Brussels, 19th October 2021

COCOA TALKS

EU VIRTUAL MULTI-STAKEHOLDER ROUNDTABLES ON SUSTAINABLE COCOA

SUBJECT: SUMMARY REPORT - MEETING 7 ON EU CONSUMERS AND SUSTAINABLE COCOA PRODUCTS.

On the 19th of October 2021, the European Commission hosted Meeting 7 of the *Cocoa Talks*, its multi-stakeholder dialogue on sustainable cocoa, on the topic of EU Consumers and Sustainable Cocoa Products. The objective of the meeting was to examine consumer preferences within the cocoa value chain and to reflect on the role of consumers in enhancing the overall sustainability of cocoa production and trade.

Introductory remarks

Mrs Urszula Stepkowska, Deputy Head of Unit, Africa, Caribbean and Pacific, European Commission Directorate-General for TRADE, introduced the meeting by highlighting the important role of consumers in the cocoa supply chain, as these actors ultimately determine what kind of products are placed on the shelves of EU grocery stores. She reminded participants that the EU is the larget consumer of cocoa in the world, while Côte d'Ivoire and Ghana are the largest and second-largest cocoa producers respectively. Studies show that the EU consumer in particular is an *informed* consumer who cares about a range of issues beyond the quality-price ratio, such as the impact of consumption on the environment and on people within the supply chain. Ms Stepkowska cited studies demonstrating that EU consumers consider that the environmental footprint of consumer products to be an important factor in their purchasing decisions and that changes in consumption patterns are the most effective way to tackle environmental problems. She also noted that the COVID-19 pandemic has reinforced these attitudes, citing another survey of consumers from four EU countries (May 2020) which a found that a majority of consumers are willing to buy sustainable products *even if they cost more*. For this reason, she explained, EU trade policy is increasingly emphasizing the sustainability of value chains, especially when it comes to agricultural supply chains that involve developing countries. She ended by reminding participants of the market opportunities that are associated with evolving consumer preferences: consumers are eager to reward producers that advance sustainability goals, she observed, particularly when this is linked to the quality of the product.

Mr Leonard Mizzi, Head of Unit, Sustainable Food systems and Fisheries, European Commission Directorate-General for International Partnerships continued the introductory segment of the roundtable by emphasizing that consumer purchasing power is critical in the discussions on sustainable cocoa. He asked: how much are European consumers willing to pay for sustainability? He urged the stakeholders present to reflect on a number of issues: to understand whether there is a typology of EU consumers (i.e. distinguishing between consumers from different Member States), to examine the price elasticity of chocolate products in each case, and to understand the impact that digital traceability and transparency might have on that elasticity. He reminded the audience that price transmission – from consumer to producer – is not always linear, which implies a need for greater transparency along the supply chain. Lastly, he raised a series of related topics to be discussed, such as competition policy and the role of retailers. Together, he concluded, these discussions will allow stakeholders to understand the margin for manoeuvre in the collective effort towards living income, respect for human rights and the environment. He ended by calling for a "rebalancing" of the supply chain while ensuring that consumers feel comfortable with the price that they are paying.

HEM Abou Dosso, Ambassador of Côte d'Ivoire to the Kingdom of Belgium, the Grand Duchy of Luxembourg and the EU, expressed gratitude, on behalf of Côte d'Ivoire, for the opportunity to discuss trends in the consumption of cocoa and chocolate products in the EU. He structured his remarks around five (05) key questions:

1. *Is the European consumer prepared to pay more for sustainable cocoa products?* In response to this question, the ambassador expressed his personal conviction that the answer is *yes*. He based his opinion on personal observation, but also on the empirical fact that private sustainability standards, which integrate a price premium for sustainable production, have enjoyed widespread success on the European market. Furthermore, the ambassador noted that the proportion of cocoa in overall value addition within the cocoa value chain amounts to only ca. 5%. Changing the price of cocoa would have only a minor impact on the price that the final consumer will have to pay.
2. *What does the European consumer consider to be a "sustainable" cocoa product?* The ambassador noted that "sustainable" cocoa should indeed be free from deforestation and child labour. However, he deplored the fact that the definition of sustainability often leaves out the issue of farm-gate prices and the "living income" of cocoa farmers. He urged political decisionmakers to integrate these issues into their reflections.
3. *Is it a problem for producing countries to satisfy the demands of European consumers regarding the sustainability of cocoa and chocolate products?* To this question, the ambassador expressed his firm conviction that demands for more sustainable cocoa production should not pose a problem for producing countries. He emphasized that Côte d'Ivoire has already put in place ambitious policies to tackle deforestation and climate change for its own, internal reasons. The demands and expectations of European consumers provide further impetus to ongoing domestic reforms.
4. *Are sustainable cocoa production practices sufficient to drive the sustainability agenda in Côte d'Ivoire and at the global level?* The ambassador swiftly rejected this premise which, according to him, fails to recognise the importance of price and the living income as *drivers* of social and environmental sustainability. He questioned whether EU legislation would be sufficient to tackle climate change without greater incentives for farmers, given that non-compliant cocoa could continue to be sold to other global markets. In this regard, he insisted, European stakeholders should be careful not to penalize cocoa-producing countries and their farmers, especially when they are already striving to improve their performance on all three pillars of the sustainable development framework.
5. *What solutions can Côte d'Ivoire propose regarding the issue of sustainability in cocoa supply chains?* To conclude, the ambassador called for European support for the Living Income Differential. He noted that the Living Income Differential is a short-term solution that must eventually give way to a *minimum* revenue for farmers and a floor price for cocoa.

Mr Fuad Abubakar Mohammed, Manager, Ghana Cocoa Marketing Company, began by reiterating the strong commitment of producing countries, consuming countries, and the chocolate industry, to bring about a sustainable cocoa economy. He welcomed the findings of recent studies that show that consumers are willing to pay more for their chocolate. However, he asked, how much of that increase will go to the farmer instead of being consumed by the increased costs of marketing and branding? He emphasized that the living income of cocoa farmers is a precondition for attaining sustainability goals, including the elimination of child labour. He reminded participants that in 2010-2011, cocoa prices averaged over GBP 2.200 (compared to ca. GBP 1.800 now), while in the meantime, the costs of production have skyrocketed due to rising input and labour costs. In view of this, he stated stated his belief that the terminal market price is becoming inefficient as a price discovery mechanism, and that cocoa premiums (e.g. the country differential and sustainability premiums) are not sufficient to cover the additional costs of sustainable production. He listed the efforts that producing country governments, including Ghana, have been making to tackle deforestation and child labour, and asked whether consumers would be willing to contribute to this effort. Producing countries have their own incentives to deal with issues like climate change, he claimed, since this has a serious impact on their own population. In other words, they are dedicated to sustainable cocoa production. Notwithstanding this, consumers should contribute to the effort in recognition of the mutual benefits that derive therefrom.

Expert presentation

Mr. Christophe Alliot, Le Basic-Bureau for Appraisal of Social Impacts for Citizen Information, delivered the expert presentation on EU consumer preferences and sustainable food products, based on a study of consumers' willingness to pay and the price elasticity of cocoa products.

He began by looking at the preferences and attitudes of EU consumer preferences towards sustainable food products *in general*, before examining chocolate products in more detail. He cited the results of a Valumics H2020 research project which used in-depth focus group discussions in four countries (Germany, France, Italy and the UK) to uncover the principal drivers of consumer behaviour in relation to sustainability in the food sector. This study shows that price is only one factor in the consumer decision-making process, and is complemented by other factors such as the eating habits of the family, the person in charge of food shopping, health considerations, and the accessibility of products. The research also provides an important insight into the mechanism through which prices influence consumer choices, revealing that the price of sustainable food products is not as important in the minds of consumers as the *price differential* between mainstream products and their "sustainable" equivalents. Based on a survey of over a thousand consumers, Simon-Kucher & Partners found that farmer income is considered to be more "acceptable" justifications for price increases than environmental protection.

Mr. Alliot then moved onto chocolate specifically. He cited a study by Savanta, conducted on behalf of Cargill, which surveyed more than seven thousand consumers in ten EU countries. This study found that sixty-eight per cent of consumers would be ready to accept a price increase in exchange for guarantees on the sustainability of cocoa content. When interrogated on which issues they considered to be included in the definition of "sustainability", these consumers cited child labour, living income (wages) and deforestation, in that order of importance. Mr Alliot offered additional evidence from his own research – a survey of 1,200 consumers in four EU surveys (March 2021) – to further elaborate on these findings. He showed that a majority of Belgian, Dutch, French and German survey participants claimed to be willing to accept a 5% increase in the price of dark and milk chocolate tablets, especially if price increases were connected to progress on living income, child labour and the environment. His research also found that the maximum price, beyond which consumers might begin to question their consumption of consumption, was sixty to seventy per cent above than the price they claimed to be paying today, and that this maximum was fifteen to twenty-five per cent higher when connected with progress on living income, deforestation and child labour.

The last part of the presentation moved from the study of consumers "stated preferences" to examine actual consumer behaviour. Mr Alliot showed that, across all food products, a one per cent increase in price leads to a decrease in sales volumes amounting to 0.94% in Germany and 0.57% in France. In general, he concluded, German consumers are much more sensitive to price increases than French consumers. However, when it comes to chocolate, there is less price elasticity in Germany, where sales volumes decrease by 0.7% on average for each percentage point increase in price. In France, it is not possible to compute price elasticity due to structural changes in the French market for chocolate products. In particular, the overall volume of chocolate sold in France is decreasing while the value of the chocolate sold is actually increasing (see graph below), suggesting that consumers are actually shifting away from milk chocolate and private label brands towards dark chocolate and premium brands. In other words, the market is undergoing a process of "premiumization" which implies less consumption in volume terms, but 'better' consumption in terms of value and quality. Within this trend, there is a clear upward trend in sales of organic and Fair Trade products, whose three-digit growth suggests that "premiumization" is being driven not only by flavour but also by sustainability considerations.

To conclude, Mr Alliot emphasized the increased awareness of consumers on the issue of farmers' income, health, animal welfare and environmental protection, which has increased even further in the aftermath of the COVID-19 crisis. This awareness translated into a stated willingness to pay more for products that lead to price increases and a living income for farmers. These trends exist in both the chocolate sector and in the food sector in general. However, in the chocolate sector, there seems to be a looser relationship between prices increases and volume than in the rest of the food products category.

Panel discussion

Ms. Cathy Pieters, Senior Director Sustainable Ingredients, Global Impact Sustainability & Well-Being, Mondelez International, expressed her gratitude to Le Basic for the insights that they provided through their studies on consumer willingness to pay and the price elasticity of products in certain European countries. These studies add to our understanding on consumers' intentions, she explained, in support of progress towards sustainable cocoa. However, she called on researchers to dive deeper into the actual behaviour of consumers, and not just their intentions. She expressed the chocolate industry's support for the overall message that price is one important tool to increase the incomes of farming households. This is why many actors within the industry already source sustainable cocoa at a premium, on top of paying the Living Income Differential. However, she continued, prices are not a silver bullet that can drive the structural change that is needed for sustainable cocoa production. Furthermore, price interventions may not automatically result in more sustainable cocoa products, unless they are accompanied by supply management, traceability, comprehensive agricultural reforms and rural development policies.

Ms Pieters reiterated that, throughout the Cocoa Talks roundtable discussions, the cocoa and chocolate industry has outlined its commitment to sustainability through its vision for a sustainable cocoa sector; one where cocoa farmers are prosperous, cocoa-growing communities are empowered, human rights are respected, and the planet is healthy. In this context, the EU has a critical role to play in educating consumers about the complex and interrelated sustainability challenges in cocoa. This will help to set appropriate expectations and to empower consumers to be a driving force towards sustainable cocoa. Ms Pieters emphasized the importance of managing expectations; consumers need to know that small increases in the price of chocolate will not automatically lead to a living income for all cocoa farmers.

Ms Pieters ended by expressing industry support for the Living Income Differential as a policy to raise farmers' incomes. However, she also stressed the need for coordination of national production policies and programmes to ensure stable long-term supply management that is consistent with global demand projections. Failing this, increased prices may stimulate production, leading to structural oversupply in the market.

Prof. Martin Franz, Researcher at the University Osnabrück, began with the observation that consumers surveys often show a willingness to pay for sustainable food products, but that this expressed willingness to pay is sometimes inconsistent with actual behaviour. He pointed out that the claims made in such surveys are often hypothetical in nature and that results may be biased because ethical purchasing practices are seen as socially desirable by the respondents.

By way of contrast, he provided insights from experiments carried out by his own research team, which seek to identify the factors influence consumer decisions in favour or against more sustainable chocolate. These results show that consumers generally perceive a significant amount of physical and socioeconomic distance between themselves and the cocoa farmers, but that they nevertheless feel empathy towards the cocoa farmers when they receive information about their living conditions. In other words, consumers need to be in a position to build an emotional connection to the stories of individual farmers. Communication information via labels and text is insufficient in this regard. Packaging and advertisement can be a more effective means to pass on knowledge about the conditions of production, but consumers often distrust the information that they obtain through this means. They cannot tell label apart and often are skeptical about whether labels and sustainability programmes actually improve the conditions that cocoa farmers face on the ground.

Mr Franz then reported on the findings from a field mission that he conducted recently in Ghana, noting that sustainability premiums do indeed improve the livelihoods of farmers, but that living conditions are still relatively poor. He concluded by expressing his belief that changes in consumer behaviour can be a contributing factor towards better living standards but that it cannot be the only lever for change, due to limitations in consumer willingness to pay. He called for complementary government initiatives such as supply chain laws, the Living Income Differential, and other such measures.

Ms. Vesna Savic, Specialist Compliance Product Integrity, Ahold Delhaize, co-chair of the Retail Cocoa Coalition, welcomed this first opportunity to represent retailers in the *Cocoa Talks* series of virtual roundtables on sustainable cocoa. The organization that she represents – the Retail Cocoa Coalition – was founded in 2018 in conversation with the World Cocoa Foundation and aims to define the role of retailers in improving the sustainability of the cocoa sector. The Retail Cocoa Coalition has identified a set of priority activities, beginning with an annual assessment of traders with respect to sustainability criteria, including living income, child labour, farm-level improvement programmes, certification, company sustainability commitments, etc. Ms Savic noted that the cocoa supply chain is long; there is a need for transparency across the chain, before we can even raise the issue of price. The reason for this, she explained, is that transparency is a determining factor in consumers' 'willingness to pay'. This willingness will be influenced by the extent to which consumers can be confident that premiums reach cocoa farmers. To conclude, she agreed with other speakers that consumers' 'stated willingness to pay' is not always consistent with their actual behaviour, but she added that consumer education and concerted action by industry players can help to counteract this.

Ms Delphine Strohl, Associate, Dechert LLP, explored the links between consumer price increases in the chocolate sector and competition law. She distinguished between two different types of situation. First, there is the situation in which a State actor or government sets up clear, legally binding rules (e.g. through an international treaty). This is the case of the Living Income Differential: there is an alignment on price, but this is fine from a competition perspective because it is mandated by the State. Second, there is the situation in which different companies agree to raise the price for farmers in order to give them a living wage *without* a mandate from the State. This can be problematic. She therefore urged participants to take competition law into account when setting up living income initiatives and cooperation frameworks. She gave them a few pointers on how to do this. For example, such initiatives must ensure that price increases imposed on consumers are effectively passed on to the farmers, otherwise they might be considered a 'greenwashing' exercise. In light of this, she echoed remarks from other speakers about the importance of transparency and traceability in the supply chain. Ms Strohl also advised stakeholders to quantify the impacts of their initiatives. When such initiatives have a restrictive impact on competition, they can nevertheless be exempted from the relevant disciplines if the benefits outweight the costs. The preferred tool for competition lawyers to assess and quantify such impacts are 'willingness to pay' studies. The premium that is passed on to farmers, she explained, must be aligned with the price increase that has been identified through the corresponding 'willingness to pay' studies. Ms Strohl went on to explain that competition lawyers are increasingly aware that competition law may be acting as disincentive for industry initiatives to address sustainability challenges through cooperation. Guidance on competition law is in the making, which seeks to broaden (1) the notion of benefits, to include non-monetary benefits as well as monetary benefits, and (2) the consumers that benefit from the agreement, in order to include both the consumers that buy the product but also other consumers and the wider public. She cited the German and Dutch competition authorities that have made statements on these issues. She concluded by calling on the cocoa sector to present its sustainability initiatives to the EU Directorate-General on Competition for assessment as a 'test case'.

Mr. Nicolas Lambert, Director, FairTrade Belgium, expressed a sense of optimism following the remarks from previous speakers. According to Mr Lambert, there seems to be a consensus that price increases for cocoa – which are necessary for farmers to achieve a living income – can be passed on, at least in part, to the consumers. He reminded the audience that these prices increases for consumers would not be large; passing the cost of the Living Income Differential on to consumers, for example, has been estimated to lead to two per cent in the price of the average chocolate bar, while a *doubling* of cocoa prices would lead to a five per cent increase. He responded to the second part of the expert presentation by Le Basic, noting that the price elasticity of chocolate products is actually not that significant. In addition to this research, he noted that a lot of market players are already paying the LID and other even higher premiums (such as the living income reference price) without going bankrupt. He cited the example of a chocolate bar sold for two euros in European supermarkets, which uses cocoa that is sourced at the living income reference price. He also cited his own experience setting prices on behalf of multinational food companies, observing that these companies do not like to transfer cost increases to their consumers, but that they nevertheless do it when absolutely necessary. He concluded with the message that price should indeed be part of a broader and more systemic approach to sustainability in the cocoa sector. However, he pleaded for industry players and retailers to be more open to price interventions when these can be shown to lead to higher incomes for farmers.

<u>Question and answer session</u>

To open the question and answer session, **Emmanuel Opoku from the Ghana Cocoa Board** made some general remarks on the session. He recognised the importance of supply chain traceability, observing that additional investments will have to be made to achieve this goal, to the tune of $100 per tonne. As an open question to the audience, he asked whether consumers will be willing to foot this bill. He also noted that this additional investment does not go to the farmer, but must come on top of the sustainability premiums that find their way to the farmer (e.g. the Living Income Differential).

In response to **questions about price, Regis Meritan from the European Commission** reminded participants that the European Sustainable Cocoa Initiative was designed to repond to, and support, the initiative from Côte d'Ivoire and Ghana on the Living Income Differential, bearing in mind that European consumers increasingly expect cocoa and chocolate products to be sustainable. However, he insisted that the "fair price" for sustainable products needs to be agreed upon by all market actors. In this regard, the role of the European Commission in the ongoing multi-stakeholder dialogue remains that of an "honest broker". He also cited a study by Le Basic which demonstrated that farmers' share of value-added in the international cocoa and chocolate value chain is, for the average chocolate bar, only about five per cent of overall value-added. The fact that cocoa continues to be associated with unsustainable practices such as child labour and deforestation suggests that this share is insufficient to bear the costs of sustainable production.

In response to **questions about his research, Christophe Alliot from Le Basic** confirmed that chocolate is not a food product like the others, which explains the lower price elasticity observed in his studies. Consumers have a different relationship with chocolate, which is a pleasure product reserved for specific moments of the day.

In response to a question about farmers' right to a living income, **Cathy Pieters** confirmed that living income has been the first key performance indicator in industry efforts from the beginning, and that this is not dependent on whether the consumer thinks they feel moved by the issue on the day they buy a chocolate bar. However, she insisted, consumer 'willingness to pay' is and will continue to be an element of the puzzle. She called on stakeholders to delve deeper into the problem and to understand the market implications of price increases. In this regard, she applauded the role of the EU as an "honest broker" and called on them to facilitate conversation between stakeholders and between industry players. **Nicolas Lambert** lent his support to the assertion that living income is a human right, but added that a contribution from consumers can make it easier to achieve living income objectives.

In response to **a request for clarification on competition law**, **Ms. Delphine Strohl** explained that – if every buyer independently agree to pay a premium on cocoa – this would not be anti-competitive, as it would simply reflect individual behaviour on the market. However, if the buyers talk to each other and agree to pay such a premium, this could be interpreted as anti-competitive, especially if they then discuss ways to pass on the additional cost to consumers. An agreement, in this sense, need not be a written agreement but could be an oral or tacit agreement between market players. Such an agreement could nevertheless still be justifiable if it contributes towards the achievement of sustainability goals and generates benefits for consumers.