

# For a cocoa without deforestation: performance of labels and company actions

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Driven by global demand, there has been a particularly strong increase in the area of land used for cocoa production since the 1970s: from 4 to more than 10 million hectares. At least half of this expansion has been at the expense of natural forests (Kroeger *et al.*, 2017), and cocoa has become one of the main imported food commodities in Europe that is linked with deforestation. The proliferation of alarming reports on the impact of cocoa on biodiversity, and deforestation in particular, comes on top of a history that is already strongly marked by controversies relating to child labour, and also to the highly uneven distribution of value along the supply chain (BASIC, 2016).

To address these issues, the cocoa sector has developed several strategies to improve the sector's image, and also to contribute to its transition towards greater sustainability. The main initiatives include: certification (Fairtrade, organic, Rainforest Alliance/UTZ) and the establishment of "corporate policies" and voluntary commitments. Research work conducted by IDDRI has examined the development of those initiatives, and the available impact assessments, focusing on their ability to tackle the challenge of biodiversity conservation. Results show that, despite some interesting advances, the sector is struggling to achieve a genuine transformation, especially in addressing the sector's real drivers of deforestation, the most important of which is the impact of the geographical displacement of production areas related to global cocoa cycles.

## KEY MESSAGES

Organic and fair trade labels are having some interesting results—especially with regard to supporting producers and diminishing the pressure on local biodiversity (at least for the organic certification)—but they are overly reliant on world cocoa prices. In a context of global overproduction, they do not always offer a profitable alternative to conventional agriculture. Moreover, their specifications are not precise enough in relation to the fight against deforestation.

Rainforest Alliance certification includes fairly comprehensive indicators to ensure biodiversity protection, but it suffers from highly incomplete implementation, combined with a verification system that focuses more on productivity and quality rather than environmental criteria.

Voluntary commitments by companies are almost exclusively based on productivity improvement, relying on the idea that a better production per hectare will both allow the producers to improve their income, and prevent their expansion. However, many studies show that agricultural intensification is not particularly effective at protecting biodiversity.

Deforestation risk related to the cocoa sector remains strongly associated with the potential shift of production areas to countries that still have significant forest cover. The prevention of this displacement effect requires the control of global demand and the maintenance of an attractive price to stop producers resorting to "forest rent" to control production costs.

**A**s part of its efforts to improve the sector's sustainability, the use of existing labels has historically been the favoured approach by the cocoa/chocolate industry. Since the 1990s these companies have been turning to organic and fair trade labels, which has rapidly made chocolate, as well as coffee, one of the iconic fair trade commodities. The UTZ and Rainforest Alliance labels have also become increasingly widespread in the cocoa sector. However, since the 2000s this trend has been set against a growing backdrop of increasing revelations on child labour in plantations, which has encouraged companies to exert greater control over their supply chains and CSR approaches. A consequence of this turnaround is that, instead of relying on external certification bodies, most companies have established their own sustainability standards, for which they can directly control both specifications and what constitutes satisfactory implementation in cooperation with their subsidiaries or suppliers.

This *Issue Brief* reviews the main standards and voluntary commitments of companies to evaluate how and to what extent they aim to respond to the challenge of biodiversity preservation, and to assess, where appropriate, the limits and obstacles faced. In this perspective, we analyse the "theory of change" of these initiatives, not so much in terms of *whether* these initiatives work or not, but *how* they work or do not work.

## 1. THIRD PARTY CERTIFICATION

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### Fairtrade

Fairtrade has played a pioneering role in establishing a discourse on sustainability in the agri-food sector. It has helped create genuine consumer awareness.

The issue of biodiversity preservation is not directly addressed in the fair trade theory of change. It is often perceived as a consequence of offering producers a minimum price to cover the "costs of sustainable production" (thus including environmental conservation, which the additional remuneration is intended to support). This model, based on the payment of a minimum price, is however limited by the difficulty of emancipating from the global cocoa market fluctuations in a competitive context characterized by cocoa overproduction, including fair trade: only 30% of cocoa produced according to fair trade specifications is actually sold at the fair trade price. There is a narrow leeway for fixing this minimum price and the fair trade premiums, and moving too far away from the average price presents difficulties. The price must be sufficiently attractive to encourage producers to engage in the process, but cannot be excessively prohibitive for buyers. It is difficult to propose a minimum price that effectively corresponds to "sustainable production costs".

### Organic farming

Another certification pioneer is the organic movement, which achieves good results in terms of preserving biodiversity at the level of the cocoa plot. However, the specifications pay little or no attention to the surrounding landscapes and therefore to

the deforestation issue. Organic specifications focus on a series of technical actions that are either prohibited or encouraged. Consequently, the actual influence of agriculture on the local environment is not considered, even if the movement's guidelines encourage this to be taken into account. The principles of the International Federation of Organic Agriculture (IFOAM) theoretically proscribe the establishment of plantations on natural forest, but this principle is almost never transcribed in the specifications of various certification bodies.

In addition, the organic sector's economic model is strongly dependent on the existence of a specific demand from those willing to pay a significantly higher price than that of conventional products. The increase in the share of organic cocoa on the market seems to be accompanied by a decrease in the gap between the organic price and that of the conventional market. In this situation, the spread of organic cocoa farming may meet a saturation threshold in the absence of sustained demand. Successful trials in the diffusion of organic practices at the country level, such as in the Dominican Republic, show that such successes are highly dependent on additional financial support, in the form of public or private subsidies, at least during the years of conversion to organic, and on a legal framework to protect forest landscapes.

### Rainforest Alliance/UTZ certification

Resulting from a merger between the Rainforest Alliance (created to fight against deforestation) and UTZ (a quality standard that has evolved to cover sustainable agricultural practices), this label is the most likely to provide guarantees in terms of deforestation. In this respect its specifications are particularly exacting, given that it is based on the High Carbon Stock Approach (HCSA) developed by the palm oil industry. This methodology was identified in a 2017 World Bank report as one of the most demanding in the cocoa sector, from the perspective of combating deforestation (Kroeger *et al.*, 2017).

However, a number of studies highlight the partial implementation of the standard's commitments. This results from plantations and companies being given the opportunity to adopt a "continuous improvement" approach to the implementation of sustainable practices. In addition, it seems that plot productivity is a decisive factor in whether or not the label is granted, sometimes to the detriment of environmental criteria (Lemeilleur *et al.*, 2015). This is the case to the extent that the issue has been raised regarding the instrumentalisation of the label by a segment of the downstream chain (brokers, processors) for the purpose of increasing productivity.

## 2. VOLUNTARY COMMITMENTS OF COMPANIES

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To address consumer awareness and the demand for information and transparency, most companies trading in cocoa-based products have adopted internal sustainability policies. This approach involves the transformation of some of their practices,

and also the development of “in-house” labels intended to appear on packaging to serve as differentiating factors in a highly competitive market. It is worth noting that, much like so-called “third-party” certification labels, these measures often only apply to a part of the company’s activities (with regularly increasing targets) and are therefore more of a pledge to move gradually towards sustainability, rather than a guarantee to the consumer that the purchased product was produced in a fully sustainable way.

Below we present an analysis of the voluntary commitments of the world’s largest cocoa processing company (Barry Callebaut, Switzerland) and the three largest chocolate product companies (Mondelez, USA; Mars, USA; and Nestlé, Switzerland).

### **Forever Chocolate (Barry-Callebaut)**

Launched in 2016, the Barry-Callebaut Forever Chocolate programme aims to “make sustainability the norm”. It sets four targets to achieve by 2025: to eradicate child labour from the supply chain; to lift 500,000 cocoa farmers out of poverty; to become carbon neutral and forest positive; and to have 100% sustainable ingredients in all products. To achieve these objectives, the programme relies on direct action with producers, on efforts to work directly with specific suppliers (although this only pertains to 45,000 farmers out of one million supplying Barry-Callebaut), and on forming partnerships with the rest of the sector within the World Cocoa Foundation and with other international organisations. Implemented projects mainly involve supporting producers to modify their practices through training and the supply of equipment and seeds. Other projects complement this assistance, such as programmes on access to education and tree planting for shade.

### **Cocoa Plan (Nestlé)**

Launched in 2012, the Cocoa Plan initially consisted of a series of mainly social measures. It is based on three pillars: “better agriculture, better lives, better cocoa”. Essentially based on increasing farm productivity and cocoa quality, this programme aims to improve the standard of living of producers, eradicate child labour, and improve cocoa processing. It operates by providing programmes to support and train producers and programmes on access to education. Nestlé products produced through the programme are labelled with the Cocoa Plan logo, allowing consumers to distinguish these products from others. In 2019, in addition to the measures set out in the Cocoa Plan, Nestlé adopted an action plan against deforestation in line with its commitments made under the “Cocoa and Forest” initiative, which aims to map farms participating in the Cocoa Plan, to implement measures to exclude suppliers in the event of illegal deforestation, to run training programmes and undertake awareness raising among producers, and to facilitate access to credit for farmers.

### **Cocoa Life (Mondelez)**

This capacity-building programme for cocoa producers was established in 2012. It aims to support 200,000 producers by 2020, and focuses on five themes: farming, community, youth,

livelihoods, and the environment. These themes shape the objectives of a range of projects that include training farmers in more sustainable practices, facilitating access to education, planting shade trees, and the mapping of all farms registered in the programme. It also encourages payments for environmental services (PES): the company supports communities in the development of territorial management plans; it uses satellite images to monitor the growth of forest cover in an area; and a community receives financial compensation if it adheres to its commitments. In 2019, Mondelez published an action plan incorporating most of the commitments covered by Cocoa Life, along with an exclusion mechanism for suppliers involved in illegal deforestation.

### **Cocoa For Generations (Mars)**

Launched in 2018, the objective of the Cocoa for Generations programme is to achieve 100% sustainable and traceable cocoa by 2025. It has two pillars: a “short-term” programme called Responsible Cocoa Today, and a longer-term one called Sustainable Cocoa Tomorrow. The first pillar has three components: to protect children; preserve forests; and improve farmer income. The second pillar also has three objectives: to improve productivity; diversify income; and empower women and communities. The various projects within the programme include access to education, the intensification of production, the mapping of farms in the programme, providing training for farmers, facilitating access to credit, and the encouragement of agroforestry.

The voluntary commitments of the four companies studied have similar objectives (fighting against child labour, supporting producer communities, and implementing programmes to tackle deforestation) and philosophies, particularly the emphasis given to farmer training and increasing productivity. Another shared feature of these commitments is that only very low levels of detail pertaining to them are available in accessible public documents. The sustainable or responsible nature of cocoa is undefined, and most progress indicators are macroeconomic (number of producers above the poverty line, number of reforested hectares, productivity level, etc.), while the technical and environmental criteria for defining sustainable production are not detailed, contrary to the extremely precise specifications of third-party labelling schemes.

While the voluntary commitments of these four companies certainly have interesting elements, their effectiveness in terms of the general improvement of the sector’s sustainability seems limited. In particular, these programmes assume that the intensification of production has a capacity for transformation that is overly optimistic. This is despite the fact that studies have shown that the benefits of agricultural intensification in terms of biodiversity are far from proven. In terms of export commodities, these programmes may even be deleterious, actually encouraging deforestation in the absence of strong governance of land and natural resources (IPBES, 2019, chap 2, p. 117).

Ultimately, through their measures aimed at training farmers, companies have developed sustainability policies that meet their own production expectations, and that have

become new instruments of control that reinforce the pressure on producers. There is a risk that companies will thus shirk their own responsibility for the impact of production on ecosystems and the standard of living of their suppliers.

### 3. TOWARDS A NEW COCOA CYCLE?

Overall, all of the studied sustainability initiatives of the cocoa/chocolate industry share the common trait of focusing mainly on the means of agricultural production at the level of the plot of origin. While such an approach may seem logical at first glance, it neglects the long-established evidence, particularly shown in the work of François Ruf, regarding the general dynamics of cocoa cycles and their impact on deforestation and soil degradation (Ruf, 1995).

Cocoa development has undergone cycles of about thirty years that result from a complex interaction between price cycles, crop cycles and the exhaustion of "forest rent". At each cycle, new regions of production emerge to the detriment of the previous ones because they valorize a "forest rent", in a highly pressurized market, that is used to obtain abundant and rapid harvests. Every time there is an emergence of a new production area, it is therefore accompanied by a wave of deforestation. Furthermore, all of the signs show that, thirty years after the last cocoa boom in the late 1980s (in Ivory Coast and Indonesia mainly), a new cocoa cycle is underway: high price volatility, declining productivity in the main production areas, an inability for farmers to invest in plantation renewal.

It appears necessary for all stages of the value chain, including processing and production, to adapt their models to meet the demands of sustainable cocoa, i.e. a more traceable and better-remunerated cocoa. But also that all actors in the sector aim to maintain a sustainable level of demand for the current production ecosystem, to avoid a cocoa production boom in new forest areas, such as in Central Africa for example, which would lead to new waves of deforestation in sensitive ecosystems.

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