

Solomon Islands: Improved Market Access for Cocoa

Technical Report #094

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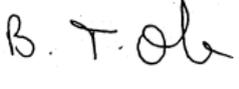
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Acronyms

Abbreviation	Description
ACIAR	Australian Centre for International Agricultural Research
ADM	Archer Daniels Midland
ADRA	Adventist Development and Relief Agency
CEMA	Commodities Exporting Marketing Authority
CIF	Cost, Insurance and Freight
CLIP	Cocoa Livelihoods Improvement Project
EFM	Express Freight Management
DFAT	Department of Foreign Affairs and Trade
GBP	Great British Pound
FCL	Full Container Load
FFA	Free Fatty Acids
FOB	Free on Board
FT	Fairtrade
ICCO	International Cocoa Organisation
IWG	Industry Working Group
LCL	Loose Container Load
LIFFE	London International Financial Futures and Options Exchange
mt	Metric Tonne
NY ICE	New York Intercontinental Exchange
NZ	New Zealand
PARDI	Pacific Agribusiness Research for Development Initiative
PHAMA	Pacific Horticultural and Agricultural Market Access
PNG	Papua New Guinea
RDP	Rural Development Program
RFA	Rainforest Alliance
SBD	Solomon Island Dollar
SEF	Supplementary Equity Facility
SolKom	Solomon Komoditi
USD	United States Dollar

Executive Summary

With a production of approximately 5,000 metric tonnes (mt) per year, the Solomon Islands is well situated to appeal to a niche cocoa market looking to make unique single origin chocolate bars with a good “back story”. This market survey has confirmed that there are significant price premiums to be had for good quality, smoke free beans from boutique buyers in Australia and New Zealand, as well as from the Asian grinding market.

The barriers to entry into this market are as follows:

Poor quality cocoa, namely smoky beans caused by poorly maintained hot air dryers. Most single origin chocolate bars tend to have a high cocoa content (70-90%) meaning that any defects will quickly become apparent in the end product. In order to improve this quality, farmers need to make production changes. This survey’s findings confirm that investment in improving quality pays off.

Lack of market knowledge is apparent across all levels of the industry and suppliers and exporters alike are blindly placing their faith in buyers. Many exporters accept a contract price with no idea what the global market price is, nor what margin their own business is selling at. In addition to this, as more players are introduced into the supply chain, prices for exporters become increasingly discounted. There is little understanding of what either the bulk market or boutique grinders want in a product and often no follow through with the product once the beans are packed into a container.

Lack of competition in the industry has resulted in over 80% of exports in 2015 being sold to the same grinder/manufacturer.

Finance capital is a limiting factor for many exporters. In some cases they seek pre-finance and if this is facilitated by a middle man, it can result in significantly lower prices than if exporters sold directly to a manufacturer/grinder themselves. Finance capital can be a difficult process to arrange through banking institutions which often have prohibitively high interest rates on loans, thus this remains one of the critical factors hampering industry growth.

There was interest for Solomon Islands beans from new bulk buyers and small-medium grinders alike. The exact tonnage is difficult to put an exact figure on as much depends upon the success of Solomon Island beans once initially trialled. Indicative pricing for interested bulk market buyers ranged from between –USD350 to –USD150 New York Intercontinental Exchange (NY ICE) Free on Board (FOB) Honiara per mt which compared favourably to current export contracts between –USD420 to –USD412 NY ICE FOB Honiara. Boutique cocoa indicative pricing ranged between +USD250 and +USD320 NY ICE FOB Honiara. Thus if exporters were able to segregate better quality cocoa, they could potentially make at least USD400 more per tonne. Even if they simply diversified their customer base on the bulk market, they could make at least USD62 more per tonne.

Despite promising leads to Australian niche markets from the Cocoa Livelihoods Improvement Project (CLIP) and Pacific Agribusiness Research for Development Initiative (PARDI) projects, there were no boutique market sales in 2015. There is on average a 10% premium over NY ICE market price for smoke free, well fermented beans in Australia and New Zealand. Yet despite a demand for 3mt smoke free Solomon Islands cocoa, and a production of over 35mt of smoke free beans in 2015, no sales eventuated. This was due to **poor industry communication**.

The vast majority of boutique grinders interviewed for the purpose of this study expressed a desire to source through a single, reliable supplier instead of going direct to smallholders in origin. Once there is reliable data on superior cocoa in the Solomon Islands, an in-country consolidator would be able to **approach overseas distributors to arrange sales of mixed containers**. This would reduce logistics costs for both parties (instead of sending micro-lots) and the distributor would bear the inventory risk.

While the Solomon Islands builds a reputation in the niche market, it is recommended that exporters explore new clients in the regional bulk market to introduce further price competition into the bulk market, and thereby **diversify their customer base** and potentially increase their current bulk market contract pricing.

1.0 Introduction

1.1 Introduction

The Solomon Islands' cocoa industry is not yet as sophisticated as that of its neighbour, Papua New Guinea but the industry as a whole has much more cohesion than Vanuatu. 61% of the country's production comes from Guadalcanal and is then exported from Honiara to the Asian bulk market. There have been no recorded sales in 2015 to European and American markets. At least 50% of the 2015 crop (2,280mt) was pre-financed by the same Australian based trading house.

This preliminary study has focused solely on an Asian Pacific market for both bulk and boutique grinders/manufacturers. The Australian and New Zealand niche chocolate markets are expanding slowly however they lack the market support (especially in regards to logistics and consolidation) that can be found in the U.S and Europe.

Major issues for the Solomon Islands in terms of accessing this market are the poor quality of the beans and the lack of diversity of end buyers (grinders/manufacturers). Having said that, there are differentiated beans being produced however they are being sold in the conventional markets. Exporters of all sizes would benefit by segregating the smoke free beans and seeking a higher price, either through a different buyer on the bulk market or selling in micro batches direct to boutique grinders.

1.2 Methodology

The findings of the report are based on a literary review of the documents outlined in the reference list and information gathered from interviews conducted with key industry members.

The literary review was conducted via desk based research, as were the initial conversations with buyers in Singapore, Australia and New Zealand. Interviews were then conducted over the phone and in person during a three week research trip to Singapore, Sydney, Vanuatu and the Solomon Islands. Interviewees represented all stages of the supply chain, including Government bodies, non-governmental organisations (NGO), farmers in Guadalcanal, co-operative members, exporters in Honiara and grinders in the boutique and bulk markets.

1.3 Limitations

The information needed to provide depth to this report is largely of a confidential nature and hence detailed pricing information was often not forthcoming, or seemed to be under or over stated. Information that was freely given was also unable to be published. From a pricing perspective, many boutique grinders base their pricing from a cost based approach as opposed to tracking to the global market and quoting differentials. This makes it very difficult to ascertain indicative pricing as a number of variables impact on their purchase price.

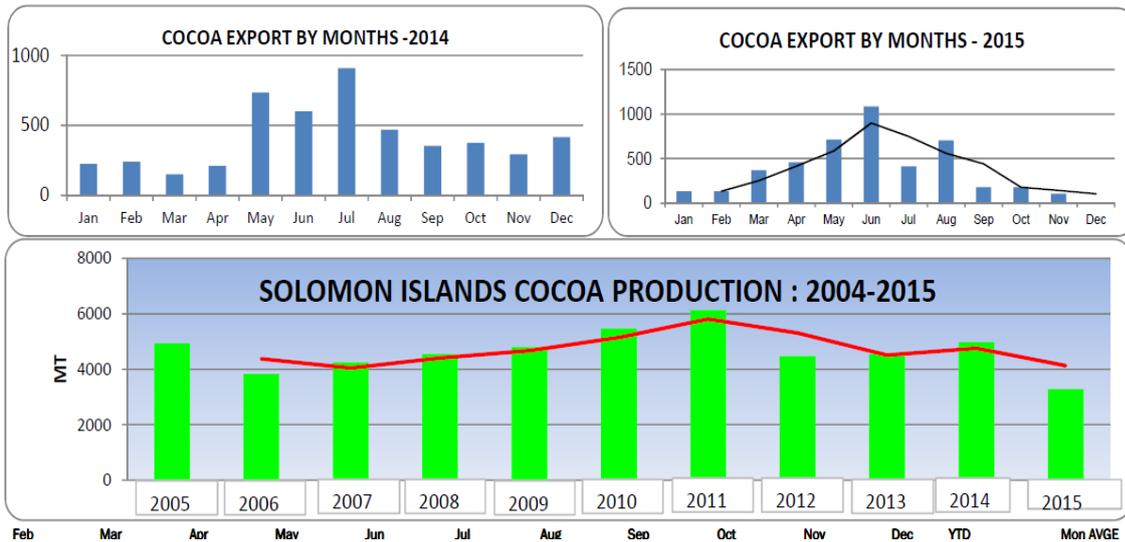
It should be noted that indicative pricing provided in this report is just that, indicative. It should not be quoted when securing future contracts as much is changing in the cocoa industry, specifically in the Asia Pacific region. The market overview has been provided for this reason.

2.0 Report Findings

2.1 Cocoa Supply

Of prime importance to buyers is a consistent supply of cocoa. Pacific origin cocoa tends to have a main crop from May-August and then another mid-crop in November/December. This surge late in the year is due to a combination of late flowers fruiting and also smallholders needing to sell their cocoa for cash before the holiday season. As you can see in 2015, due to the unprecedented dry year, this mid-crop has not occurred. The volumes reached in May-August are surprisingly high given the flooding that occurred in March and April of 2015.

Figure 1: Solomon Islands production by month and 10 year trends (Source: CEMA, 2015)

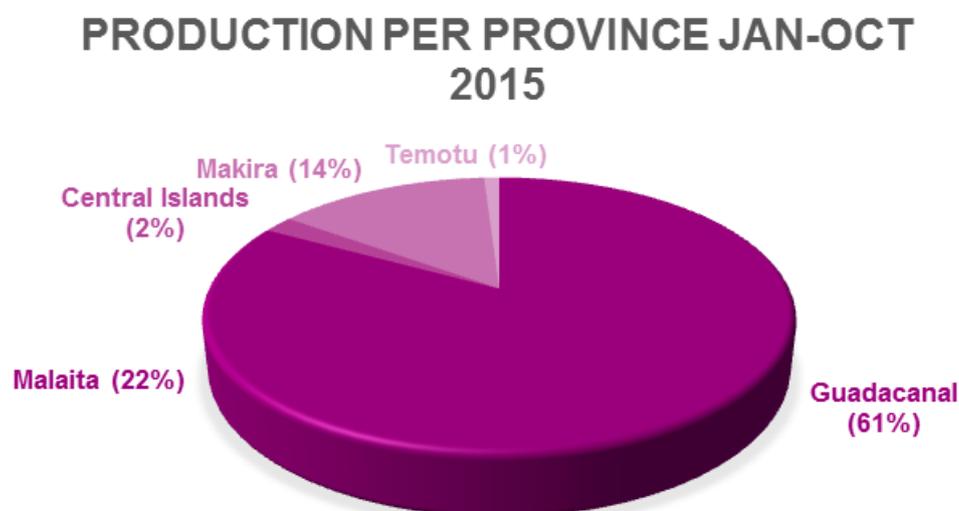


61% of the total crop this year came from Guadalcanal, with Malaita providing 22% of the volume. The fact that 61% of the crop comes from the main island where the international port is, is beneficial to exporters who can save on inter island shipping for these volumes.

Figure 2: Map of the Solomon Islands (Source: Vidiani Maps)



Figure 3: Solomon Islands production by province for 2015 (CEMA, 2015)



2.2 Exporter Overview

Exporter	2015 tonnage	Market Share
JEMS	1,395 mt	31%
Pacific Exports	735 mt	16%
Arania	570 mt	13%
OBO Exporters	405 mt	9%
C-Corp	351 mt	8%
Bisivotu	253 mt	6%
Chan Wings	240 mt	5%
Alcom Ltd	210 mt	5%
SolKom	188 mt	4%
Jay Ace	60 mt	1%
PAG Exporters	45 mt	1%
AJF Exporters	40 mt	1%
Cathliro	30 mt	1%
Total Exports	4,527 mt	

A few of the major exporters were willing to be interviewed for this report and their comments can be found below.

a) JEMS

JEMS sources both conventional and sun-dried cocoa beans. In 2014 the sun-dried beans were sold through Solomon Komoditi (SolKom) (a local export company that has since stopped operating) but in 2015 the products were not differentiated and were sold into the bulk market.

In 2015 their entire volume has been sold to an Australian commodity trading house as JEMS is 100% pre-financed by this company. This year they had 3mt of sun-dried cocoa available however this was blended with other cocoa.

If pre-financed exporters all lock in contracts with the aforementioned trading house at a similar time, this results in the same dry bean price offered throughout Honiara. At this time the only incentive for suppliers to supply to one exporter over another is relationship based. The JEMS Manager indicated that he has a supplier network of approximately 200 farmers who are loyal to him when pricing is the same from all other major exporters.

b) C-Corp

Due to the drought conditions in 2015, the Managing Director, estimated that their export figures would be less than previous years. He indicated that they sell most of their volume to Barry Callebaut on the bulk market but also segregate 15mt of the best quality beans (including sun-dried beans) to be sent to their New Zealand processing plant to make the Solomon Gold chocolate bars (70-80% cocoa). In 2015 he estimated that C-Corp had access to 20mt of smoke free or low smoke beans. They currently don't have access to other boutique and niche grinders but he expressed an interest in expanding this side of the business.

C-Corp sources from 20 smallholders in Guadalcanal and Makira; most of whom produce at least 15mt with two larger players supplying up to 100mt each.

C-Corp expressed an interest in Fairtrade and Organic certification but had been dissuaded in the past by high certification costs. The main concern for a Fairtrade certified supply chain is that farmers tend to sell to the highest paying exporter, meaning that their cocoa supply is quite fragile.

c) Arania

Arania has gone from being the primary shareholder with a 42% market share in 2011 to having a 13% market share in 2015 due to a re-structuring of the business. Arania is pre-financed by an Australian commodity trading house according to the General Manager. They source from Guadalcanal, Makira and Malaita and then ship their beans mainly to Malaysia for processing. They are quoted a contract price in Great British pounds (GBP), but do not mark this price to the global market, nor do they have a GBP account in which to convert foreign currency.

d) Chan Wings

Chan Wings has a clear interest in developing a segregated income stream for boutique beans. The Managing Director for Chan Wings, has already submitted a proposal to the Rural Development Program (RDP) to construct more solar dryers for her suppliers to improve quality. She has a keen interest in Fairtrade certification but the traceability networks are currently not in place to support this. However, depending on the nature of reporting requirements for the RDP funded projects, some of this may soon have to be put in place. In fact, if Fairtrade was made a part of the RDP project design, then the implementation costs could be entirely RDP funded.

The Managing Director was very interested in diversifying her customer base but seemed unsure as how to engage new buyers, how to send a sample and how to ship micro-lots.

They currently are pre-financed by an Australian commodity trading house. The Managing Director is quoted contract prices in GBP but does not follow the global market nor have a GBP account with which to convert funds. All pre-financing and payments from their pre-

financier were in SBD and she was unsure at what foreign exchange rate her bank was converting the funds.

They have scope to scale up and a keen interest in changing their business focus from the bulk market to a niche market.

2.3 Export Destination

As can be seen from the table below, the vast majority of cocoa from the Solomon Islands goes to the bulk markets of Asia and has for some years. The tonnage going to New Zealand is from C-Corp and the 1.22mt to Australia is from SolKom to Zokoko. Appendix A provides full detail of Solomon Islands Cocoa Exports since 2006.

Volume (mt)	2013	2014	2015*
Malaysia	3,185	4,309	3,720
Indonesia	1,283	660	726
New Zealand	12	5	6
Australia	-	1	-
China	60	-	-
TOTAL	4,539 mt	4,976 mt	4,452 mt

- Excluding December 2015 export data.

2.4 Financial Analysis and Market Information

Below is a breakdown of the value of cocoa per kg and per mt using December 2015 average prices. There has been no information readily available for middle men (non-grinders/manufacturers), hence we can presume they operate between the bulk market export and trading house on-sell range.

SBD	Wet Bean	Dry Bean	Export Price Bulk Market	Export Price Boutique Market	Bulk Market Trading House on-sells ¹
Per kg	5.00	18.50	23.10	32.05	26.80
Per mt	5,000	18,500	23,082	32,048	26,835

USD	Wet Bean	Dry Bean	Export Price Bulk Market	Export Price Boutique Market	Bulk Market Trading House on-sells
Per kg	0.62	2.30	2.87	4.00	3.35
Per mt	620	2,300	2,873	3,990 ²	3,341

Using average exchange rate USD-SBD 1 Dec – 17 Dec 2015 (USD 1.00 = SBD 8.03)
Average market price for December 2015 USD 3,200³ per mt.

All members of the supply chain need to make a profit otherwise there is no incentive for the industry to exist. Figures cited in global media stating that cocoa farmers only receive a very small percentage

¹ This refers to when a buyer from a local exporter has no grinding facilities themselves and sells the beans to a company with processing capacity

² Average of 3 boutique sales (Haighs, Zokoko and standard boutique mark-up)

³ <http://futures.tradingcharts.com/chart/CC/M?anticache=1450340129>

of the price of a chocolate bar fail to take into consideration all of the players required to make that chocolate bar, and the exact value added at various points in the supply chain.

Improvements can be made in the Solomon Islands cocoa industry to increase competition and to increase the market knowledge of exporting companies.

For comparative purposes, below are the differential quotes during the week of 14-17 December 2015 using the average market price and forex rate quoted on the previous page. Exporter names have been withheld in line with commercial in confidence information.

- Exporter A sold to an Australian trading house for -USD420⁴ FOB Honiara.
- Exporter B sold to an Australian trading house for -USD412 FOB Honiara.
- Boutique Buyer A offered a 10% premium on market price of +USD320 FOB Honiara.
- Market for differentiated beans was on average +USD250 FOB Honiara.

The valuation for Pacific beans is currently between par (market price) or +USD50 NY ICE. Due to the quality issues with Solomon Island beans one can presume pricing would be close to par. This valuation is only relevant at the time of this report, December 2015.

2.5 Market price 2015

In relation to demand, industry reports indicate that cocoa butter prices have continued to increase, probably an indication of the levels of stocks of butter as the Christmas season approaches. On the other hand, powder prices have followed a declining trend. Overall, market analysts expect a modest rebound from global cocoa grindings during the current season despite projections for prices to stay around current levels. The International Cocoa Organisation (ICCO) Secretariat's revised estimates for the 2014/2015 cocoa year, published in the latest issue of the Quarterly Bulletin of Cocoa Statistics, show that the previous season recorded a moderate production surplus of 36,000 tonnes. World cocoa bean production has declined by almost four per cent (down by 171,000 tonnes) over the previous season, to 4.201 million tonnes while grindings have shrunk by almost five per cent to 4.123 million tonnes (down by 199,000 tonnes). Global stocks of cocoa beans at the end of the 2014/2015 cocoa year are estimated at 1.601 million tonnes, equivalent to 38.8% of annual grindings.

2015 has seen the closure of a number of grinding facilities across Asia as high bean prices mean grinders cannot afford to buy. Indonesian bean prices have crashed and historically Pacific beans have generally been priced lower than Indonesian beans. It is a volatile time to be selling into this market.

2.6 Quality

In the past five years in the bulk market, there has been considerable consolidation. What was once six main buyers has turned to three as Barry Callebaut purchased the Petra Food cocoa division, Olam purchased ADM cocoa and Ecom Agro-industrial acquired Armajaro Trading. Once where traders would on-sell to grinders, all of the major buyers now have their own grinding facilities which they can supply.

On the boutique market, grinders are looking for high quality cocoa with which to make dark chocolate, usually single origin chocolate bars. If the quality of the beans is questionable, this can be masked (to an extent) by making a milk chocolate bar with a lower cocoa percentage. However many boutique grinders do not produce milk chocolate products as they would be required to also source dairy products and sugar. In a boutique market, buyers are not necessarily after quality specifications but a particular flavour profile hence the sampling requirements tend to be more onerous in this market.

Regardless of the size of the buyer, feedback was the same, buyers want a trusted relationship where they have consistent quality and consistent supply and they are happy to pay more for this.

Buyers ranked the importance of this trusted relationship over the quality of the beans and the price.

⁴ This way of quoting price means USD420 under the market price

2.7 Buyers – Bulk market – Australia, New Zealand, Singapore

a) Olam International (Malaysia, Singapore, Papua New Guinea)

In the past Olam has purchased beans from the Solomon Islands through Carpenters Group. These beans were shipped direct from Honiara to their storage facility in Pasir Gudang where the beans were inspected. On most occasions Olam filed a quality claim for smokiness, high waste content and external mould. Olam has been unable to source Solomon Island beans since 2013 but has a keen interest in buying in the region.

Standard Malaysian cocoa bean specifications apply:

	Bean count per 100g	Mould %	Slaty %	Insect and germination %	Moisture content	Waste %
Grade 1.	≤100	3	3	2.5	6.5	2
Grade 2.	≤110	3	3	2.5	7.5	2

b) Mondelez (Singapore)

Mondelez buys 15% of the world's global supply of cocoa, however they currently do not buy any Pacific beans due to quality issues. They last purchased Solomon Island beans in 2013 however they had three consecutive deliveries with major quality defects leaving them short for production. They felt companies selling Solomon Islands beans had no interest in rectifying these quality issues and hence focused their purchasing elsewhere. Paramount to Mondelez is a trusted and transparent supply chain, with a genuine interest in supplying quality beans. They would source from the Solomon Islands again providing the below specifications were met and there was no (or minimal) smoke taint.

Mondelez only accepts top grade beans:

	Bean count per 100g	Mould %	Slaty %	Insect and germination %	Moisture content	Waste %
Grade 1.	≤100	3	3	2.5	6.5	2

c) Ecom Agro-industrial (Singapore, Malaysia)

Ecom Agro-industrial is the world's fifth largest cocoa buyer and as of 2014 now has significantly increased grinding capacities after their acquisition of Armajaro and Theobroma. They have a current interest of sourcing both Solomon Island and Vanuatu beans on the spot market.

Standard Singaporean cocoa bean specifications apply:

	Bean count per 100g	Mould %	Slaty %	Insect and germination %	Moisture content	Waste %
Grade 1.	≤100	3	3	2.5	6.5	2
Grade 2.	≤110	3	3	2.5	7.5	2

d) Barry Callebaut (Malaysia)

Barry Callebaut is the world's largest buyer of cocoa and have four grinding facilities in Asia. From interviews with exporters, it was indicated that Barry Callebaut currently buys a large percentage of beans from Solomon Islands through an Australian trading house. Barry Callebaut acquired Petra

Foods in 2012 however the sale was only finalised in 2015 and this now includes Delfi Cocoa grinding facility in Malaysia.

Standard Malaysian cocoa bean specifications apply:

	Bean count per 100g	Mould %	Slaty %	Insect and germination %	Moisture content	Waste %
Grade 1.	≤100	3	3	2.5	6.5	2
Grade 2.	≤110	3	3	2.5	7.5	2

e) Koko Budi (Malaysia)

Koko Budi currently purchases beans from the Solomon Islands and is interested in continuing to source cocoa from the Solomon Islands.

Standard Malaysian cocoa bean specifications apply:

	Bean count per 100g	Mould %	Slaty %	Insect and germination %	Moisture content	Waste %
Grade 1.	≤100	3	3	2.5	6.5	2
Grade 2.	≤110	3	3	2.5	7.5	2

f) Guan Chong Cocoa (Malaysia)

Guan Chong is a current buyer of PNG beans and is interested to source from other Pacific origins.

Standard Malaysian cocoa bean specifications apply:

	Bean count per 100g	Mould %	Slaty %	Insect and germination %	Moisture content	Waste %
Grade 1.	≤100	3	3	2.5	6.5	2
Grade 2.	≤110	3	3	2.5	7.5	2

g) JB Cocoa (Malaysia)

JB Cocoa currently sources beans from PNG, hence can accept some smoke taint. They are used to the larger bean size of PNG so it would be imperative to provide sampling prior to shipment to avoid quality claims once the shipment arrives.

Standard Malaysian cocoa bean specifications apply:

	Bean count per 100g	Mould %	Slaty %	Insect and germination %	Moisture content	Waste %
Grade 1.	≤100	3	3	2.5	6.5	2
Grade 2.	≤110	3	3	2.5	7.5	2

h) Cargill (Indonesia)

Cargill opened a new grinding facility in Indonesia in 2014 to supply the growing Asian chocolate market. Due to high export taxes, Indonesia's processing facilities historically used predominantly Indonesian beans however due to a decrease in Indonesia's cocoa production, they are increasingly sourcing from overseas.

Standard Indonesian cocoa bean specifications apply:

	Bean count per 100g	Mould %	Slaty %	Insect and germination %	Moisture content	Waste %
Grade 1.	≤100	3	3	2.5	6.5	2
Grade 2.	≤110	3	3	2.5	7.5	2

2.8 Buyers – Boutique Market – Australia, New Zealand, Singapore

a) Wellington chocolate company (Wellington, North Island, New Zealand)

Wellington Chocolate Company currently has a project in Bougainville, Papua New Guinea, hence Solomon Island beans could be a good fit with this as they have a similar flavour profile. Wellington Chocolate Company is interested in traceability and working with small farmer groups. There is potential for the sale of micro-lots to this company for both Vanuatu and Solomon Islands. Pricing structure and tonnage is dependent on the success of a first batch Solomon Islands chocolate bar.

b) Devonport chocolates (Auckland, North Island, New Zealand)

The Pacific Horticultural and Agricultural Market Access Program (PHAMA) has previously worked with Devonport Chocolates with Samoan cocoa and the business has an interest in working with Pacific farmers to improve quality. Future demand for cocoa would be dependent on whether Solomon Island beans have a suitable flavour profile for a new product.

c) Whittakers (New Zealand)

Whittakers currently do not have an active interest in broadening their origin supply base however if their Samoa supply was jeopardised, then Whittakers could source approximately 60mt per year for a single origin chocolate bar as they currently do from Samoa. Pricing structure and tonnage would largely be dependent on the success of a first batch Solomon Islands chocolate bar. Whittakers source predominantly Fairtrade beans and work closely with the Fairtrade Australia and New Zealand team. They benchmark themselves off Ghana beans, meaning sun-dried or smoke free beans with a bean count of approximately 100.

d) Haighs Chocolates (Adelaide, South Australia, Australia)

Haighs has more flexibility than other small to medium grinders as they manage all of their own retail stores, hence they have more leeway in regards to when to launch a product or when to discontinue a line. Customers recognise Haigh's signature blend of PNG and Ghana beans and Haighs would not be able to change this without changing the nature of their chocolates. Solomon Island beans have a similar flavour profile to PNG beans and there is the potential to use Solomon Island beans as a substitute. From a sourcing perspective, there is no real benefit for Haighs to buy direct from farmers in micro lots. Communication is more difficult, there is no established trusted relationship and they spend more time collaborating on logistics. Their preference is to buy through a consolidator like Condesa or Cargill who take the risk for shipping, storage, etc.

e) Bahen and Co (Western Australia, Australia)

Their interest lies more with traceability than certification, and despite working with PARDI closely in Vanuatu, they have been unable to use Vanuatu beans in their products due to ongoing quality issues (smoke taint). Currently they have limited interest in Vanuatu and Solomon Island beans until quality and volume have improved. They have approached Condesa with an interest in buying through them.

f) Origin Chocolate (Orange, New South Wales, Australia)

Origin chocolate is interested in sourcing through a consolidator and have approached Condesa in Sydney to provide this service. They are currently sourcing from Ghana, Dominican Republic, Ecuador

and Uganda but have expressed an interest in Pacific beans. Origin prefers to use organic certified beans in their chocolate bars but have the flexibility to work with conventional beans as well.

g) C-Corp (Tauranga, New Zealand)

C-Corp currently produces the Solomon Gold chocolate bar range using beans sourced from their Honiara branch. Currently C-Corp is paying between SBD2 -8/kg over the standard price for sun-dried beans in Solomon Islands (at the time of this report).

h) Zokoko (Sydney, New South Wales, Australia)

Zokoko has a demand for a minimum of 1.5mt of smoke free beans per year and it pays a 10% premium for smoke free beans, therefore approximately +USD320/mt NY ICE FOB Honiara (at the time of this report).

i) Cravve (Burleigh Heads, Queensland, Australia)

Cravve is looking to source Pacific beans for the powder market to make drinking chocolate. They also use single plantation PNG beans for three chocolate bar varieties. Pricing structure and tonnage is dependent on the success of a first batch Solomon Islands chocolate bar.

j) Charley's chocolates (Mission Beach, Queensland, Australia)

Charley's is currently using Australian cocoa to make single origin chocolate bars. Given the close proximity between Queensland and the Pacific there would be reduced freight rates. They currently have a limited production capacity but make milk products, once again meaning a market for slightly poorer quality beans. Pricing structure and tonnage is dependent on the success of a first batch Solomon Islands chocolate bar.

k) San Churro (Melbourne, Victoria, Australia)

San Churro is a Mexican churro and hot chocolate chain who are looking to source Pacific beans for their Mexican hot chocolate. As this drink is made from tempered chocolate blocks, the beans need to be smoke free. San Churro is looking for Fairtrade beans if possible. Pricing and tonnage are as yet unknown as this is a new venture for them.

l) Paradise Foods (Port Moresby and Lae, Papua New Guinea)

Paradise Foods currently manufactures the Queen Emma branded chocolates showcasing different PNG provinces. They have a demand for 15mt+ per year, and currently source only from PNG. They have approached Fairtrade and are interested in certification. As the flavour profile is similar to that of PNG, there is scope to expand this to Solomon Island beans.

m) Cicada (Sydney, New South Wales, Australia)

Cicada is currently buying from Madagascar and Nicaragua and they source these through the consolidator Condesa. They have expressed an interest in Pacific beans but have never purchased from these origins before.

2.9 Other Industry Players

a) Commodities Export Marketing Authority (CEMA)

CEMA could be a very strong industry partner if utilised more. They have readily accessible, in depth information about the industry which can assist the industry in future planning. One underutilised aspect of CEMA is their laboratory that has the capacity for high level testing. They have the equipment to test for pH, butter fat content, moisture and cut tests and perhaps most valuable is that they are able to produce liquor and chocolate tests. Niche exporters could utilise these facilities to better understand their suppliers in country and save time and money by not sending as many samples overseas. A cost schedule for services can be found in Appendix B. Estimated annual operational cost for conducting testing at forecast volumes is SBD116,000 (AUD19,400).

c) ACIAR/DFAT funded project in Papua New Guinea

The project has four major focus points, cocoa intensification, crop diversification, health constraints on productivity and marketing and quality. With AUD6 million funding over a six year period in Papua New Guinea, this project has a number of cross over points with PHAMA and PARDI and it would be hugely beneficial for these projects to collaborate and share information.

At the very least, the opportunity to co-ordinate the Solomon Chocolate Festival and the Bougainville Chocolate Festival in 2016 would provide an opportunity to share resources.

The project is also looking at different ways to use technology to engage farmers and disseminate training information, using this information could be a low resource option to both Vanuatu and Solomon Islands where historically Government extension staff have not been as effective as possible. By connecting to farmers via their phones, extension staff could share relevant and timely information with farmers at a fraction of the cost of traditional extension services.

d) Rural Development Program (RDP)

The Rural Development Program is in the process of finalising funding for their first call of partnership projects, and all of the major cocoa exporting companies submitted proposals. As this is a competitive tendering process, not all applicants will be successful. Each project is able to apply for a maximum of SBD2 million and are able to submit additional applications in subsequent rounds of funding between now and February 2020. If certification was of interest to exporters, they could incorporate this in their project proposals and it could be part funded by RDP.

Of particular interest and of value to cocoa exporters is the supplementary equity facility (SEF) that is one of the subcomponents of RDP's funding. They work in partnership with the major banks and are able to provide a cash grant of up to SBD300,000 which can be used by the applicant for working capital.

This program has received international accolades for its effectiveness, summed up well by Dan Vadjal (2012) "The SEF is smart because it uses quite small amounts of program funds to leverage relatively large sums of private – business and bank – money. But it is also smart because it relies on the banks to screen applications, in accordance with both program and bank criteria, and to manage the repayment of loans; this reduces the program management costs to a minimum, which is significant because the costs of managing programs in the Pacific tend to far exceed those in other developing parts of the world." The equity facility has approved 68 loans in the Solomon Islands and only had two defaults.

e) Adventist Development and Relief Agency (ADRA)

ADRA works with cocoa farmers through their livelihoods programs which include a variety of agricultural crops. They have been communicating with Madre Chocolates in Hawaii for a number of years, sending samples back and forth to try and tailor a product for them. They identified key farmers from all over the country, drawing from their program participants from 10 communities in Guadalcanal, 10 communities in Malaita, and a few farmers in Western Province.

It is also possible for Madre to take part in the upcoming chocolate festival in the Solomon Islands, considering they have an active interest in sourcing Solomon Islands beans.

f) Consolidators (Condesa Pty Ltd, Sydney, New South Wales, Australia)

Condesa are originally coffee consolidators and this remains their core business. There is however demand in Australia for cocoa consolidation and Condesa has dabbled in this area in the past two years. Condesa currently sells micro-lots (e.g. 15mt or less) to various chocolatiers around Australia. They work with Atlantic Cocoa in New York to bring in mixed containers of Central and South American beans but a number of their current buyers have asked for Pacific beans. In 2015 they bought in 35mt of beans and distributed on both a per kg and per mt basis.

Ideally Condesa would like to work with another consolidator in-country in the Solomon Islands. Failing this solution, they would also be able to accept, store and distribute minimum shipments of 6mt. There is a much more established market in Europe and America for consolidators such as Condesa however they are the first of their kind to approach cocoa consolidation on a serious commercial scale in Australia.

2.10 Logistics

Options for shipping of cocoa are:

- a. Full Container Load (FCL) with all major shipping lines. This is usually in 20ft containers with each container weighing 15mt of cocoa.
- b. Loose Container Load (LCL) otherwise known as a mixed container where the cocoa will be packaged up with other goods to fill a 20ft container going to the same destination.
- c. Air freight.

Below is indicative pricing for shipping charges. Most exporters sell FOB (free on board) meaning that their buyer meets all of the costs once the goods have been either packed and loaded on to the ship (FCL) or delivered ready for export on a plastic pallet and shrink wrapped (LCL) or delivered in clean jute bags for air freight. In all cases customs and quarantine (phytosanitary certificate and fumigation) need to be organised by the seller.

	FCL	LCL	Airfreight
Tonnage	12.5 – 15mt	3mt	0.5mt (8 x 63.5kg jute bags)
Cost ex Honiara to Singapore	SBD21,951	SBD18,050	SBD9,144
Cost ex Honiara to Sydney	SBD19,512	SBD13,008	SBD5,588
Time frame ex Honiara to Singapore	30 days	Dependent on container consolidation. Can be more than a month + 30 days travel time	Same day
Time frame ex Honiara to Sydney	21 days	Dependent on container consolidation. Can be more than a month + 21 days	Same day

If more small scale exporters wish to send a few bags overseas, airfreight is the best way to ensure the quality of the beans is not jeopardised and that the beans arrive in a timely manner. Being able to provide this information to a potential buyer when discussing a sale, saves time for all parties involved.

Often small exporters believe the only way to sell overseas is to have 12.5-15mt for a FCL when in fact, there are other options available. Needless to say, higher volumes and more frequent shipment usually means better shipping rates.

2.11 Certification

Organic

There is scope for organic certification in the Solomon Islands, through an Australian certifying body. However there is limited demand in Australia/New Zealand and it would be prudent to assess the demand in the U.S/Europe before investing in this certification.

Rainforest Alliance (RFA)

Rainforest Alliance is a good fit to the industry, in that the majority of the standards are already practiced by farmers. The cost of certification is high, approximately SBD40,000 annually for the certification fee plus all of the audit costs and implementation fees. In addition to this, there is a very small market for RFA beans and this is predominantly in Europe.

Fairtrade

Fairtrade is the most cost effective certification, with the Producer Development Fund providing funds towards certification and implementation costs. Fairtrade works with the whole supply chain, connecting producer groups to exporters and to a global speciality market. This sort of industry support is not offered by any other type of certification, nor do other forms of certification provide the same price incentive to farmers.

With Fairtrade, the producers have to receive *at least* the Fairtrade minimum price (USD2,000/mt) and a USD200/mt premium that also has to go directly to the farmers. Since currently market price is well above USD2,000/mt we could assume that they would receive a market price of SBD18,500/mt + SBD1,620/mt in premiums, or an additional SBD1.65/kg.

There are two types of Fairtrade certification:

Contract production works with a farmer group and a promoting body (usually an exporter) to certify a whole in-country supply chain. This ensures that a farmer group is able to export once they have certification, because to gain access to Fairtrade financial benefits, a product can only be sold through a certified supply chain e.g. a Fairtrade producer sells to a Fairtrade exporter who sells to a Fairtrade manufacturer. Farmers are of course able to sell their product elsewhere, but they will not receive the premium.

Small Producer Organisation standards are applicable to co-operatives and similar groups that have an export license and produce a significant enough volume to negotiate their own contracts. The same certification of a supply chain applies in that every aspect must be certified in order for the group to receive the Fairtrade premium.

The benefits of Fairtrade are not just financial, but in the industry support that Fairtrade Australia and New Zealand provides to certified groups.

2.12 Industry Constraints

The most obvious limiting factor for exporters to access new markets is pre-financing arrangements. These often result in debt, and hence an ongoing relationship with the pre-financier to repay that debt. Pre-financing is a huge risk to the buyer and often results in financial losses on both sides.

Despite prior work by PHAMA (under PHAMA activity SOSL22 in 2015) there remains a lack of market understanding in the Solomon Islands industry, and this can result in exploitation of the market for those who have global networks, greater finance and market savvy. Most exporters would benefit from further business training and exposure to the global forces dictating the prices of the international cocoa market.

There is a surprising lack of communication in an industry so small. There is an international demand for smoke free beans and over 45mt of smoke free beans were produced in 2015, however due to a perceived lack of demand, these beans ended up in the bulk market.

It would be unrealistic to recommend all exporters to sell to a boutique market as the overall quality is simply not worth a premium price. Therefore there need to be options for all levels of the market and this can be achieved through greater competition.

3.0 Recommendations

3.1 Immediate Action

1) Direct sales to Asian Grinders

The drought in 2015 has impacted on both quality and productivity of cocoa, meaning that even those with access to boutique markets have sold to Asian grinders on the bulk market. The dry weather has impacted on the flower set for the 2016 crop, and reduced volumes can be expected again in 2016. Exporters that do not have additional income streams and who are entirely reliant on pre-financing will not be able to action this recommendation, but for those businesses with financial independence, I recommend diversifying sales options to the bulk market by linking exporters to new buyers. Specifically:

- a) Olam International (Malaysia, Singapore, Papua New Guinea): Olam has a past record of buying large volumes from the Solomon Islands. Their regional office is based in Rabaul, Papua New Guinea and as they are the closest and most accessible buyer, this could make it easier to establish a trusted relationship. They occasionally pre-finance for small lots (less than 50mt) and could possibly provide finance support for those accustomed to pre-financing arrangements.
- b) Ecom Agro-industrial: Ecom closed their Papua New Guinean operations in 2014 meaning that they still have open forward contracts to fill with Pacific beans. As beans from the Solomon Islands have a similar flavour profile to PNG this could be a good opportunity for new business. Ecom does not pre-finance.
- c) Koko Bodi: Koko Bodi already sources Solomon Islands beans and has the potential to expand upon this volume. They have less global market leverage than Olam and Ecom but historically have paid fair pricing to SolKom.
- d) Other Buyers: These three businesses are the best starting point for exporters to diversify their customer base, however the Asian market is unstable at the moment and rapidly changing. Exporters should also contact the buyers listed above.

Engagement with new buyers would take the form of an initial consultation followed by sending a 1-2kg sample after which, if the buyer is interested, a contract could be negotiated. It is vital that the sample be representative of the quality otherwise quality claims may apply if the following shipment is not to specifications.

2) Sending samples

PHAMA to facilitate and finance samples sent to interested buyers in the next 12 months. During this twelve month period they could create a written procedure for exporters to follow, including detailed price information and contact details. PHAMA could involve exporters in the process so that they would be able to undertake this exercise themselves in the future.

3) Improve access to finance for exporters

Financial independence remains one of the main barriers to entry into new markets. It would be beneficial if PHAMA continued to work with exporters to access the Rural Development Program (RDP) Supplementary Equity Facility facilitating communication between the cocoa Industry Working Group (IWG) and RDP. It is recommended that PHAMA also continue to explore trade finance options with partners such as commercial banks, the International Finance Corporation and the Asian Development Bank.

4) Business advice to exporters

CEMA to conduct an ongoing cocoa market education program as mentioned in the cocoa IWG 2015-2017 industry plan. There have been workshops conducted in 2015 by PHAMA but this study revealed that at all levels of the industry, there is still a lack of basic business knowledge and industry information. Ongoing sessions would be beneficial to follow up on lessons learnt, reiterate important points, co-ordinate regular discussions about events in the

global market and build confidence in participants. A recommended program would be as follows:

- a. Cocoa industry overview:
 - i. Where cocoa is sourced from globally.
 - ii. Where cocoa is processed globally.
 - iii. Who the major chocolate consuming countries are.
 - iv. Different types of cocoa.
 - v. Explanation of bulk market and Australasian examples.
 - vi. Explanation of boutique market and Australasian examples.
 - vii. Review of NY ICE prices and London International Financial Futures and Options Exchange (LIFFE) prices.
 - viii. Discussion of global industry trends and impact on Solomon Islands.
- b. Cocoa pricing:
 - i. Review of NY ICE prices and London LIFFE prices.
 - ii. Discussion of global industry trends and impact on Solomon Islands.
 - iii. Sales terms (FOB,CIF, etc.).
 - iv. Understanding of differentials.
 - v. Understanding foreign exchange.
- c. Cocoa to chocolate, the needs of processors (to be held at CEMA lab):
 - i. Conduct quality testing on various samples.
 - ii. Liquor tasting.
 - iii. Dry bean to chocolate bar conversion.
 - iv. Quality information for grade 1 and grade 2 beans reiterated.
 - v. Review of current bulk market prices versus boutique market prices.
 - vi. Discussion of global consumer trends.
- d. Post-harvest practices to promote quality beans (field trip):
 - i. Pod harvest.
 - ii. Fermenting.
 - iii. Drying.
 - iv. Storage.
 - v. Comparison of samples and tie in with lab work.
- e. Business skills:
 - i. understanding own businesses financials.
 - ii. calculating break even purchase price.
 - iii. calculating differentials from GBP and USD to SBD.
 - iv. analysis of global markets.
 - v. discussion of different sources of finance.

5) Establish a quality database

PHAMA Solomon Islands team to work with exporters to establish a database of sun drying producers and how much they currently produce, to be updated on a bimonthly basis. It was thought that in 2015 there were no sun-dried beans available for the niche market when in fact, minimal consultation revealed that there was at least 35mt available in the 2015 calendar year.

6) Facilitate communication

The Cocoa IWG to further encourage communication amongst industry players. Of particular value would be collaboration led by an in-country consolidator to meet boutique export orders.

The IWG could be kept informed of interested boutique buyers and tonnage requirements. IWG members could contribute to these sales contracts, thereby benefitting financially.

3.2 Short Term

7) PHAMA – Fairtrade Partnership

PHAMA to engage Fairtrade Australia/New Zealand to arrange a visit to the Solomon Islands and meet with farmer groups to discuss how Fairtrade can facilitate cocoa certification. Groups that expressed an interest in Fairtrade certification and had an existing traceability structure were:

- a) C-Corp.
- b) SK and Brothers.
- c) Chan Wings.

Please refer to Appendix C for base requirements for year 0 of certification as an indication of what is required.

8) Segregate quality cocoa

PHAMA to encourage exporters/suppliers to segregate differentiated product such as sun-dried beans. Even a 1mt sale of a specialised product can often free up cash flow for exporters to be able to buy more cocoa and invest in their producers and their businesses. This can be achieved through extension materials (e.g. posters, guides, videos).

9) Linking to Australian Consolidator

Farmers with sun-dried cocoa to engage with small-scale Australian chocolatiers (outlined in this document) as an initial starting point to access the Australian market.

- a) Exporters to create a database of suppliers with superior quality cocoa.
- b) Create profiles on each supplier (location, post-harvest practices, type of dryer, land holdings, etc.).
- c) Establish a timeline to outline at what times of the year 6mt+ of superior quality cocoa could be produced/consolidated.
- d) Connect with chocolatiers to arrange for samples (PHAMA to fund courier costs of samples).

3.3 Long Term

10) Production research and improvements

The Cocoa IWG to continue to work on freeing up sources of finance or encouraging alternate income streams for exporters to establish financial independence as referenced in their 2015-2017 industry plan. This can be done through:

- a) Product differentiation (boutique market).
- b) NGO project grants.
- c) RDP existing finance mechanisms.
- d) Government subsidies.

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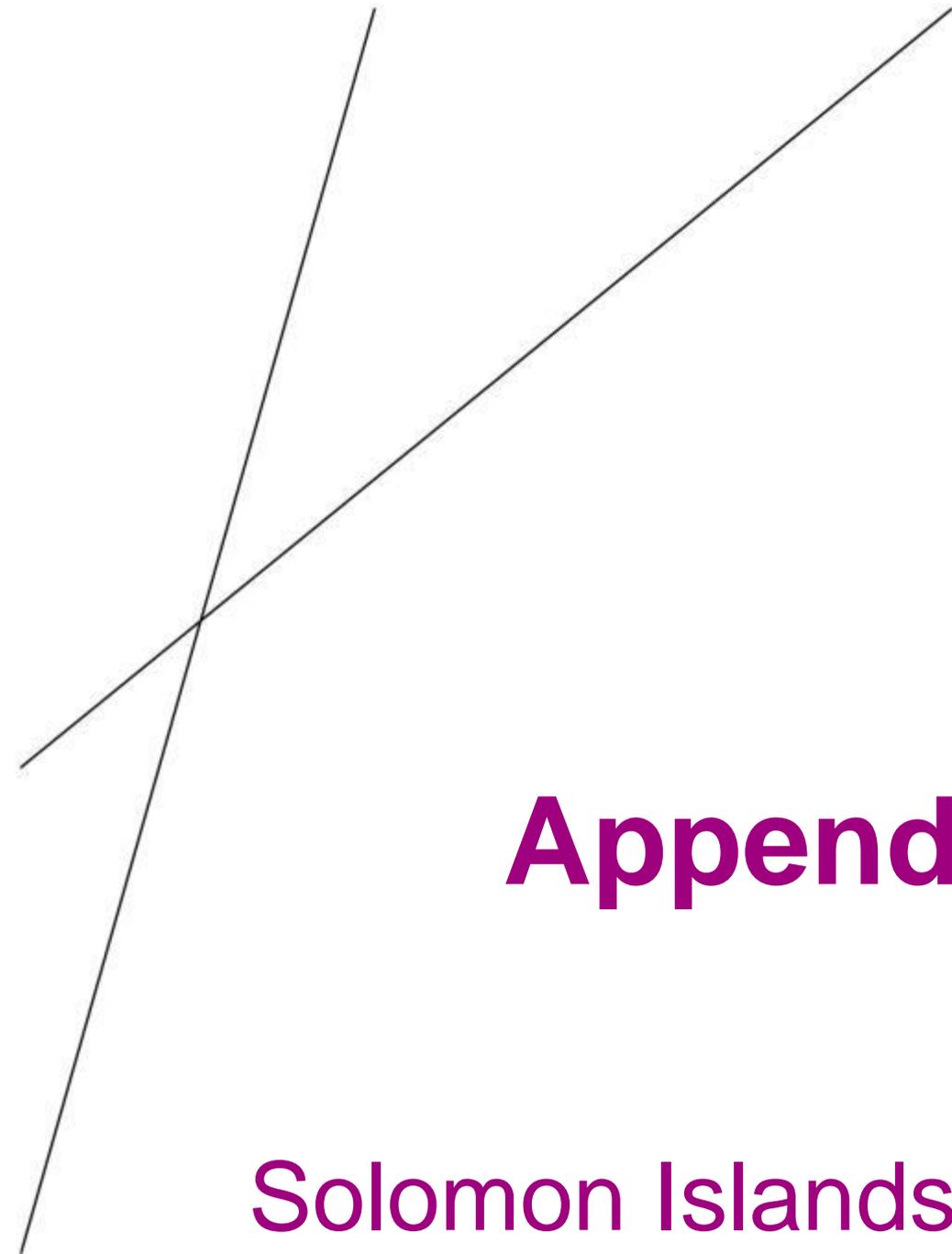
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Appendix A

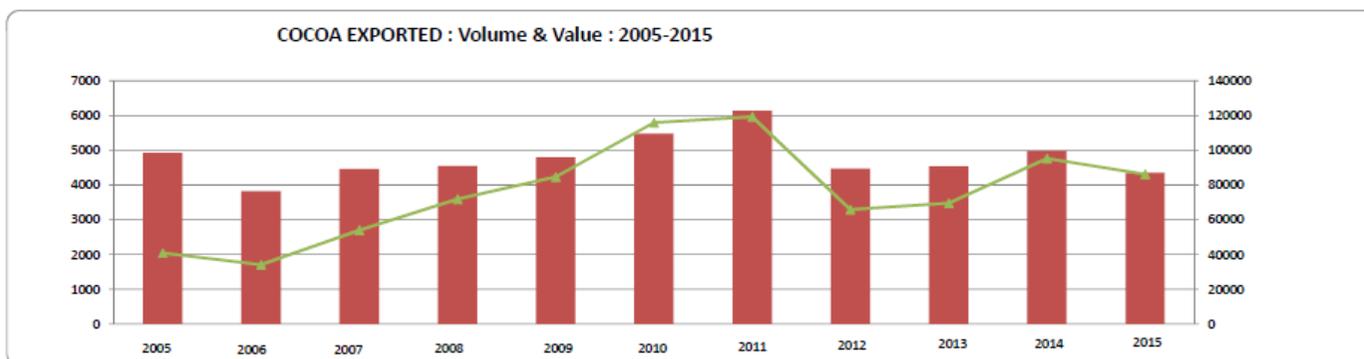
Solomon Islands Cocoa
Export Data

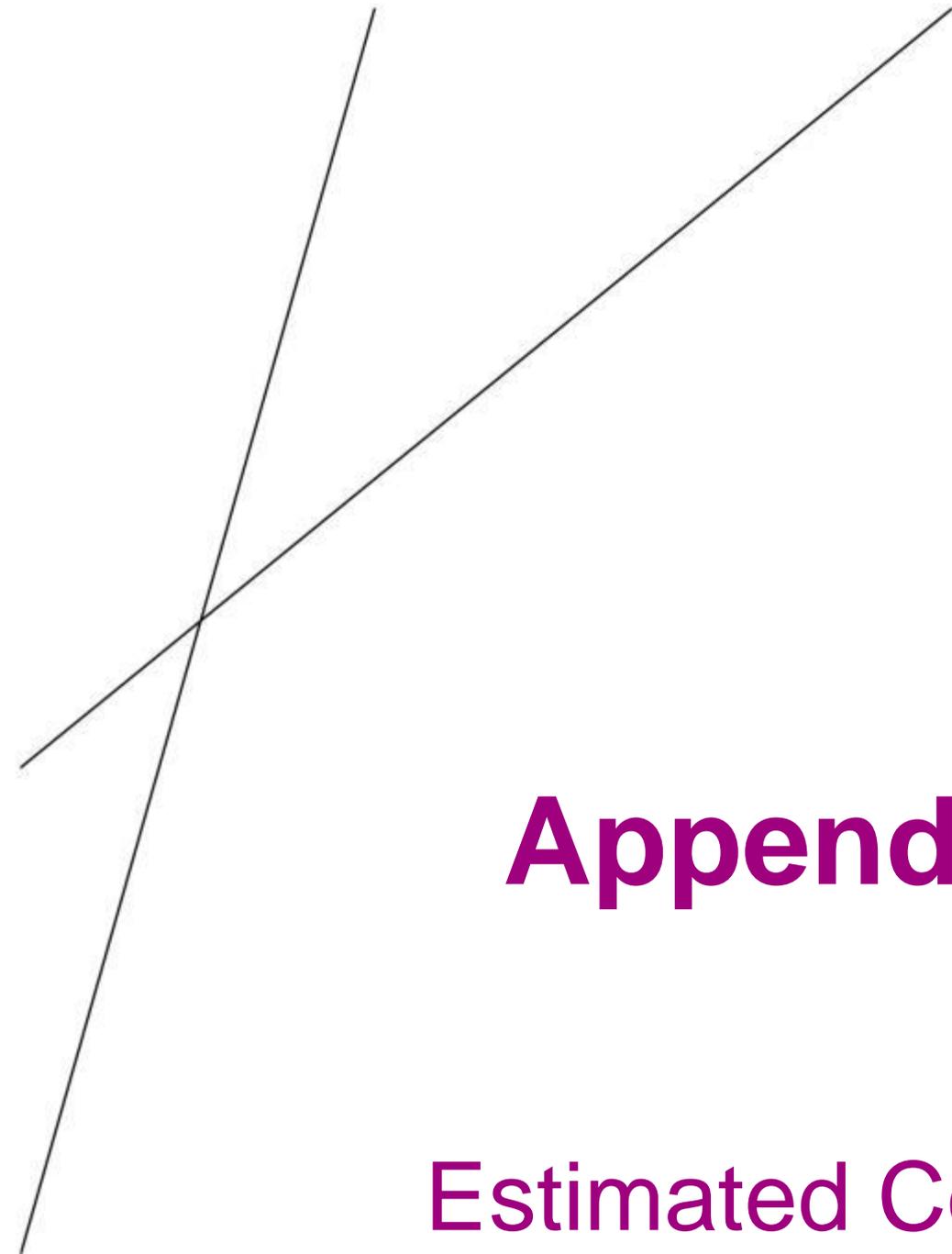
Appendix A Solomon Islands Cocoa Export Data

Table 9 Export Of Cocoa By Destination by Volume & Value 2005-2015

Months Volume (mt) & Value SBD	Jan-15		Feb-15		Mar-15		Apr-15		May-15		Jun-15		Jul-15		Aug-15		Sep-15		Oct-15		Nov-15		Dec-15		Total 2015			
	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)	MT	(S\$'000) Value (SIS)		
Destination																												
Malaysia	135.000	2,653	135.00	2,600	370.00	6,893	205.313	3,938	412.50	7,651	885	17,363	413.000	8,606	705.00	15,385	180.000	3,790	174.125	3,634	105.000	2,273					3,719.94	74,786
Singapore																											-	-
Australia																					0.063	2					0.06	2
Indonesia							225.00	4,214	300.000	5,585	201.000	3,854															726.00	13,653
China																											-	-
Germany (Humbere)																											-	-
New Zealand																			6	102							6.00	102
TOTAL	135.00	2,653	135.000	2,600	370.00	6,893	430.313	8,152	712.50	13,236	1,086.000	21,217	413.000	8,606	705.000	15,385	180.000	3,790	180.125	3,736	105.063	2,275	-	-	4,452.001	88,543		

Dest	2005		2006		2007		2008		2009		2010		2011		2012		2013		2014	
	MT	SIS'000	MT	SIS'000	MT	SIS'000	MT	SIS'000	MT	SIS'000	MT	SIS'000	MT	SIS'000	MT	SIS'000	MT	SIS'000	MT	SIS'000
Vol/Val	4,928	40,840	3,828	34,103	4,470	54,048	4,549	71,872	4,803	84,713	5,481	115,920	6,136	119,388	4,479	65,889	4,539	69,550	4,976	95,282
Malaysia	1462.5	15280	438	3902	210	2699	4418.995	70052	1549.293	28560	705.200	13,854	2,082.50	44,842	2,912.50	43,083	3,184.50	48,521	4,309.31	82,475
Singapore	3465.2	25560	3390.3	30201	4155	50049	0	0	827.876	15585	1792.500	38,038	1135.000	17,239	210.000	3,053			0.000	-
New Zealand	-	-	-	-	0	0	0	0					-	-	6.00	85	12.00	162	5.01	84
Indonesia	-	-	-	-	0	0	0	0	2126.751	35266	2817.500	60,120	2,917.50	57,281	1,350.00	19,668	1,282.50	19,982	660.00	12,690
China	-	-	-	-	0	0	0	0					-	-			60.00	885	-	-
Australia	-	-	-	-	0	0	0	0					-	-					1.22	33
Germany	-	-	-	-	105	1300	130	1820	299.375	5302	165.750	3,908	-	-						
Japan													1.25	26.00						





Appendix B

Estimated Costs for Cocoa Quality Testing

Appendix B Estimated Costs for Cocoa Quality Testing

Costs are estimated on consumables, electricity, labour and wear and tear. More realistic costs will be determined when actual tests are done. Costs are in SBD and are based on one test for one sample. Total estimated annual operational cost at forecast sample volumes is SBD116,000 (approximately AUD19,400).

Test	Heads	Units	Rates (SBD)	Estimated Cost (SBD)	Total Est. Cost (SBD)	Est. Test per Year	Est. Cost per Year (SBD)
1.0 Sampling & Portioning	Fuel	20 Km: 0.2l/Km	4l @ \$12/l	\$48.00			
	Plastics	1	0.4c	\$0.40			
	Labour	Ave. \$24/Hr.	60mins @ \$24/hr	\$24.00			
	Wear & Tear Cost		Flat Rate	\$5.00	\$77.40	200	\$15,480.00
2.0 % of Foreign Matter	Stationeries	Work Book, pen		\$0.50			
	Labour	1 Inspector	30mins @ \$24/hr	\$12.00	\$12.50	200	\$2,500.00
3.0 Bean Count	Stationeries	Work Book		\$0.50			
	Labour	1Inspector	15mins @ \$24/hr	\$6.00			
	Wear & Tear		Flat Rate	\$5.00	\$11.50	200	\$2,300.00
4.0 Moisture Content (Oven)	Electricity	17 Hours	10Kw @ \$6/Kw	\$60.00			
	Stationeries	Work Book		\$0.50			
	Tissue			\$2.00			
	Labour		2Hrs @ \$24/hrs	\$48.00			
	Wear & Tear	Flat rate		\$5.00	\$115.50	200	\$23,100.00
5.0 Shell Content	Stationeries			\$0.50			
	Tissue			\$1.00			
	Labour	1 Inspector	30mins \$24/hr	\$12.00			
	Wear & Tear		Flat rate	\$5.00	\$18.50	200	\$3,700.00
6.0 Cut Test	Stationeries			\$0.50			
	Labour	1 Inspector	45mins @ \$24/hr	\$18.00			
	Wear & Tear		Flat Rate	\$5.00	\$23.50	200	\$4,700.00
7.0 pH Test	Electricity	1 Hour	1 Kw @ \$6/Kw	\$6.00			
	Buffer pH 4	10 ml	\$0.14/l	\$1.40			
	Buffer pH 7	10 ml	\$0.14	\$1.40			
	Filter Paper	1	\$1.10/paper	\$2.20			
	Stationeries		\$0.50	\$0.50			
	Labour	1 Inspector	60mins @ \$24/hr	\$24.00			
	Wear & Tear		Flat Rate	\$5.00	\$40.50	200	\$8,100.00
8.0 Fat Content	Electricity	17 Hour	10Kw @ \$6/Kw	\$60.00			
	HCl Acid	38% HCl	36.18 mls of 2.5ltrs @ \$32	\$3/ sample x 2 = \$6			

Test	Heads	Units	Rates (SBD)	Estimated Cost (SBD)	Total Est. Cost (SBD)	Est. Test per Year	Est. Cost per Year (SBD)
			AUD				
	Filter Paper	6	6 x \$1.10	\$13.20			
	Cotton			\$2.00			
	Tissue			\$4.00			
	Thimbles	\$125AUD for a box of 25 pcs	1pc = \$5AUD	\$ 35 x2 for 1 sample = \$70.00			
	Petroleum Spirit	45ml x 2	45mls of 20L @ \$240 AUD	\$3.78/sample x 2 = \$7.56			
	Acetone	\$22.10AUD for 2.5L	50mls each rinsing	\$2.00			
	Stationeries			\$0.50			
	Labour	8 Hours	8Hrs x \$24/Hr	\$192.00			
	Wear & Tear		Flat rate	\$5.00	\$362.26	100	\$36,226.00
9.0 Cocoa Liqour	Electricity	4 Hours	4Kw @ \$6/Kw	\$24.00			
	Aluminium Foil			\$2.00			
	Stationeries			\$0.50			
	Tissue			\$1.00			
	Labour	4 Hours	4Hrs x \$24/hr	\$96.00			
	Foam package			\$50.00			
	Zip seal bags			\$2.00			
	Wear & Tear		Flat rate	\$5.00	\$180.50	50	\$9,025.00
	Additional cost for flavour profiling overseas			Estimate \$500	\$500.00	10	\$5,000.00
10.0 Chocolate	Electricity	8 Hours	5Kw @ \$6/Kw	\$30.00			
	Cocoa Butter	10 Grams		\$10.00			
	Granular Sugar	35 Grams		\$0.56			
	Aluminium Foil			\$2.00			
	Seal plastic Bags			\$10.00			
	Labour	5 Hours	5Hrs x\$24/Hr	\$85.00			
	Wear & Tear		Flat rate	\$5.00	\$142.56	25	\$3,564.00
11.0 Titratable acidity	NaOH	\$20 AUD for 500g		\$3.00			
	KHP for standardising NaOH	\$22.9 AUD for 500g		\$2.00			
	Phenolphthalein indicator			\$1.00			
	Stationeries			\$0.50			
	Labour	30 Mins	30 min @ \$24/hr	\$12.00			
	Wear & Tear		Flat rate	\$5.00	\$23.50	25	\$587.50
					\$1,508.22		\$114,282.00
	Contingency						\$1,717.50
Total							\$116,000.00

Note: A flat rate of \$5.00 is added to each test for the use of tools and equipment as wear & tear cost.



Appendix C

Checklist for Fairtrade Compliance

Appendix C Checklist for Fairtrade Compliance

Checklist for compliance with the Fairtrade Compliance Criteria

About this document:

This document is a summary of the Fairtrade Compliance Criteria; it must be used in conjunction with the Fairtrade Compliance Criteria documents for training purposes. The summary is divided into two parts: Part A contains the requirements that the promoting body must comply with and Part B contains the requirements that the registered producers and producer organization must comply with, with support from and under the responsibility of the promoting body.

The summary makes reference to the two different types of requirements in the Fairtrade criteria:

- Core requirements reflect Fairtrade principles and must be fully complied with.
- Development requirements refer to the continuous improvements that certified organizations must make on average against a scoring system defined by the certification body

Producers and traders are in compliance when all core requirements are fulfilled and minimum score on the development requirements is reached as defined by the certification body FLO-CERT. Compliance with development standards is scored by FLO-CERT on a scale of 1 to 5 depending on the level of compliance. To be in compliance with the Fairtrade criteria, producer organisations must score an average of 3 among all of the criteria. Scores are outlined clearly in FLO-CERT's Compliance Criteria for the Fairtrade Compliance Criteria for Small producer organisations and Traders, located at: <http://www.flocert.net/fairtrade-services/fairtrade-certification/compliance-criteria/>.

Furthermore, some core requirements are given a higher level of importance; these are defined as major requirements and are indicated in the checklist with the letter M inside a green box. Non-compliance with a major requirement could lead to suspension.

Part A – Promoting Body

('You' refers to the Promoting Body)

1. General Requirements

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/ No	Ref	Description of the standard	Description of activities towards compliance (status)	Date	Type of evidence	Person in charge
Y	1.1.1	M You must accept audits of your premises and subcontracted premises and provide information at the certification body's request.			Acceptance of an audit, and all required documentation is well organised (in one folder)	
Y	1.1.2	You must appoint a contact person for all certification matters.			Application questionnaire indicating contact person, and contact person has communicated with FLO-CERT prior to audit	
Y	1.2.1	At least half of the registered producers must be small producers.			Members list. Also, Promoting Body (PB) should be aware of this rule and checks continual compliance when registering producers.	
Y	1.2.2	At least half of the volume of a Fairtrade product that you sell as Fairtrade per year must be produced by small producers.			Members list, which shows that all registered producers are small producers	
Y	1.2.3	You must have an updated list of the registered producers you are working with.			Members list, which is regularly updated	
Y	1.2.4	You must have at least one year of practical experience in supporting the registered producers and in helping them to meet the volume, quality and environmental requirements of the target			PB statutes If possible, records to show improvements in production, quality, or social/enviro	

		market.			performance	
Y	1.2.5	You must have experience in selling products in the international market.			Buying records	
Y	1.2.6	You must have the logistics and communication equipment in place needed for selling.			Auditor will see this during visit	
Y	1.2.7	You must demonstrate that you have the competency and enough resources to provide the necessary services and trainings to support the formation of one or more than one producer organization.			Auditor will see/inquire during visit.	
Y	1.2.8	You must include the Fairtrade concept in your policy or mission statement.			(PB) statutes	
	1.2.9	You must sign a written agreement with the Producer Executive Body (PEB) to support the registered producers in becoming a producer organization.			Signed agreement written by PB and PEB, with responsibilities clearly outlined (tasks, distribution of costs, timelines)	

2. Trade

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	2.1.1	M You can only sell as Fairtrade those products which were sourced from registered producers. For Fairtrade sales you must separate the products that were produced by			Traceability plan to show ability to separate Fairtrade (FT) certified from non-certified once certified.	

		registered producers, at all stages, until the product is sold.				
	2.1.2	You must write down the product flow from the registered producers to you.				
	FLO-CERT req	If your operators want to sell cocoa to operators that have physical traceability in place then you must physically separate the product during processing and record and follow physical traceability procedures.				
	FLO-CERT req	The physical Fairtrade product and all related records and documents are identifiable at all stages within the company through on-product lot numbers and/or identification marks.				
	2.1.3	You must keep records of products sourced from the registered producers.			Updated sourcing records including database of stock, purchases and sales. No FT sales yet so shouldn't be a need to show these records yet.	
	2.1.4	When you sell a Fairtrade product you must identify clearly in the related documents (e.g., invoices, delivery notes) that this product is Fairtrade.			Once certified, will do on all contracts, invoices, B/L, delivery notes, packing lists	
	2.1.5	You must keep records of all your Fairtrade sales, indicating volume sold, name of buyer and Fairtrade ID #, date of transaction, reference to sales docs on all database of stock, purchases and sales.			Once certified, will do	
	2.1.6	If you process Fairtrade products you must keep records that specify the amount of product before and after			N/A	

		processing.			
	2.1.7	When you sell a Fairtrade product you must mark the product clearly so that it can be identified as Fairtrade.			Once certified, will include on each bag the term 'Fairtrade' and IDs of seller and buyer
	2.2.1	M When you become certified you can sell the product that you have in stock as Fairtrade, but you must not sell the product that was produced more than one year before initial certification as Fairtrade.			Once certified, will do if relevant
	2.3.1	M You must sign a binding contract with each registered producer or with the producer organization that represents them. The contract must include at least the following: - reference to Fairtrade - date - duration - product description - agreed volumes - quality specifications of the product - prices, with reference to specific Fairtrade prices and premiums - terms and conditions of payments - reference to sourcing plans - terms and conditions of purchase and delivery - description of any pre-finance mechanism - definition of "force majeure" - description of mechanisms for			Contracts with individual members (ideally drafted in consultation with producers and explained before signed)

		dispute resolution - Description of all inputs and services provided and indication of any deductions that may be relevant as a result of this provision.				
	FLO-CERT req	You must sign binding purchase contracts provided by buyers. Contracts must indicate agreed volumes, quality, price, payment terms, delivery conditions, and conflict resolution mechanism.				
	2.3.2	You must draw up the contract, unless the registered producers request to do it themselves.				
	2.3.3	You must write the contract in a language that the registered producers understand.			Contracts in English and Pidgin	
	3.3.4	You must ensure that the registered producers know and understand the terms of the contract and the Fairtrade conditions.			Contracts were explained before they were signed, and there's signatures on contracts	
	2.3.5	If a contract is only signed with the producer organization, you must at least provide a verbal explanation of the contract to the registered producers.			N/A	
	2.3.6	The written contract between you and the registered producers must not restrict any registered producer from selling to other buyers.			Contracts members. Also, contracts can't make purchase of certified product dependent on purchase of non-certified product.	
	2.3.7	When you provide credit or pre-finance, the interest rate and conditions attached to the offer must be agreed in advance with the			If the auditor asks, you should be aware of this requirement.	

		registered producers.				
	2.3.8	M If you or your buyer are suspended, you must not sign new Fairtrade contracts.				
	2.3.9	If you or your first Fairtrade buyer are decertified, you must stop selling any Fairtrade product from the date of decertification even if you have signed Fairtrade contracts still to be fulfilled.				
	2.3.10	If Fairtrade International publishes new Fairtrade Prices, you must fulfil all signed contracts at the price agreed in the contract.				
	2.4.1	If you want to use the FAIRTRADE Certification Mark in your promotional material you must first contact Fairtrade International for approval.	N/A			

3. Production

3.1 Monitoring Systems

There are no requirements for Year 0.

3.2 Environmental Protection

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	3.2.1	One person must be given responsibility to lead the operational			Terms of Reference for Environmental Officer with	

		steps required to comply with the requirements in section Environmental Protection.			name of current officer, and PEB meeting minutes demonstrating appointment of environmental officer	
	3.2.6	Maintain a safe central storage area for pesticides and other hazardous chemicals.			Auditor will check during visit. Chemicals should be stored securely (locked) away from production areas, contact details for emergencies, fire extinguishers, etc.	
	3.2.7	Compile a list of the pesticides that are used on Fairtrade crops and keep it updated, at a minimum every 3 years. Indicate which of those materials, from the list above, are in the Fairtrade International Prohibited Materials List (PML), part 1, Red List and p2, Amber List).			List of pesticides and other chemicals used at the producer level	
	3.2.21	M Do not intentionally use genetically engineered seed or planting stock for Fairtrade crop(s). Implement practices to avoid GM contamination in seed stocks.			No intentional use, ie purchase forms for GMOs, etc. If the auditor asks, you should be aware of this requirement. Participant list from FT training on environmental standards.	

3.3 Labour Conditions

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	3.3.3	M You must ensure that the registered producers comply with the requirements regarding child labour and child protection in chapter B of this Standard.			If the auditor asks, you should be aware of this requirement. Signed participant list from child protection training session	

4. Business and Development

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	4.1.1	You must carry out a needs assessment of how Fairtrade benefits can promote the environmentally sustainable social and economic development of the registered producers.			In short term, PB can document needs assessment based on existing work with producers. Once certified, we can plan to conduct survey in producer communities	
Y	4.2.1	M You must ensure that the registered producers establish a structure called the producer executive body (PEB) where they are able to make democratic and transparent decisions about Fairtrade issues, including the use of the Fairtrade Premium.			Meeting minutes from PEB election and other PEB meetings.	
	FLO-CER	You must ensure that PEB informs you of any decisions they make.	PB representatives attended all PEB meetings and the meeting minutes are		PEB meeting minutes and participant lists show	

	T req		available.		presence of PB.	
Y	4.2.2	M	You must ensure that the PEB is democratically elected by, and represents, all the registered producers. The elections must be documented.		PEB election meeting minutes in line with Club 3000 constitution	
	4.2.3		The composition of the PEB must reflect the composition of the registered producers taking into account gender, location, community membership, and, where applicable, temporary or migrant workers.		Club 3000 constitution and PEB election meeting minutes, to show that PEB represents different communities	
	4.2.4		You must ensure there is an established communication and feedback system in place between you and the registered producers, so that information and concerns, particularly about the Fairtrade Premium and Fairtrade sales is documented and shared between parties in a timely manner.		Club 3000 constitution about frequency of meetings between PEB and PB	
	4.2.5	M	You must define and document the process of including and excluding producers.		Club 3000 constitution	
	4.3.1	M	You must not discriminate against or restrict participation on the basis of race, colour, sex, sexual orientation, disability, marital status, age, religion, political opinion, language, property, nationality, ethnicity or social origin.		Club 3000 constitution	
	4.4.1	M	You must pay at least the Fairtrade Minimum Price to the registered producers, the relevant market price, or the contractually agreed price where no Fairtrade Minimum		Once certified, sales contracts, invoices and receipts	

		Price exists.			
4.4.2		If you charge the registered producers for inputs or services, you must charge only a normal market price.	N/A		
4.5.1	M	You must pay the correct amount of Fairtrade Premium to the producer executive body or to the producer organization once it is established.	N/A		Once certified, bank statement with record of Premium receipt that matches quantity sold
4.5.2		Until the producer organization is able to open its own bank account and manage the Fairtrade Premium in a democratic and transparent manner: -you must stand as a trustee of the Fairtrade Premium funds. -you must set up a separate bank account so you can receive the Fairtrade Premium on behalf of the registered producers. -you must have at least one member of the PEB as a joint signatory of the Fairtrade Premium account. -you must be able to prove that the Fairtrade Premium is used in line with applicable rules.	Premium bank account opened in preparation for certification.		bank account information, demonstrating joint signatory
4.5.3		You must commit in writing to allow the PEB to make its decisions on the use of the Fairtrade Premium in an independent manner.	Stated in the constitution. But will also signed a conflict of interest declaration (all PB representatives		constitution signed by PEB and PB
4.5.5		You must ensure that the handling of the Fairtrade Premium is audited every year by an external organization.	N/A at this stage		Once certified, annual audit records
4.5.6		You must provide a report as well as audited accounts of the Fairtrade Premium use to the PEB and to the registered producers annually or upon request at any time.	N/A at this stage		Once certified, GA meeting minutes, in which accounts are provided and explained verbally

Part B – Producers

('You' refers to registered producers)

1. General Requirements

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	1.1.1	You must have basic knowledge of the Fairtrade concept and indicate your commitment to participate in Fairtrade and to cooperate with the promoting body, in a way that allows you to eventually comply with the Fairtrade Standard for Small Producer Organisations.	Training attendance , PB and PEB agreement and constitution all completed		Participant lists from FT training sessions Also, same as A1.2.9, a statement signed by PEB could be a part of constitution, or separate Meeting minutes from GA, demonstrating approval of constitution	

3. Production

3.1 Environmental Protection

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	3.1.7	M You must not reuse pesticide			Auditor will ask and check	

			and other hazardous chemical containers to store or transport food or water.		during audit	
	3.1.9	M	Do not use any of the materials on the Fairtrade International PML part 1 (Red List) on Fairtrade crops. Prohibited materials must be clearly marked not for use on Fairtrade crops.	None of the chemicals we used on the red list which will be confirmed through our list of chemical that we used. We will also make a copy of chemical on the red list and place on the noticeboard for public consumption.		Participant lists from FT workshop
	3.1.9	M	Do not use any of the materials on the Fairtrade International PML part 1 (Red List) on Fairtrade crops. Prohibited materials must be clearly marked not for use on Fairtrade crops.	None of the chemicals we used on the red list which will be confirmed through our list of chemical that we used. We will also make a copy of chemical on the red list and place on the noticeboard for public consumption.		Auditor will ask and check during audit A procedure to ensure producers do not use prohibited chemicals A list of chemicals currently used by Club 3000 members Any prohibited chemicals used should be clearly marked 'not for use on FT crops'
	3.1.12	M	Do not intentionally use genetically engineered seed or planting stock for Fairtrade crop(s). Implement practices to avoid GM contamination in seed stocks.	N/A		No intentional use, ie purchase forms for GMOs, etc.
	3.1.13		Avoid negative impacts on protected areas, and in areas with high conservation value within or outside the farm or production			Auditor will ask and check during audit for indications of negative impacts on protected areas Participant list from FT workshop
	FLO-CERT req		You must comply with national legislation relating to agricultural land use, for the areas that are used or converted to production of the	N/A		Evidence of 'legal' conversion to production of FT crop

		Fairtrade crop.			
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3.2 Labour Conditions

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	3.2.1	M The producer organization and you must not discriminate on the basis of race, colour, sex, sexual orientation, disability, marital status, age, HIV/AIDS status, religion, political opinion, membership of unions or other workers' representative bodies, national extraction or social origin in recruitment, promotion, access to training, remuneration, allocation of work, termination of employment, retirement or other activities.			constitution	
	3.2.2	During the recruitment of workers you and the producer organization must not test for pregnancy, HIV or genetic disorders.	N/A		Auditor may ask, but there are no workers.	
	3.2.3	The producer organization and you must not engage in, support, or tolerate the use of corporal punishment, or mental or physical coercion or verbal abuse.	N/A		Auditor may ask.	
	3.2.4	The producer organization and you must not engage in, support, or	N/A		Auditor may ask	

		tolerate behaviour, including gestures, language, and physical contact, that is sexually intimidating, abusive or exploitative.				
	3.2.5	The producer organization and you must not engage forced labour, including bonded or involuntary prison labour. You must explain to all workers that they are free to leave at any time as long as they follow the due notice period in their contract.			Auditor may ask, or look for evidence of this	
	3.2.6	The producer organization and you must not make the employment of a worker or an offer of housing conditional on the employment of their spouse. Spouses have the right to work elsewhere.	N/A		Auditor may ask. Not relevant because no workers.	
	3.2.8	M The producer organization and you must not employ children below the age of 15.	N/A in PNG but training attendance is will be provided as an evidence of producers being trained on this.		Auditor may ask, or look for evidence of this. Participant list for FT training session on child protection Include in constitution	
	3.2.9	M Your members' children below 15 years of age are allowed to help your members on their farms under strict conditions.	They were trained on this but will I talk to the members on this again		"	
	3.2.10	M The producer organization and you must not submit workers less than 18 years of age to any type of work which, by its nature or the circumstances under which it is carried out, is likely to jeopardize their health, safety or morals and their school	N/A		"	

attendance.

4. Business and Development

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/ No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	4.3.1	M The producer organization and you must not discriminate against or restrict membership on the basis of race, colour, sex, sexual orientation, disability, marital status, age, HIV/AIDS status, religion, political opinion, language, property, nationality, ethnicity or social origin. You must not discriminate regarding participation, voting rights, the right to be elected, access to markets, or access to training, technical support, or any other benefit of participation.	Membership criteria is without discriminative nature		constitution	
	4.4.1	The PEB must acknowledge the receipt of the Fairtrade Premium in writing.	N/A at this stage		Once certified, will do.	

Product Specific Standards for Cocoa

Accessible at http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/2012-10-01_EN_SPO_Cocoa.pdf

1. General Requirements

There are no additional requirements.

2. Trade

Year 0 | Core |

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	2.3	Producers and buyers must agree in the contract on the cocoa reference market price used ('Liffe' or 'ICE').	N/A at this stage		Contracts	

3. Production

There are no additional requirements.

4. Business and Development**Year 0 | Core |**

These actions must be followed by the organization before sending an initial application to FLO-CERT.

Yes/No	Ref	Description of the standard	Description of activities towards compliance	Date	Type of evidence	Person in charge
	4.1	Sourcing plans must cover each harvest. They must be renewed a minimum of three months before they expire.	N/A at this stage		Once certified, contracts	
	4.2	The Fairtrade payer must make available up to 60% of the value of the contract as pre-finance to the producer at any time after signing the contract.	N/A at this stage		Once certified, if relevant, supporting documentation	
	4.3.1	When the relevant market price for a product is higher than the Fairtrade Minimum Price, then at least the market price must be paid.	N/A at this stage		Once certified, contracts	
	4.3.2	Minimum price for cocoa semi-processed products purchased from	N/A		N/A	

		certified producers: The seller and buyer must negotiate the price of the semi-processed product.				
	4.3.3	The value of the Fairtrade Premium for semi-processed products is derived from the average processing yield calculated by the producer.	N/A		N/A	
	4.3.4	Secondary products: There are no Fairtrade Minimum Prices defined for secondary products and their derivatives.	N/A		N/A	
	4.3.5	Payment terms for all cocoa products: Payment shall be net cash against a full set of documents on first presentation.	N/A		Once certified, contracts, invoices	
	4.3.6	Late payment: Payment must be made according to international customary conditions, and no later than 15 days after the receipt of the documents transferring ownership.	N/A		Once certified, if relevant, bank statements	
	4.3.7	Premium planning: When planning for the Fairtrade Development Plan, you must discuss if investing the Fairtrade Premium in activities that increase quality and productivity.	Fairtrade Premium need analysis			
	4.3.8	Premium reporting: At least once a year a complete report on Fairtrade Premium use for all projects must be sent to Fairtrade International	N/A		Once certified, Fairtrade Development Plan and Report will be sent to FTI once a year	