

TOWARD A SUSTAINABLE COCOA ECONOMY

Its contribution to solving socio-economic problems

Workshop on Cocoa Certification

Abidjan, June 2008

Monsieur le représentant du Premier Ministre,

Your Excellencies, Ambassadors in Abidjan and abroad,

Ladies and Gentlemen,

It is a great honour for me for having been invited to speak to this august audience today. I gladly accepted the invitation, because of the great importance of Côte d'Ivoire in the world cocoa economy and because of the importance of the subject of this workshop.

Your excellencies, ladies and gentlemen, in the ICCO we discuss all aspects of the world cocoa economy, and we do that in quite some detail. However, in my view, there is only one big problem in the cocoa economy and that is the problem of the poverty of very large numbers of cocoa farmers.

On the other hand, there is a very positive, a very exiting development taking place on the demand side of the market. There have been and there are major positive changes taking place in the cocoa and chocolate markets.

So, there are two completely different stories you can tell at the moment about cocoa. One story is a negative, sad story, about the poverty of the farmers and the other is a very positive story about the changing preferences and demands of the consumers.

Today, I would like to talk briefly about the two stories and then concentrate on how we could best do something about the big problem, about the poverty of the cocoa farmers. I believe – to start by informing you about my conclusion – that the best approach to do something about the poverty problem of the cocoa farmers, is for the cocoa producing countries to achieve the production and trade of sustainable cocoa. That would, I think, be the best approach, because it would directly link the demand in the market for cocoa and chocolate with the problem of the low incomes of the farmers. One would exploit the developments in the market to help to solve the poverty problem of the cocoa farmers.

Let me start with the negative story, the story of the poverty of the cocoa farmers. A typical farmer in West Africa, including Côte d’Ivoire, grows about 3 hectares of cocoa. The yield on the farm is about 600 kg. per hectare (my statisticians tell me, but I feel that this figure is definitely on the high side, for a “typical” farmer). This would have brought (depending on taxation) a net income of about US\$ 2,000 two years ago; about US\$ 2,500 one year ago and about US\$ 3,000 this year. (I note that this implies an increase of 50% in 2 years time. That sounds good. However, the value of the dollar declined dramatically during that period. If we take price in Euros – and these are directly relevant for Côte d’Ivoire – the increase would not be 50%, but only 25%).

So, with this reservation, we can take an income from cocoa for a typical farm family of between US\$ 2,000 and US\$ 3,000 per year. For an average family of 6 or 7 persons, that would amount to 300 to 500 dollars per capita per year. Growing their own food, the family can perhaps achieve an income that is above the poverty threshold of US\$ 2 per capita per day, as established in the Millennium Goals of the United Nations. In this connection, I have – again – to make a note on that dollar figure. Adjusting for the decline of the value of the dollar, the minimum poverty level should, in the meantime, be defined as at least US\$ 3 per capita per day. To achieve that, the family must earn about US\$ 7,500 per year. With (presently) US\$ 3,500 coming from cocoa, the family must earn another US\$ 3,500 from growing food or from other sources of income.

I conclude, therefore, that a very large number of cocoa farm families live below the official poverty line of the United Nations. Many cocoa farmers have less cocoa land than three hectares; many have lower yields than 600 kg. per hectare and many earn less income from other activities than US\$ 3,500 or 1.5 million CFA Francs.

I would, in fact, not be surprised if more than half of the cocoa farm families live below the official poverty line. I find that quite shocking; that I work in a sector where there are so many poor families. I find this unacceptable and something needs to be done about it, most urgently.

Why are the farmers poor?. An easy answer is to say that the cocoa prices are too low and that the consumers must pay higher price. I find that answer too easy and too simple. I think that it is more important to start from the low and stagnating productivity on many cocoa farms. On many farms (on rather : on most farms) cocoa production techniques are still very similar to the practices of 100 years ago. I know that there are now hybrid varieties on many farms; we find some application of fertilizers; there is some use of pesticides. But, essentially, not much has changed. Moreover good farms land has become more scarce and there is a tendency for farms to become smaller. Both these factors directly relate to lowering the productivity of labour and land.

Let me say few words on yields; production per hectare or per acre. Once again, good information on yields is hard to come by, as have only limited information available on the land area under cocoa cultivation. The ICCO statisticians tell me that yields are low and that they have not increased much in most countries. They estimate that the average yield on a cocoa farm in the world increased from around 500 kg. Again, that overestimates the actual situation, I feel. But, accepting the figures it means that yields increased only by 20% in 35 years. That is only about 0.5% per year! that is nothing yields, we could change most urgently. If we could achieve much higher yields, we could increase the incomes of farmers substantially. This can be done by going for sustainable cocoa production.

I will come back to that. But I would first like to deal with the positive story on the cocoa economy, the story of the fantastic developments going on in the market. In that context, I will as I had promised, come back on the issue of price for cocoa beans in the world market.

The exiting developments in the chocolate market consist of two major changes in the patterns of demand. The first main characteristic of the revolution in demand is the switch to high-quality chocolate, in particular, to high-quality dark chocolate. The change in demand consists of rapid increases in consumption of expensive premium chocolates, including single-origin chocolate with a very high cocoa content, up to 80/90%. The increase in demand for dark chocolate is directly related to the growing health-consciousness of the consumer.

The second major feature of the revolution in demand is that consumers are increasingly interested in the characteristics of cocoa that go beyond the physical quality of the product. Nowadays, many more consumers care about the origin of the cocoa in the chocolate; they care about the way the cocoa was grown and about the income of the farmer who produced the cocoa. More and more consumers care about the impact of cocoa growing on the environment and about social issues such as child labour. In ICCO we call this demand for “total quality” cocoa, or demand for sustainable cocoa. That growing interest in sustainable cocoa is manifested in the rapidly increasing demand for origin chocolate, for so called fair trade cocoa and for organic cocoa.

Ladies and gentlemen, all these changes I briefly described were visible some time ago, but there has been an enormous breakthrough in the demand for these chocolates – in particular in the demand for dark chocolate – during the past three to four years. I believe that these radical changes in the demand for chocolate are not a fashion of the day, but that is a long-term trend. That it is something that is here to stay.

There are many statistics and figures to demonstrate the on-going “switch” from chocolate with a low cocoa content to dark chocolate. I call this the switch from “volume” to “quality”. This switch in the demand for chocolate will have a large impact on the demand for cocoa. Different chocolate requires different cocoa. We already observe that there is an increase in the demand for cocoa beans of higher quality. There is more demand for beans of “liquor” quality and more demand for Fine or Flavour cocoa. Prices paid for high-quality Fine/Flavour cocoa are higher than they have ever been before.

The impact of the “switch” to dark chocolate is one of the important factors behind the rapid increases in world cocoa grindings in recent years. Others factors, such as new markets (including Eastern Europe, China and some origin countries) and a general appetite for chocolate have also been at work. But the increase in demand for dark chocolate has been a very important factor.

During the past six years, world grindings of cocoa beans have increased in every single year. Such an uninterrupted increase in six consecutive years is unique in modern history. And the increase in grindings has been fast, with world grindings growing on average at a rate of more than 4 % per year. That is very fast indeed. Grindings have recently been increasing at a rate which is considerably higher than the long-term trend.

What is really amazing is that the production of cocoa beans managed to keep up with the very rapid increases in grindings. Over the past six years, the world production of cocoa beans has also been growing at an average rate of well over 4 % per year. That is outright phenomenal. Consumption has increased more rapidly than ever before and we see that production could easily match demand. There is, apparently, a considerable amount of cocoa production capacity available in the producing countries.

So, we have here a very positive and very exiting picture of extraordinary rapid increases in demand and supply. However, we do not expect that these very rapid increases in demands in supply will continue in the incoming five years. We do not expect that demand will collapse, but we do expect that the growth rate will come down to more usual level declining from over 4 % in recent years to just under three percent on average in coming five years. However, we expect that the growth rate of the production of cocoa beans will remain quite high: 3,5% peer year, stimulated by relatively high price of the last year and this year. This means that production is expected to grow faster than consumption, that cocoa bean stocks in the world will increase and, that prices will decline.

And here, I have finally touched upon the issue of the prices for cocoa beans. If production grows faster than demand, prices will decline. Demand has been growing very rapidly in recent years is expected to continued to grow quite nicely in the years to come. However, if, the despite that, production grows even faster, it indicates that the development in agriculture, in general, and in cocoa, in particular, are not sustainable. In this case, the developments in the sector are not sustainable because there is failure to limit the growth rate of production, to increase the incomes of the farmers and to diversify the sources of income of the farm families.

Your excellences, ladies and gentlemen, in this way, I have tried to sketch the background for the need for sustainable development in the cocoa sector (the poverty of farmers) and the opportunity for sustainable development (the demand of the consumer for sustainable cocoa). What has to be achieved, as I said before, is the production and trade of sustainable cocoa. That means: cocoa, which has been produced in such away that it brings a good, decent income to the farm family; cocoa that has been produced in harmony with its natural environment, without undue damage to the environment and cocoa that has been produced in the socially acceptable way and his traceable, back to its origin.

You will notice that I give a first place to a good, decent income of the farm family (the economic component of sustainability) because I believe social and environmental sustainability. You will further notice that such “sustainable cocoa” is what the consumers are asking for, because I believe that only a consumer driven development is truly sustainable.

To achieve the production and trade of sustainable cocoa, one has in my view to realize four basic objectives. These objectives are :

- 1) Government policies and action should aim at the strengthening of the Cooperative movement. Only through working together in associations or cooperatives can the cocoa farmer really improve their incomes and their position in the market place. Through farming practices. Through cooperative they can easier (and cheaper) obtain inputs. Through cooperatives they increase their share in the commercialization of the cocoa. Etc.etc.
- 2) Market channels and marketing chains should be streamlined and made more efficient. The cocoa marketing chain should be capable to supply cocoa of high physical quality, which is traceable to its origin, and which is carried through the marketing chain with a minimum of costs and thus with maximum benefit to the farmers.
- 3) The cocoa farmers should be capable of producing “sustainable cocoa”. That means, first of all that the yields on the farms should be increased dramatically ; that we need a drastic modernization of cocoa farming. In the ICCO we believe that this can be achieved by the use of “best practices” by the farmers. The basic knowledge to and the extension services know how to achieve yields of 1.000 and 1.500 kg. per hectare. What is required is that the farmers have the necessary know-how, economic motivation and capability of realizing such yields. It is not difficult, in principle, to achieve this. But it is difficult to do it in practice. However, it can be done and it must be done. A pre-condition to achieve this objective is to provide high-quality agricultural extension services to the farmers and these services should be provided free of charge. They should be available and accessible for every farmer.

- 4) If successful, Cooperatives can produce and deliver high-quality cocoa, through an efficient supply chain, produced at levels of high productivity, with high yields. It should be possible to produce much more cocoa on a much smaller area of land. However, if successful, that could easily result in a considerable overproduction, with a disastrous effect on prices and thus on the incomes of the cocoa farmers. One would, in fact, achieve the opposite of what one wanted to achieve. For that reason, one needs good agricultural policies in the cocoa farmers. Diversification could include both other cash crops (commodities) for local processing or for export, and food crops for local or national consumption. Diversification could prevent overproduction of cocoa and diversify the income sources of the farm families. In the case of Côte d'Ivoire, I would, for example, think of products such as Rice, Rubber and Oil Palm as options for diversification.

Your excellencies, ladies and gentlemen, I have, in this seminar on child labour issues, fully concentrated on the poverty of many farm families and on sustainability. I have done so on purpose. I believe that poverty is directly related to social problems. Poverty breeds social problems. Poverty is, in my view, at the root cause of the worst forms of child labour.

However, I also recognize that much more can be done, should be done and is being done in Côte d'Ivoire to overcome these problems. Much has been done in terms of social legislation, including labour legislation, including labour legislation, facilitating school attendance, increasing awareness of the problems that are related to the worst forms of child labour. Therefore, I should not only like to congratulate the Government of Côte d'Ivoire with the excellent initiative to organize this workshop, but first of all with the very considerable work done to tackle this serious problem.

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