

Case study: Mars and cocoa¹

Committed coalitions in cocoa: certification, farmer premiums and backward integration

West Africa accounts for 70% of global cocoa cultivation and farming is almost exclusively by smallholders, in total around 3 million farmers. Production takes place in conditions of poverty featuring the worst types of child labour. The cocoa producers do not have access to price information, finance or agricultural inputs. The future of cocoa farming looks bleak as young people seek a better life away from remote rural villages without adequate schools or access to health services. Production per hectare and on-field investments are extremely low and growing world demand is thus largely met by expansion through deforestation.

The industry is highly concentrated. Three manufacturers (Mars, Nestlé and Mondelez) make 40% of the chocolate consumed around the world and a handful of major traders and grinders provide two thirds of global bean processing and trade.

Initially, the key driver for industry was reputational, running CSR projects to deal with the issue of child labour. Since the commodity price hikes in 2008 however, the companies are more and more concerned about future supply. A million tonne shortfall looms ahead in 2020 as the world's growing middle classes provide an attractive new market, while precarious production conditions make farmers and investors look for more profitable and secure crops like rubber or palm oil.

The combination of reputational and supply risks has brought the industry together in the World Cocoa Foundation (WCF), a non-profit organisation with 100 members representing 80% of the global corporate market. Through public-private partnerships of WCF, the Bill and Melinda Gates Foundation and the Sustainable Trade Initiative, competing companies, suppliers, NGOs and governments are increasingly working together towards market transformation.

A key mechanism for change has been certification. Certifying groups of farmers that are producing sustainably has proven to be an effective mechanism to link farm production to field investments and to end markets. Certified production, largely absent just five years ago, is expected to surpass 12% of global production in 2014. Industry has worked closely together with NGOs and certification bodies to develop effective approaches of farmer field schools, grouping, auditing and chain of custody systems.

A key driver for certification has been Mars Inc., a family-owned brand manufacturer with €22 billion in annual sales and 65,000 employees. They buy 12% of all cocoa. Their business strategy has determined that 'business as usual' will ultimately result in cocoa shortages meaning that a mainstream transformation of cocoa production must happen. They consider that certification provides a pre-competitive system that every company can follow. It provides a business-to-business solution to create new linkages for companies with their upstream suppliers.

¹ An extract from the paper for OECD and others: Building Green Global Value Chains: Committed public-private coalitions in agro-commodity markets, April 2013

Mars has a target to source 100% of their cocoa from certified producers by 2020. Having considered that the start of the solution would be an improvement in farmer income, in 2009 they unilaterally started paying an extra €200 per tonne to their suppliers. This premium has raised farmer incomes and provided funds to finance the costs of training to achieve certification. In 2013, over 200,000 tonnes of Mars Cocoa will be certified, more than half of their global usage.

Their bold moves have driven change in the sector as other brand manufacturers have followed, thus building market demand for certified products while providing an attractive incentive package for farmers in terms of training, input services and premiums. Also, it triggered the traders of cocoa to build their expertise in farmer organization and certification because their customers, the global chocolate manufacturers, had started to demand certified cocoa. The result has been an integration of the supply chain to get direct access to farmers, pushing out layers of middle-men. Committed supply chain partnerships between manufacturers, processors, local governments, NGOs, donors and certification bodies have driven this change.

There remains a question of integrity. If impact is to be delivered, then it must be credibly measured. Data on yield improvements and the social and environmental impact is not robust enough when the level of investment is considered. Child labour continues to be a problem. The standard owners (such as Rainforest Alliance, Utz and Fairtrade) know this failure exists and must find out how to share their challenges with the companies.

The private sector can only take certification so far. For Mars and others to achieve their aims, the certification standards for sustainability must eventually enter the mainstream with governments making them national regulations. The question of measurement must also be solved.

"You can't certify poverty; you need to certify sustainable business". Peter van Grinsven,
Director Sustainable Cocoa Supply, Mars Inc.