U.S. Cocoa Imports: Secretive mega-traders get the lion's share

Preliminary research on the dominance of major traders, their lack of transparency in the supply chain, and how traders capture the value-added revenues from cocoa production at the cost of producer countries

A project of:

MIGHTY EARTH

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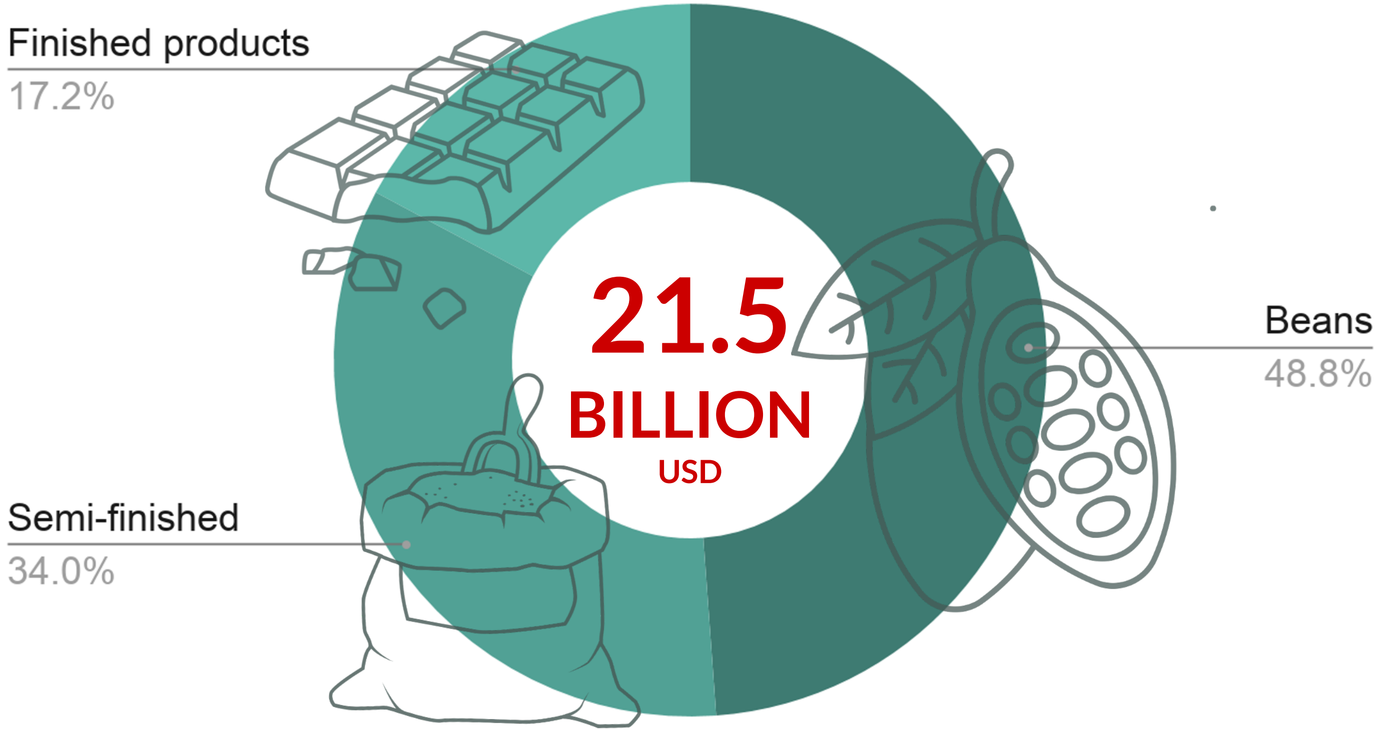
RESEARCH GROUP

The U.S. appetite for chocolate: biggest in the world



While per capita, the Swiss eat the most chocolate in the world, the **U.S. market for chocolate products is the biggest,** worth about 21.5 billion USD in 2020 (Jan - Oct). Cocoa bean imports are the largest segment by volume, but worth roughly equal value to semi- and finished chocolate products. Campaign interventions designed to increase traceability in the cocoa trade, as well as efforts to see more revenue stay with farmers, must consider and engage the U.S.'s biggest importers in order to increase transparency.

Some major countries US chocolate comes from

Ghana produced 17% of world's cocoa in 2018/19. It's farmers - over 800,00 farming households - live in poverty. Cocoa is the top deforestation driver. Over 770,000 children are exposed to hazardous chemicals while working on cocoa farms. Farmers often have no voice or seats at the decision-making table.

Pervian cocoa makes 3% of world production, but a higher percentage enters the US market. Peruvian cocoa threatens the Amazon rainforest which constitutes 60% of the country. Here too farmer poverty is a challenge, but not as pervasive as West Africa.

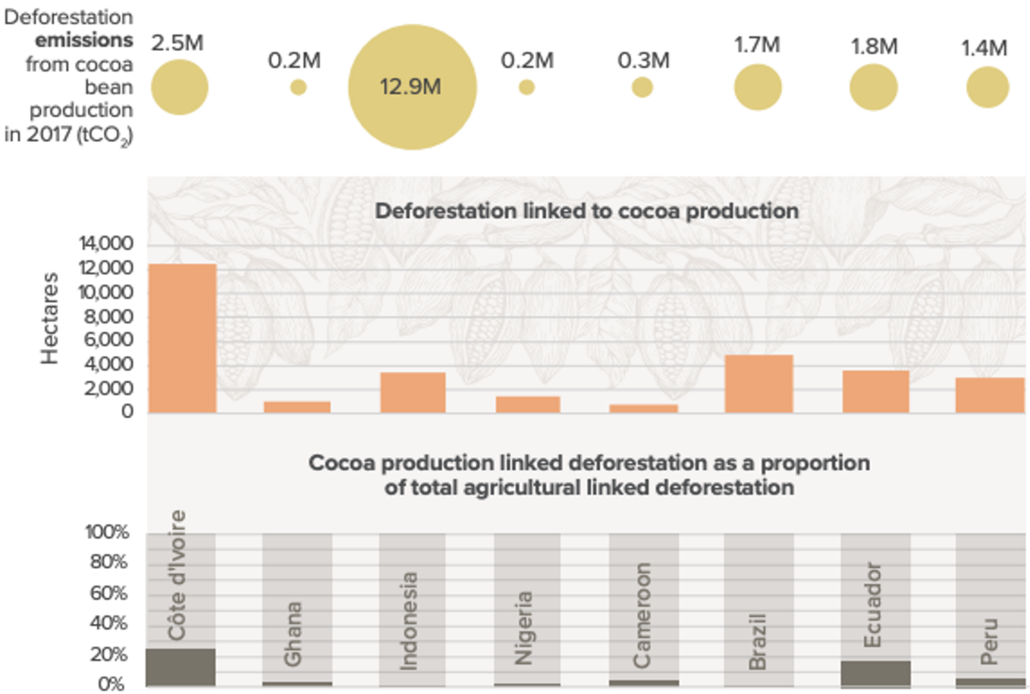
Côte d'Ivoire produced 46% of world's cocoa in 2019. CDI was also the 2nd highest cocoa grinding country 12%, just 1% lesser than Netherlands. It's bedeviled with many of the same challenges as Ghana: farmer poverty, deforestation, child labor, weak farmer voices, and impacts of hazardous chameicals.

Ecuador is the world's 3rd largest cocoa producer, contributing 6% of global production in 2019. Ecuador intends to double its output in 7 years. Despite producing only 6% of overall production, it supplies 70% of the world's "fine flavor" cocoa production. Deforestation is a major risk in cocoa production.

Cocoa is a major deforestation risk commodity

Cocoa is mainly produced in tropical forest countries. In all these areas, cocoa threatens primary and secondary forests, particularly protected areas and reserves. In 2018 Côte d'Ivoire and Ghana were global leaders in tropical forest loss. Cocoa was a major contributing factor.

2017 forest loss and deforestation emissions from cocoa bean production in the top eight producer countries[5]



Source: Pendrill et al, 2020

Who gets the lion's share?

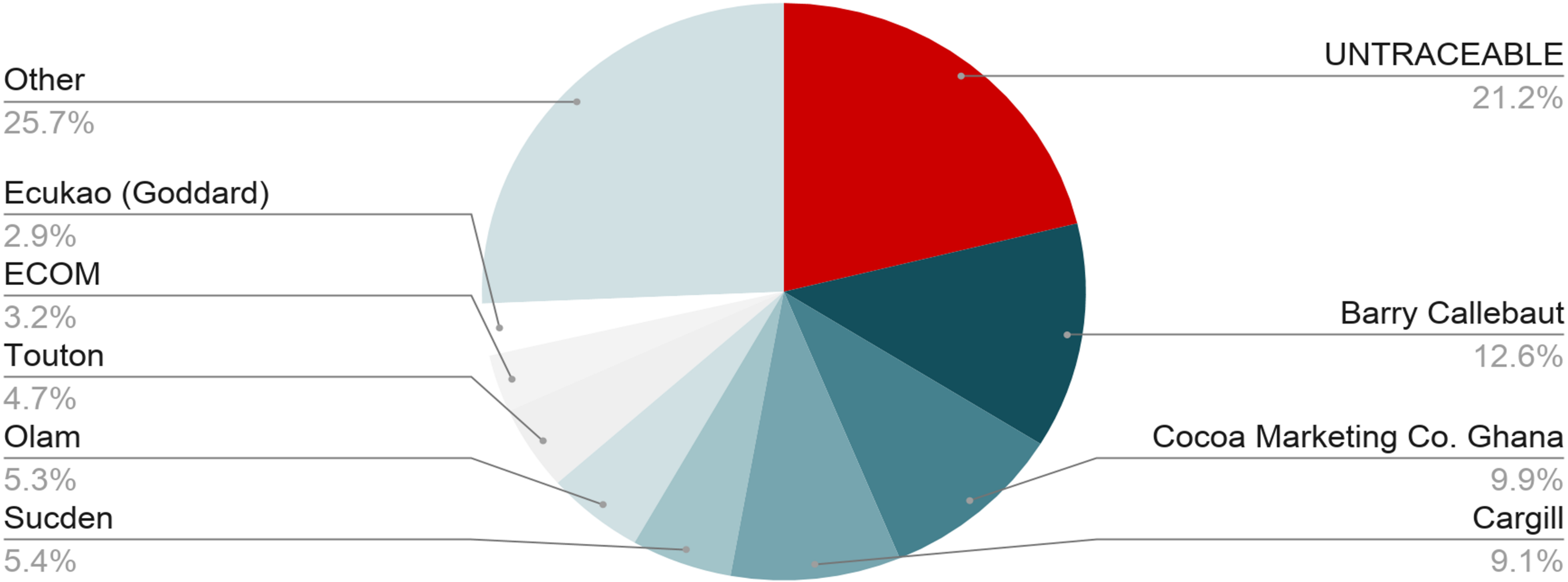
When we talk about the cocoa trade, we need to address who takes the lion's share of the trade, and captures the most value-added revenues. The global cocoa trade is dominated by big traders who operate vertically integrated supply chains, buying large volumes of cocoa beans in produce countries and selling to markets like the U.S.

According to our analysis, four players dominate the market:

1) **Barry Callebaut** is the biggest and most integrated, with their major U.S. imports focusing on cocoa paste from Côte d'Ivoire.
2) **Cargill** is the next largest, with imports of beans direct from Côte d'Ivoire.
3) **ECOM** is likewise focused on cocoa bean imports, sourcing mostly from Côte d'Ivoire and Ecuador.
4) **Olam** trades in beans direct from Côte d'Ivoire and like the others, sells to themselves exclusive of the other major traders in this list.

Given the market dominance of these four traders in US, their lack of transparency and traceability will make or break overall chocolate sustainability in the U.S. With great market share comes great responsibility.

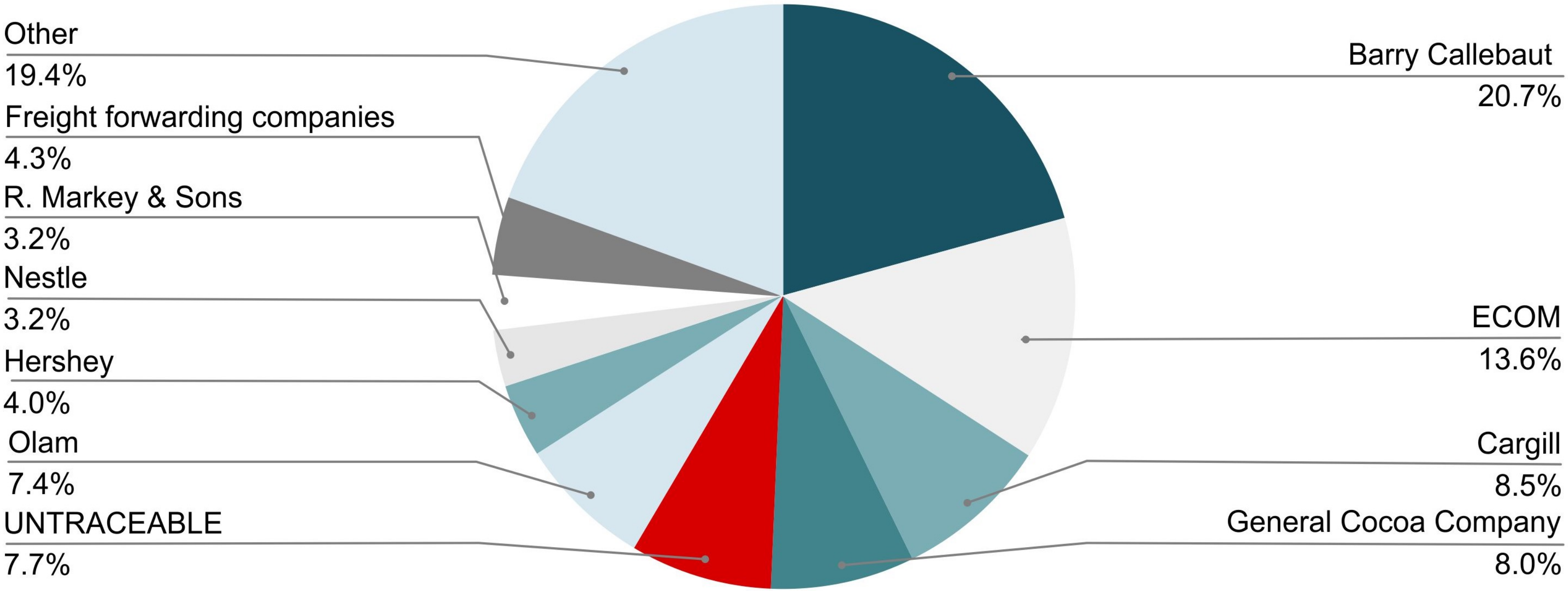
Hidden sellers: untraceable or just uncooperative?



95 million kg of beans and semi-finished cocoa products are untraceable to the seller, meaning that traders selling into the U.S. are hiding in the data set. Why? When freight forwarding services are used, the seller is often blank. Sellers may also have their names intentionally removed from the data set.

But, it doesn't have to be that way. **The trades should be traceable to the companies involved in the actual transaction**, not just the forwarding companies. The data on imports/exports needs to dramatically improve, and traders selling cocoa should disclose their entire global supply chains to avoid data gaps and improve traceability.

Hidden buyers: untraceable or just uncooperative?



40 million kg of cocoa beans and semi-finished chocolate products imported into the U.S. in the study were not identifiable to a buyer. If you add freight forwarding services, where the actual buyer is not listed, then the number grows to 56 million kilos, or 12% of imports to the U.S. which are untraceable to the buyer. Traceability must dramatically improve, and traders buying cocoa products should disclose their entire global supply chains, in order to close data gaps and improve traceability.

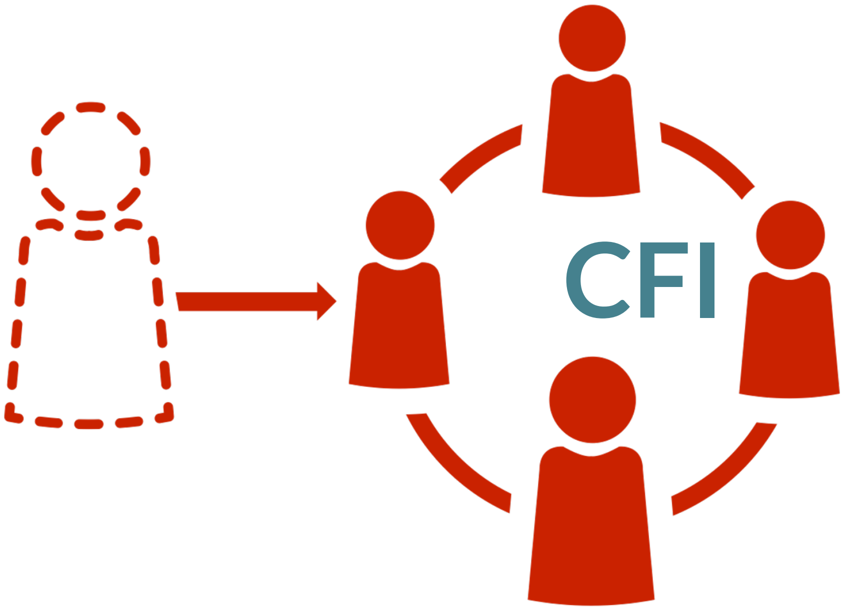
What are the secretive mega-traders hiding?

Major companies whose influence is revealed by our research have **NOT YET JOINED THE 'COCOA & FORESTS INITIATIVE'**. They are avoiding transparency and not taking responsibility for the deforestation caused by cocoa.

Our research reveals laggards such as:

- **Goddard**
- **R. Markey & Sons**
- **General Cocoa Company**

These companies should join in CFI immediately and compensate for their past irresponsibility with robust action on transparency and traceability and extra payments into the CFI system.



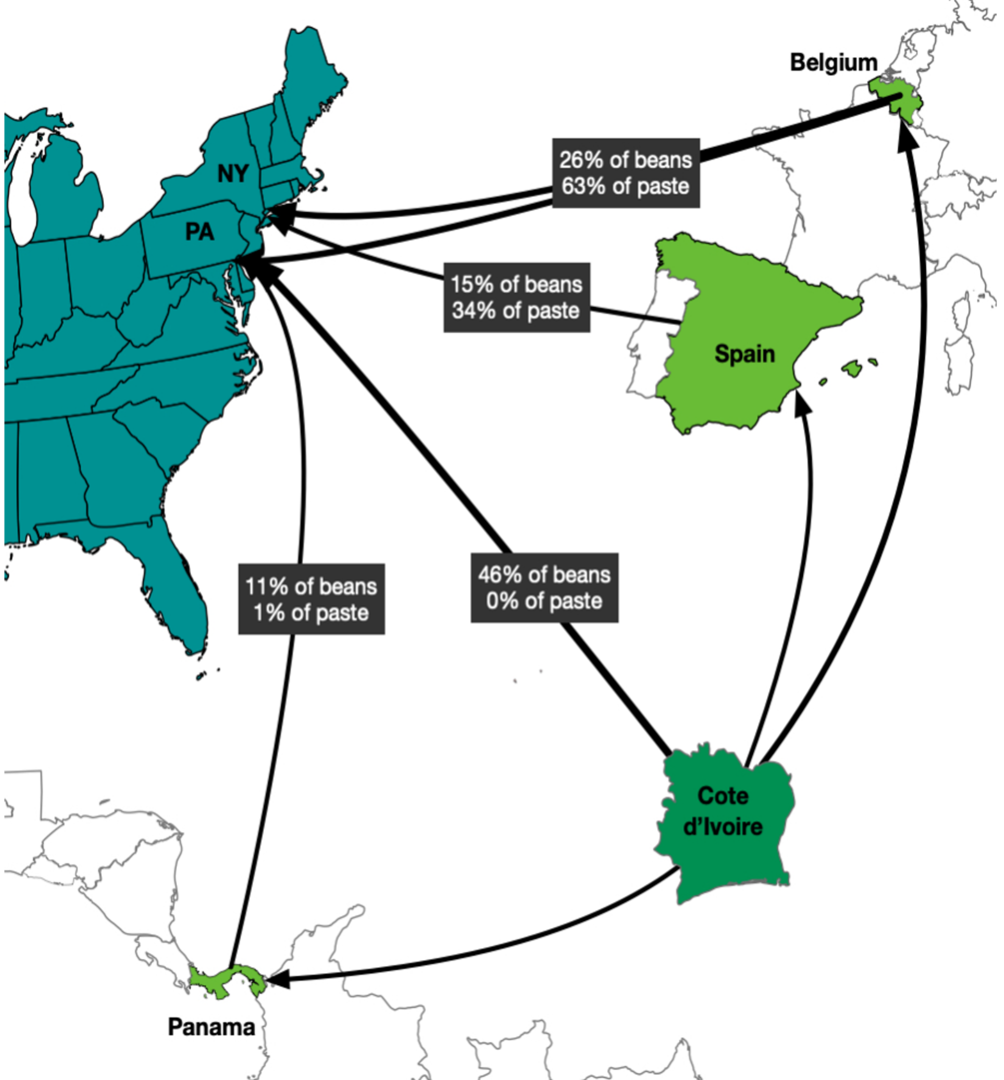
Which brands use the cocoa?

Below are some of the brands that import cocoa products into the U.S. and Canada. According to the trade data, these brands buy from major traders and make some of the most well-known chocolate products in the market, like Kitkat (Nestle), Dairy Milk (Mondelez), and Hershey's Kisses. Notice any big brands missing? Mars U.S. (Snickers, M&Ms) imports finished chocolates to the U.S. that are produced in the Netherlands and Germany.

Case study: traders siphon revenue from **Côte d'Ivoire**

The United States is the world's largest chocolate market, but Côte d'Ivoire only sells 46% of their beans to the U.S. directly, without any added value (181,000 t). Most beans are re-exported via Belgium, Spain, and Panama.

Companies such as ECOM and Sucden are re-exporting beans while Barry Callebaut, Olam and Cargill are exporting value-added cocoa paste ground in Belgium and Spain. Goddard also exports paste from Panama – selling an added value product to U.S. chocolate manufacturers such as Hershey's and Nestle. The traders capture more of the resource revenues in these activities, meaning that African countries and poor farmers are subsidizing the lucrative multi-billion European chocolate trade.

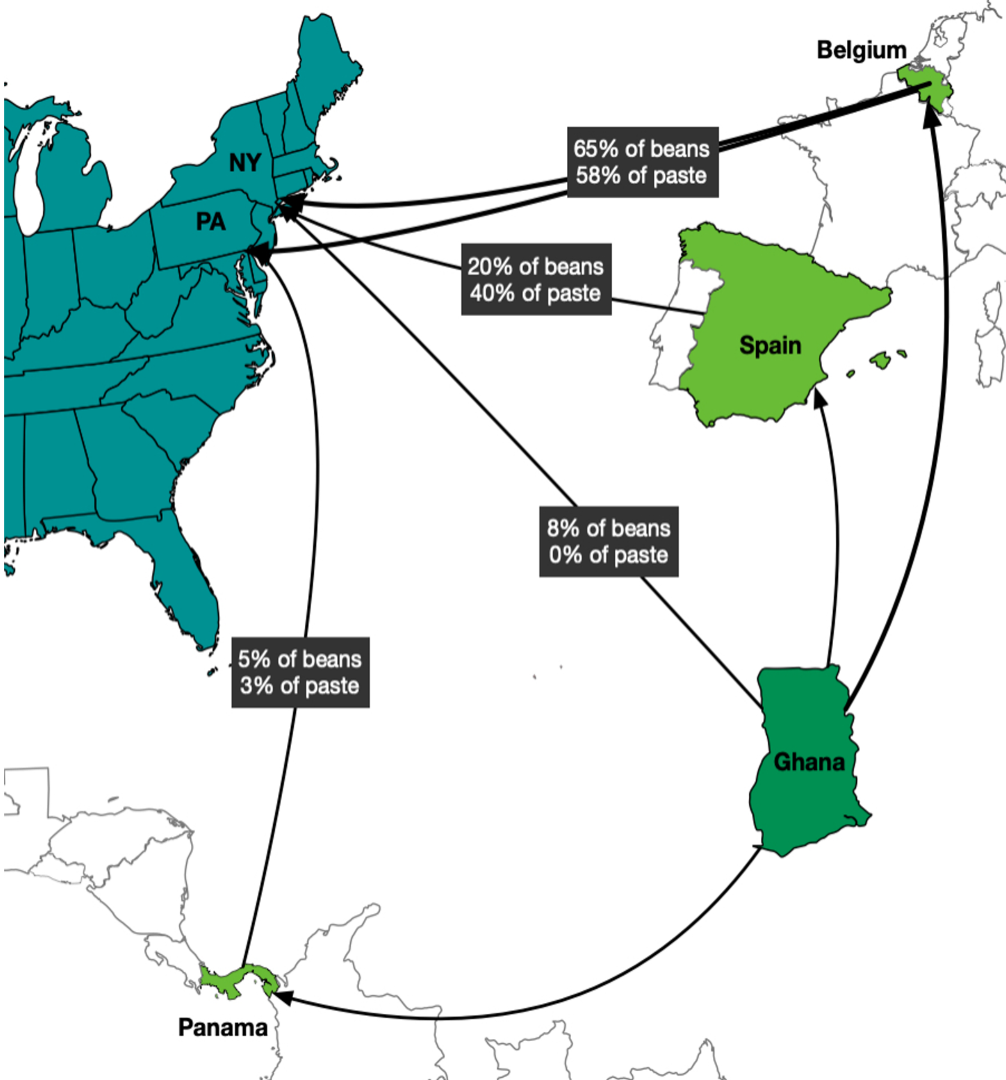


Case study: Traders taking profit from Ghana

Ghana exports only 8% of their beans directly to the U.S.. 90% is re-exported via Belgium, Spain, and Panama.

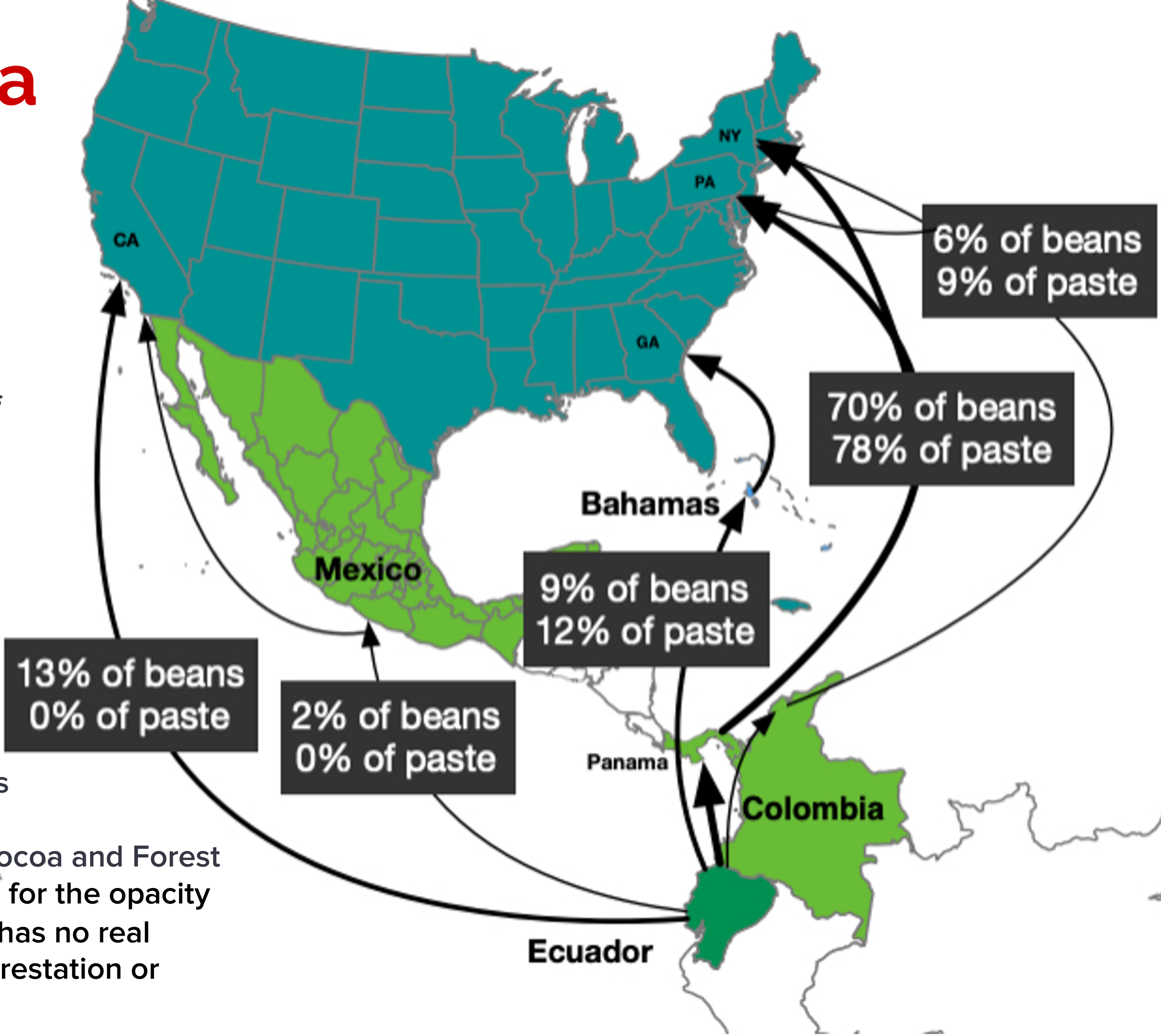
The Cocoa Marketing Company of Ghana is the largest shipper, suggesting that more cocoa revenues flows back to Ghana than in Côte d’Ivoire, where the shippers are predominantly private European and U.S. companies. Barry Callebaut and Touton grind Ghanian beans into cocoa paste for export to the U.S., thereby capturing value in the supply chain.

While Ghana directly exported 44,000 tons of beans and 3,200 tons of cocoa paste to the US in 2020, Côte d’Ivoire sent 181,000 tons of beans and 45,000 tons of paste to the U.S. This suggests that traders are getting the lion’s share of their profits from African cocoa trade



Case study: Panama must adopt cocoa sustainability

Surprisingly, large amounts of Peruvian, Ecuadorian, and other global cocoa beans and paste flow through Panama. For example, **70% of the beans and 78% of paste going from Ecuador to U.S. in our study, passed through Panama.** Only 13% of Ecuadorian beans were exported directly. With such a high proportion of Ecuador (and other countries') cocoa products going through Panama, it's high time campaigns paid more attention to sustainability in Panama's cocoa industry. For Ecuador, the major exporters to the U.S. via Panama are Ecukao (Goddard), selling paste to Hershey; and ECOM selling beans to their subsidiary 'Atlantic Speciality Coffee'. Unlike Columbia, Panama has failed to join the Cocoa and Forest Initiative. Indeed, the country – already notorious for the opacity and corruption revealed in the Panama Papers – has no real policies to prevent sales of cocoa tainted by deforestation or egregious labor abuses.



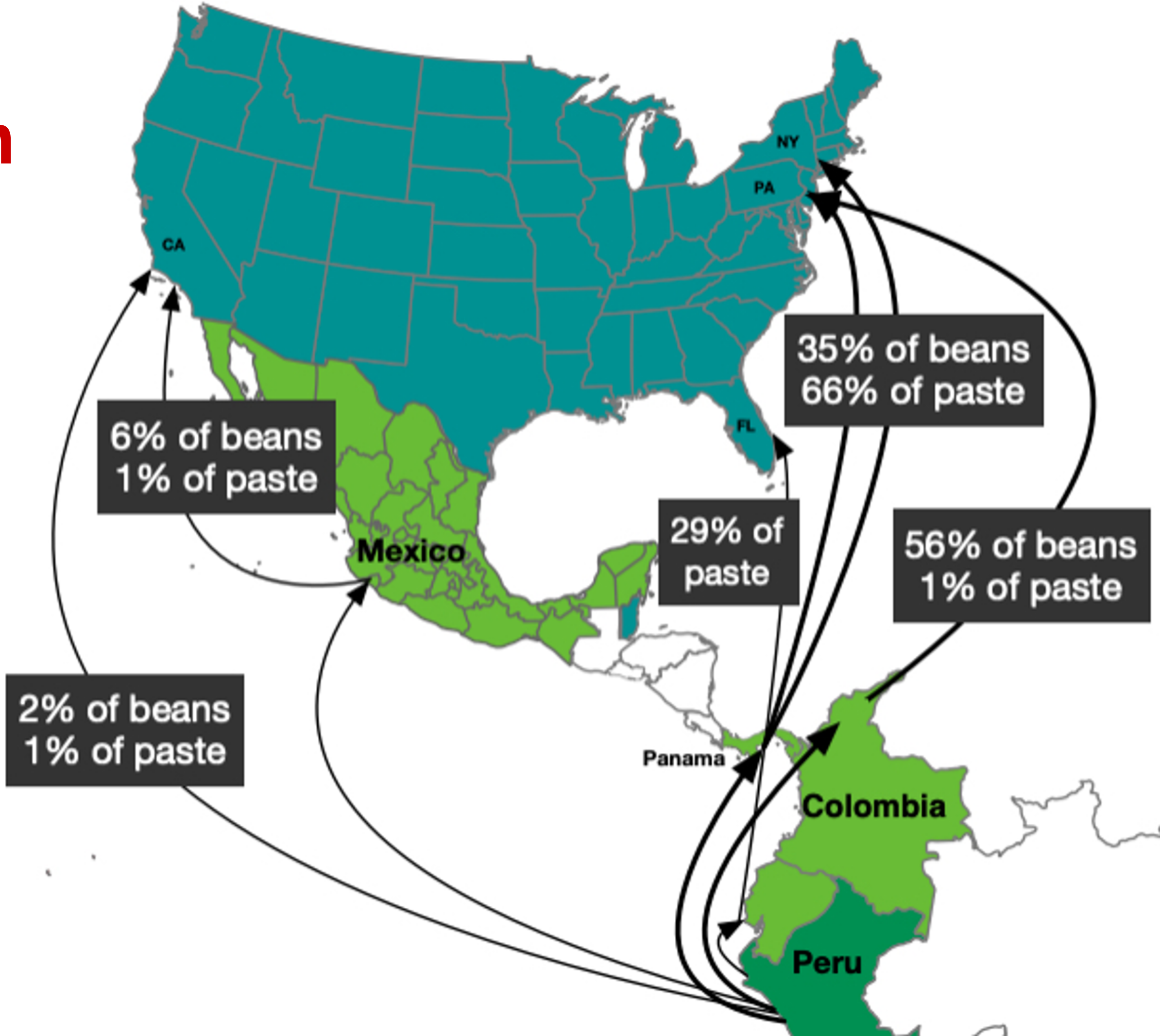
Case study: Peru and the Colombian connection

35% of Peru’s cocoa beans are re-exported via Panama, and 66% of their paste. The major player is Machu Picchu Foods SAC, selling semi-finished chocolate products via Panama to Hershey.

In the first 10 months of 2020, **56% of Peruvian cocoa beans were re-exported through Colombia, compared with only 2% heading direct to U.S. markets.**

6% of Ecuador’s beans and 9% of paste also passed through Colombia.

The Cocoa, Forests & Peace Initiative in Colombia should make sure to cover all pass-through cocoa from Ecuador and Peru, not just what is grown in Colombia.



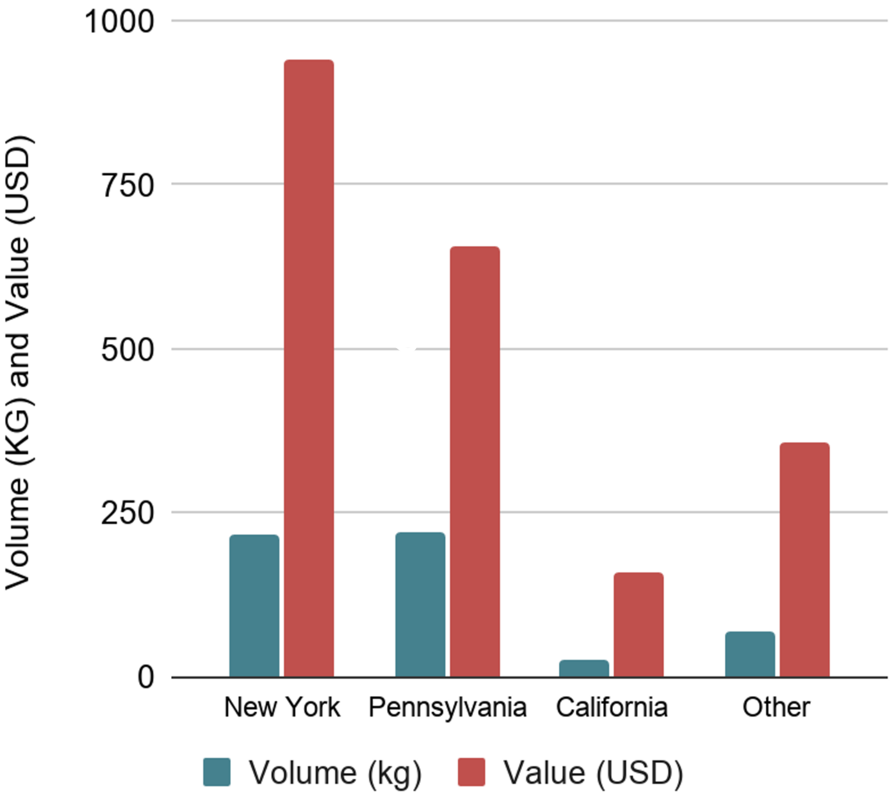
US Ports of Interest

The **#1 chocolate sweet spot is New York/Newark area ports, where 215 million kilos** of cocoa products were imported in the first 10 months of 2020, with an estimated value of 938 million USD. Over a third was in finished chocolates in lower volumes than cocoa beans, but with a higher trade value.

The ports of Philadelphia and Chester in Pennsylvania took in 73% of the cocoa bean imports to the U.S. in the first 10 months of 2020. General Cocoa Company, ECOM, Barry Callebaut, Cargill, and Olam each took a 10-15% share of this import, totalling 193 million kilos, with an estimated value of 520 million USD – most of which came from Côte d'Ivoire (78%).

It's clear that **Philly is the city of chocolatey love for major cocoa bean traders, while the rest of the country is more focused on importing finished chocolate products.**

By comparison, the next biggest ports by volume were in California, which has done 26 million kilos of chocolate trade so far this year, valued at 158 million USD. Almost half was finished chocolate.



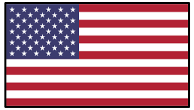
Recommendations to industry: Traders must improve cocoa traceability!

- ✓ Ensure traders are always mentioned as the notifying party on trades conducted by forwarding services on their behalf.
- ✓ Do not remove their names from the US customs data as either the shipper or consignee.
- ✓ Take responsibility for supply chain improvements commensurate with their immense involvement and influence e.g.
  - ◆ Fully disclose who they sell cocoa products to;
  - ◆ Fully disclose who they buy cocoa products from;
  - ◆ Create and engage in a multi-stakeholder dialogue on improving cocoa sustainability in the U.S.;
  - ◆ Help establish a 'Cocoa & Forests Initiative' in Panama, Ecuador, and in Peru, with strong traceability commitments,.

Recommendations to governments

To the USA:

- Require cocoa importers to disclose who they are selling their products to.
- Force traders to include their names in US customs data as shipper or consignee.
- Create a multi-stakeholder dialogue with all relevant branches of U.S. government, U.S. industry, and civil society working on cocoa, to improve sustainability for all cocoa entering the U.S., including on traceability. Six other consumer countries have 'ISCO's. The U.S. should follow.



To the EU:

- Stop lagging behind other countries, and finally provide customs data on all imports and exports for all European Union member states, especially for high risk commodities such as cocoa.

To Panama, Peru and Ecuador:

- Develop their own national Cocoa & Forests Initiatives, as other countries have done, to strive for true cocoa sustainability, with robust traceability commitments.

Recommendations to governments

To Colombia:

- Ensure the ‘Cocoa, Forests and Peace Initiative’ commitments for sustainable cocoa apply not only to what is grown in-country, but also to pass-through cocoa, including from Peru and Ecuador.

To Ghana and Côte d’Ivoire:

- Ghana is losing out on potential revenue by continually exporting raw beans. COCOBOD and their subsidiary, Cocoa Marketing Company Ghana should follow through on plans to add value to beans through processing, before exporting them.

- Côte d’Ivoire should also expand in-country processing.

- Both countries should work to end capital flight from the cocoa sector to improve the share that returns to their nation, and farmers..

- Both countries must radically improve their traceability systems for exports of all goods, including cocoa.

Summary of methods

Stand.earth used U.S. vessel manifest data to map the flow of chocolate products from producer countries to the U.S. market. According to the data availability analysis we conducted for this study, the research focused on the U.S. imports of cocoa products, using 4-digit HS codes to delineate 6 broad categories of cocoa products: beans, shells, paste, butter, powder, and finished chocolate. These products were traced to the U.S. market from four key producer countries: Ghana, Côte d'Ivoire, Ecuador, and Peru.

We identified over 12,000 transactions over the period 01/01/2020 – 11/05/2020. The dataset was cleaned using our in-house Company Connection Tool to correct for spelling errors in company names, link subsidiaries, and simplify complexities in the data that were not necessary for the analysis. Additionally, consignee and shipping information that was missing or attributed to forwarding companies was re-analysed using the detailed goods descriptions from the bills of lading in order to ascertain the real trading partners; thereby allowing us to attribute higher volumes to major traders than may otherwise be reported.

We then mapped direct, trans-shipment, and re-exported trade for each product type for each producer country and calculated the percent of bean exports vs. cocoa paste to do a preliminary analysis the transformations and value-added processes along the trade flow route. We verified these trade routes using vessel tracking software for a random sample of the transactions where re-export was identified.

Sources

- All research conducted by Stand.earth Research Group using U.S. vessel manifest data for 01/01/2020 – 11/05/2020
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- Kokoaplattform (nd) Produced in the South-consumed in the north. https://www.kakaoplattform.ch/about-cocoa/cocoa-facts-and-figure s
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