

To our customers

March 2010

Corporate social responsibility of Barry Callebaut in the cocoa sector

Dear customers,

Cocoa is a typical product of the tropics: The more than 3.5 million metric tons of cocoa harvested every year originate from about 30 countries situated along the equator. About two-thirds of the harvest comes from West Africa, mainly Côte d'Ivoire and Ghana.

Some recent media reports on child labor, child trafficking and child slavery in the cocoa-growing sector in West Africa, in particular in Côte d'Ivoire, have attracted public interest and debate. Barry Callebaut would like to address some of the issues raised by these reports and provide you with some background information so you can put these reports into context.

How widespread are child labor and abusive child labor practices? Getting accurate statistics is difficult. According to the International Labor Organization ILO there are over a quarter of a million children who work in the cocoa plantations in West Africa.

While it is not unusual for children in agrarian states to help their parents out on the farm, Barry Callebaut strongly condemns slavery and abusive labor practices that exploit children or put them in a hazardous or harmful work environment.

Many children work because their survival and that of their families depend on it. Child labor is an indicator of poverty and a low level of rural development. We firmly believe that improving cocoa farmer livelihoods is imperative in the fight against poverty because poverty is the main reason why farmers resort to abusive labor practices. Barry Callebaut has thus been actively engaged in programs for a better livelihood for cocoa farmers and the elimination of abusive child labor practices in the cocoa-growing countries of West Africa for many years.

Empowering farmers to earn higher incomes

With a share of about 35% to the world cocoa harvest, cocoa is a significant economic factor in Côte d'Ivoire. Between 700,000 and one million farmers grow cocoa, most of whom are smallholder farmers working their own land. For several decades after its independence in 1960, Côte d'Ivoire experienced political stability and economic growth. This stability was shaken in 1999 after a military coup. The outbreak of civil war in 2002 divided Côte d'Ivoire in two. A peace treaty was negotiated in 2007. The years of political tension have had a major social and economic impact, and Côte d'Ivoire is among the poorest countries in the world.

Barry Callebaut has been present in Côte d'Ivoire since 1964. Rather than withdrawing from this country in view of its complex situation, thereby punishing many farmers who adhere to appropriate labor practices, we decided to pursue a different avenue: We are maintaining an active presence in the region as we are convinced that the most effective way of changing the world of cocoa farmers in West Africa for the better is through a local presence and concrete engagement. We are investing several million Euro per year in our programs that benefit local farmers and their communities.

For example, we launched the Quality Partner Program (Partenaire de Qualité) in Côte d'Ivoire in 2005, which 47 cooperatives with 42,000 farmers have joined in the meantime. The program offers training in good agricultural practices to help enable farmers to improve the quality of their cocoa and to increase their yields. By producing more cocoa, they can generate more income, and by delivering a better quality they will receive a better price for their beans.

In the past two years Barry Callebaut has paid approximately EUR 350,000 in premiums for higher quality beans to more than 20 of the partner cooperatives. Many cooperatives also need financing assistance before and during the harvest season. Barry Callebaut offers cooperatives about EUR 26 million in pre-financing in the form of interest-free loans every year. We further support cocoa farming communities by providing improved access to health care and education.

40% of the cocoa we source in Côte d'Ivoire comes from Quality Partner cooperatives, i.e. we can trace this cocoa back to the cooperatives. This is an important achievement in our endeavor to increase the traceability of the cocoa we buy.

An important element of the Quality Partner Program is the regular courses for farmers on abusive child labor and the importance of sending their children to school.

The agreements that we sign with our partners in this project include clauses obligating the farmers not to use any abusive child labor practices. These agreements also allow us to conduct audits at any time to assess working conditions.

In order to give our customers added assurance about the qualities and benefits of the Quality Partner Program for cocoa farmers we have commissioned KPMG to do an audit of the program. We expect the reassurance report to be available within a month.

Please visit our website for further information: <http://www.barry-callebaut.com/csr>

Objectives of the Quality Partner Program

- Empowering and incentivizing cocoa farmers to produce more and better quality cocoa
- Teaching cocoa farmers about sustainable farming practices
- Contributing to better living conditions by providing aid in the areas of healthcare and education

What is considered "abusive child labor"?

The International Labor Organization defines the following work in the cocoa sector as unacceptable for children: (*ILO Convention 182*)

- Carrying heavy loads
- Inappropriate use of machetes
- (Unprotected) presence when

Actively supporting industry programs that aim at eradicating the worst forms of child labor

The cocoa and chocolate industry will not be able to end poverty in Africa. However, for nearly a decade, Barry Callebaut has been working in concert with other leading companies in the chocolate and cocoa sector and has supported programs that aim at improving the social conditions of the about 2 million cocoa farmers and their families in cocoa communities in Côte d'Ivoire and Ghana. As we cannot do this alone we work with governments, donor agencies, NGOs and other stakeholders. Collectively we have spent more than USD 75 million and are supporting more than 40 programs throughout West Africa. We would like to give you an overview of the most important industry programs:

- **International Cocoa Initiative (ICI).** Together with other cocoa and chocolate companies, NGOs and the governments of West Africa, we signed the Harkin-Engel Protocol and thereby underscored our commitment to work to eradicate the worst forms of child labor in the cocoa sector. A key partner in this effort is the International Cocoa Initiative (ICI), a foundation established by industry and civil society under the framework of the protocol. ICI is working in 259 communities with a total population of 830,000 in Côte d'Ivoire and Ghana. Barry Callebaut

also works directly with ICI on programs for members of our Quality Partner Program. In 2008/09, ICI conducted training on child labor issues with members from 33 of the 47 QPP partner cooperatives. For more information about ICI, please visit the ICI website (www.cocoainitiative.org).

- **World Cocoa Foundation (WCF).** As a member of the World Cocoa Foundation, Barry Callebaut helps fund efforts to ensure cocoa sustainability worldwide through partnership-driven programs focused on training for farmers and communities and applied scientific research. Through the WCF, Barry Callebaut also helps fund the Sustainable Tree Crops Program (STCP). For more information, please visit the WCF website (www.worldcocoafoundation.org) or the STCP website (www.treecrops.org).
- **Cocoa Livelihoods Program.** Barry Callebaut has joined with the World Cocoa Foundation, other industry members and the Bill & Melinda Gates Foundation to improve the livelihoods of approximately 200,000 cocoa farming households in Côte d'Ivoire, Ghana, Nigeria, Cameroon and Liberia. The USD 40 million, five-year Cocoa Livelihoods Program, launched in February 2009, focuses on enhancing farmer knowledge and competitiveness, improving farmer productivity and quality, promoting crop diversification and improving supply chain efficiencies. On-the-ground program activities began in late 2009 and early 2010. For more information, please visit the WCF website (www.worldcocoafoundation.org).

Our business depends on cocoa, a sensitive crop grown in some of the poorest areas of the world. We are actively engaged in various countries to help ensure that cocoa is grown in a sustainable way that generates income for farmers and their families. We recognize that you expect assurance that the cocoa you buy from us is being produced in a responsible and sustainable way. We are satisfied with our accomplishments towards this aim, some of which have been outlined here, yet we recognize that much remains to be done. We wish to take this opportunity to assure you of our long-term commitment to responsible cocoa, and to thank you for your support.

Sincerely yours,
Barry Callebaut AG