain sustainability. There should be specifically, consensus among stakeholders about a number of basic minimum standards, which are set as initial targets and that progress is made to improve upon these standards over time, using an agreed method of measurement. At the start, these standards may involve efforts to avoid certain activities, actions and occurrences. They might be translated into “negative guidelines”, stipulating “what should not be done”.

V.1. Activities Related to Economic Sustainability

20. Since improving the incomes of cocoa farmers is the priority objective in achieving sustainability, activities geared to realize the objective of economic sustainability include cocoa supply chain management, improvement in the capacity of cocoa-producing countries to formulate and implement national cocoa production policies and empowerment of farmers through capacity-building to achieve the efficient functioning of cooperatives and other marketing agencies. Emphasis would also be placed on ways to improve the incomes of farmers through better and more efficient use of available resources and diversification into more remunerative activities within and outside of farming. The activities under this pillar would seek to improve the economic status of the farmer and enable him to secure an acceptable level of livelihood.

V.1.1. Economic Sustainability of Consumption

21. Activities to secure sustainable growth of consumption and better market access might include: continuing efforts to develop generic consumption promotion campaigns in emerging markets; developing promotional activities to stimulate the consumption of cocoa and cocoa products in cocoa-producing countries; organizing activities to enhance the understanding of health and nutritional properties of cocoa and chocolate with consumers; and monitoring developments regarding possible regulations on food safety.

V.1.2. Economic sustainability of production and processing of cocoa beans

22. In order to formulate effective policies, producing countries need an inventory of their cocoa resources, as well as an inventory of all their resources in agriculture, in general. Subsequently, they need to develop the institutional framework, including the human capabilities, to formulate – and implement – effective policies and programmes. Diversification should be part of the plan so as not to be solely dependent on cocoa as a single commodity in the economy. It may even be appropriate for some growers to exit from cocoa production due to influence of pests, diseases, soils, climate etc and convert into other more suitable crops. Research and extension services for the small farmer must be incorporated as standard agrarian practice. Taxation policies in place should not penalize the small farmer to the extent that his income is severely affected.

23. All efforts should be made to promote further processing of cocoa beans into value-added cocoa products where it is economically viable. This would enhance diversification initiatives and vertical integration. Establishing linkages to foster transfer of technology and capacity-building should receive due attention in activities related to processing and manufacturing.

V.1.3. Economic Sustainability of the Market Chain

24. Activities would include improvement of the functioning of the chain (internal and international, including terminal markets); encouraging farmers' grouping into co-operatives; improving the managerial capacity of farmers; supporting cocoa producing countries to improve the functioning of market information systems for farmers and development of niche markets such as fine/flavour cocoa, other cocoas of distinct quality characteristics and organic cocoa products; and empowerment of farmers to earn the highest value for their produce.

V.2. Activities related to the Environmental Sustainability of Cocoa Growing

25. Activities under this pillar are extremely important as cocoa growing is only possible in areas where the right amount of rainfall, suitable climatic conditions, soil fertility and nutrients are maintained and improved upon. Cocoa growing areas can, under proper cultivation practices, maintain a quite high level of biodiversity. Cocoa growing should, as a minimum standard, not cause damage to the environment. The biodiversity in cocoa producing countries and soil nutrients in cocoa growing areas should be preserved and conservation efforts must be taken to ensure that the right balance between environment and cocoa cultivation is maintained.

26. In view of increasing global concern on carbon emissions, there could be opportunities for industries processing cocoa and manufacturing chocolate to explore the potential for carbon offsets in producing countries. Other cocoa related projects in producing countries which might be eligible for carbon trading and offsets should also be explored. Carbon is also absorbed by cocoa trees and by the cover of forest shade trees.

V.2.1. Environmental sustainability of cocoa production

27. Efforts in terms of enhancing environmental sustainability in the production of cocoa beans would comprise activities to engage farmers in the use of “best known practices” in cocoa farming, including efficient use of inputs, such as fertilizers and pesticides; use of best possible planting material; action to prevent and manage the spread of cocoa pests and pathogens; projects to reduce the losses from pests and diseases at the national and regional level; and diversification of the (agricultural) activities of cocoa farmers. In other words, cocoa farming has to be thoroughly modernized, resulting in farms with high productivity of both land (high yield) and labour (high labour productivity).

V.2.2. Environmental sustainability of cocoa processing and manufacturing

28. Activities would consist of improvement or introduction of methods of transport, processing and manufacturing systems that inflict minimum damage on the environment. Activities would include securing the application of best-known practices of fumigation in warehouses and on ships; the use of cleaner and more energy-efficient ways of transport; minimization of noise and emissions etc. All these activities have to take due account of the regulatory framework in the country and locality of operation.

V.3. Activities related to Social Sustainability

29. Social sustainability would include the provision of an enabling environment for a sustainable cocoa economy. Amongst others these would include the necessary infrastructure of education; medical facilities; safe drinking water; etc. Primarily these social amenities are to be provided by governments and should remain the responsibility of national and local governments, supported by initiatives of the communities themselves. It could be appropriate for large corporations in the chain to assist in supplementing these services. Activities under the social pillar would also include encouraging private companies in the cocoa chain, including chocolate manufacturers, to work together with governments to assume more responsibility for creating the enabling environment for communities to realize their potential for sustainable cocoa production and trade; promoting the development of basic infrastructure, educational, medical, health care facilities and providing potable water in cocoa communities.

V.3.1. Social Sustainability of Cocoa Production

30. Activities under this pillar would promote a conducive environment for cocoa farmers to excel in cocoa production. These would include improving the social conditions necessary for the farmers to [delete] increase cocoa productivity. It is the social obligation of national and local governments to provide the wherewithal to equip farmers with the basic amenities and appropriate social conditions as an incentive for them to produce cocoa in a sustainable way.

31. Public relations have become a necessary tool for companies. A descriptive phrase for major corporations in today’s business environment is “corporate social responsibility”. Assuming this responsibility enhances their corporate image and reputation in the eyes of consumers. By undertaking projects to uplift the social conditions of farmers, companies would not only improve their corporate image but at the same time improve the capacity of farmers to enjoy a better quality of life and increase the farmers’ productivity and income. It also reflects the commitment of companies to the issue of social sustainability of the small farmers in the whole value chain. This could be in the form of returning part of the earnings of profitable companies to the rural farming community by undertaking the building of rural schools, providing medical and health facilities and potable water. In this way,

companies can complement the efforts made by national and local governments in producing countries which clearly do have primary responsibility for social sustainability of the cocoa farmers' communities, though are often very short of the necessary resources to invest in improvement.

32. The eradication of the worst forms of child labour on cocoa farms in West Africa has been a major issue in recent years. Abuse of child labour is unacceptable and, therefore, damaging the image of cocoa with consumers, even though the practice is only found in a small number of cases. All stakeholders agree that abusive child labour and the worst forms of child labour must be eradicated by raising awareness of this issue among farming communities and by making cocoa farming economically and socially sustainable. Efforts to achieve this are underway.

V.3.2 Social Sustainability of Processing and Manufacturing

33. Similarly, social and labour conditions for communities around processing and manufacturing plants have to be given due consideration for sustainability. The appropriate social and labour relations would be necessary to provide an enduring and vibrant processing and manufacturing sector towards sustainability.

VI. INDICATORS TO MEASURE PROGRESS IN ACHIEVING SUSTAINABILITY

34. The Board has discussed some 36 indicators of potential relevance as contained in document CB/6/2Rev.3. These were submitted for debate as to their relevance and practicality. In general, indicators could be qualitative or quantitative in nature. It might be possible that some quantitative measures may give rise to ambiguity e.g. increased fertilizer use starting from zero may be appropriate rather than negative. However, what is important is that the indicators used represent good measures to monitor progress in the quest towards sustainability. The ICCO Consultative Board and Council have agreed to begin work with nine indicators. These represent some indicators that could be useful and for which there are often data available in the relevant cocoa producing and cocoa consuming countries, including:

- i) average production of dry cocoa beans per hectare;
- ii) level of global cocoa stocks in a ratio to global cocoa grind (stocks to grind ratio);
- iii) relationship of the actual rate of government taxation on exports of cocoa beans to the optimal tax rate;
- iv) percentage of the *fob* export price of cocoa beans received by the farmer at the "farm-gate";
- v) a minimum income for farm families, derived from a minimum *per capita* income;
- vi) change in the use of agrochemicals/ pest management practices ;
- vii) growth in chocolate/cocoa consumption per head of population;
- viii) level of domestic internal taxes in cocoa consuming countries
- ix) import tariffs on cocoa beans and cocoa products; and
- x) a selection of the UN Millennium Development Goals at the level of the cocoa farming communities (if agreed).

35. Use of these indicators is not a panacea to improve the incomes and well-being of farmers, but they can be used as benchmarks for policy-making and development activities to improve the social-economic situation of the cocoa farmers. As mentioned earlier, indicators can be used at various levels i.e. at global, regional and national levels. In implementing the activities connected to the pillars, appropriate indicators can be assigned to these activities. It is envisaged that important cocoa producing countries would want to formulate a plan to achieve a sustainable cocoa economy. In these countries, one agency should take the lead in formulating and implementing such a plan for a sustainable cocoa economy while working in partnership with the ICCO. In most producing countries, this body would be the designated regulatory body responsible for cocoa matters. However, due to the overarching responsibilities involving other public policy areas, including environmental, social and economic aspects, it is probably desirable to implicate other agencies/ministries, responsible for policies and programmes in relevant areas. The countries could, in the process of implementation of their plans, make use of the indicators of sustainability, as appropriate.

VII BENEFITS OF SUSTAINABILITY

36. Once the continual improvement model is firmly in place, it is expected that the cocoa industry will be able to reap the benefits resulting from the sustainable practices and attain the objective of a world cocoa economy that is *economically viable, environmentally sound and socially acceptable*. The intensity of the impact would hinge crucially on the level of commitment by stakeholders. With proper coordination, a well thought-out plan, and effective implementation, stakeholders would be able to enjoy the benefits of sustainable development in line with the *Brundtland Commission's* definition of development that *"meets the needs of the present without compromising the ability of future generations to meet their own needs"*. This would mean that farmers would earn an acceptable income that would induce them to continue cultivating cocoa. The productivity of farmers would improve, and losses from pests and diseases would be reduced. There would be more efficient use of resources, less air and water pollution, reduced releases of greenhouse gasses, less incidences of the worst forms of child labour, better living conditions and improved welfare in cocoa growing areas. The costs due to environmental externalities would also be mitigated and society as a whole would benefit. In contrast, the costs of not taking action towards sustainability would be low incomes, declining productivity, substantial losses from pest and diseases, deforestation, land degradation, air and water pollution, lack of social amenities and violation of human rights and the occurrence of the worst forms of child labour.

VIII. NEXT STEP: A ROUND TABLE MEETING ON A SUSTAINABLE WORLD COCOA ECONOMY

37. To move the process forward, it is necessary to seek the views and feedback from all major stakeholders through hosting a Round Table Meeting for a Sustainable World Cocoa Economy. The Round Table Meeting would serve as a forum for a participatory and comprehensive approach to find a fair balance between the three pillars to attain a sustainable cocoa economy. The present document is to serve as the basis for discussion at the Round Table Meeting. In essence it would seek broad consensus and agreement of all stakeholders on the concept, model, activities, indicators or measures, and type of validation in order to achieve sustainability and enjoy its attendant benefits. A detailed proposal for such a Round Table Meeting is found in the document CB/11/3. One of the major objectives of a Round Table Meeting would be to start to develop guidelines for the activities and practices of all stakeholders, to progressively achieve economic, social and environmental sustainability.