

Dear Carleen and Global Exchange Team,

Thank you very much for your detailed letter. We appreciate the open dialogue and would like to give you more insight into our sustainable cocoa sourcing model and our general thoughts about sustainable cocoa sourcing.

Please find our response to the different issues you raised in your letter (on [http://org.salsalabs.com/o/703/t/0/blastContent.jsp?email\\_blast\\_KEY=1292166](http://org.salsalabs.com/o/703/t/0/blastContent.jsp?email_blast_KEY=1292166)) below.

### Increasing Yield

You are correct that we cannot just increase the yields and think that the problem of low farmer incomes is solved. That's why we follow a holistic approach including community and farmer professionalization investments, internal monitoring and external verification audits.

1. It is very difficult to anticipate what will happen in the long-term yet, since there are many factors influencing the cocoa yield of the farmers and the market price. We don't expect the yield to double in total, since not all cocoa farmers worldwide, and also in Ghana will double their yield, due to the following reasons:
  - Some farmers don't participate in any program and therefore don't get support in increasing their yields
  - Some farmers don't follow what they learned in trainings given to them, and therefore don't increase their yields
  - Some farmers change from cocoa to another cash crop such as palm oil or rubber
  - Some farmers change their cocoa farm to a small-scale gold mine (depending on the location of their farm in Ghana)
  - Some farmers completely give up their farm due to lack of successors/replacement

Farmers in our program will, however, not be stuck with the costs of the new inputs since they plan from year to year, and the cocoa price in Ghana is always fixed for one season (so it doesn't change during a season). Further, in our trainings, farmers also learn better business planning, so the inputs are used in an optimal way.

2. You are correct that our social premium is lower than the Fairtrade Premium. However, you also need to bear in mind the following points:
  - We pay a premium on every ton of cocoa sourced from Ghana. Fairtrade certified cooperatives usually don't sell all their cocoa as Fairtrade, so they don't receive USD 200 per ton on all their tons sold (this will increase with the new Fairtrade Cocoa Program though).
  - By far the largest portion of the Fairtrade premium the cooperatives receive is spent on "Investment in business or organizational development, production, and processing", and not in social projects such as community development, education or health.
  - We don't make our own decisions about what is important for farmers. We conduct needs assessments and the Source Trust and Armajaro staff on the ground that is in constant contact with the farmers receives inputs on which investments the farmers want. It is, however, not always easy to balance their needs and their wants. As you may imagine, they can differ quite a lot.

## Benefits of Fairtrade Certification

Different studies come to different results, and not all cooperatives/farmers benefit from sustainability programs. However, on average, the farmer incomes increase once they are in a sustainability program. In the KPMG study you mention, it's however not the *farmer incomes* that increased by USD 417/ton in Ghana, but the *average cumulative net benefit per metric ton produced* per country. This includes the Fairtrade premium or any other investments in farmer development received.

That yields doubled is not a result of *certification* as such, but a result of the *activities* done to reach certification.

## Child Labor

You are correct that only making child labor illegal isn't enough (and it's not us making it illegal, but the Government of Ghana). This is why our program focuses on livelihood improvements from a holistic perspective, by also looking at the root causes of child labor. Further, we are currently piloting a child labor risk assessment, so that we can better target our internal monitoring and external audits to the areas at higher risk, as well as having additional information for improvement activities (for more information please see:

[https://www.geotraceability.com/Geotraceability/en/news\\_2012-10-22.php](https://www.geotraceability.com/Geotraceability/en/news_2012-10-22.php)).

## Why the label

You are correct that traceability doesn't give a guarantee for adherence to sustainability standards on the farms, but it is the main condition for it. This is why we are implementing internal monitoring systems, in which each farmer is visited at least once a year to see if he follows what he learned in trainings (good agricultural, social and environmental practices). Further, **third party verification takes place**, where accredited external auditors (e.g. Control Union or AfriCert) visit a representative sample of the farms to double check the results of the internal monitoring visit, and additionally check if the internal monitoring system is working properly. This system will cover 100% of our supply chain in Ghana by 2016, and 100% of our worldwide cocoa supply by 2020.

Our system is not a burden for farmers, since the farmers in our programs usually are not in another program as well. In contrary, it's usually the first time for them to get a full professionalization package and support for their continuous improvement process. The program seems to be quite attractive, since more farmers want to join our program than we need to get the required cocoa supply. All farmers are free to choose joining our program, and they are not obliged to sell to us.

The standards we use are based on what UTZ and Rainforest Alliance are asking for, and are a concrete implementation of our Supplier Code of Conduct (please see:

<http://www.lindt.ch/swf/ger/das-unternehmen/social-responsibility/policies/policies/#c3775>).

It's also important to note that using the Fairtrade label on products costs a fee on top. This additional fee per ton, going to Fairtrade organizations (not to farmers or cooperatives), depends on the volume sourced.

Last but not least, all companies of the Lindt & Sprüngli Group buy the cocoa from Ghana within the same system. We want all our products to be based on the same set of standards. So it's out of question that we would only label one brand, which in your calculation would be Ghirardelli.

#### Your Talking Points

1. Correct, but traceability is the base for all further activities we implement. Without knowing the farmers, you cannot implement improvement activities that fit to the local needs.
2. Not Source Trust, but external accredited auditors conduct the verification visits.
3. The USD 200/ton Fairtrade premium is not only used for social projects, so you cannot compare the two amounts.
4. Our social premium is used for different farmer investments (e.g. farmer trainings on agricultural, social and environmental farming practices; new cocoa plants; micro-credits for inputs) and community development (e.g. boreholes; health; education). They therefore not only focus on increasing yield, but take a holistic approach to improve the livelihoods of the farmers, their families and their communities.

While we always welcome constructive feedback to what we do, and have the same objectives as many other organizations in the domain of sustainable cocoa sourcing, we will continue following our own, farmer-centered approach to improve the sustainability in our supply chain, and do not plan to use an externally developed label. We are convinced that by constantly analyzing the complex issues on the ground and following the progress the farmers make (or don't make), we are able to continuously improve our program to become the buyer of choice for the cocoa farmers.

We know that going our own way and taking full responsibility for the sustainability of our supply chain means that we need to communicate more to our consumers about what we exactly do. We are therefore starting to communicate our activities in smaller pieces to a broader public. Yet, we think those activities are part of what our consumers expect from a premium chocolate brand, and will not advertise them.

Please let me know if you have other questions or comments. I'm happy to discuss further.

All the best,

Piera

Sustainability Manager Lindt & Sprüngli (International) AG