Brussels, 16th March 2021

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COCOA TALKS

EU VIRTUAL MULTI-STAKEHOLDER ROUNDTABLES ON SUSTAINABLE COCOA

SUBJECT: **SUMMARY REPORT ON MEETING 3B ON TRACEABILITY, TRANSPARENCY AND ACCOUNTABILITY WITH REGARDS TO DEFORESTATION AND FOREST DEGRADATION.**

On the 17th of March 2021, the European Commission hosted Meeting 3b of the *Cocoa Talks*, its multi-stakeholder dialogue on sustainable cocoa, on the topic of Traceability, Transparency and Accountability with regards to Deforestation. The objective of this meeting was to:

- Provide an overview of existing monitoring and enforcement mechanisms that seek to improve transparency, traceability and accountability along the supply chain.
- Present a selection of available technologies / digital solutions to improve transparency, traceability and accountability along the supply chain.
- Discuss the appropriate allocation of roles and responsibilities between government and the private sector in the design, implementation, administration and supervision of these systems.
- Discuss the role of women and youth from cocoa-producing communities, civil society organizations, trade unions and farmers' organizations in the design, implementation, administration and supervision of monitoring / traceability systems.

Four hundred and ten people attended the meeting, which lasted for three-and-a-half hours.

Ms. Carla Montesi, Director, Green Deal, Digital Agenda, European Commission Directorate General for International Partnerships, introduced the meeting by reminding participants that price and sustainability are two sides of the same coin. Whereas Meeting 1 on the Living Income Differential concentrated on the issue of price, Meeting 3 on traceability, transparency and accountability is dedicated to the other side of the bargain. The current session, for example, will serve to answer an important question for EU stakeholders: namely, how can we ensure that the cocoa purchased by European companies, and consumed by Europeans, is not contributing to deforestation in cocoa origin countries? She restated the target of zero deforestation outlined in the EU Green Deal and in the *Communication on stepping up EU action to protect and restore the world's forests* of 2019. She noted that this target should send a strong signal to the international markets, suggesting that specific commodities linked to deforestation – like cocoa – could have a reduced market access. She explained that these trends reflect the preferences of the European consumers, and the European Union's values and commitment to sustainable trade. Ms Montesi then proceeded to highlight some of the challenges that the EU faces in its path towards zero deforestation, including poor forest and land-use governance in commodity-producing countries. She observed that credible and transparent traceability, monitoring and reporting systems can help to hold public and private actors accountable, can limit opportunities for corruption, and improve market players' understanding of supply chains and their impacts. Transparency can also provide better access to information for stakeholders, so they participate in national debates about land use and natural resource management. In her concluding remarks, Ms. Montesi called for an integrated approach to the issue of deforestation, citing the Forest Partnerships that will be announced by the EU Commissioner for International Partnerships on the International Day of Forests, and encouraging all participants to work together to stop deforestation and to seek opportunities for forest restoration.

Mr. Hugo Schally, Head of Unit Multilateral environmental cooperation, European Commission Directorate General for Environment, reasserted the EU's commitment to tackling the problem of global deforestation and forest degradation, citing the EU Green Deal, the Farm to Fork Strategy and the EU Biodiversity Strategy. Mr Schally then proceeded to provide some specifics on demand-side measures that the EU is planning to introduce in the near future, including a legislative proposal that seeks to reduce the impact

on deforestation and forest degradation of products placed on the EU market. The European Commission's Directorate-General for the Environment is currently reviewing potential policy tools and conducting an impact assessment. The proposal is expected to cover a series of commodities, including beef, wood, palm oil, soy, rubber, cereals, coffee and cocoa, as well as products derived from these commodities, and will assess their sustainability based on international definitions, such as the deforestation criteria developed by FAO or the UNFCC. This means that the scope of the legislation will extend beyond illegal deforestation (*de jure*) to include deforestation that has occurred, *de facto*, after a cut-off date that will be set between 2015 and 2020. Mr Schally then offered an overview of the Commission's assessment of the existing EU rules on illegal logging: the EU Timber Regulation and the FLEGT regulation. With regards to the EUTR, Mr Schally highlighted the need to improve due diligence requirements and enforcement; with regards to the FLEGT regulation, he expressed the ambition to build on the positive features of voluntary partnership agreements, such as civil society participation and engagement with partner countries on forest governance reform, while reconsidering those elements that have proven ineffective, such as the attempts to set up operational licensing and monitoring systems and the need for partnership agreements that are slow and complex to negotiate. He informed participants that the forthcoming legislative proposal will, most likely, involve some form of improved due diligence requirements for companies. However, this approach will probably be combined with country or jurisdictional benchmarking, with stricter due diligence requirements for products from countries that suffer from higher rates of deforestation, and public certification tools, to help companies perform their due diligence obligations. Lastly, he observed that these due diligence requirements will almost certainly include strengthened transparency and traceability obligations. In this regard, there is a clear connection with verification systems in partner countries such as Ivory Coast and Ghana. The better, the more reliable and the more aligned with EU criteria those systems are, the easier it will be for companies placing products on the EU market to perform their due diligence obligations — and to demonstrate that the commodities and products that that they place on the EU market are not associated with deforestation according to EU criteria.

Michael Ekow Amoah, a Research Manager at the Ghana Cocoa Board, spoke on behalf of Honourable Joseph Aidoo, Chief Executive of the Ghana Cocoa Board, who was unable to attend the meeting. He urged participants to distinguish between off-reserve and on-reserve forests, specifying that cocoa in Ghana is cultivated in agroforestry systems on off-reserve, arable lands. The Ghana Cocoa Board has signed up to the Cocoa and Forests Initiative as proof of its commitment to ensuring that cocoa production does not cause deforestation. He added that there is a chapter on environmental sustainability in the Cocoa Sector Development Strategy II, a ten-year development strategy for Ghana's cocoa industry. He disclosed that the environmental strategy includes increased productivity of cocoa farms, building resilience and adapting to climate change and to increase the stock of trees on cocoa plantations. Furthermore, Ghana's Forest Protection Act and the Forestry Commission Act include strict measures to protect forest reserves. There are nevertheless some issues around forest reserves that need to be resolved, including boundary disputes of admitted farms within the reserves, that are being resolved by the Forestry Commission or through the courts. The speaker went on to explain that the Ghana Cocoa Board, is currently working on a digital Cocoa Management System. This system will map all cocoa farms, collect data on the profile of cocoa farmers and their families, and ensure that Ghanaian cocoa can be traced from the farm to the port. Farms that are identified as a threat to the forests will be subject to targeted interventions, as part of the joint ten-year resettlement plan developed by the Ghanaian government in collaboration with the World Bank. The speaker concluded by reiterating the commitment of the Ghana Cocoa Board to the accountability, transparency, and traceability of cocoa supply chains.

Mr Didier Gbogou, *Directeur de cabinet of the Minister*, Ministry of Water and Forests, Côte d'Ivoire, spoke on behalf of the Minister Alain-Richard Donwahi, who was unable to attend the meeting. He explained that traceability, transparency and accountability are at the heart of Côte d'Ivoire's policy commitments with regards to deforestation. He mentioned four specific examples: the adoption of a national strategy within the framework of REDD+, including a commitment to 'zero-deforestation agriculture'; the decision to sign up to the Cocoa and Forests Initiative in November 2017, which seeks to eliminate deforestation from cocoa supply chains; the adoption of a forest conservation, rehabilitation and restoration policy in May 2018, which aims to increase forest cover from 11% in 2015 to 20% in 2030, and an accompanying set of strategies, action plans, programmes and projects (worth €1 billion); and lastly, the renewed efforts in 2020 to conclude negotiations on

a Voluntary Partnership Agreement with the EU by 2022, within the framework of the FLEGT. In line with these commitments, Côte d'Ivoire plans to put in place a unified traceability system and a satellite-based deforestation monitoring and early warning system. A feasibility study, financed by the Ivoirian government, has already been completed and preliminary results shared with relevant stakeholders in January 2021. In his concluding remarks, Mr Gbogou reiterated Côte d'Ivoire's determination to fight against deforestation, to eliminate it from cocoa supply chains, and to reinforce transparency through the creation of a reliable traceability system, with the technical and financial support of its partners.

<u>Expert presentation</u>

Adeline Dontenville of the **European Forest Institute** began by defining the terms *traceability*, *transparency* and *accountability* in the context of supply chains. She observed that traceability and transparency are only a means to an end, so it is essential to agree on the collective objectives of increased transparency in the cocoa supply chain.

Ms Dontenville then provided some background information on deforestation and forest degradation in Côte d'Ivoire and Ghana. Côte d'Ivoire's forests covered 24% of the territory in 1990, decreasing to 11% in 2015. In the past 50 years, the country has lost 70% of its forest cover in classified forests and an average of 30% of forest cover in protected areas. Ghana lost over 60% of its forest cover since the 1950s, with forest loss concentrated in the southern part of the country in the past 20 years. Both countries' deforestation rates have ranged between 2-3% per year over the past 15 years, amongst the highest rates in the continent. Conversion of forests to agricultural land, and to cocoa cultivation in particular, has been identified as the primary driver of deforestation in both countries. Although there is no consensus on the number, it is estimated that between 15 and 30% of cocoa area under cultivation is located in forest areas.

Ms Dontenville acknowledged the commitments of Côte d'Ivoire and Ghana to protect their remaining forests from further agricultural encroachment and to restore and rehabilitate forests, including through the promotion of cocoa-agroforestry. She identified some of the building blocks that are needed to achieve these objectives:.

> **First**, she explained that a clear definition of deforestation is needed to clarify the types of conversion events that are considered non-compliant with specific zero-deforestation objectives. Both Côte d'Ivoire and Ghana have developed forest definitions, which are key to distinguish between primary, secondary and degraded forests.

> **Second**, to demonstrate that cocoa production is free from deforestation, spatial information on cocoa production areas and forests is needed. This information provides the basis for estimating how much past deforestation is due to cocoa expansion, and monitoring that there is no future expansion of cocoa into forest areas. There are many technical challenges to mapping cocoa plantations. Nonetheless, there are promising prospects to improve methodologies in this fast-evolving field, including new imagery that better captures forest and cocoa structures, and new machine learning techniques that achieve higher accuracy.

> **Third**, in addition to solid reference data, systems are needed to effectively monitor land-use changes, identify cocoa-related deforestation risks, and offer remediation. For example, Côte d'Ivoire has established an online forest monitoring system that includes land-use change monitoring, forest and GHG inventories, and will include a deforestation early alert system. Private initiatives have emerged to provide forest monitoring services to the cocoa industry. Moving forward, it could be more cost-effective to concentrate resources on deforestation risk areas.

> **Fourth,** Ms Dontenville observed that Côte d'Ivoire and Ghana's zero-deforestation commitments include promises to restore forest cover. The Government of Côte d'Ivoire for instance, has committed to restore forest cover to 20% of the national territory by 2030. Cocoa-agroforestry will play an important role in achieving sustainability objectives, but more detailed guidance is needed.

Ms Dontenville then provided an overview of existing cocoa traceability systems and their connection to sustainability data, beginning with the national systems.

> Côte d'Ivoire's national traceability scheme, SYDORE (*Systeme d'information sur les données régionales*), is run by the CCC and is digitised from the cooperative or local trader level to the port. Cooperatives and national traders ("*traitants*") must register the quantity and the district of origin of the

cocoa they purchase in this system. Traceability is therefore possible from the level of cooperatives or national traders, but the system does not include the registration of farmers or the movement of cocoa when it has been channelled through intermediaries (*pisteurs*).

Ghana's national traceability system is managed by the Quality Control Division of the Ghana Cocoa Board and is predominantly paper-based. Physical documentation accompanies the cocoa along the supply chain. Farmers' identities are registered at the first sale but are then lost when cocoa is mixed into bulk at community level. The licensed buying company only gets a list of sourcing farmers. Full traceability is then implemented from the level of the licensed buying company (LBC).

Neither of the two traceability systems include sustainability data from the originating regions.

Ms Dontenville then offered an overview of the traceability systems implemented by private certification schemes and corporations. She assessed the relative merits of the strategies adopted by different standard-setting bodies, such as Fairtrade and Rainforest Alliance ('mass balance'), the African Regional Standard ('segregation') and Organic ('identity preservation'). Corporate traceability systems generally employ software to track cocoa beans from certified cooperatives or farmers' associations. Some of these systems have adopted innovative tools, such as blockchain technology, QR codes and barcodes. Most trading companies map the plot declared by the farmer and collect farmers' identification details, as well as additional socioeconomic and agronomic data, which is used to inform their sustainability programmes. However, schemes and metrics differ among companies and vary depending on their commercial strategies. Corporate traceability systems are limited to the proportion of cocoa that the companies source directly from cooperatives ('direct sourcing'). Research from the TRASE initiative shows that the seven largest traders in Côte d'Ivoire achieve full traceability for an average of sixty-one per cent of their 'direct sourcing', meaning that a significant share of West African cocoa remains untraceable to the farm level.

In the last part of her presentation, Ms Dontenville identified a series of challenges to improved traceability, transparency and accountability in cocoa supply chains. She noted that most public and private cocoa traceability systems today focus on traceability back to the first point of purchase (cooperative, LBC, etc.) and do not reach the farm level. Financial traceability is weak or absent, and is mainly directed towards tracking the payment of premiums. There are no clear institutional and legal frameworks, in-country, that provide a common set of rules for cocoa traceability and related questions such as data management and protection. The burden of reporting mostly falls on the farmers and cooperatives, who fail to see the benefits. Existing systems and metrics are fragmented, and there is no data sharing or inter-operability of systems, which can cause duplication of efforts and facilitate fraud. The integration of sustainability information in existing schemes is limited.

However, she noted that some important changes are in the making, particularly within the framework of national system. Both Côte d'Ivoire and Ghana are in the process of reforming their traceability systems and are already engaged in or have finalised farm surveys and geo-satellite mapping. Côte d'Ivoire has just conducted a feasibility study to propose next steps for an integrated public traceability system from farm to port. In Ghana, the Cocoa Board is in the process of developing a Cocoa Management System, which includes the digitalization of the paper-based system. Both countries plan to create farmer databases, which will facilitate farmer registration and the issuance of identification cards. Finally, both countries intend to use their traceability systems to promote the digitalization of payments in the long term.

Ms Dontenville concluded her presentation by making the case for a jurisdictional risk-based approach, which would involve tracing cocoa back to the most relevant jurisdictional level (for instance *départements* in Côte d'Ivoire or districts in Ghana) and assessing deforestation and other sustainability risks at that scale. A jurisdictional approach can help identify and engage with the actors connected to deforestation hotspots and eventually reduce the complexity and cost of public and private action, by concentrating efforts where they are most needed.

Panel discussion

Mr Andrew Brooks, Head of Cocoa Sustainability, OLAM, opened the panel discussion by agreeing that traceability, transparency and accountability are essential elements of a sustainable cocoa supply chain. He observed that, in cocoa-growing landscapes, cocoa is only one of many drivers of deforestation. He shone a spotlight on industry initiatives, including the Cocoa and Forests Initiative, which has been recognized by the UN Convention on Biological Diversity and the World Resources Institute as contributing towards a fifty per

cent (50%) reduction in deforestation in Côte d'Ivoire and Ghana between 2018 and 2019. This initiative, accounting for about 85% of global cocoa usage, has been joined by 35 leading cocoa and chocolate companies, as well as the Governments of Côte d'Ivoire and Ghana, leading to significant improvements in supply chain transparency and traceability through investments in digitalization, data gathering and satellite monitoring for farm mapping. On behalf of industry, Mr Brooks called for better land tenure policies, full mapping of cocoa farmers, an effective farmer registration system (matching land titles and polygon mapping) and an end-to-end traceability system that tracks cocoa from the farm to the point of purchase. He also called for proper enforcement of national laws on forest protection and a strong partnership programme to build capacity on forest management in Origin countries. Lastly, and most importantly, he called for support for cocoa producing countries to adapt to upcoming EU legislation on deforestation, to ensure that stricter EU rules on imported forest-risk commodities do not cause unintended negative consequences on farming communities, and do not simply unsustainable products to other markets with less stringent environmental laws.

Ms Etelle Higonnet, Senior Advisor, National Wildlife Federation, observed that significant progress has been made in the field of traceability, transparency, and deforestation monitoring, but with limited coordination between industry players, governments, and other stakeholders. She emphasized that traceability by itself does not solve problems in the supply chain, but can only identify and alert stakeholders to specific areas where problems exist. In addition to traceability, there is a need for deforestation mapping, early alert systems, investigations on the ground, and land-use mapping. She praised some recent developments, including the new Ghanaian land use map, the Ivoirian deforestation alert system and land-use map (which are interoperable), TRASE's port-to-port mapping of cocoa trade flows, Might Earth's Cocoa Accountability map, as well as the efforts made by individual companies on their corporate supply chains in specific geographies. She called for greater interoperability between monitoring, deforestation alert and supply chain traceability systems, as well as between individual corporate systems, as a means of avoiding deforestation leakage. She also called for international harmonisation, of deforestation monitoring and cocoa supply chain traceability systems between different cocoa-producing countries. She encouraged stakeholders to invest in monitoring and traceability systems that tackle both environmental and human rights abuses at the same time, and to bear in mind the effectiveness of community-based monitoring, which is more effective than satellite monitoring in identifying specific perpetrators and drivers of deforestation. She urged the private sector to extend their efforts beyond their direct supply chains, and address their indirect supply chains as well. She concluded by urging stakeholders to avoid placing additional burdens on the most vulnerable farmers, including those that are currently operating in protected forests.

Ms Violaine Berger, **Senior Advisor, Forests, IDH,** began by informing participants that she was appointed to speak at the Cocoa Talks by the four European sustainable cocoa platforms (the 'ISCOs'). These platforms have signed an MoU to enhance collaboration at European level and have set up a working group to discuss traceability and transparency in cocoa supply chains. The working group will release a technical brief on cocoa traceability in early April, in collaboration with 'Partnerships for Forests'. Ms. Berger called for trusted and reliable national-level systems to monitor forests and trace cocoa from the farm-level and congratulated Côte d'Ivoire and Ghana on their work to upgrade their national traceability systems, observing that such systems can really help structure the sector through the registration of farmers, cooperatives and intermediaries. However, she noted, in order to fully play their role, national traceability systems need to be trusted by the whole sector. Data quality and reliability is key. The data that is collected by companies and organisations is currently not shared, which can lead to double counting and errors. She therefore advocated for data sharing as a means to strengthen existing traceability systems, to verify data consistency, and ultimately, to increase data quality and reliability. She further urged all stakeholders to design traceability systems that empower farmers, that offer incentives to provide data, and that promote farmers' and cooperatives' ownership of sustainability data, so that they can also use this data in their operations. She repeated the call for community-based monitoring systems as a complement to satellite-based monitoring systems. In terms of addressing deforestation, Ms Berger advised stakeholders to go beyond a single commodity approach and engage in landscape-level partnerships, in partnerships with local authorities, CSOs and farmers' organizations at jurisdictional level.

Mr Hugh Eva, Project Officer, Scientific Research, Bioeconomy, EU Joint Research Centre, concentrated on the technicalities of satellite monitoring of deforestation. He noted that cocoa is difficult to monitor using satellite systems. The shift from forest cover to cocoa agroforestry systems with shade trees is a subtle one, leading to errors of 'omission', or failure to map some cocoa-growing areas, and 'commission' whereby other

areas are mapped incorrectly. Satellite data could potentially produce maps on annual basis, to monitor change in forest cover from year to year, but those maps will inevitably include errors of omission or commission, and therefore must be supplemented with very high-resolution data to correct for those errors. This can result in a map and a statistical estimate of the change in forest cover at the national level, using an appropriate sampling strategy. In terms of real-time monitoring, images can be obtained every five days from satellite data that is freely available under the Copernicus programme. This system provides alerts whenever there is a change in forest cover, but cannot determine for certain whether those changes are due to cocoa. The attribution of forest cover changes to cocoa requires higher spatial resolution data, which is harder and more costly to generate, in part due to overheads associated with the acquisition and processing of the data, the training of the implementing agencies and the development of reporting protocols for everybody involved. The FAO is doing some work in this area, through its programme on Monitoring, Reporting and Verification (MRV) for Forests, and the European Union has accumulated quite some experience with these sorts of systems, since a proportion of farmers' declarations within the framework of the Common Agricultural Policy are verified by national authorities using satellite data. Mr Eva concluded with a few key messages: first, he explained that stakeholders must decide in advance on the type of information that they require (e.g. maps, statistics, verification) and should not underestimate the investments needed to implement such systems; secondly, he raised the issue of deforestation leakage, whereby any deforestation that is prevented in one jurisdiction is simply replaced by deforestation in another region or jurisdiction, often across borders. Regional cooperation is therefore to ensure that monitoring systems have the necessary scope.

Question and Answer Session

In response to a question on whether the EU is planning to ban cocoa produced in classified forests, **Mr Hugo Schally** returned to the issue of the 'cut-off' date which will be incorporated in forthcoming legislation. In other words, when did cocoa cultivation in the classified forests actually begin, and what was the impact in terms of deforestation and / or degradation? Depending on the cut-off date, cocoa from the aforementioned areas may or may not be considered as a product linked to deforestation and forest degradation. In response to another question on whether the EU will provide financial support to cover the socioeconomic cost of driving farmers out of classified forests, Hugo Schally mentioned the support that will become available through DG INPTA's Forest Partnerships, to address the costs of making the transition to sustainable production systems that enhance economic opportunities for farmers.

Chantal Marijnissen took the floor on behalf of the European Commission's Directorate-General for International Partnership to respond to questions on Forest Partnerships and their relationship to FLEGT-VPA agreements. She explained that Voluntary Partnership Agreements (VPAs) are essentially agreements that exist to address trade in illegal timber products. They focus on governance and law enforcement around timber harvesting and trade. Forest Partnerships are different, as they seek to take a more 'multi-functional' approach to forests, looking at climate change, biodiversity, and socioeconomic development. In this sense, they go beyond governance and law enforcement, and are not legally binding in the same way as VPAs are.

In a response to a question on how to harmonise monitoring and traceability systems, and to consolidate data from disparate satellite monitoring and farm mapping exercises, **Adeline Dontenville** acknowledged the wealth of information that already exists through public and private initiatives, and urged stakeholders to develop an inventory of this information and collectively agree on key reference data sets, e.g. a land use map that could serve as a reference, once the EU has decided upon a 'cut-off date' within the framework of its upcoming legislation. She also urged stakeholders to create a central information point that collects information and reconciles different data sets, before making these accessible to all partners.

In response to a question on whether industry players are willing to make their data available on a more transparent basis, **Mr Andrew Brooks** responded that the World Cocoa Foundation, within the scope of the Cocoa and Forests Initiative, already provides extensive information on individual companies' sustainability programmes to the governments of Côte d'Ivoire and Ghana, including farm maps and costed plans to distribute trees and deliver training activities for farmers. Mr Brooks confirmed that companies are in general willing to disclose the data that they collect, and commended the recent feasibility study commissioned by the CCC that seeks to inform the development of national traceability system, which will seek to incorporate existing data collected by the private sector.

In response to a question on the Cocoa and Forests Initiative's commitment to put in place a common deforestation monitoring system, Ms **Violaine Berger** responded that, in Côte d'Ivoire, the IMAGES system developed by Vivid Economics has been identified as the monitoring system that should be used to monitor the Cocoa and Forests Initiative, while in Ghana, the Forestry Commission is leading the development of land-use and forest cover maps and deforestation monitoring systems. The Ghana Cocoa Board and the CCC have carried out a census of farmers, and are setting up farmer databases, which will serve as the basis for updating traceability systems.

In response to a question on the challenges of satellite monitoring in West Africa, **Hugh Eva** identified the lack of reliable internet access as a problem, given the weight (in gigabytes) of the satellite images that need to be downloaded. One forthcoming solution is to process satellite data in the cloud, and to download results only, since these are much lighter. The FAO already offers similar services through its system for earth observations, data access, processing & analysis for land monitoring (SEPAL). He suggested that a specific module could be offered to monitor cocoa within the framework of SEPAL.