

GUIDELINE FOR

Cocoa Products



We are committed to more sustainable cocoa farming and pursue the goal of improving the social, ecological and economic conditions in the production countries. This is why our purchasing activities focus on more sustainable cocoa products in order to influence the sustainable development of cocoa farming.



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I. UNDERSTANDING AND SCOPE

REWE Group offers a large number of private label products containing varying levels of cocoa¹ in the REWE and PENNY sales lines in Germany. The range includes sweets such as chocolate bars and candy bars as well as cocoa drinks, chocolate nut spreads and pastries.

As a leading international trading and travel and tourism company, REWE Group is aware of its special role as an intermediary between manufacturers, service providers and consumers². The production of REWE Group private label products has an impact on people (social), animals and nature (ecological). REWE Group's customers expect and should be able to trust that REWE Group, as a trading company, is aware of its responsibility in the supply chains of its private labels and addresses the effects. In its "Guideline for Sustainable Business Practices", REWE Group acknowledges its environmental and social corporate responsibility. The values described therein form the foundation for the responsible actions of the company (REWE Group 2011).

REWE Group promotes more sustainable cocoa farming and aims at improving the social, ecological and economic conditions in the production countries. This is why the company's purchasing activities focus on more sustainable cocoa products in order to influence the sustainable development of cocoa farming. These requirements are defined in the present guideline. The scope of the guideline covers all private labels of REWE Group which contain essential cocoa components and are sold in Germany by REWE and PENNY. On the basis of the systematic sustainability commitment described here, the PRO PLANET³ label can be awarded to the corresponding products.

REWE Group also would like to make its employees and partners in the supply chain aware of the importance of more sustainable cocoa farming and uses this guideline to point out measures and individual goals. The present guideline defines a binding framework for REWE Group's actions and its business relationships with contractual partners. Defined requirements and targets are consistently reviewed, and new measures and targets are agreed as required. In addition, the guidelines are updated on the basis of current trends and developments.

II. ISSUES IN THE VALUE CHAIN OF COCOA PRODUCTS

From chocolate bars to chocolate drinks through to chocolate cookies: Numerous foodstuffs contain cocoa products such as cocoa mass, cocoa butter or cocoa powder. Per capita consumption of chocolate products in Germany is around nine kilograms per year (BDSI 2018). Germany also processes around 400,000 tonnes of cocoa beans annually (International Cocoa Organization 2018) and is the world's largest exporter of chocolate products (BMZ 2018).

Cocoa trees thrive in optimal climatic conditions around the equator, which is why the main growing regions are located there: At 76 per cent, the agricultural production of cocoa is mainly located on the African continent. Côte d'Ivoire is the world's largest producer, followed by Ghana (BMZ 2018). Further regions are Central and South America, the Caribbean and some regions in Asia. Around 5.5 million people work directly in cocoa farming, while a total of 40 million people are employed in supply chains worldwide (BMZ 2018). For many developing countries, the raw material cocoa is therefore an important export product.

Approximately 90 per cent of cocoa is grown on small farms with a cultivation area of usually one to three hectares (BMEL 2018). After harvesting, the cocoa fruits are opened and the beans fermented, dried and packed in bags. The cocoa beans are then transported by sea freight to the (cocoa) processors. After further processing of the beans, which includes cleaning, roasting and grinding, the cocoa mass can be used for the production of chocolate or cocoa products.

Numerous problems persist in the cocoa sector: In particular, the unstable economic situation and the associated social framework conditions for many smallholder farmers, climate change, deforestation and biodiversity loss present fundamental challenges. The most important problems are outlined below:

¹In the following text, cocoa is used synonymously with the cocoa products cocoa mass, cocoa butter and cocoa powder.

²To improve the text's readability, the masculine form will be used to refer to both genders. All references to persons apply to both genders.

³The Pro Planet label was developed by REWE Group in order to promote more sustainable consumption on a broad scale.

Cocoa-growing regions worldwide

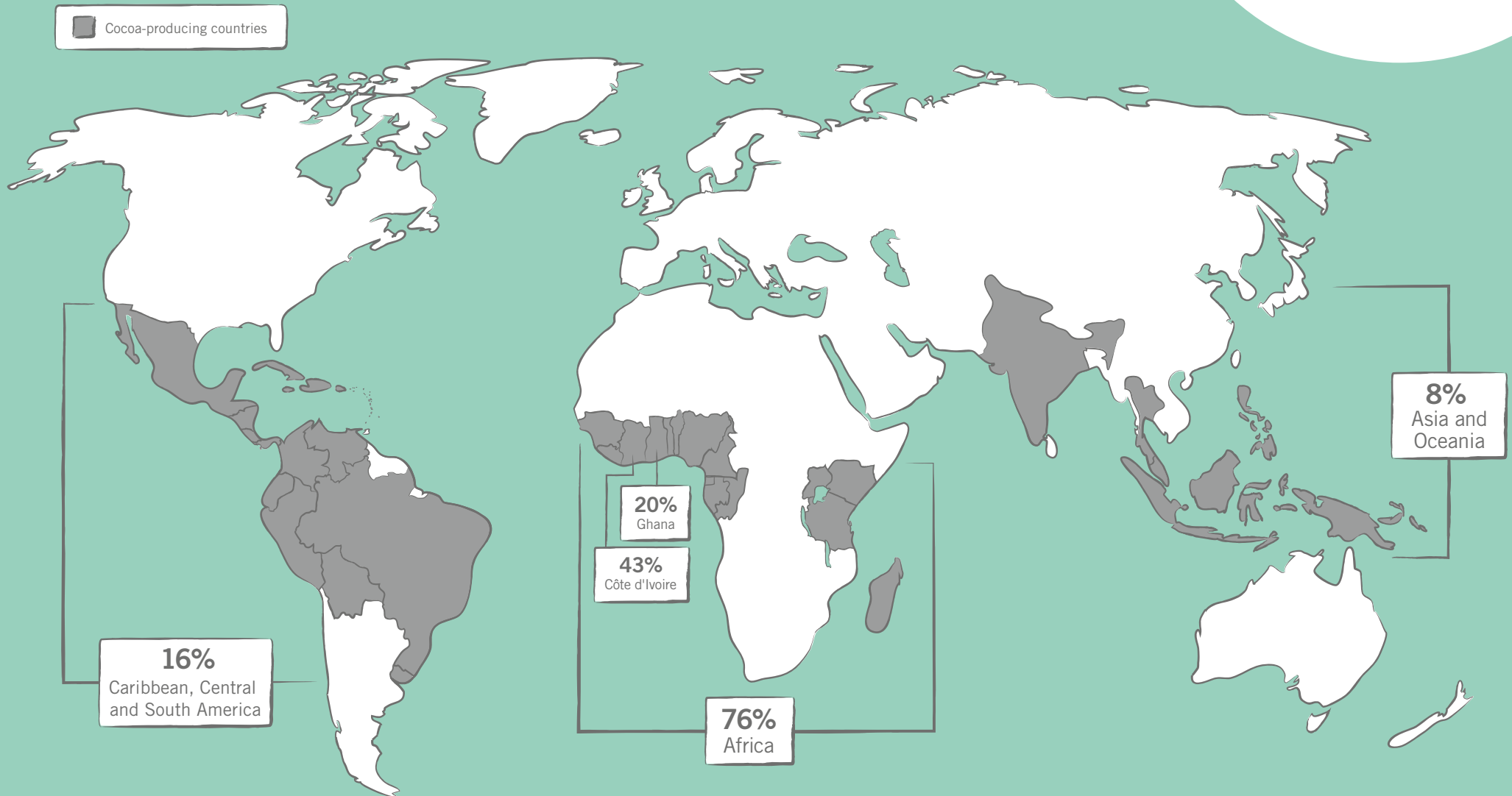


Figure 1: Cocoa-growing regions worldwide

The processing of cocoa

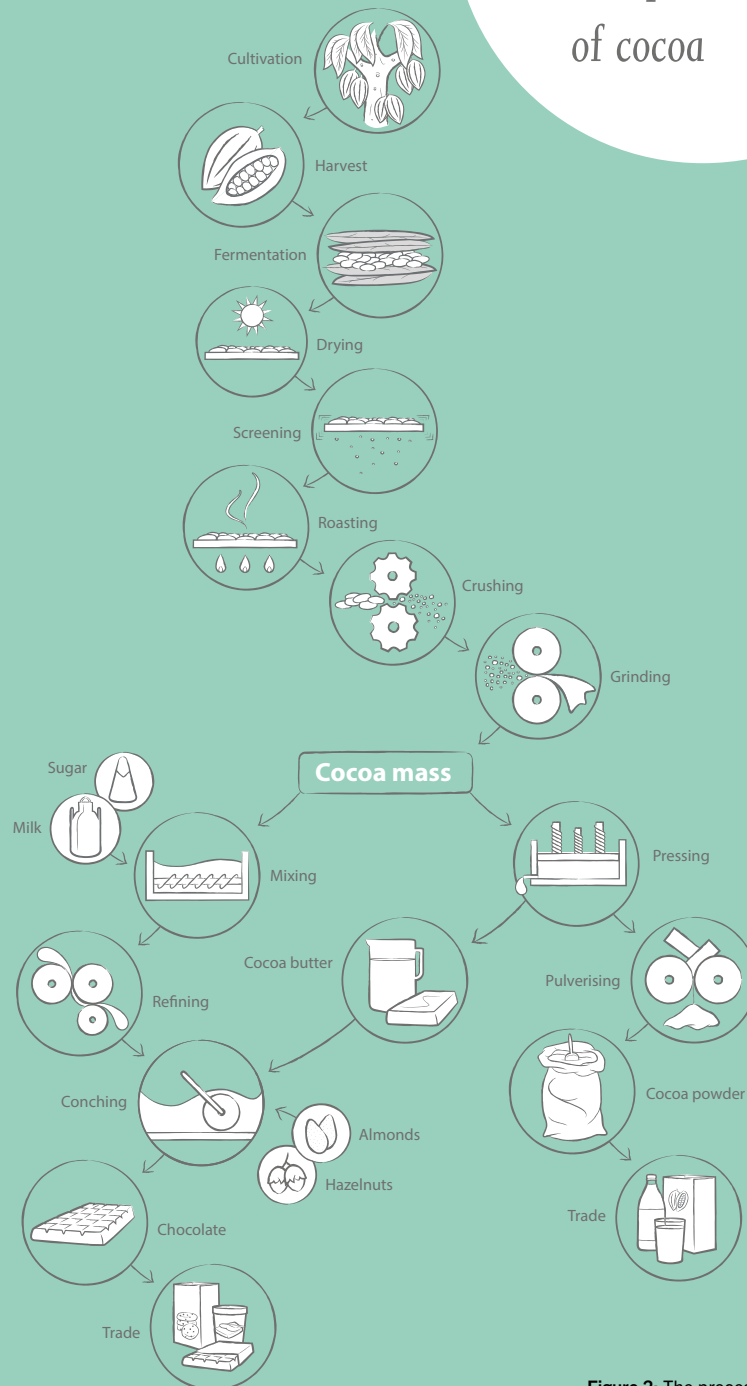


Figure 2: The processing of cocoa

The supply chains of raw cocoa are complex and diversified – both in cultivation and in industrial processing. Creating transparency and traceability therefore presents a major challenge. Yet, these factors are key for safeguarding human rights and a sustainable development.

2.1 People

Poverty of cocoa farmers

Poverty is at the root of many problems farmers are facing in the cocoa sector. In many places, fluctuations in world market prices have a direct impact on the economic situation of smallholder farmers. Viewed in the light of the current cocoa price, the average income of cocoa farmers and their families is far below the living income. (Fountain & Hütz-Adams 2018: 3 et seq.). It is often not sufficient to ensure an adequate standard of living (Fountain & Hütz-Adams 2018: 3 et seq.). Moreover, a large proportion of the roughly five million farmers worldwide are not organised – which means that their position in the value chain is massively weakened (GIZ 2018: 4). Their economic situation usually does not allow cocoa farmers to invest sufficiently in new plants or pesticides and thus to improve their situation on their own. They are also often unable to pay necessary farm workers (Forum Nachhaltiger Kakao n.d.). The changes caused by climate change increase insecurity for cocoa farmers and further endanger their livelihoods (World Food Programme 2018).

In Côte d'Ivoire, for example, the average household income is only

37%

of the living income⁴
(Rusman, de Adelhart Toorop, de Boer & de Groot Ruiz 2018: 12).

⁴Living income comprises e.g. the costs of a well-balanced diet, housing, education, clothing as well as savings for unforeseen events (Fairtrade/TransFair e.V. 2017).

Child and forced labour

Due to structural poverty and the lack of schools, child labour is widespread on cocoa plantations. In order to keep costs as low as possible, small, family-based farms in particular rely on their children to help during harvest time (Fountain & Hütz-Adams 2018: 18 et seq.). On many farms, the economic conditions even lead to exploitation of workers and forced labour. In addition, victims of human rights violations in value chains often have little or no access to complaint procedures and compensation (Fountain & Hütz-Adams 2018: 64 et seq.).

Lack of professional know-how

Cocoa farmers often lack knowledge of good agricultural practices, which can, for example, lead to hazardous working conditions if agrochemicals are used (Forum Nachhaltiger Kakao 2018). Government programs to advise farmers are inadequate or non-existent.

2.2 Environment

Use of agrochemicals

Intensive cultivation in monocultures allows pests to spread more quickly, so that more pesticides are used. Incorrect use of pesticides can have negative effects such as contamination of ecosystems, pest infestation and the development of diseases (Fountain & Hütz-Adams 2018: 54 et seq.).

Deforestation

Extensive cultivation of cocoa and monocultures mean that more and more new areas have to be developed. To this end, intact forest areas are being converted into agricultural land (BMZ 2018). As a result, biodiversity is declining in many cultivation areas – animals and plants are losing their habitat. Another reason for deforestation is climate change, as existing areas are increasingly becoming unsuitable for cocoa farming and new areas are needed in other regions (Fountain & Hütz-Adams 2018: 20).

III. MANAGEMENT APPROACH OF REWE GROUP

Through a clear strategic commitment and appropriate measures, REWE Group aims to actively contribute to reducing and resolving social and ecological impacts of cocoa products.

Sustainability is firmly anchored in REWE Group's corporate strategy. For REWE Group, this means: Promoting more sustainable product ranges and ensuring fair treatment of partners and suppliers, acting in an environmentally and climate-conscious manner, assuming responsibility for its employees and taking responsibility for contributing to a sustainable society.

Within the sustainability strategy, the "Green Products" pillar bundles all activities aimed at making purchasing and production processes more sustainable and thus developing more sustainable product ranges. REWE Group's customers expect and should be able to trust that REWE Group, as a trading company, is aware of its responsibility in the supply chains of its private labels and addresses the effects.



With the activities of the “Green Products” pillar, REWE Group would like to fulfil these expectations and has developed a strategy with which the effects can be identified and evaluated in order to take effective countermeasures. The strategy is implemented through a comprehensive management approach that defines the principles and instruments for carrying out the measures. All levels of the management approach are oriented towards the three defined fields of action:

- People;
- Animals;
- Environment.

“People” and “Environment” are important fields of action for the raw material cocoa which are addressed at three levels forming the management approach:

Internal management

The aim is to further integrate sustainable procurement into REWE Group’s purchasing processes in order to take sustainability aspects into account in every purchasing decision. The company lays the foundation for concrete activities through strategic and organisational projects. For example, REWE Group contributes to internal awareness by providing risk analyses and briefings, coordinating binding targets with the purchasing departments and providing training on sustainability topics. Internal reporting enables the continuous further development within the individual sustainability topics. External communication creates transparency vis-à-vis stakeholders.

Supply chain management

Risks in the supply chain are allocated to the three areas of people, animals and the environment. REWE Group addresses the sustainability risks that arise with regard to these fields of action in the supply chain in a targeted manner through systematic supply chain management which is characterised by close cooperation with suppliers and commitment at the production site and raw material production level. As a first step, REWE Group’s supply management increases, where required, transparency along the supply chain for the private label products. In this way, risks can be identified and prevented more easily or at least reduced.



Moreover, the integration of sustainability as part of supplier evaluation is promoted and concrete rules are created by sensitising and obliging the contractual partners in order to implement sustainability throughout the entire supply chain. As far as this is laid down in the specifications, the obligations are also an integral part of the supplier contracts and are checked by REWE Group’s Sustainability Department in the purchasing process.

Audits and standards are intended to improve sustainability on a broad basis. If the requirements are not met, the further procedure is discussed and decided on the grounds of a recommendation by the sustainability department. REWE Group reserves the right to impose sanctions in the event of deliberate gross non-compliance with the requirements. In principle, however, REWE Group relies on individual measures and sustainability projects for supplier development. For example, training programs are aimed at reducing effects along the supply chain in a targeted manner. Existing systems are used in audits and, above all, in training courses in order to pool own strengths with other partners and to bring about joint improvements.

Stakeholder management

The challenges for dealing with sustainability risks in the production of private label products are often rooted in global trading structures and influenced by political and social conditions. Good stakeholder management is therefore an important starting point for identifying the relevant topics and implementing the sustainability strategy. REWE Group engages in a continuous exchange with stakeholders such as the Sustainability Advisory Board. REWE Group also organises regular dialogue events. Consumer education also plays an important role in stakeholder management. Consumers need to understand the importance of more sustainable products in order to keep them on the market in the long term. With this in mind, REWE Group informs its customers about the origin and particularities of its chocolate private label products.

Other important elements include participation in external events, multi-stakeholder initiatives, partnerships, commitment to the further development of sustainability standards and monitoring relevant developments at political and regulatory level. REWE Group participates in the multi-stakeholder initiative Forum Nachhaltiger Kakao (Forum for Sustainable Cocoa) and works together with various standards and certification programs to promote more sustainable cocoa farming. Important standard-setting bodies include Fairtrade and Rainforest Alliance/UTZ⁵.

These programs aim to improve social and environmental standards in cocoa farming and to create more transparent supply chains.

Fairtrade: The Fairtrade label stands for improved working and living conditions for farmers and employees in agricultural production in Africa, Asia and Latin America. Compliance with international standards is monitored by independent bodies. Fixed minimum prices and premiums for joint projects should offer farmers and employees greater planning security and create fair trading conditions. Child labour and forced labour are prohibited. Comprehensive environmental criteria include cultivation guidelines, waste and water management, as well as measures to protect the climate and biodiversity. Deforestation and the use of genetically modified plants are prohibited. Fairtrade maintains the most comprehensive prohibition list for pesticides in the

conventional sector and also promotes organic farming. The Fairtrade producer networks advise and train local producers and implement projects.

The Fairtrade programs focus on fair procurement of raw materials. The **Fairtrade Cocoa Program** brings smallholder farmers together with companies that purchase certified cocoa raw materials. Extensive and often long-term purchase commitments strengthen the economic situation of small farmers and their families.

Rainforest Alliance/UTZ: The organisation works at the interface between business, forestry and agriculture to meet social and environmental challenges. The power of the markets is used to make supply chains more sustainable. Producers can achieve a higher price by selling certified products.

Rainforest Alliance focuses on environmental and social criteria. The emphasis is on preserving biodiversity and securing a sustainable livelihood by changing land use practices and business practices. Responsible entrepreneurial action and value-oriented consumer behaviour are further key topics.

EU organic logo: The logo identifies products from organic agriculture that have been produced in accordance with the guidelines of the EU Eco-Regulation. Organic agriculture refrains from using chemical synthetic pesticides and fertilizers, among other things, in order to promote the preservation of biodiversity and protect the climate. The rules cover both cultivation and processing and trade, and compliance is verified by regular checks.



⁵In January 2018, the standard organisations UTZ and Rainforest Alliance merged and have since been operating under the name Rainforest Alliance. The new common standard will be available from early 2020; by the end of 2019, both UTZ and Rainforest Alliance labels can be used.

Naturland: The organic cultivation association Naturland defines strict guidelines for the cultivation of organic food for its members. These guidelines focus on a holistic approach, sustainable management, nature and climate protection in practice, securing and preserving soil, air and water as well as consumer protection. With its guidelines, Naturland also covers areas that are not regulated by the EU organic logo – for example human rights and employment requirements such as free choice of workplace, freedom of assembly and access to trade unions, equality, children's rights and health and safety are also taken into account for certification. The association operates internationally and promotes organic farming worldwide.

PRO PLANET Label: With the PRO PLANET label, REWE Group has developed a reliable orientation aid for consumers. Besides cocoa, the label is used for other products and specifies in concrete terms the social or ecological added value offered by the respective product. As part of its commitment to sustainability, REWE Group awards the PRO PLANET label with the aim of analysing and systematically reducing problems in the value chain. A clearly regulated award process, accompanied by an independent Sustainability Advisory Board, ensures that the PRO PLANET label stands for effective improvements. Thus, the PRO PLANET label enables a purchase decision based on comprehensive information and helps to promote more sustainable consumption across the board.

Forum Nachhaltiger Kakao (Forum for Sustainable Cocoa): As a founding member, REWE Group participates in the forum to promote more sustainable cocoa farming. Together with the other members, it pursues the goal of improving the living conditions of cocoa farmers and promoting sustainably produced cocoa. The PRO-PLANTEURS project focuses specifically on improving the conditions in small family-owned farms and their cooperatives in the south-eastern regions of Côte d'Ivoire. With the help of the project, around 20,000 farmers can be reached.

IV. REQUIREMENTS AND MEASURES

REWE Group has laid down the basic values that apply to all business relations with REWE Group's contractual partners in its Guidelines for Sustainable Business Practices. This includes respect for human rights, labour and social standards as well as animal welfare and environmental protection. With the requirements described below, REWE Group specifies the basic principles set out in the guideline for suppliers of private label cocoa products.

4.1 People

REWE Group is committed to ensuring that the cocoa products in its product ranges are manufactured in compliance with human rights and recognised labour and social standards. All business partners in the supply chain for private labels are contractually obliged to comply with the minimum requirements such as internationally and nationally applicable laws and the core labour standards of the International Labour Organisation (ILO) and to commit themselves to the Guideline for Sustainable Business Practices. The suppliers of REWE Group's private label cocoa products are obliged to guarantee compliance with the core principles also along their supply chain and to prove this by means of Fairtrade, Rainforest Alliance/UTZ or Naturland certifications. The certification program requires compliance with the following principles in particular:

- Compliance with national laws; e.g. minimum wages for employees and compliance with statutory working hours;
- Ban on forced labour;
- Ban on all forms of exploitative child labour on all farms;
- Right to freedom of association and collective bargaining;
- Prohibition of all forms of discrimination;

- Provision of procedures for the anonymous submission of complaints. This gives employees the opportunity to address grievances at an early stage independently of audits;
- Further training of farmers on the topic of more sustainable and more effective economic business practices;
- Protection of workers' health and safety;

Fairtrade also guarantees minimum prices based on one tonne of the raw material traded, ensuring income in the face of decreasing world market prices. In addition, the Fairtrade premium supports social, economic and ecological joint projects of the respective cooperatives. Each farmers' organisation determines the topics and design of these projects itself.

4.2 Environment

The protection of natural resources and biodiversity is an important concern of REWE Group. For this reason, it is also committed to environmentally friendly and resource-saving production conditions in its supply chains. This means that REWE Group business partners are required to use resources such as energy, chemicals or water efficiently and to minimize emissions.

All companies in the supply chain of private labels are obliged to meet the minimum requirements of generally recognised environmental protection standards and internationally and nationally applicable laws within the individual production stages. In addition, they must also ensure compliance with the standards along their supply chain and prove this through certifications such as Fairtrade, Rainforest Alliance/UTZ, Naturland or the EU organic logo. This imposes the following requirements on the producers:

- Preventing pests and plant diseases instead of using pesticides. In organic farming, for example, there is an explicit list of active substances approved for plant protection;

- Protection of biodiversity and improvement of soil fertility and prevention of soil erosion;
- Sustainable use of water resources and prevention of water pollution;
- Implementation of climate protection projects, such as the conversion to renewable energies and the reduction of greenhouse gases.

Transparency and traceability in the cocoa supply chain are important tools for a more sustainable cocoa sector. All standards guarantee traceability at least according to the "Mass Balance" supply chain model⁶. Through the Fairtrade code, the Fairtrade certification program provides traceability and transparency for consumers.

⁶The "Mass Balance" procedure requires an equivalent quantity of cocoa to be grown and certified to produce an end product.



V. OBJECTIVES

REWE Group has set itself ambitious objectives for the implementation of the defined measures. These give the trade group's commitment a clear orientation and are subject to a continuous progress review.

- Objective 1: Certified cocoa.** Purchasing certified raw materials is an important contribution to promoting a more sustainable cocoa sector. REWE Group therefore set itself the goal of converting its REWE and PENNY private labels to 100 per cent certified cocoa by the end of 2015. However, only 99 per cent of this target was achieved by the end of the 2018 reporting year, as some of the certification process is still ongoing. For this reason, REWE Group has now set itself the goal of closing the gap to the 100 per cent target for REWE and PENNY private labels⁷ in Germany by the end of 2020.

Objective 1.1: By the end of 2020, 100 per cent of our chocolate products⁸ as well as instant cocoa, nougat spreads and sweet biscuits will be converted to Fairtrade or the Fairtrade cocoa programme.

Objective 1.2: By the end of 2020, 100 per cent of our organic articles with cocoa components will be additionally certified according to a social standard⁹.
- Objective 2: Transparency in the supply chain.** REWE Group strives to increase transparency and traceability in the cocoa supply chain and to make information about the origin of chocolate products visible to its customers in the future. To this end, selected chocolate products should be converted to the "segregation" supply chain model where this is structurally possible.⁹

REWE Group is aware that certification systems alone cannot solve the challenges in the cocoa sector. For this reason, the company has set itself further goals in order to contribute to the promotion of a more sustainable cocoa sector.

⁷REWE Group uses the Fairtrade, Rainforest Alliance/UTZ, Naturland and EU organic certifications for this purpose.

⁸These articles comprise the product groups of chocolate bars, candy bars, filled chocolates, Easter and Christmas sweets, instant cocoa and chocolate nut spreads.

- Objective 3: Living income.** REWE Group has set itself the goal of working in dialogue with standard-setting bodies, the industry and other stakeholders towards a living income and supporting measures to improve the living conditions of cocoa farmers and their families.
- Objective 4: Protection of natural resources.** REWE Group strives to support the implementation of sustainable cultivation systems that conserve natural resources and promote biodiversity and contribute to the preservation of forest areas in dialogue with standard-setting bodies, the industry and other stakeholders.

VI. REPORTING AND COMMUNICATION

REWE Group is convinced that transparency and the provision of comprehensive information are important components of successful sustainability management and can also contribute to the promotion of a circular economy. REWE Group reports regularly and publicly on progress and obstacles in the implementation of measures and the achievement of targets. This is done through press releases, via the REWE Group website or via the sustainability report of the Group. REWE Group also runs communication campaigns for its customers in order to raise their awareness for more sustainable cocoa farming.

⁹"Segregation" means that the certified cocoa volumes are combined and traded completely separately from conventional flows of goods – this ensures that every end product contains 100 per cent certified raw materials. ⁷ Social standards include certification according to Fairtrade, Rainforest Alliance/UTZ and Naturland.

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Imprint

Published by: REWE Group
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The dialogue on the topic of cocoa products is of great importance to us. Please do not hesitate to contact us with suggestions and questions at: nachhaltigkeit@rewe-group.com

As of: May 2019