

Vanuatu - Improved Market Access for Cocoa

Technical Report #95

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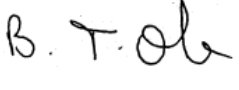

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Acronyms

Abbreviation	Description
ACIAR	Australian Centre for International Agricultural Research
ADM	Archer Daniels Midland
ANZ	Australia New Zealand
AYAD	Australian Youth Ambassadors for Development
DFAT	Department of Foreign Affairs and Trade
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 or Less than Container Load
mt	Metric Tonne
NY ICE	New York InterContinental Exchange
NZ	New Zealand
PARDI	Pacific Agribusiness for Development Initiative
PHAMA	Pacific Horticultural and Agricultural Market Access
PNG	Papua New Guinea
RFA	Rainforest Alliance
USD	United States Dollar
VCCE	Vanuatu Copra and Cocoa Exporters Limited
VCGA	Vanuatu Cocoa Growers Association
VCMB	Vanuatu Commodity Marketing Board
VOCGA	Vanuatu Organic Cocoa Growers Association
VRTC	Vanuatu Research and Training Centre
VUV	Vanuatu Vatu

Executive Summary

With a production of approximately 1,200 metric tonnes (mt) per year, Vanuatu 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 bean size and 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 but recognises that only a small percentage of the market will be able to supply into the niche market.

Lack of competition in the industry has resulted in over 80% of exports in 2015 being sold to the same grinder/manufacturer, either through an Australian trading house or through direct sales.

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 is interest in Vanuatu 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 Vanuatu beans once initially trialled. Indicative pricing for interested bulk market buyers ranged from USD350 to USD175 below the New York InterContinental Exchange (NY ICE) (FOB Luganville) price per metric tonne. Boutique cocoa indicative pricing ranged between USD250 and USD1,800 above the NY ICE (FOB Luganville) price. Thus if exporters were able to segregate better quality cocoa, they could potentially make at least USD425 more per tonne. Even if they simply diversified their customer base on the bulk market, they could make at least USD175 more per tonne.

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. It would be of value to the Vanuatu industry to **establish a consolidator in country** that could source a mixed 15mt container for this market. This facilitator would co-ordinate information exchange about interest for boutique lots and have the ability to source industry wide to ensure shipments eventuate. In the absence of such an in-country consolidator, there is potential to ship small micro-lots between 500kg – 6mt. Buyers would have to be aware of the high logistics costs associated with micro-lot shipment as this cost would be too high for producers/local exporters to bear.

While Vanuatu builds a reputation in the niche market, it is recommended exporters contact the most prominent bulk buying businesses in the region to introduce further price competition into the bulk market, and thereby **diversify their customer base** and potentially increase their current bulk market contract pricing.

During the in country consultations for this survey, a 45mt sale of cocoa to a Singapore based trading house eventuated as a direct result of introductions and suggestions made by the author. Vanuatu is a new market for this trading house and they have future interest in the region. Much like exporters uncertain of how to instigate meaningful industry connections, this business was unsure how to break into the Vanuatu market which has for so long sold almost exclusively to the same buyer. This demonstrates the immediate impact this survey has had for Vanuatu cocoa, simply by facilitating communication and providing an honest appraisal of all players within the industry.

A 12.5mt sale was also made to the world’s second largest cocoa buyer at the time of this report. Whilst this buyer had purchased from this exporter in the past, a change in management had resulted in uncertainty about the reliability and quality of Vanuatu beans.

1.0 Introduction

1.1 Background

Approximately 70% of Vanuatu's production comes from Malekula Island and is then shipped to Espiritu Santo before being exported. The export market is dominated by a few large players, however the catastrophic weather of 2015 (Cyclone Pam followed by drought) has seen two of the major exporters focus on other business interests for the 2015 calendar year.

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

Major issues for Vanuatu in terms of accessing this market are the poor quality of beans and the lack of diversity of end buyers (grinders/manufacturers). There are differentiated beans being produced however they are being sold in the conventional market. Exporters of all sizes would benefit by segregating smoke free and better quality beans and seeking a higher price. They could achieve this either by selling 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 (Appendix A) 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 Malekula and Espiritu Santo, co-operative members, exporters and grinders in the boutique and bulk markets.

1.3 Limitations

The lack of reliable and recent export figures have limited the detail of this report, however the general trends indicated in the data are still applicable and relevant to the scope of the study conducted.

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.

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

The vast majority of Vanuatu’s cocoa (approximately 70%) comes from Malekula island, part of the Malampa province. As there is no international port on this island, all cocoa must be domestically shipped to Luganville in Espiritu Santo for export.

Figure 1: Map of Vanuatu (www.ezilon.com)



Figure 2: Cocoa production per province 1995-2004 (McGregor, A. et al. 2009)

Year	Torba	Sanma	Penama	Malampa	Shefa	Vanuatu	5 Year Average
1995	1	464	167	1148	6	1786	1561
1996	1	237	72	623	6	939	1477
1997	2	447	135	1180	2	1766	1599
1998	2	380	113	998	8	1501	1436
1999		138	59	692	2	891	1377
2000		294	164	1098	1	1557	1331
2001		155	101	539	1	797	1302
2002		168	115	584	1	868	1123
2003		281	193	871	1	1346	1092
2004		257	40	695	4	996	1113

The lack of recently verified export data is concerning and is particularly vital for 2015 to assess the impact that Cyclone Pam and the subsequent drought has had on the industry.

2.2 Exporter Overview

The true market share of exporters is difficult to ascertain due to the prevalence of domestic sales between exporters. There is a high level of cooperation between exporters to fill export contracts and a surprising amount of transparency in the industry.

2015 is not a representative year of export for Vanuatu as two of the larger exporters have not exported in this calendar year due to various reasons.

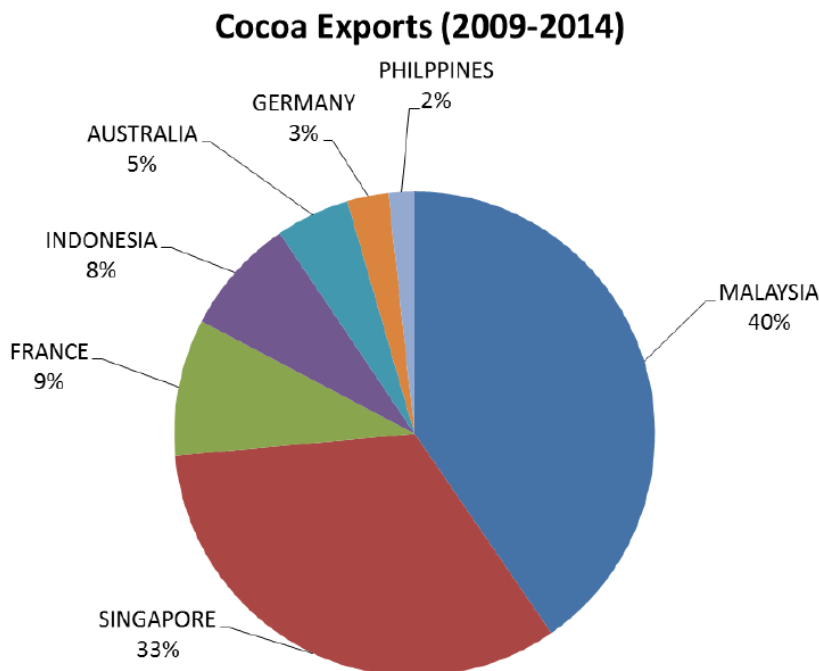
Exporter	2015 tonnage (Jan-Nov)	Market Share
VCCE	700 mt	57%
C-Corp	525 mt	42%
Vanuatu CGA	12.5 mt	1%
Valele Trust	0 mt	
African Pacific	Unavailable	

- i. **Vanuatu Cocoa Growers Association (VCGA):** VCGA has historically purchased up to 100mt per year (60mt in 2015) but exports only a small amount of this themselves as often they need the cash flow before they have a full container load. VCGA sells spot, meaning they have no forward contracts. They source from approximately 20 co-operatives or community groups, each with around 50 wet bean producers.
- ii. **Valele Trust:** Although Valele Trust has not exported cocoa in 2015, they usually purchase 100mt per year. The main problem Valele Trust faces with exports is a high bean count, often as high as 113 per 100g (global average 100). Most buyers will not accept a bean count higher than 110.
- iii. **Vanuatu Copra and Cocoa Exporters (VCCE):** The Managing Director, Sethy Lui, advised that currently all cocoa from VCCE is sold to an Australian trading house and the majority then sold forward to Barry Callebaut. Mr Lui remarked that VCCE have previously had quality concerns from buyers for high moisture, external mould, smokiness and insect infestation. VCCE has agents on the islands (mainly Malekula) and then they ship to Santo break-bulk at a cost of VUV6,000/mt. The bags often arrive wet after their island transit and then have to be re-dried. There is an international vessel every month to Santo meaning that there is a relatively quick turnaround of stock once it arrives at the main warehouse. 80% of their volume comes from Malekula and Mr Lui estimates that in 2015 (Jan-Nov) VCCE exported approximately 700mt. At the time of this report (December 2015) VCCE was paying –USD1,133 NY ICE farm gate in Malekula for dry bean through their agents.
- iv. **C-Corp:** C-Corp exported 525mt from January-November 2015, sourcing approximately 190mt of that from their 300ha estate (Metenesal) on Malekula Island and purchasing the remaining 335mt from Malekula Island and West Coast Santo smallholders, regions which they access with their own vessel. C-Corp has a manufacturing facility in New Zealand however this is supplied by C-Corp's Solomon Islands facilities for the "Solomon Gold" chocolates. This year they were able to produce 80mt of sun-dried beans due to the dry conditions, however according to Metenesal's manager, these beans were sold as conventional to Barry Callebaut in Malaysia. C-Corp tend to sell on the spot market instead of locking in forward contracts.
- v. **African Pacific:** African Pacific usually sells to a Belgian grinder, Belcolade, however in 2015 the Vanuatu Commodity Marketing Board (VCMB) stated that there were no recorded sales to Europe, suggesting that no sales were made this year. At the point of writing this report there has been no information forthcoming on the export history or potential of African Pacific.

2.3 Export Destination

These figures are an amalgamation of all export data from 2009-2014 and serve to show that the main market for Vanuatu has always been that of the bulk market. To be able to impact on as much of the market as possible, realistically this is where future efforts to support the cocoa industry need to be focused. Currently only one exporter, African Pacific, exports to Europe (France) however there have been no recorded sales to either Europe or Australia in the 2015 calendar year.

Figure 3: Cocoa exports by destination 2009-2014 (Green Export review - Vanuatu 2014)



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 readily available information for middle men (non-grinders/manufacturers), hence we can presume they operate between the bulk market export and trading house on-sell range.

VUV	Wet Bean	Dry Bean	Export Price Bulk Market	Export Price Boutique Market	Bulk Market Trading House on-sells ¹
Per kg	50	220	335	449	378
Per mt	50,800	220,000	341,002	449,029	376,625

USD	Wet Bean	Dry Bean	Export Price Bulk Market	Export Price Boutique Market	Bulk Market Trading House on-

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.

					sells
Per kg	0.44	1.95	3.03	4.00	3.35
Per mt	440	1,950	3,025	3,990 ²	3,341

Using average exchange rate VUV-USD 1Dec – 17 Dec 2015 (VUV 112.30 = USD1.00)
Average market price for December 2015 USD3,200³ per mt.

For comparative purposes, below are the differentials quoted during the week of 14-17 December using the average market price and VUV/USD exchange rate quoted above. The names of the businesses in questions have been changed for confidentiality purposes.

- Exporter A selling to Bulk Buyer A for –USD175 NY ICE FOB Luganville.
- Exporter A selling to Boutique Buyer A (1mt) for +USD1,800 NY ICE FOB Luganville.
- Market for differentiated high quality beans on average +USD250 NY ICE FOB Luganville.
- Valuation for Pacific beans is currently between par (market price) or +USD50⁴ NY ICE CIF Malaysia. Due to the quality issues with Vanuatu beans this is more likely to be closer to par.

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 statistical stocks of cocoa beans as 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 resulted in unprofitable manufacturing. Indonesian bean prices have crashed and historically due to quality issues, Pacific beans are valued lower than that of Indonesia. 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. What this means for the market is that once where traders would sell to grinders, all of the major buyers now have 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. To facilitate the correct flavour profile, sampling is necessary.

Regardless of the size of the grinder, feedback was the same; buyers wanted a trusted relationship where they have consistent quality and consistent supply. Buyers ranked the importance of this trusted relationship over the quality of the beans and the price.

² Average of 3 boutique prices listed below

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

⁴ This way of quoting a price indicates USD50 over the New York ICE futures market price on the day the contract is negotiated.

A number of chocolatiers spoke of the time and effort it takes to source directly from farmers and that this detracts for their core business of chocolate making. Ultimately if they could source through a consolidator who could provide a range of different origin cocoa and manage the shipping, customs, trucking and storage in country, they would purchase through them instead of direct sourcing.

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

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

Olam currently purchases beans from VCGA however they have limited understanding of the structure and supply chain of VCGA and would like to better understand the business and product. Often when they have a demand for cocoa, they are unable to obtain the volumes they need from VCGA. In 2012 Olam were buying as much as 200mt from VCGA. These beans were then on sold to U.S grinders (Mars/Hersheys) as there was a low smoke content. Their main issues with Vanuatu beans have been a high bean count and high free fatty acid (FFA) levels in comparison to other Pacific origins. They purchase with spot contracts, as the supply is too unreliable to lock in forward contracts.

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 have not sourced Pacific beans in 2015. Paramount to Mondelez is a trusted and transparent supply chain, with a genuine interest in supplying quality beans. They would source from Vanuatu providing the below specifications were met and there was no (or minimal) smoke taint. Mondelez does have higher pricing generally than other buyers in the conventional market, however they demand the best quality and adhere strictly to quality specifications. Mondelez is also a buyer of Fairtrade beans from the Pacific.

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
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d) Barry Callebaut (Malaysia)

Barry Callebaut is the world's largest buyer of cocoa and has four grinding facilities in Asia. They currently buy the vast majority of Vanuatu's beans, predominantly 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 paying competitive market rates.

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 sale of micro-lots to this company for both Vanuatu and Solomon Islands. Pricing structure and tonnage is dependent on the results from pre-shipment samples.

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 Vanuatu beans have a suitable flavour profile for a new product.

c) Whittakers (New Zealand)

Currently Whittakers has minimal interest in sourcing from Vanuatu because the climatic conditions are too unpredictable for a consistent supply and quality. However if a reliable source could be found and a relationship developed, then Whittakers could source approximately 60mt per year for a single origin chocolate bar as they currently do from Samoa. 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. 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 thorough a consolidator like Condesa or Cargill who take the risk for shipping, storage, etc. They currently source 250mt/year of beans, 60mt from PNG and 190mt from Ghana. They have an interest in Pacific beans largely as a substitute to their PNG supply. In regards to certification, they are more interested in perpetuating UTZ than Fairtrade.

e) Bahen and Co (Western Australia, Australia)

Their interest lies more with traceability than certification, and despite working with the Pacific Agribusiness for Development Initiative (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) ACTIV Association (Port Vila, Vanuatu)

ACTIV has a buying capacity of 1-2mt per year and is looking for beans from Santo, Epi and Malekula for their range of three single origin chocolate bars. They have not purchased any beans from smallholders in 2015 as they were unable to source taint free beans. In 2015 they purchased beans from the Vanuatu Research and Training Centre (VRTC) plantation where the post-harvest procedures result in smoke free cocoa. ACTIV usually sources these beans through VCGA and pays the going market rate (approximately –USD1,130 NY ICE farm gate Malekula).

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

Origin Chocolate is interested in sourcing through a consolidator and has 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 source organic beans however they can also use conventional beans as well.

h) C-Corp (Tauranga, New Zealand)

C-Corp currently produces the Solomon Gold range of chocolate bars using beans sourced from their Honiara branch. There is a possibility that sun-dried beans from Vanuatu could also be used in production should the supply from the Solomon Islands not be sufficient.

i) 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. There is potential for a supply from Vanuatu, especially given the increased number of farmers that are sun-drying their cocoa. Once again traceability is of more importance than certification.

j) 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 Vanuatu chocolate bar.

k) 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 Vanuatu bar.

l) 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 as yet unknown as this is a new venture for them.

m) 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. They use cocoa in production of their biscuits, ice cream and chocolate flavoured products and therein lies the greatest potential for Vanuatu cocoa. Tonnage and pricing would be dependent on what product would be a good fit for Vanuatu beans.

n) 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 never purchased from these origins before.

2.9 Other Industry Players

a) ACTIV Association

ACTIV's potential lies with its role as a trade facilitator. Their organisation provides smallholders without an export license the means with which to export small volumes to interested buyers. As a buyer, they have minimal impact on the industry, currently only purchasing 1-2mt per year for in country chocolate production. As their chocolate facilities are relatively new, and they are in the process of expanding to a new 15kg roaster, it would be pre-emptive to comment on their purchasing power as an end buyer.

They have a network of 20 producers on Santo, 20 producers in South West Bay and a close working relationship with VCGA in Malekula. This network makes them a desirable promoting body for Contract Production Fairtrade Standards. As ACTIV also process the cocoa into chocolates sold locally, it would be the fastest way to get a Fairtrade certified Vanuatu bar ready for commercial consumption.

They currently sell the 100g chocolate bars for VUV3,500 (for a pack of 3) and pay the going market rate to VRTC and VCGA for dry beans for production.

b) 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.

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 services could continue to conduct training remotely at a fraction of the cost of traditional extension structures.

c) Vanuatu Research and Training Centre (VRTC)

VRTC is undertaking some excellent work which could be beneficial to the broader cocoa community if the information can be better disseminated by PHAMA and the Department of Agriculture. There seems to be a very technical focus on genome mapping but if VRTC took a more grass roots approach by assisting to establish village nurseries this would greatly benefit the industry in 3-5 years. The cocoa trees are some of the oldest in the Pacific and this will result in less production and smaller beans in years to come.

VRTC is producing 5-8mt of cocoa a year, a percentage of which was sold to ACTIV in 2015. It would be of greater financial value for VRTC to sell these beans to individual boutique grinders overseas or to sell a full container load to a consolidator. The beans are the best quality cocoa being grown in Vanuatu with the most rigid post harvest practices and quality control.

d) PARDI

PARDI's project was popular because it focussed on commercial solutions. However the overall impact of PARDI's project in terms of tonnage was minimal and the 1mt sale to Haighs facilitated through the project is by no means an ongoing relationship as there have already been quality issues, namely smoke taint.

In regards to a domestic market for cocoa products, Gelato's current need for cocoa is 20kg per year of tempered cocoa blocks which they get from ACTIV. This is unlikely to scale up as their prices are significantly higher than competitors and they are losing market share.

Lapita's current demand for cocoa nibs is 120kg per year and this is also unlikely to scale up considerably in the future, despite plans to open a new production facility in Santo.

These businesses are a fantastic example of what can be achieved locally, the problem being that their scale is too small at this stage to have any significant impact on the industry.

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

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. 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.

They have demand from Zokoko, Origin Chocolate and Bahen and Co (to name a few) to source smoke free beans from Vanuatu. Currently their main business is coffee consolidation however due to demand they are branching out into cocoa. They are first and foremost a coffee business and they will not yet invest as much time into cocoa as coffee. For ongoing business with them to be successful, there would have to be a consolidator in Vanuatu who could source 10-15mt and export to Condesa who would then undertake to find buyers, distribute etc.

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, each container weighing 15mt when fully loaded with 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

Most recently Vanguard Agencies have shipped 2mt cocoa LCL from Luganville, Espiritu Santo to Sydney, Australia. Other options for agents include South Seas Shipping (Swire's agents), Pacific Direct Line (NZ shipments only) and Calgam (Agance Gauchet). There are currently no regular LCL containers into Australia and Singapore as there is little demand, however they do provide the service and then wait until they have a 20ft container full to send.

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 or less	0.5mt at the most (8 x 63.5kg jute bags)
Cost ex Santo to Singapore	VUV337,225 (inc all surcharges and security carry charge)	Quote pending	Quote pending
Cost ex Santo to Sydney	VUV281,021 (inc all surcharges and security carry charge)	Quote pending	0.5mt (8 x 63.5kg) VUV 179,303
Cost ex Port Vila to Sydney	VUV281,021 (inc all surcharges and security carry charge)	Quote pending	0.5mt (8 x 63.5kg) VUV 179,303
Time frame ex Santo to Singapore	Information pending	Quote pending	Same day
Time frame ex Santo to Sydney	1 week	Dependent on container consolidation. Can be more than a month + travel time	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 shipments would usually mean better shipping rates.

2.11 Certification

Organic

The Vanuatu Organic Cocoa Growers Association (VOCGA) was an organic certification (EcoCert) project funded by the French government which linked Vanuatu growers to Kaoka, a French manufacturer. The funding from the project also paid for certification costs. The certification lapsed in 2010 as the group was unable to produce the minimum 300mt required by Kaoka on an annual basis. The Malo Cocoa Growers Association was part of this certification originally and maintains a co-operative structure. They have approximately 10 active members, producing 10-15mt annually. The cost of EcoCert organic certification was VUV1 million per year.

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 VUV550,000 annually for the certification fee plus all of the audit costs and implementation fees. In addition to this, there is only a limited 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 VUV2,300/mt + VUV225/mt in premiums. There are two types of Fairtrade certification:

- i. 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 access an end buyer once they have certification. To gain access to Fairtrade financial benefits a product can only be sold through a fully certified supply chain, e.g. 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.
- ii. Small Producer Organisation standards is 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 supply chain applies in that every aspect must be certified in order for the group to receive the Fairtrade premium.

Pre-finance is not necessarily part of the Fairtrade system and is usually reliant on the promoting body, exporter or buyer of the cocoa. The benefits of Fairtrade are not just financial, but in the industry support that Fairtrade Australia and New Zealand provides to certified groups. This would tie in well with the cocoa Industry Working Group's (IWG) goals of supporting traceability and certification systems that add market value.

2.12 Industry Constraints

The VCMB 6% commission on invoice is a constraint for small exporters as this represents a large percentage of their sale in an industry with slim margins. There is the added concern about the lack of transparency of what this 6% commission is then used for.

LCL and air freight costs are high, making shipping smaller lots unattractive to boutique buyers who could source from other Asian origins for much less.

Current drought conditions are resulting in a drop in production and smaller bean size. In addition to this, many pods are ripening on the tree at an earlier stage than usual and when the pods are broken for fermentation the beans have already begun to dry up inside the pod. This produces over fermented beans and an undesirable flavour.

Cultural factors also play a limiting role in developing the industry. The importance of the "big man" image means that smallholders will often supply to a more prominent member in the community instead of seeking out the best business opportunity. The other constraint is that smallholders often only harvest when the price is high and move to another cash crop when the price is low. This is a concern for buyers as it means if there is market volatility, their supply is at risk.

3.0 Recommendations

3.1 Immediate Action

1) Direct sales to Asian Grinders

The drought in 2015 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, it is recommended to diversify sales options to the bulk market by linking exporters to new buyers. Specifically:

- Olam International (Malaysia, Singapore, Papua New Guinea): Olam has a past record of buying large volumes from Vanuatu. 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.
- Ecom Agro-industrial (Singapore, Malaysia): Ecom closed their Papua New Guinean operations in 2014 meaning that they still have open forward contracts to fill with Pacific beans. Ecom is keen to further establish connections in the Pacific and this project has already resulted in their purchase of 45mt from Vanuatu.
- Koko Bodi (Malaysia): Koko Bodi already sources Solomon Island beans and thus are accustomed to the smoke taint which also affects cocoa from Vanuatu. They have less global market leverage than Olam and Ecom but historically have paid fair pricing to exporters in the Solomon Islands.

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 elsewhere in this report. 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) Business advice to exporters

PHAMA to explore the possibility of connecting an AYAD or Peace Corps volunteer to have a placement with the smaller export groups, specifically VCGA. The business has enormous potential and already has valuable overseas contacts. Their weakness lies in business planning and administrative factors. This support could also be offered by the proposed PHAMA Industry Advisor role to be based in the Solomon Islands.

4) Linking to Australian Consolidator

VRTC to approach Condesa in Australia to see if there is any interest in buying their cocoa. VRTC could export through VCGA or ACTIV and Condesa would then manage further distribution in Australia. VRTC would need at least 10mt to be able to send this as a FCL. This would ensure that the best quality cocoa in Vanuatu is reaching the boutique market in Australia/New Zealand and thus exposing Vanuatu to more niche grinders.

3.2 Short Term

5) PHAMA-Fairtrade Partnership

PHAMA to engage Fairtrade Australia/New Zealand to arrange a visit to Vanuatu 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:

- i. Vanuatu Cocoa Growers Association.
- ii. ACTIV.
- iii. Metenesal Plantation – West Coast Santo producers.
- iv. Malo Island Farmers Association.

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

6) VCMB Transparency

The cocoa IWG to work with VCMB to provide more transparency of how the 6% commission on exports is being utilised. This funding would be very valuable in providing logistical support to exporters for Inter Island Shipping or could be used to support village nurseries.

7) 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).

3.3 Long Term

8) Improve access to finance for exporters

PHAMA to work with financial institutions and Government funding organisations to improve access to finance for exporters. Many exporters are constrained by a pre-financing cycle which makes them unable to explore new markets and maximise their profits. This could be resolved by an initial loan to free up cash flow.

9) Production research and improvements

ACIAR to support the research at VRTC, specifically to address bean size and the age of the Vanuatu cocoa trees:

- a. A study could be conducted to confirm if the small bean size is due to the Amelonado characteristics or is due to the age of the trees.
- b. Village nurseries could be established and training undertaken to enable farmers to clone superior planting material themselves and replant their own blocks.

4.0 Standard Limitation

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Appendix A

Reference List

Appendix A Reference List

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Appendix B

Checklist for Fairtrade Compliance

Appendix B Checklist for Fairtrade Compliance

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, 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			PB statutes If possible, records to show	

		to meet the volume, quality and environmental requirements of the target market.			improvements in production, quality, or social/enviro 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 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			Traceability plan to show ability to separate FT certified from non-certified once certified.	

		that were produced by 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 processing.			N/A	
	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	<p>You must sign a binding contract with each registered producer or with the producer organization that represents them.</p> <p>The contract must include at least the following:</p> <ul style="list-style-type: none"> - 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 			Contracts with individual members (ideally drafted in consultation with producers and explained before signed)	

		<ul style="list-style-type: none"> - description of any pre-finance mechanism - definition of “force majeure” - description of mechanisms for dispute resolution - Description of all inputs and services provided and indication of any deductions that may be relevant as a result of this provision. - mechanism t 				
	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 registered producers.			If the auditor asks, you should be aware of this requirement.	
	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 organisation 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 steps required to comply with the requirements in section Environmental Protection.			Terms of Reference for Environmental Officer with 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.	
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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-CERT req	You must ensure that PEB informs you of any decisions they make.	PB representatives attended all PEB meetings and the meeting minutes are available		PEB meeting minutes and participant lists show 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 Price exists.			Once certified, sales contracts, invoices and receipts	
	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/N o	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 and other hazardous chemical containers to store or transport			Auditor will ask and check during audit	

			food or water.			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 Fairtrade crop.	N/A		Evidence of 'legal' conversion to production of FT crop	

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 tolerate behaviour, including gestures, language, and physical contact, that is sexually intimidating,	N/A		Auditor may ask	

		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 attendance.	N/A			“

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 certified producers: The seller and buyer must negotiate the price of the semi-processed product.	N/A		N/A	
	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	