

Enough income for more cocoa farmers in Ghana

Asahigaoka Senior High School
206 29 Akari Takakura

1. Introduction

Chocolate is loved around the world. On the other hand, many children who work in cocoa farms are so poor that they cannot buy the chocolate. I learned the fact in English class at my junior high school and high school. There are many kinds of programs to help cocoa farmers conducted by chocolate companies or NGO. However, progress is slow and its impact has been limited. For example, certified cocoa accounts for only 1% of the market in Ghana. The purpose of this research is to consider the best way to achieve enough living income for more cocoa farmers in Ghana in the future. Current programs were studied in terms of certification, productivity program, and raising price.

2. Fundamentals

Previous research

1. Poverty of cocoa farmers in Ghana

Japan import most of the cocoa from Ghana. Many cocoa farmers live a life of poverty. The Fairtrade Organization estimated that \$2.16 (approx.£1.60) a day is needed as “**living income**” in Ghana. This includes cost of food, water, housing, education, healthcare, transportation, clothing and other essential needs, including provision for unexpected events. To cover these costs, they set living income reference price to be US\$2,301 per metric ton at farm gate in Ghana. However, a typical farmer’s current income is around \$1(74p) a day in Ghana, even below extreme poverty line: \$1.90 (approx. £ 1.41) per day. According to Aoki (2017), there are two main reasons that farmers can earn little money from cocoa. First, the productivity of cocoa is small. It requires five years to bear fruit so it is not be monetized immediately, it is difficult to get young plants and many trees are too old to produce fruits, they are weak for disease. In addition, cocoa is traded at a low price regardless of its quality so that farmers are discouraged. Second, the market price of cocoa is low and unstable. The poverty of farmers is serious itself and it also leads to child labor.

2.Programs In Ghana

Many chocolate companies and organizations run various programs to support cocoa farmers. Most programs are mainly consisting of two factors, **premium** and **productivity program**. Mizuno (2012) has described about “**specialty cocoa beans**”, one of those programs in Ghana. Specialty cocoa beans have better quality than normal cocoa beans, so farmers can get a higher income. In addition, farmers can improve quality of beans and increase the crop through productivity program by the companies and traders, secure stable income, and find future problems. However, it costs much time and money to grow high quality cocoa beans and to secure traceability. As a result, it is difficult to mass produce and to increase the demand for those chocolate. For example, certified cocoa accounts for only 1% of the market in Ghana.

The specialty cocoa beans market in Ghana (Mizuno, 2012)

Specialty cocoa beans		Annual market size	Premium rate	Related organization
Certification system	Fairtrade	300~4000t	\$200/t	Kuapa Kokoo
	Rainforest Alliance	3000t	Changes every year	ココアブラポパ
	Good Inside(UTZ)			
	Organic	1000t	25% of the price	
Traceable cocoa		45000t	Under survey in CMC	Armajaro, Olam, ツートン,etc.

3.Competition law

Taylor (2019) has argued that “**first mover disadvantage**” is the cause that progress on low incomes and

wages of cocoa farmers is slow. Cambridge dictionary describes “**first mover advantage**” as “the advantage that a company has when it is the first to introduce a new product, service, or technology, and so does not have competition from other companies”. In this case, companies fear the disadvantage they have when they take action on cocoa price firstly and individually. Collaborative actions between Stakeholders is considered effective to solve it, but unclear competition/antitrust law prevents them from this. (**competition law**: the laws that are intended to make sure that there is fair competition between businesses, for example by making rules to control monopolies. **antitrust law**: a law that prevents companies from working together to control prices unfairly or to create a monopoly (= a single company or small group of companies that is the only supplier of something), or the area of law that deals with these things) The Fairtrade Organization ask competition authority to provide clear guidance or policy to show what is allowed and what is prohibited in collaboration for sustainable purpose.

3. Methods

This research focuses on the main point: should companies change the way to help farmers, from certification and productivity programs to raising the price of cocoa beans they use for their main commodities?

Hypothesis

- It seems impracticable that they ensure enough income for all farmers by the current certification system and productivity program in the future. If companies spend the cost on raising their purchase price of cocoa, they will affect more farmers.
- Even if farmers can earn more money as a result of productivity program, the fact that “the price is unfair” remains problem.
- It is predicted that when the production of cocoa beans increases too much because productivity programs, price collapse may occur.
- when competition/antitrust law are changed, there is a risk of abuse.

Research Question

1. Why is the certification system important?
2. How do stakeholders increase the sales of certified chocolate?
3. Why don't companies raise the purchase price of cocoa instead of productivity training?
4. Does the productivity program solve the unfair price problem?
5. Does price collapse occur as a result of productivity program?
6. What change does the competition law cause? Is there a possibility that companies will abuse the law to fix the price of chocolate when it is changed?

Interviews to two specialists were conducted via skype, and some articles sent by them were also studied. Dr Stelios Zyglidopoulos (professor of Corporate Social Responsibility at Kedge Business School and Associate Fellow of University of Cambridge) and Mr David Taylor (policy manager of Fairtrade Foundation) were asked the former questions. They also sent me some useful articles to support my work.

4. Results

About the certification system

1. Why is the certification system important?
2. How do stakeholders increase the sales of certified chocolate?

Zyglidopoulos: One kind of general strategies that companies follow is differentiation. Fairtrade logo is a

kind of differentiation.

Taylor: There are minimum prices and premiums. They can learn democracy like how the premium would be spent. We have a network with local shops, campaigners and activists. In addition, some big retailers, discount stores or supermarkets sell them, so that the sales has extremely gone up. We are also working with big companies such as Mars and trying to get them to have fairtrade chocolate. You might see those chocolates in Japan and U.K. Such chocolate is not always expensive.

The importance of a certification system is to ensure income for farmers by minimum price and premium and to arouse customers' appetite for purchase by adding the value of a logo. To increase the sales of certified chocolate, they started to work with big retailers and chocolate companies in addition to the conventional niche market. However, consumers do not always trust the value of ethical labels. According to the online survey conducted by Sandra Rousseau (2015), only half of their samples answered that "the information implied by fair trade and organic labels is credible." From 30 to 40 percent of respondents considered labels as "marketing tools without guarantees of socially desirable outcomes. "Also, there is a big difference of recognition among several labels and obscure labels may even have a negative impact on consumers' choices. "To conclude, the consumption of chocolate is dominated taste and price, with aspects such as fair trade or environmental impact having only a minor impact."

About productivity program

3. Why don't companies raise the purchase price of cocoa instead of productivity training?

4. Does the productivity program solve the unfair price problem?

Zyglidopoulos: It will not solve the price issue but reduce the problem. It will allow them to get a higher margin. There is no ideal program.

Taylor: Now, land size of cocoa farm in Ghana is so small that it cannot be productive. So we have to do both increase prices and the productivity program. The problem is that some programs focus only on productivity program.

In Ghana, the average land size of cocoa farms are small and their productivity is low. Farmers cannot earn enough income even if the price of cocoa is fair. It was reported (the Fairtrade Foundation) that "In Ghana and Côte d' Ivoire, farmers harvest on average approximately 50 percent below what their farms could produce per hectare." "Outdated farming methods, low quality planting material, lack of access to farming inputs, technology and finance, and an absence of financial incentives to improve depleted soil fertility or replace ageing trees, are all features of this downward cycle" In other words, they have the potential to increase their income considerably by improving productivity. For example, one farmer could double their productivity as a result of joining Fairtrade in 2016. Therefore, both a productivity program and the revision of current prices into fair prices are necessary.

5. Does price collapse occur as a result of productivity program?

Taylor: When the supply of cocoa increases, the price will drop down and deforestation will occur. However, in Ghana, there is attention in growing cocoa because the alternative of cocoa is not good. It is just a guess but I think that they have to live on available farm size and grow other crops.

Price collapse occurs as it was predicted. It was reported (the Fairtrade Foundation) that "productivity is not a silver bullet, as increased supply will interact with the market in complex ways. Improvements in productivity across West Africa, combined with favourable weather, have led to a surge in production during the last two years, arguably contributing to a collapse in the world market price of cocoa. The Ivorian government, in the context of this price crash, has placed a temporary restriction on productivity

interventions.”

About competition law

6. What change does the competition law cause? Is there a possibility that companies will abuse the law to fix the price of chocolate when it is changed?

Taylor: What we want to do is not to allow companies to raise the consumer price of chocolate for their profit but allow them to talk about raising the purchase price of ingredients (cocoa) together. There is a risk that companies could use it as an excuse for price fixing. However, if the law is defined clearly, we can reduce the risk. The Ghanaian government has set the new cocoa floor price. It is a significant movement because it is not a problem of the competition law since companies do not come together to fix a price.

It is really important to clarify the competition law to show what they can and cannot do in collaborating for tackling low farm gate prices in two aspects. One aspect is “first mover disadvantage”. The Article by Taylor and Henty indicated how this is a serious and complex problem. Actually, only a 1-3 percent increase of consumer price is needed to achieve suitable living incomes and wages, according to Oxfam. However, “While unilateral action on farm-gate prices is indeed possible, it is important to understand the very high competitiveness and low margins of the groceries retail sector. A marginal increase in consumer prices could have a significant impact on a retailer’s ability to compete”. Companies are afraid that many customers would choose lower-priced non-sustainable products. It is more serious for larger actors because small companies can sell premium products at a higher price in the niche market, but there is a prevailing global market prices and market constraints in the larger market. Another aspect is the fear of breaking the law. Many people from chocolate brands, retailers and industry bodies claimed that competition/antitrust law has been an obstacle. “...the lack of clarity around competition law continues to prevent any meaningful progress on the issue of low farm-gate prices, which is a major issue in our sector and beyond.” “[the collaborative forum] was difficult. As soon as you talk about a premium, as soon as there is any talk of payments, then the discussion becomes commercial and is stopped.”

5. Discussion

About the certification system

The value of certified label is supported by consumers’ trust, but their view is severe. Certified chocolates are checked by third-party institutions (audit corporation?) based on their own standards so that they can secure farmers’ incomes and to likely gain more consumers’ confidence compared with other programs without certification. There are many obscure certified chocolates now, and they have a potential to be more attractive and casual choice when they are recognized as much as fair trade chocolate in the future. Also, the consumption of certified chocolate will increase to some degree thanks to the entry of big retailers and chocolate companies. Considering those above, however, there is a limit of market expansion of certified chocolate as ethical aspects are weak in choice. The amount of certified cocoa has increased but it accounts for only 1% of cocoa in Ghana’s market. Situation that fair chocolate which meet certification standard and other unfair chocolate coexist is defective because while some farmers are rewarded, others remain poor.

About productivity program

A productivity program is necessary to increase farmers’ incomes. Also, there are various programs to improve productivity. Different conditions are required depends on region, circumstances, or problems they have. Each program should be checked constantly whether its contents meet conditions, whether cost is proper and whether it has worked as expected. It must be avoided that the program is used as a mere marketing tools and it has no substance.

Although productivity program is effective, it is not almighty. They also should raise the price of beans per

ton as the amount they can produce is limited. First of all, it is difficult that all cocoa farmers earn enough income only from cocoa. Also, cocoa accounts for 11.3 % of exports of Ghana (NHK). Developing countries' economy tend to depend on few primary products but it is dangerous because there is a risk that the national economy would be easily affected by weather, production, price or other conditions. As Mr Taylor said, some farmers should grow alternative products. In addition, if agricultural mechanization would increase, farm size per person would be larger so that industrialization might be needed. This study left further questions to explore: the way to cover the costs of productivity program and spread it to more farmers, and the possibility of farmers growing alternative crops. It should be researched who to support (help/promote/encourage/advance) introducing alternative crops. It is predicted that chocolate companies will not take the initiative in it as it is not related to companies benefit or development of cocoa industry.

About competition law

It was found that raising price would bring more disadvantage than its cost. However, in order for more farmers to get living income and wages, it is needed that big company raise the price of cocoa for their primary products. Also, if one big company does it, many others would follow it so that they can make a big difference. Therefore, the approach to clarify the competition law must be the key movement. As for a minimum price, Ghana's movement is significant because it is applied to all farmers, companies don't have to worry about competition when the government set it, and it is legally binding. The reason Ghanaian government did not set the floor price earlier is left to be explored. It is predicted that there is the possibility of disadvantage of the country setting it. For example, companies might use cheaper cocoa from other countries.

6. Conclusions

At first, this research aimed at considering the best way to achieve enough living income for more cocoa farmers in the future, and research question: -should companies change the way to help farmers, from certification and productivity programs to raising the price of cocoa beans they use for their main commodities? - was set. As a result, it was found that it is difficult to achieve living income only by raising price of cocoa beans. It is because productivity of most cocoa farms in Ghana need to be improved, and it is difficult for big chocolate companies to raise the purchase price of cocoa because of first mover disadvantage and fear of breaking competition/antitrust law. Also, followings must be key to achieve living income:

- To find the way to spread productivity program
- To diversify national agricultural industry in order to avoid price collapse
- Large companies raise purchase price of cocoa for their main products (In order to do this, competition law should be clarified and minimum price should be introduced by producer countries.)

It was not appropriate approach to try to find "the best way", because the circumstances around poverty of cocoa farmers in Ghana were complex. There is no ideal program, and various approach is needed. In this research, the role, potential, and the weak points of various types of approach were considered. However, each program couldn't be compared in terms of numerical data, so that the actual effectiveness and the risk of introducing them should be researched.

7. Acknowledgements

I would like to express my gratitude to Dr Stelios Zyglidopoulos and Mr. David Taylor. They gave me their precious time, opinion and valuable information about my research.

Also, I have received generous support from Ms. Kurokawa, Ms. Nakamura, Mr. Tanaka at Asahigaoka Senior High School.

8. References

- Aoki K (2017) 生産者・企業・消費者の共通価値の創造—ネスレ カカオプランの事例—. In: Kokubu K, 神戸 CSR 研究会 (eds) CSR の基礎：企業と社会の新しいあり方.
- Fairtrade Foundation. “COMPETITION LAW AND SUSTAINABILITY: A STUDY OF INDUSTRY ATTITUDES TOWARDS MULTI - STAKEHOLDER COLLABORATION IN THE UK GROCERY SECTOR”, available at: <https://www.fairtrade.org.uk/~media/FairtradeUK/Resources%20Library/Researching/Documents/Competition%20Law%20and%20Sustainability%20-%20Fairtrade%20Report.pdf> (accessed 17 March 2020)
- Mizuo J (2012) “グローバル CSR の視点による BOP ビジネスと共益の創造—ガーナにおけるカカオ・サステイナビリティの要諦と展開—” 駿河台経済論集 第21巻第2号 available at: <https://surugadai.repo.nii.ac.jp> (accessed 17 March 2020)
- NHK “アフリカ州：主な国の輸出品” available at: <https://www.nhk.or.jp>sec003> (accessed 17 March 2020)
- Taylor D (2019) “COMPETITION LAW FEARS - THE HIDDEN BARRIER TO LIVING INCOME”, available at: <https://www.fairtrade.org.uk/Media-Centre/Blog/2019/April/Competition-Law-Fears-The-Hidden-Barrier-to-Living-Income> (accessed 17 March 2020)
- Taylor D, Henty S “CRAVING A CHANGE IN CHOCOLATE: How to secure a living income for cocoa farmers” available at: <https://www.fairtrade.org.uk/~media/FairtradeUK/Resources%20Library/Fairtrade%20Fortnight%2019/Craving%20a%20Change%20in%20Chocolate%20-%20February%202019.pdf> (accessed 17 March 2020)
- Rousseau, S, “The Role of Organic and Fair Trade Labels when Choosing Chocolate”, *Food Quality and Preference* (2015), doi: <http://dx.doi.org/10.1016/j.foodqual.2015.04.002> (accessed 17 March 2020)