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Reconfiguring Supply Schemes in the Cocoa Value Chain: Organic Chocolate from Honduras for the Swiss Market¹

An Executive Interview with Anton von Weissenfluh

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Abstract: Numerous corporations worldwide source raw materials from developing countries, often not knowing exactly who is producing these commodities. This has been particularly the case in the chocolate and coffee industries. However, consumers in Europe, and especially in Switzerland are increasingly demanding more information on the products they buy, thus motivating corporations to find alternative ways to fulfill these demands. In response to the changing market trends, Chocolats Halba, a division of Coop, one of the largest retailers in Switzerland, has launched a pilot project that not only satisfies consumer concerns, but also embraces their corporate philosophy and values. Since 2008, Chocolats Halba has developed a collaborative relationship with organic cocoa producers in Honduras, who now have a contract scheme where they are supported in both production and certification aspects and are paid a fair price. Dr. Anton von Weissenfluh, CEO of Chocolats Halba explains the project and his long-term vision.



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Introduction

Small-scale cocoa farmers in Honduras have faced a series of ups and downs over the past decade due to the fluctuating prices for raw cocoa and market uncertainties. Sometimes the price paid to farmers has not covered production costs.

However, for about 500 cocoa farmers in Honduras, these days of uncertainty seem to be over. Thanks to the collaborative relationship developed with a visionary and social responsible firm in Switzerland, they are now under a contract scheme where the firm supports them in production and certification aspects and buys the cocoa. Chocolats Halba is working together with a private development cooperation organization, the Association of Honduran Cocoa Producers (APROCACAO) and other partners to produce and export organic cocoa. They assist organic cocoa farmers in quality improvements, building up infrastructure and export-related paperwork. Local partners have helped farmers in strengthening their organization, acquiring certifications (organic, FairTrade), and capacity building concerning cocoa production. The main benefit of having a close collaboration with the organic farmers is that Chocolats Halba can sell consumers a product where they can trace the cocoa beans utilized to make their chocolates right down to the farm where they were produced. Furthermore, a strong relationship and joint investments enable the value chain to jointly improve quality and therefore add value to the product. Organic cocoa farmers in Honduras now have a better income and Chocolats Halba has a secure source of certified organic cocoa beans, improving the transparency of this chain and assuring the farmer a fair price in the long term. This case is a successful example of how a firm with a social vision can help small-scale producers secure a steady income while bringing consumers in Europe fair trade organic chocolate.



Many consumers in Europe and particularly in Switzerland are conscious about the choices they make and how it impacts the environment and people around the world. Would you say that Chocolats Halba has positioned itself to answer to these demands?

von Weissenfluh: Customers in Switzerland are in fact special. Not only are they conscious about the choices they make, they are also looking for high-quality products. They have a sense of responsibility that sets them apart from many consumers in the world. Supermarkets, in particular Coop, clearly designate where products come from. Many of these changes are a response to the information need of the Swiss consumers. This is a trend that is becoming more popular. The function of a product is not only to fulfill a need or want, but to do so in a way that speaks for the values of the consumer. Chocolats Halba is well-aware of this and answers these needs, wants and values but we also have identified five main issues that we want to keep in mind and work for when producing chocolate:

1. Quality, first and foremost
2. Fair income for the suppliers abroad
3. Biodiversity, making sure that it is conserved and protected
4. Global warming, by reducing as much as possible CO₂ emissions
5. International work rights, respecting them

The goal we have set for ourselves is to produce high-quality chocolate, while helping farmers in cocoa producing countries have a sustainable income. Biodiversity should be guarded and the environmental impact should be as minimal as possible. Chocolats Halba has positioned itself to answer to customer demands while maintaining our corporate goals.

How did Chocolats Halba start working with development cooperation organizations (i.e. Helvetas) and cooperatives in Honduras?



von Weissenfluh: Helvetas is a private organization for development cooperation in Switzerland. Their aim is to help partners in procuring food and improved living conditions, increased production and income or improved infrastructures. Moreover, Helvetas has vast experience in the region and in the cocoa sector. We first approached Helvetas in 2007 and did exhaustive analysis of the cocoa regions in the world. We came up with the 10 most important regions in the world and selected Honduras because of the potential it presented. According to the studies we conducted, the genetic material of the cocoa in Honduras is ideal for the production of high-quality organic chocolate. In 2008 the project started and other local partners were brought on board. A farmers union, APROCACAO, was the first partner approached. FHIA (Fundación Hondureña de Investigación

Agrícola) has over 20 years of experience in agro- forestry in the cocoa sector and is oriented to the generation, validation and transfer of knowledge and technology to small-scale producers. They were a natural choice as a project partner.

What are the biggest challenges for Chocolats Halba in this project?

von Weissenfluh: Clearly managing a project of this nature presents several challenges. Switzerland is not exactly close to Honduras and logistically, there are some barriers including language and cultural differences. Communication is imperative in the success of any project, so in order to facilitate the flow of information from one end to the other, Chocolats Halba hired a local employee to coordinate these issues. His tasks include first and foremost quality assurance. Last year presented additional challenges because of the political instability in Honduras.



In the present working scheme, intermediaries are practically eliminated. What are the benefits for the small-scale cocoa producers in Honduras? Chocolats Halba? The consumer?

von Weissenfluh: Transparency is the main benefit for all parties. The producers are paid a fair price for their product. Traditionally, this sector has paid farmers 30 to 50% of the FOB price for cocoa beans. Chocolats Halba pays 75 to 80% of the FOB price to the producers because the

intermediaries are eliminated. Small scale producers now know where their product is going. In fact, in April 2010 several stakeholders, including 8 producers and representatives from APROCACAO, were invited to visit our facilities in Switzerland. They saw the whole production process and now have a better understanding of why quality is so important. Workshops were conducted as well as visits to the main retail centers. They have literally seen where the end product is sold and who buys it. This is a distinctive value chain because the producer is part of the whole process and they've developed a sense of pride in their work and product. For Chocolats Halba, the benefit of this project is that we are doing something in tune with our corporate values. This is where the company wants to go in the future, providing customer satisfaction and producing in a sustainable way while guaranteeing farmers in developing countries a decent income. Finally, the benefit for the customer is clear: they are buying an organic and fair trade product in tune with their values. Customers can trace their product right down to the village where the cocoa beans came from, if they want to.

Will this organic chocolate from Honduras have a distinctive brand? Do you have other similar brands?

von Weissenfluh: The Honduran cocoa will be specifically used for pralines, because of its exceptional quality. We expect to process about 30 to 40 tons next year, but the potential to process up to 800 tons of organic cocoa is there. It's only a fraction of our entire annual production, but we hope to be able expand this initiative to other countries as well. The end product will be labeled and we always strive to pass on to the customers our commitment to bring them a high quality product that is economically valuable, environmentally grown and fairly traded. We already sell similar products, all labeled by origin—Ghana, Peru, Ecuador.

How do you see the market for organic and fair trade chocolate evolving in the next decade?

von Weissenfluh: We believe that we're playing a major role in shaping the value chains of the future—we are committed to making things right, right at the start of the value chain. We work together directly with cocoa growers in South and Central America and Africa, developing measures to ensure quality and sustainability. Not only do we ensure that the quality of our most important raw ingredient remains consistently high, we do so while promoting the livelihoods of our partners. These people are not simply "suppliers" to us; they are partners in the whole process. We have developed a trustful relationship that goes two ways and finally the customer can perceive our values and what we stand for. In the future, I see more initiatives of this nature, which will also present greater opportunities for small-scale farmers in many regions of the world. Furthermore, the consumers will become increasingly aware that the purchase decisions they take are affecting the lives of others and they will make decisions accordingly. However, they will still demand high-quality products and will be the task of the industries to keep delivering quality in a sustainable way. We're very proud of what we have achieved so far, and our partners in Honduras are proud not only of how far they've come in such a short period of time, but they are especially proud to work with us.

