



FAIR PRICING POLICY

BACKGROUND and AIMS:

Since 2023, the price of cocoa has increased dramatically, reaching **+400% over 21 months**. This price surge is due to a **significant drop in production** caused by **extreme climatic events**, mainly affecting crops in West Africa, particularly Ghana and Ivory Coast, which account for 57% of global production.

According to the ICCO, global cocoa production for the 2022-2023 season was estimated at **5 million tonnes**, while for the 2023-2024 season, it is expected to have **fallen by 14%**, reaching 4.382 million tonnes.

To better understand the impact of market fluctuations, one must first understand the structure of a cocoa supply chain, divided into three parts:

- **Upstream:** Plantation, harvesting, fermentation, and drying of cocoa beans. The farms in the main producing countries measure between 2 and 5 hectares.
- **Primary downstream:** Processing of raw beans for the chocolate industry (cleaning, drying, roasting, hulling, and grinding).
- **Secondary downstream:** Production of chocolate and other by-products.

More than 90% of the world's cocoa production comes from about 5 to 6 million smallholder farmers. Valrhona mainly buys cocoa from these farmers.

In this context, securing income and investing in tools to transform agricultural practices remains difficult for cocoa producers. To address this, following the definition of reference prices for a living income in their countries, **Ivory Coast and Ghana** have implemented mechanisms to **guarantee a minimum price to producers**, involving the payment of a Living Income Differential (LID) of \$400 per tonne, paid by all buyers.

At Valrhona, we are aware that these **price regulations are not enough to guarantee a decent standard of living** within the producer communities we work with, and we are acting accordingly.

A COLLECTIVE COMMITMENT:

SIGNING THE IFCD - THE FRENCH INITIATIVE FOR SUSTAINABLE COCOA

We are part of the French Initiative for Sustainable Cocoa, which brings together 64 member companies of the Syndicat du Chocolat, the French government, NGOs and cocoa and chocolate industry research institutes. In 2022, the initiative is in step with others launched in around Europe, such as Beyond Chocolate (Belgium), Gisco (Germany), Swisco (Switzerland) and Disco (Netherlands).

We are conscious of the complex and deep-rooted social, economic and environmental challenges facing the cocoa industry, so we want to **work collectively and in partnership with everyone** in the French cocoa industry to make our actions more effective. The initiative's signatories are jointly committed to **three specific, time-limited objectives**:

1. **Improve the income of cocoa farmers and their families** so that they can achieve a living income (in the sense of the "Living Community of Practice") by 2030, in collaboration with producing countries.
2. **Stop sourcing cocoa from deforested areas** by 2025.
3. **Speed up action against child labor** in French supply chains by 2025.

VALRHONA'S COMMITMENTS AND ADDITIONAL ACTIONS:

1. PRICES FOR A LIVING INCOME

We recognize that a living income is a **fundamental human right** and is the basis for sustainable changes within cocoa supply chains. A living income is defined as "**the net annual income required for a household residing in a given location to ensure a decent standard of living for all members of that household.** The components of a decent standard of living include food, water, housing, education, healthcare, transportation, clothing, and other essential needs, including reserves for unforeseen events" (Living Income Community of Practice 2020). To meet this human rights obligation, we have chosen to start by comparing our prices with the **Living Income Reference Price (LIRP)** when it exists in our sourcing origins. The LIRP is a crucial tool and must contribute to achieving a living income for the producer.

The pursuit of a fairer price is at the heart of Valrhona's concerns. We have been committed for many years with our partners by jointly defining compensatory premiums to ensure an income above the market price for producers in our supply chains.

2. INTERNATIONAL FAIR-TRADE CERTIFICATION

To complement our approach and take a step further towards establishing a living income with our partner producers, we have decided to take position as a fair trade partner.

By 2030, **our purchase contracts will involve** with all our partner suppliers to work towards the framework of internationally recognized fair trade standards (such as Fairtrade Max Havelaar or Fair for Life). This involves the payment of a floor price or minimum price and the payment of a development premium to producer organizations.

Indeed, according to a study commissioned by **Fairtrade**, the fair trade minimum price **prevents some of the negative impacts on human rights** related to price drops and price fluctuations, while the fair trade premium contributes to a higher standard of living. A generally higher standard of living promotes the realization of other rights, including education and health.

However, this dual mechanism is sometimes not sufficient to guarantee a living income. Productivity, the quality of public services in the country concerned, additional household income, and the size of the plot are all factors to consider.

Defining a fair price, corresponding to the requirements of fair trade certifications and in collaboration with our partners, is fundamental and constitutes the first step to enabling the payment of a living income to producers.

KEY PERFORMANCE INDICATORS FOR 2030:

1. **100% of cocoa bean purchases** will be certified based on internationally recognized fair trade standards, such as Fairtrade and Fair for Life.

OUR 2024 PROGRESS:

COCOA PURCHASE

During an exceptional period when the price of cocoa saw an increase of up to +400% over 21 months, to ensure the sustainability of the supply chain, we **continued to maintain our proximity with our partners** and pay premiums to our producers

defined per origin and according to quality criteria, level of traceability, and environmental respect.

PURCHASING FAIR TRADE CERTIFIED COCOA

In 2024, we purchased **30% of our cocoa bean purchase volumes certified as fair trade**. These beans come from our partners in Ivory Coast, the Dominican Republic, Peru, and Bolivia **certified by Fairtrade**.