



CBI  
*Ministry of Foreign Affairs*

# **CBI Trends:**

## **Cacao**

## Introduction

The cacao sector is currently confronted with various opportunities and threats. The market is increasingly demanding healthy products, which translates into a rising demand for dark chocolates and chocolates with a sustainability label. At the same time, buyers are becoming more interested in the actual impact of certification and expect additional efforts with respect to issues such as biodiversity conservation and climate adaptation. However, the sector is confronted with rising concerns about future supplies: children of the current farmers no longer believe in a good future in cacao and would rather go to school in the hope of finding employment outside the sector. Other issues being faced by the sector are related poverty, child and forced labour and stricter EU legislation regarding cadmium. So, with this in mind, how can you tap into the opportunities within the EU market business environment? Find out with this document on current and future trends in the cacao sector.

**Figure 1: Trends in the cacao sector**



## Social market drivers

### Transparency

There is an increasing demand for transparency, both from consumers and the chocolate industry. Consumer safety and health concerns are drivers here as well as more insight into the costs and margins along the supply chain.

**Tip:**

- Be transparent and be clear with regard to ingredients and food safety aspects (e.g. regarding GMO's, additives, potential allergens).

### Increasing awareness of health benefits

European consumers are increasingly looking for more 'natural', healthier and authentic products. The European Food Safety Authority (EFSA) recently stated there is credible evidence on flavonoids aiding "healthy blood flow". As a result, the cacao industry stresses the beneficial health effects of its products (see box 1). The demand for dark chocolates is particularly rising due to higher levels of flavonoids (and the related antioxidants) and low sugar levels. Furthermore, the consumption of raw cacao is an upcoming niche trend: processing cacao below the temperature of approximately 50 degrees Celsius allows for the cacao to retain much higher doses of antioxidants. However, at such low temperatures, pathogens will have much more chance to manifest themselves, thus requiring a rigid, hygienic way of working, as well as innovative ways of sterilising the cacao and chocolate.

**Tips:**

- Make sure you know the supply chain of the cacao you export. Distinguish yourself and know your story: this makes it easier for you to focus on a niche market, increasing your chances of obtaining a better price for cacao beans. Know your farmers and the way they live and grow their beans.
- If you intend to use health claims on your product, refer to EU Regulation [EC 1924/2006](#). Health claims made in relation to food products require authorisation under this Regulation before they can be used in labelling and marketing in the EU. EFSA's Panel on Dietetic Products, Nutrition and Allergies (NDA) is responsible for verifying the scientific substantiation of the health claims. Contact [EFSA's Helpdesk](#) for further information.
- See also CBI's document [EU legislation: Cacao and chocolate products](#) and the [Food Labelling EU rules 2014](#).

### Increased demand for dark and premium chocolates

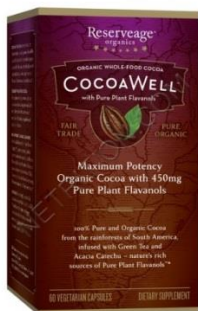
Directly related to the health trend is an increasing consumer preference for darker chocolates. This also explains the growing demand for premium chocolates made from fine flavour cacao beans: the flavour profile of the cacao beans is more important when the cacao content is higher. The Swiss and UK markets for dark chocolate have already increased during the last years. In Switzerland, shares in dark chocolate bar sales rose from 22% in 2008 to 30% in 2013 (KPMG, 2014).

**Tip:**

- In this premium /speciality market, direct trade is the preferred route for your cacao. Identify the European markets for premium cacao and find out about its characteristics (e.g. flavour profiles) and relevant players (traders, grinders, chocolate manufacturers). Select your partner based on the qualities you would like to develop for your farmers and on existing opportunities in the EU. Your trade partner might have ideas how to create opportunities for quality-differentiated products in the EU.

### Medical characteristics of cacao

Cacao is reported to be an antiseptic, diuretic, ecboic, emmenagogue, and parasiticide. Cacao is a folk remedy for alopecia, burns, cough, dry lips, eyes, fever, listlessness, malaria, nephrosis, parturition, pregnancy, rheumatism, snakebite, and wounds. Cacao butter is applied to wrinkles in the hope of correcting them. Recent findings in cacao/chocolate research, published in the Journal of the American Medical Association, include two clinical studies which indicate that flavonoids found in Cacao are beneficial to vascular health.



The EU Commission recently [approved Barry Callebaut's](#) use of the health claim that "cocoa flavonoids help maintain the elasticity of blood vessels, which contributes to normal blood flow".

Barry Callebaut was able to provide evidence that the daily intake of 200 mg of cocoa flavonoids (in the form of cocoa powder or dark chocolate) supports a healthy blood circulation.

## Technological market drivers

### Genome innovation for resistant and more productive cacao varieties.

Genome innovation focuses on sustaining the production and reducing the use of agrochemicals. The genome of the (*Theobroma*) cacao tree can help cacao breeders accelerate research on developing elite varieties that are resistant to fungal and viral diseases and work towards yield and hardiness improvement.

#### Tip:

- Contact local cooperatives, Business Support Organisations, Universities or your Ministry of Agriculture to find out whether there are opportunities to participate in technological innovation projects. In 2010, [Mars](#) for example completed a two-year project to sequence and annotate the cocoa genome. See also the [Cacao Genome Database](#).

### Genetic research to improve yields in Fine Flavour Cacao (FFC).

The World Cocoa Foundation(WCF), chocolate companies Mars and Lindt & Sprüngli, the US Dept of Agriculture's Sustainable Perennial Crops Laboratory, and the Ecuadorian National Agricultural Research Institute (INIAP) are teaming up to conduct research on fine flavour cacao varieties found in Ecuador, with an emphasis on high yield, disease-resistant "Nacional" varieties that account for about 65% of global FFC supply.

#### Tip:

- If the yields of the new variety or characteristics of the genome innovation are uncertain, conduct a risk assessment to determine whether it is worth making the investment.

### Modern communication technologies.

Mobile phones have already affected the markets because real time price information from exchange markets has become available to farmers and exporters. In addition, mobile phones and other communication tools may be used for money and information transfers, the latter, for example, relates to weather forecasts and cultivation practices. CocoaLink is an example of a mobile technology service that delivers prompt farming, social and marketing information to cacao farmers in Ghana. Cacao farmers who subscribe to CocoaLink receive and share practical information via SMS text and voice messages with industry experts and other farmers.

#### Tip:

- Check what communication tools are available in your region and find out how these could be used by your growers. Also check with your buyer what type of communication he expects from you (e.g. how frequent and using what media).

## Economic market drivers

### Further consolidation in the market and lower margins.

With the recent takeover of [ADM's](#) Chocolate business by [Cargill](#), the industrial cacao sector will consolidate into two major players: Cargill and [Barry Callebaut](#). Other big companies are [Mondelēz](#) (which purchased Kraft), [Blommer](#), [Mars](#), [Ferrero](#) and [Nestlé](#). Despite claims of becoming "100% sustainable" (through UTZ Certification, for instance), experts during a recent CBI peer-group session agreed that the consolidation of power is likely to result in even smaller margins for farmers.

#### Tips:

- If you want to obtain better prices, try to bypass these Big Giants and look for opportunities in direct trade with smaller partners specialised in for example high quality chocolates.
- Remain up-to-date on current market prices in order to improve your bargaining position. Monitor the local exchange markets for hedge contracts and futures in cacao. World trade is still dominated by the NY, Chicago and London Stock Exchanges.

### Cacao future supplies at risk.

The cacao sector is faced with the challenges of relatively old farmers, little interest among young farmers and fluctuating yields with excessively low cacao prices. EU-based industries and certifiers are increasingly investing in growing and sustaining farmers' productivity. Examples are the [Quality Partner Program of Barry Callebaut](#) and the [Farmer Field School program of Cargill](#). There is some evidence that training programmes for sustainable cacao production can result in a yield increase of up to 40%.

#### Tip:

- If your suppliers are facing productivity problems (regarding yields or finance), you may want to lead them to investors from the government, such as the IDH's [cacao programme](#). See also the efforts of sector related organisations ([WCF](#), [ICCO](#)), certifying bodies ([Fairtrade](#), [UTZ Certified](#), [Rainforest Alliance](#)), agricultural institutes or universities in your country.

## Environmental market drivers

### More attention for the actual impact of certification.

The market for certified cacao is one of the fastest growing markets in Europe. In 2012, 22% of cacao production worldwide was certified. This number covers the following consumer labels: UTZ Certified, Rainforest Alliance, Fairtrade and Organic Certification. Certification is about to become a de-facto market requirement. However, there is a growing awareness that certification alone cannot target all sustainability issues such as gender, deforestation, biodiversity and climate change. As a result, there is a trend towards revealing the real impact of certification: what is behind the standards? UTZ Certified for example, recently published its first Impact Report, combining results from 24 external impact studies.

#### Tips:

- The supply of and demand for certified cacao beans is not (yet) balanced: at the moment, one third is not sold as certified. When considering exporting certified beans, make sure that your buyers make long term commitments regarding the volume and type of certification they want.
- Make sure that farmers are trained in good agricultural practices. Increasing yields, improving farm efficiency (thus reducing costs) and improving the quality of cacao beans will eventually contribute more to improved farm incomes and potential price premiums for certified products.

### Biodiversity conservation through Payments for Ecosystem Services (PES) and sales of carbon credits.

To secure the long-term supply of cacao, the market increasingly engages in projects and initiatives to maintain biodiversity. Shaded cacao farming also provides opportunities here, as it delivers a series of so called Ecosystem Services (ES) such as the preservation of biodiversity, carbon storage, pest control, maintenance of soil fertility and an improved water holding capacity. Innovative (carbon) credit schemes that aim to capture the potential value of these ES are in a

developing stage. Examples are REDD+ (for sales of carbon credits) and the Cam(bio)2 Standard and Seal (for sales of ES credits).

#### Tips:

- If you want to improve your image, you may use certification as a tool to pay off risks. However, be aware that certification does not cover all issues your customers may ask for. Regarding the latter, identify your priorities in liaison with your buyer(s) and choose your preferred label and/or additional strategies accordingly.
- If you are interested in learning more about PES, see for example [this](#) and [this](#) report.

### Climate change adaptation and mitigation.

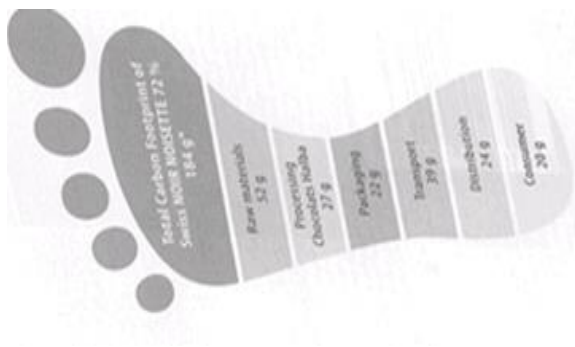
Several climate adaptation and mitigation activities can be introduced on farms. A system of shaded cacao farming can be used which, together with its corresponding ES (see above), contributes to making cacao production more resilient to climate change and thus less vulnerable to the negative impacts of climate change. In addition, the cacao supply chain may choose to compensate the CO<sub>2</sub> emissions they cause, by for example calculating the Ecological Footprint (see Box 2).

#### Tips:

- For an interesting cacao initiative in which the surrounding forest is protected see [here](#).
- Identify the local sustainability issues and actively look for local opportunities. Ask your trade partners for existing research programmes (such as [Solidaridad](#)) or other incentives in this field. In this way, you can potentially tap into (new) niche markets and can contribute to improving your own and your farmers' living conditions.

#### Footprint calculation Swiss Noir

The Ecological Footprint has emerged as the world's premier measure of humanity's demand on nature. This accounting system tracks, on the demand side (Footprint), how much land and water area a human population uses to provide all it takes from nature. This includes the areas for producing the resources it consumes, the space for accommodating its buildings and roads, and the ecosystems for absorbing its waste emissions such as carbon dioxide. Chocolate manufacturer Swiss Noir uses the footprint calculation and prints it on its consumer packaging. See [here](#).



### Political market drivers

#### New import tariffs in January 2014.

Significant changes were made in the EU's Generalized System of Preferences (GSP). This system provides preferential import tariffs for products from selected developing countries. Most cacao producing countries have an economic partnership agreement (EPA) and can export cacao with a tariff of 0%, like Côte d'Ivoire for example. As price is leading, changing tariffs will have an impact on the trade of cacao.

#### Tips:

- Refer to the [TARIC consultation database](#) to check the import tariffs for you or your competitive countries.
- [Here](#) you can find a practical guide to the new GSP trade regimes for developing countries.

## Free Trade Agreement (FTA).

Central American countries, as well as countries like Colombia and Peru are now exempt from more import tariffs, such as the German coffee-tax but also sweetened chocolate, after signing the FTA with the EU. Other countries still have to pay agricultural tariffs on milk and sugar (e.g. EUR 0.38 per kg of saccharose in chocolate)

## Partnership agreements are gaining importance.

Many producing countries have relevant partnership agreements with the EU. For example within the ACP-EU Cotonou agreement, the EU is supporting ACP countries in West Africa with political dialogue, development support, economic and trade cooperation (also reduction in tariffs).

### Tips:

- As partnership agreements are gaining importance, check your local government or the [WTO site](#) to gain more information.
- If you are interested, follow the rather complex debate at the [WTO](#).

## Systemic approach towards combating poverty, child labour and forced labour.

The European Parliament gave its consent to the 2010 International Cocoa Agreement and passed a resolution on child labour in the cacao sector. The resolution calls on all stakeholders including chocolate manufacturers and exporters, to live up to their responsibilities in combating forced child labour and collaborate on a sustainable cacao supply chain free from child labour. This is the first formalised EU attempt after years of negative publicity, pressure from NGOs and industry driven initiatives to combat child labour.

### Tip:

- [Here](#) you can find more information, and several company initiatives regarding the elimination of child labour in cacao.

## Stricter legislative requirements by the EU: Cadmium.

In April 2013, the EU strengthened its regulation on cadmium in cacao beans. Cadmium is naturally found in the soil. Pesticides and chemical fertilisers poisoned with cadmium are other sources of contamination. The legislation will become effective in January 2019. In the annex sub-section 3.2.7 the differentiated levels for cacao powder and various chocolate products are mentioned. Please note that these levels relate to the final chocolate products: they need to be extrapolated to cacao beans.

### Tips:

- [Here](#) (p.14) and [here](#) (scroll down) you can find some recommended first steps to control the cadmium levels in cacao beans. You can also contact the [Sustainable Trade Initiative](#)
- If you want to export your beans to Germany or another country for which Germany is an important market, make sure that your beans already meet this new cadmium norm. The Germans are already applying it.
- Refer to CBI's Buyer Requirements for more information.

## EU Maximum levels of cadmium in cacao.

The EU proposed maximum levels of cadmium in cacao products is a contribution to limiting the amount of cadmium consumers take in from all foods. Cameroon, Colombia, Ecuador, Ghana, Mexico, Nicaragua and Peru complained in the WTO that this EU decision threatens their exports and the livelihoods of smallholder cacao farmers. See WTO site for more information: check [here](#).



**CBI Market Intelligence**

P.O. Box 93144  
2509 AC The Hague  
The Netherlands

[www.cbi.eu/market-information](http://www.cbi.eu/market-information)

[marketintel@cbi.eu](mailto:marketintel@cbi.eu)

This survey was compiled for CBI by CREM BV  
in collaboration with CBI sector expert Jeroen Kruft and Lisette Zewuster

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