Observatories in global value chains - experiences from the banana, cocoa and coffee sectors

Basic, for the 'Rethinking value chains' collective

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Context: There is a growing need for factual data on global value chains to facilitate their social and environmental transition.

As detailed in the most recent "World Development Report" of the World Bank[1], global value chains have had a considerable effect on the global economy since the 1990s. Although they have contributed to the growth of GDP in many countries, the Bank acknowledges that they bear a significant responsibility for increasing inequality and environmental degradation (carbon emissions, damage to biodiversity, depletion of natural resources etc.).

In the food sector, the development of global value changes is in addition linked to a growing concentration of economic stakeholders. This has accentuated disparities in information to the detriment of farmers and workers and to the erosion of their negotiating power. Consequently, a large majority of them cannot provide an acceptable income for their families, and are left unable to improve their living and working conditions and to protect the environment as they would wish.

In this context, civil society organisations such as those engaged in policy decision-making - and, more and more, economic stakeholders themselves - express the need to have at their disposal objective information and data on the functioning of global value chains in the food sector; and to be able to utilise such data to generate greater international cooperation in aid of environmental and social change.

In order to achieve this, we consider it necessary to develop new approaches and innovative tools that will enable the distribution of value to be measured, as well as the social and environmental effects and costs along the whole length of these food sector chains, from raw materials production to the products finally purchased by consumers. To achieve this, we outline the concept of "observatories on the distribution of value and social costs" that we attempt to deploy for three tropical products at the international level.

[1] World Bank, World Development Report 2020: Trading for Development in the age of Global Value Chains, October 2019

Our proposal: Establish “observatories on value distribution and social costs in the banana, cocoa and coffee sectors”

For each sector (banana, cocoa and coffee) the overriding objective of the observatories would be as follows:
- To publish public and non-confidential information on the distribution of value and social and environmental costs along the whole length of the food sector chains being studied;
- To share best practice on how to construct alternative value-chain models and to circulate the results of their impacts.

The objective is to provide to public sector decision-makers, civil society stakeholders and economic stakeholders who currently lack information (in particular farmers and workers) the data that would allow them to devise strategies and policies intended to guarantee that all participants in the chain can make a living from their work and that the sector overall can become more sustainable (in the struggle against climate change, deforestation, unacceptable incomes/wages, child labour etc.).

To achieve this objective, the observatories would rely on publicly available databases, but also on the participation (on an anonymous basis) of players engaged in the sector (encompassing public institutions, academic research, producer organisations and economic stakeholders).

In particular, the issue would be to consolidate:
- Data on price and cost trends along the whole length of the conventional food sector chain, as well as alternative chains (e.g. in fair trade, organic agriculture etc.)
- Assessments of hidden costs associated with social and environmental impacts along the whole length of the value chains.

These observatories would not merely consist of the technical construction of a data collection and publication tool, but would encompass several other indispensable aspects:
- A **pedagogical aspect** in the release of information in the most user-friendly and appropriate form for the large diversity of stakeholders in the sectors concerned;
- A **confidence-building and collaborative-working aspect** that aims to bring together the different players and stakeholders “around the same table” and to enable them to discuss together economic issues and their social and environmental consequences, with the benefit of the information supplied by the observatory.
- A **qualitative analysis aspect** that goes beyond the numerical data supplied, so as to enable the stakeholders to arrive at shared diagnoses.
- A **‘take action’ aspect** so as to enable these same stakeholders to move to the co-creation of strategies and joint policies aiming to change the given order, in economic, social and environmental terms.

Implementation pathways in the three identified sectors

Banana

While production costs and costs associated with intermediaries continually increase, the downstream prices of the sector continue to decrease, leading to unsustainable economic situations, in particular for economically and socially fragile producers. The World Banana Forum (WBF) is a discussion platform for all the key players of the global banana chain that aims to work cooperatively to put in place sustainable production and trading practices. Faced with the situation described above, it is seeking to examine the sharing of value, to promote dialogue and to facilitate collaboration between the different stakeholders so as to achieve greater sustainability in the global banana sector.

In order to make these value chains more transparent, the WFB, CIRAD [the French agricultural research and international cooperation organization] and Basic have come together to propose the creation of an observatory of prices and profit margins of banana export sector.

CIRAD, a research body represented by the ODM (French markets observatory), and a member of WBF since its creation, brings its expertise in the banana industry, the challenges in its agricultural production, in its transport, and also brings its expertise in market analysis.
Basic lends its expertise in the socio-economic analysis of the industry and its sustainability, in particular its estimation and analysis methodology of value distribution in the banana sector, brought up to date in 2015 with its study of 18 European countries carried out on behalf of FTAO [Fair Trade Advocacy Office] and the members of the coalition Make Fruit Fair.

The plan for the Observatory of prices and profit margins of the banana export sector has as its objective to:

- Give greater transparency to the distribution of producer prices and costs to the consumer, and to ensure that all the players have the means to understand the market;
- Create spaces for exchanges / debates / discussions among the different players in the chain, based on objective information (intermediation role);
- Enable public and private stakeholders to create strategies and policies for sustainability that are more effective and ambitious at the national and international levels;
- Anticipate crises (price increases at different stages in the chain, cost increases in production factors, the impact of exchange rates, etc.)

The plan has been approved by the members of the World Banana Forum and currently discussions are being held with the French agriculture ministry to obtain an initial co-financing allocation.

Cocoa

There is a considerable asymmetry in the cocoa-chocolate sector among the downstream stakeholders (from couverture chocolate to end products) who have the capacity to create and harness a great deal of value from standardised chocolate. As for the upstream it is composed of two distinct universes:

- Millions of small separate family-based farmers who are for the most part not organised and are at the mercy of their buyers;
- A highly concentrated middle section of the chain (bean processing, couverture chocolate production) responding to an industrial logic (economies of scale, high degree of mechanisation, etc.) and that is caught in the vice of volatile prices of world trade and a downstream that exerts pressure and harnesses the greater part of the value.

In recent years, the sector has attracted increasing attention from several stakeholders - public, private and institutional - on questions of sustainability. While child labour and problems of deforestation in the sector have been highlighted regularly by different NGOs since the beginning of the 2000s, the collapse of world cocoa prices in 2017 and crisis that followed in the Ivory Coast raised the critical importance of economic factors, notably in West Africa, and raised more widely the question of the distribution of value among the chocolate making sectors.

In this context, recent initiatives have created opportunities to be seized, and provided the basis to develop an observatory on the cocoa / chocolate value chains. These are:

- The recent agreement of the governments of Ghana and the Ivory Coast to impose higher decorrelated prices on stock market prices, so as to obtain better remuneration for their producers;
- European Union support for the creation of this cartel, on condition that the governments strengthen the fight against deforestation and child labour;
- Industry stakeholders in the middle section of the chain are more ready to be more transparent on the question of the distribution of value;
- Brands regularly shamed by NGOs and their partners (Mighty Earth in particular) who then try to give pledges to their consumers to rebuild their image.

In this context, Basic has been commissioned by the European Commission's Directorate-General for International Cooperation and Development (DG DEVCO), in collaboration with FAO and the European Cocoa Association, to lead an innovative study into European value chains for cocoa and chocolate.
The more precise objective of this study is to quantify and analyse the detailed distribution of value, costs and net profit margins along the whole length of the cocoa chain for the principle chocolate products sold in France (chocolate bars, both milk and dark, candy bars, cocoa powder for hot drinks) that derive from cocoa production in four countries (the Ivory Coast, Ghana, Ecuador and the Cameroon). The study also includes an analysis of the differences made by Fairtrade, organic and RainForest certification labels. The results will be presented at the forthcoming world conference of ICCO (International Cocoa Organisation) in Bali in September 2020.

This study, in providing information not previously accessible, could serve as a "proof of concept" for the development of a permanent observatory that could be accommodated within the ICCO (given that this organisation brings together the governments of all the producer and consumer countries, and directs a permanent discussion forum with the private stakeholders of the sector). Such an observatory would constitute a valuable tool to enable the different stakeholders of the sector to develop effective joint strategies aimed at improving the value-creation of cocoa and increasing the incomes of farmers, as a result of a better understanding of the economic dynamics even among consumers.

Coffee

The coffee sector returned to economic profitability with the arrival on the market of coffee capsules and pods which facilitated the generation of value without precedent in the sector. However, this value is above all achieved by the downstream economic players (coffee roasters and distributors) who are more and more concentrated in fewer hands. The upstream stakeholders remain dominated by millions of small-scale agriculture producers, the great majority of whom do not manage to exceed the poverty threshold (not to speak of an acceptable income for their families).

The succession of coffee price decreases that has severely affected producers across the world since 2017 has spurred the producer countries to strengthen their support for ICO (International Coffee Organization) and mandated it to establish a dialogue with the consumer countries and the downstream players on the economic sustainability of the sector. Nonetheless, the stances of the producer countries do not yet seem to be very coordinated, in comparison with what has happened in the cocoa sector, for example. In the same way, the coffee brands are much less responsive than those of the chocolate sector because they are criticised less by civil society players who pay less attention to this sector than to cocoa.

In this context, in 2018, BASIC carried out in partnership with the "Rethinking Value Chains" collective a study on value distribution in the coffee value chains, their social and environmental impacts and the costs they transfer to society (from production in Columbia, Ethiopia and Peru to consumption in France). Since its release in October 2018, this study has served as the basis for discussions with the ICO (International Coffee Organization) on the main conclusions of the research undertaken, and on the opportunity to set up an observatory on the prices and profit margins of the value chain of coffee.

An initial meeting was held in ICO's London office in spring 2019, followed by the presentation of the results of the study at an ICO forum in summer 2019, and another working meeting was held in Paris in November 2019.
At the end of 2019, ICO received a new mandate to work on the economic challenges of the sector. In this context, internal working groups have been set up since the beginning of 2020, one of which will focus on "Market Transparency". ICO hopes to find the means to involve in this BASIC and other members of the "Rethinking Value Chains" collective to generate a debate on the concept of an observatory on prices and profit margins (to be confirmed).

Annex: key characteristics of the three sectors, banana, cocoa and coffee.

Characteristic	Banana	Cocoa	Coffee
Potential for long-term storage	None.	Yes, very good.	Yes.
Degree of processing	Almost none.	3 - 4 stages of processing and end use in a multitude of products.	1 -2 stages of processing where it is mainly consumed as ground coffee.
Distribution of export value (FOB) v consumer price	1 → 2.5	1 → 5 – basic chocolate bar 1 → 20 – premium chocolate bar 1 → 50 – luxury chocolate maker	1 → 5 ground coffee in packets 1 → 20 capsules (Nespresso etc.) 1 → 100 Starbucks / coffee-bar coffee
Margin of manoeuvre for greater equality in distribution of value (on a scale of 1-5)	0.5 (Though potentially slightly greater in some countries, such as France).	3 An essential lever here is the major brands and supermarkets (though the latter have a more global economic model that is being called into question). The intermediary players achieve weak margins of around 5%.	4.5 An essential lever here is the major brands and supermarkets (though the latter have a more global economic model that is being called into question).
Existence of national minimum prices	Ecuador (farm gate price) and Costa Rica (FOB) These two countries represent 40% of the global market.	Ghana (farm gate price +FOB) and Ivory Coast (farm gate price +FOB) These two countries represent 70% of the global market.	Colombia (farm gate price) This country represents 20% of the global market.
Influence of fair trade prices on the behaviour of the conventional market *A complex area linked to the producer strategies (fair trade is no more than a component).*	• on some consumer markets (NL, UK, FI) • In some producer countries (Dominican Republic, Peru) But in general fair trade does not affect conventional prices in supermarkets.	• Peru - quality producing country • Bolivia - since the major part of its cocoa is fair trade (though volumes are very small). • Dominican Republic (when brands give importance to origin).	• Peru - quality producing country • Columbia - when linked to organic production Fair trade coffee has an effect on the market when it linked to the offer of origin coffees to consumers. But the presence of origin coffees in the market is becoming less. It is uncertain in the long-term.
Intangible value *When the world of the brand is the principle influencing factor on prices.*	Very small	Very strong (premium brands such as Lindt, luxury brands, bean-to-bar manufactures).	Very strong (Starbucks, Nespresso etc.)
Role in the economic model of the supermarkets	For the labels the banana is a key product of choice for keen price-aware consumers; even where the price difference is a couple of pence (organic and fair trade products are often used to absorb losses).	Products with significant profit margins that are used by supermarkets to compensate for losses in other departments so as not to go into the red and achieve in the end a low profitability of 1% (of total turnover).	
Industry concentration	Very strong - supermarkets and traders (mainly US).	Very strong - supermarkets, major brands and processors.	Very strong - supermarkets, major brands and traders.