



Brussels, 07<sup>th</sup> December 2021

## COCOA TALKS

### EU VIRTUAL MULTI-STAKEHOLDER ROUNDTABLES ON SUSTAINABLE COCOA

**Subject: Conclusions from the first round of the dialogue on sustainable cocoa**

On the 23<sup>rd</sup> of September 2020, the European Commission launched a series of virtual, multi-stakeholder roundtables on the topic of sustainable cocoa. Since then, a series of eight additional meetings have been held, in the form of online webinars, to discuss key topics and build consensus on a common pathway towards a sustainable cocoa sector. The objectives of each meeting are listed below.

Date	Meeting no.	Objectives
26.01.2021	Meeting 0	<b>Introductory meeting</b> <ul style="list-style-type: none"> <li>• Explain the purpose of the “Cocoa Talks” and their place within the current landscape of initiatives in the field of sustainable cocoa.</li> <li>• Explain how the meetings will be organised (participants, moderation, agendas etc.).</li> <li>• Present the schedule of virtual roundtable meetings and take questions from participants.</li> </ul>
09.02.2021	Meeting 1	<b>Living Income Differential</b> <ul style="list-style-type: none"> <li>• Explore the potential benefits, challenges and impacts of the LID initiative and its implementation in Ghana and Cote d’Ivoire.</li> </ul>
23.02.2021	Meeting 2	<b>Standards</b> <ul style="list-style-type: none"> <li>• Present the state-of-play on standards and norms for sustainable cocoa.</li> <li>• Review the challenges and opportunities of the current framework of voluntary certification systems.</li> <li>• Review forthcoming international standards, including ISO 34101 and the African Regional Standard for Sustainable cocoa.</li> <li>• Discuss ways to foster greater coherence of private standards, voluntary third-party certifications and forthcoming international standards.</li> </ul>
16.03.2021	Meeting 3(a)	<b>Traceability, transparency and accountability</b> <ul style="list-style-type: none"> <li>• Provide an overview of existing monitoring and enforcement mechanisms that seek to improve transparency, traceability and accountability along the supply chain.</li> </ul>

<b>17.03.2021</b>	<b>Meeting 3(b)</b>	<ul style="list-style-type: none"> <li>• Discuss the allocation of roles and responsibilities between government and the private sector in the design, implementation, administration and supervision of these systems.</li> <li>• 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.</li> </ul>
<b>20.04.2021</b>	<b>Meeting 4</b>	<p><b>Regulations, with a focus on due diligence</b></p> <ul style="list-style-type: none"> <li>• Provide an overview of how the cocoa sector may be affected by, and how it could adapt to, a range of possible legislative initiatives, including those that impose due diligence requirements to minimise the risk of deforestation and human rights violations in company supply chains.</li> </ul>
<b>05.05.2021</b>	<b>Meeting 5</b>	<p><b>Sustainable Cocoa Production</b></p> <ul style="list-style-type: none"> <li>• Look at the current features and constraints of cocoa production at the farm level and opportunities for enhancing sustainability.</li> <li>• Highlight how to upgrade current production systems with nature-based solutions while reducing the growing pressure on residual forests and restoring biodiversity.</li> </ul>
<b>25.05.2021</b>	<b>Meeting 6</b>	<p><b>Mobilizing Development Cooperation and Finance</b></p> <ul style="list-style-type: none"> <li>• Look at how to strategically mobilize development cooperation and finance to support sustainable cocoa production.</li> <li>• Offer some take-aways from the Cocoa Talks so far: how to best mobilize existing actors; how to design future approaches to support sustainable cocoa production and trade; how to optimize resource allocation and stakeholder coordination.</li> </ul>
<b>19.10.2021</b>	<b>Meeting 7</b>	<p><b>EU Consumers and Sustainable Cocoa Products</b></p> <ul style="list-style-type: none"> <li>• Look at consumer preferences within the cocoa value chain and shed light on consumer attitudes towards sustainable food products in general.</li> <li>• Examine consumer willingness to pay and price elasticity for selected chocolate products</li> <li>• Provide food for thought and open the debate on the role of consumers to enhance the overall sustainability of cocoa production and trade.</li> </ul>

The present document provides the conclusions and recommendations from the EU Cocoa Talks webinars drawn by the EU team from the discussions that have been held so far. It highlights key messages from each of the meetings, with a particular focus on points of agreement or convergence between stakeholders. It also seeks to bring out some of the main recommendations that have emerged from the roundtables.

## EXECUTIVE SUMMARY: OUTCOMES OF THE FIRST ROUND OF COCOA TALKS

Theme	Key take-aways from the 2021 EU Cocoa Talks webinars	Recommendations made by stakeholders during the 2021 EU Cocoa Talks webinars
<b>Living Income Differential</b>	<ul style="list-style-type: none"> <li>→ Poverty is a root cause of unsustainable practices in cocoa supply chains.</li> <li>→ The price of cocoa is a key determinant of farmers' income, though not the only one.</li> <li>→ The Living Income Differential is a premium on exports that is effectively passed on to farmers through higher farm-gate price during the crop year.</li> </ul>	<ul style="list-style-type: none"> <li>→ The price of cocoa should play a key role in efforts to improve sustainability.</li> <li>→ The Living Income Differential should be perpetuated in a manner that is:                             <ul style="list-style-type: none"> <li>▪ resilient to future market developments;</li> <li>▪ economically sustainable over the long-term across the supply chain;</li> <li>▪ WTO compliant.</li> </ul> </li> <li>→ The Living Income Differential should be complemented by strong agricultural policies that better coordinate national production targets and global demand for cocoa.</li> </ul>
<b>Standards</b>	<ul style="list-style-type: none"> <li>→ Sustainability standards set the criteria that must be met in order to define a product as sustainable.</li> <li>→ Multiple standards / certification programmes can cause confusion among farmers, traders and consumers, and duplication of efforts. However, diversity and competition between standards can encourage innovation and serve different market demands.</li> <li>→ Côte d'Ivoire and Ghana – within the framework of the African Regional Standards Organization (ARSO) – have been working towards the establishment of a regional standard for sustainable cocoa (ARS 1000).</li> <li>→ The objective of ARS 1000 is to establish a common standard for sustainable cocoa production, applicable to all cocoa value chain actors.</li> </ul>	<ul style="list-style-type: none"> <li>→ There is a need for one solid, credible and recognised standard that can be easily implemented and used as a benchmark for other sustainability programmes and schemes, setting a 'minimum common denominator' for sustainable cocoa.</li> <li>→ This standard should stimulate competition and innovation between other certification schemes, allowing these schemes to 'raise the bar' beyond the "common denominator".</li> <li>→ Voluntary sustainability standards should continue to play a key role within a 'smart mix' of measures to promote greater sustainability of cocoa supply chains.</li> <li>→ Standards should facilitate compliance with incoming due diligence legislation.</li> </ul>
<b>Traceability, transparency &amp; accountability with regards to child labour</b>	<ul style="list-style-type: none"> <li>→ Upcoming horizontal mandatory due diligence regulations at the EU level will require companies to map their supply chains to identify and address adverse impacts on human rights and the environment.</li> <li>→ Côte d'Ivoire and Ghana have made significant progress in tackling the root causes of child labour. In both countries, the child labour rate has been reduced and school enrolment has increased over the past decade.</li> <li>→ Producing countries will continue to address the root causes of child labour<sup>1</sup> within the framework of their national development strategies.</li> </ul>	<ul style="list-style-type: none"> <li>→ To demonstrate that cocoa is free from child labour, there is a need to:                             <ul style="list-style-type: none"> <li>▪ expand coverage of child labour monitoring systems (CLMS) to include all major cocoa-producing areas, and</li> <li>▪ feed information obtained therefrom into national, government-mandated, sector-wide cocoa traceability system.</li> </ul> </li> <li>→ To expand coverage in the most cost-effective manner, stakeholders should build on pre-existing child labour monitoring and remediation systems including private sector CLMRS, community-based CLMRS,</li> </ul>

<sup>1</sup> The root causes of child labour include, among other things, rural poverty, decent work deficits, and a lack of investment in public services such as education, health, water, and sanitation, etc.

	<p>→ Such prevention efforts fall outside the remit of the EU Initiative on Sustainable Cocoa. However, the proceeds from the Living Income Differential could generate additional resources to address the root causes of child labour.</p>	<p>and public child protection services.<sup>2</sup> Data from these different initiatives should be fed into a national, government-mandated, sector-wide cocoa traceability system.</p> <p>→ Stakeholders should work towards greater coherence and linkages between different child labour monitoring and remediation systems.</p> <p>→ Producing-country governments can lead the process of coordination and harmonisation of different CLMS through the development of a common framework and agreed benchmarks.</p>
<p><b>Traceability, transparency &amp; accountability with regards to deforestation</b></p>	<p>→ The Commission has adopted a legislative proposal that seeks to reduce the impact of EU consumption and production of a series of commodities, including cocoa, on global deforestation and forest degradation.</p> <p>→ There is a clear connection between the proposed legislation and the state of verification systems in partner countries such as Ivory Coast and Ghana. The better, the more reliable and the more aligned with EU criteria those national systems are, the easier it will be for companies placing products on the EU market to meet their obligations.</p>	<p>→ To demonstrate that cocoa is free from deforestation and ensure compliance with EU legislation, there is, among others, a need to:</p> <ul style="list-style-type: none"> <li>▪ establish base-line forest and land use maps;</li> <li>▪ roll out and improve deforestation monitoring systems;<sup>3</sup></li> <li>▪ feed information obtained therefrom into a national, government-mandated, sector-wide cocoa traceability system.</li> </ul> <p>→ To achieve these goals, it will be necessary to make progress in a range of different areas, including (but not limited to):</p> <ul style="list-style-type: none"> <li>▪ land tenure policies;</li> <li>▪ forest and land-use mapping;</li> <li>▪ farm mapping and farmer registration (matching land titles to polygon maps);</li> <li>▪ establishment of early alert systems (both community-based and satellite-based);</li> <li>▪ proper enforcement of national laws on forest protection.</li> </ul>
<p><b>Regulations, with a focus on due diligence</b></p>	<p>→ The Commission has adopted a legislative proposal that seeks to reduce the impact of products placed on the EU market on global deforestation and forest degradation (“product-specific due diligence”).</p> <p>→ The European Commission is also working on a Sustainable Corporate Governance initiative, which includes a corporate due diligence duty</p> <p>→ The two initiatives are being developed in parallel as complementary and mutually supportive instruments. They will operate at different levels:</p> <ul style="list-style-type: none"> <li>▪ the Sustainable Corporate Governance initiative focuses on behavioural change in business operations;</li> <li>▪ the deforestation initiative targets specific “forest risk” products.</li> </ul>	<p>→ Due diligence requirements should not become an additional burden for farmers engaged in sustainable supply chains.</p> <p>→ The legislative proposals need to be accompanied by serious efforts to address the issue of farmer poverty and living income.</p> <p>→ Producing-country governments should continue to work on the establishment of national deforestation / child labour monitoring systems and government-mandated, sector-wide cocoa traceability systems, to facilitate compliance with the upcoming legislation.</p> <p>→ The cocoa sector could lead the way and could develop sectoral guidelines supporting implementation of the due diligence legislation.</p> <p>→ Due diligence requirements should consider company size, sector, location and to industry standards and best practices.</p>

<sup>2</sup> Public services that contribute to the efforts to eliminate child labour include child protection services, social services, education, law enforcement services.

<sup>3</sup> Deforestation monitoring systems include both satellite and community-based monitoring systems.

<p><b>Sustainable Cocoa Production</b></p>	<ul style="list-style-type: none"> <li>→ Cocoa agroforestry drives reforestation and afforestation. It is also compatible with climate change adaptation, improving resilience and agro-ecosystem functions at plant, plot and landscape levels.</li> <li>→ Agroforestry systems also provide important economic benefits such as the diversification of production and income.</li> </ul>	<ul style="list-style-type: none"> <li>→ All actors must work together to experiment and scale up innovative solutions that combine local know-how with scientific research.</li> <li>→ Farmers need technical assistance and other support to make the transition to sustainable production practices.</li> <li>→ In addition to capacity-building for farmers and cocoa cooperatives, there is a need to: <ul style="list-style-type: none"> <li>▪ mobilize public and private investment to finance the transition towards more sustainable production practices;</li> <li>▪ design and implement public policies that encourage the transition towards more sustainable production practices.</li> </ul> </li> <li>→ Farmers need to be motivated to adopt agroforestry systems, including through price mechanisms such as the Living Income Differential. Payments for ecosystem services should also be considered.</li> </ul>
<p><b>Mobilizing Development Cooperation and Finance</b></p>	<ul style="list-style-type: none"> <li>→ The sustainability agenda calls for radical changes in the way cocoa is produced. Development cooperation can contribute to the sustainable transformation of the sector.</li> </ul>	<ul style="list-style-type: none"> <li>→ To be effective, technical assistance and development finance needs to be coordinated, based on producing-country development plans, and accompanied by improvements to the broader enabling environment and the mobilization of private sector finance.</li> </ul>
<p><b>EU Consumers &amp; Sustainable Cocoa Products</b></p>	<ul style="list-style-type: none"> <li>→ Consumers play an important role in the cocoa supply chain, as they ultimately determine what kind of products are placed on supermarket shelves.</li> <li>→ 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.</li> <li>→ The EU consumer, in particular, is an increasingly informed consumer who cares about a range of issues beyond quality-price ratios, including the impact of their consumption on the environment and on people working in the supply chain.</li> <li>→ Guidance is being developed to ensure that competition law does not act as a barrier to industry initiatives that use price as a means to achieve sustainability goals.</li> </ul>	<ul style="list-style-type: none"> <li>→ Further research is required to investigate: <ul style="list-style-type: none"> <li>▪ whether there is a typology of EU consumers (i.e. distinguishing between Member States);</li> <li>▪ the price elasticity of chocolate products in different EU countries;</li> <li>▪ the impact of digital traceability and transparency on consumers' behaviours.</li> </ul> </li> <li>→ Stakeholders must also take competition law into account when setting up living income initiatives and cooperation frameworks. In particular, they should: <ul style="list-style-type: none"> <li>▪ ensure that price increases imposed on consumers are passed on to the farmers;</li> <li>▪ quantify the impacts of sustainability initiatives.</li> </ul> </li> </ul> <p>When such initiatives have a restrictive impact on competition, they can be exempted from disciplines if benefits outweigh costs.</p>

## ANNEX: SUMMARY CONCLUSIONS ON THE INDIVIDUAL ROUNDTABLES

### Meeting 1: Living Income Differential

#### *Key take-aways from the webinar:*

- Poverty is a root cause of unsustainable practices in cocoa supply chains. If farmers are poorly paid, they are more likely to employ child labour and to use more forest land.
- Increases in income from commodities is not sufficient to pull all farmers above the poverty line or above the living income threshold. However, the price of cocoa is a major determinant of farmers' income and price remains an essential part of any solution.
- The Living Income Differential is a premium on exports that is effectively passed on to farmers through higher farm-gate price during the crop year.
- The Living Income Differential is a first step in the right direction towards sustainable cocoa production. Producing more sustainable goods has a cost, and the price premium of \$400 on exports of cocoa from Ghana and Côte d'Ivoire can begin to cover that cost.
- The Living Income Differential has had some unintended consequences:
  - *Buyers have begun to shift away from Ghana and Côte d'Ivoire and search for other sources of cocoa.* This effect has been subdued in the short term but could become more serious in the long run.
  - *The Living Income Differential may lead to increases deforestation, as farmers in Côte d'Ivoire, Ghana and / or other producing countries expand surfaces in response to higher prices.* These risks could be mitigated through the enforcement of a “gentleman’s agreement” that connects price increases to progress on child labour and deforestation.
  - *The Living Income Differential caused a short-term mismatch between the “spot price” of cocoa and the price of cocoa futures, which created problems for traders seeking to hedge against price fluctuations.* This problem can be resolved if traders / grinders are able to pass on the Living Income Differential to chocolate companies and other buyers.

#### *Recommendations made by stakeholders during the webinar:*

- The Living Income Differential should be perpetuated in a manner that is resilient to future market developments, economically sustainable over the long-term, and WTO compliant.
- Producing countries should consider strategies to improve the resilience of the Living Income Differential to changes in world prices:
  - behave more like traders, selling forward to take advantage of temporary increases in the world price for cocoa;
  - build up buffer stocks of semi-finished products (cocoa butter, powder) to cope with sudden price decreases;
  - prepare better for expected supply/demand dynamics, by for example, developing supply management systems.
- Price initiatives cannot be introduced in isolation, but must be part of a broader ‘package’ or a ‘smart mix of measures’, including:
  - greater professionalization of farmers and diversification of farmers’ revenues;
  - a better enabling environment in cocoa origin countries and investment in infrastructure (schools, hospitals and roads);
  - the introduction of sector-wide traceability systems to enhance transparency;
  - supply management measures that are consistent with global demand projections.
- The dialogue on sustainable cocoa should be enlarged to other producing countries and other non-chocolate-related businesses (such as the cosmetic and pharmaceutical industries).

## Meeting 2: Standards

### *Key take-aways from the webinar:*

- Standards are a set of rules, guidelines or characteristics for products or production methods, produced by a recognised body. Whereas sustainability standards, in the broad sense, set the criteria that must be met in order to define a product as sustainable, certification / labelling systems serve to reassure buyers and consumers that a product meets a defined standard.
- NGOs and the private sector have led the way in setting up and implementing voluntary standards and third-party certification systems.
- The International Standards Organization (ISO) and the European Committee for Standardization (CEN) have developed ISO Standard 3401: an international standard for sustainable and traceable cocoa.
- Côte d'Ivoire and Ghana – within the framework of the African Regional Standards Organization (ARSO) – have been working towards the establishment of a regional standard for sustainable cocoa (ARS 1000).
- The objective of ARS 1000 is to establish a common standard for sustainable cocoa production, applicable to all cocoa value chain actors.
- Multiple standards / certification programmes can cause confusion and duplication of effort by farmers, traders and consumers. However, diversity and competition between standards can encourage innovation and serve different market demands.
- Producing countries believe that voluntary certification schemes and sustainability programmes have not achieved their stated objectives, in part due to the absence of proper coordination by a regulator. All stakeholders agree that standards *alone* cannot stimulate systemic transformation or create the enabling environment that the sector needs to transition towards sustainable cocoa production.

### *Recommendations made by stakeholders during the webinar:*

- Standards should continue to play a key role within a 'smart mix' of measures to promote greater sustainability of cocoa supply chains. Standards could facilitate compliance with incoming due diligence legislation.
- There is a need for one solid, credible and recognised standard that can be easily implemented and used as a benchmark for other sustainability programmes and schemes, setting a 'minimum common denominator' for sustainable cocoa. This standard should stimulate competition and innovation between other certification schemes, allowing these schemes to 'raise the bar' by providing additional elements beyond the core 'common denominator'. The standard should be mandatory and applied equally to all stakeholders, creating a 'level playing field' along the value chain, from farmers to retailers.
- Any 'mandatory' standard needs to be implemented by all value chain actors. The EU should provide financial and technical support for capacity-building, aimed at farmers, farmers' organizations, traders, certification bodies and producing-country governments.

### Meeting 3a: Traceability, Transparency and Accountability with regards to Child Labour

#### *Key take-aways from the webinar:*

- Child labour is a complex issue that must be tackled from different angles. First and foremost, it is important to address the root causes of child labour: poverty, inadequate access to health and education services, absence of adequate social protection, poor infrastructure, etc. These issues fall outside the remit of the EU Initiative on Sustainable Cocoa. However, the proceeds from the Living Income Differential could potentially be used to enhance efforts in these areas.
- Côte d'Ivoire and Ghana have made significant progress in tackling the root causes of child labour. In both countries, the child labour rate has been reduced and school enrolment has increased over the past decade.
- The prevention-based approaches that have been mentioned above can and should be complemented by supply chain approaches (traceability systems, child labour monitoring and remediation systems, corporate due diligence, and so on).
- Furthermore, comprehensive traceability systems and Child Labour Monitoring and Remediation Systems could facilitate compliance with upcoming horizontal mandatory due diligence regulations at the EU level.
- Producing-countries have made efforts towards establishing national cocoa traceability systems that are interconnected with (public and private) child labour monitoring and remediation systems (CLMRS):
  - Côte d'Ivoire:
    - The *Conseil Café Cacao* recently completed a census of coffee and cocoa producers and satellite mapping of their plantations.
    - The *Ministère de l'Emploi et de la Protection Sociale* runs the SOSTECI (*Système d'observation et de suivi du travail des enfants*), a national Child Labour Monitoring System
  - Ghana:
    - The Ghana Cocoa Board is planning to roll out a fully digitised Cocoa Management System (CMS). 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.
- However, coverage of these systems, when combined with private sector systems, is still limited.
  - Best estimates suggest that only thirty to fifty per cent (30% - 50%) of cocoa can be physically traced to the coop level.
  - Child Labour Monitoring and Remediation Systems will, by the end of 2021, cover only thirty per cent (30%) of the cocoa supply chain.

#### *Recommendations made by stakeholders during the webinar:*

- When developing cocoa traceability systems and child labour monitoring and remediation systems, stakeholders should seek to:
  - address the needs and capacities of all actors (producers, buyers, industry, retailers and consumers);
  - build on existing value chain systems and data in producing countries (with full government buy-in and ownership);
  - establish solid systems of governance with independent oversight, including by civil society.
- Stakeholders should also work towards greater coherence and linkages between different child labour monitoring and remediation systems, in particular:
  - supply chain systems (e.g. corporate CLMRS);
  - national systems (GCLMS, SOSTECI) and services (e.g. child protection, social services, education, law enforcement); and
  - community-based systems.



- Producing-country governments can lead the process of coordination and harmonisation, with the support of third-party verification bodies, through the development of a common framework and agreed benchmarks.
- Stakeholders should continue to support producing countries in their efforts to address the root causes of child labour, including rural poverty, decent work deficits, and a lack of investment in public services such as education, health, water, and sanitation, etc.

### Meeting 3b: Traceability, Transparency and Accountability with regards to Deforestation

#### *Key take-aways from the webinar:*

- Update on deforestation 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.
- Deforestation is a complex issue that must be tackled from different angles. Strategies should include:
  - improvement of land tenure policies;
  - forest and other land use mapping;
  - farm mapping and farmer registration (matching land titles to polygon maps);
  - establishment of early alert systems, both community-based and satellite-based;
  - proper enforcement of national laws on forest protection;
  - capacity-building on forest management.
- The Commission has adopted a legislative proposal that seeks to reduce the impact on deforestation and forest degradation of products placed on the EU market. There is a clear connection between the proposed legislation and verification systems in partner countries such as Ivory Coast and Ghana. The better, the more reliable and the more aligned with EU criteria those national systems are, the easier it will be for companies placing products on the EU market to perform their due diligence obligations.
- Overview of national efforts towards establishing national cocoa traceability systems that are interconnected with deforestation monitoring and early warning systems:
  - Côte d'Ivoire:
    - Côte d'Ivoire's has a national traceability scheme, SYDORE (*Système d'information sur les données régionales*). Traceability is possible from the cooperative or local trader level to the port, but the system does not include the registration of farmers or the movement of cocoa when it has been channelled through intermediaries (*pisteurs*). The system does not include sustainability data from the originating regions.
    - Côte d'Ivoire plans to put in place a unified traceability system that will be interconnected with 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.
  - Ghana:
    - Ghana's national traceability system 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). The system does not include sustainability data from the originating regions.
    - The Ghana Cocoa Board is planning to roll out a fully digitised Cocoa Management System (CMS). 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.

- Corporate traceability systems provide a starting point and offer lessons learnt and best practices for the future. Corporate systems generally employ software to track cocoa beans from certified cooperatives or farmers' associations, including 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.

However, schemes and metrics differ among companies and vary depending on their commercial strategies. Furthermore, corporate traceability systems are limited to the proportion of cocoa that is sourced 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.

- Key challenges:
  - 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.

*Recommendations made by stakeholders during the webinar:*

- The Commission's Regulation proposal on deforestation and forest degradation has set a clear definition of deforestation that clarifies the types of conversion events that are considered non-compliant – essentially any conversion of forest into agricultural land after December 31 2020.
- To demonstrate that cocoa production is free from deforestation, there is a need for spatial information on cocoa production areas (with the plot of land where they were produced via geographic coordinates, latitude and longitude) and forests. This information can provide 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. In addition to solid reference data, systems are needed to effectively monitor land-use changes, identify cocoa-related deforestation risks.
- In addition to solid reference data, systems are needed to effectively monitor land-use changes, identify cocoa-related deforestation risks, and offer remediation.
- A jurisdictional risk-based approach – i.e. 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 – could reduce the complexity and cost of public and private action, by concentrating efforts where they are most needed.
- In general, there is a need for greater interoperability between deforestation monitoring systems, early alert systems and supply chain traceability systems, as well as between different corporate systems. Furthermore, different cocoa-producing countries should harmonise deforestation monitoring and cocoa supply chain traceability systems to avoid deforestation leakage.
- Traceability systems should be designed to empower farmers. Sustainability data should be owned by farmers, who can use this data in their day-to-day operations. Farmers should be incentivized to share their data.
- Community-based deforestation monitoring systems can be an effective complement to satellite-based monitoring systems, as they are sometimes more effective in identifying specific perpetrators and drivers of deforestation.

- Stakeholders should consider moving beyond a single commodity approach to engage in landscape-level partnerships with local authorities, CSOs and farmers' organizations at jurisdictional level.

## Meeting 4: Regulations, with a focus on Due Diligence

### *Key take-aways from the webinar:*

- Introduction to the “Due Diligence” concept:
  - There are two main types of due diligence approaches, which differ in their implementation and their scope: (1) general corporate due diligence and (2) product-specific due diligence.
  - Both kinds of due diligence require companies to assess risks within their supply chains, take mitigation actions to address those risks, provide remediation, and report on results.
  - Both kinds of due diligence are based on the ‘duty of care’. Whereas ‘strict liability’ implies complete exclusion or trade bans as soon as human rights or environmental harms are identified, the ‘duty of care’ takes into account any reasonable efforts that have been made to mitigate risks.
  - The differences between the two approaches are as follows:
    - General due diligence requirements level the playing field with regards to social and environmental performance across all sectors and products.
    - Product-specific due diligence prevents non-compliant products from being placed on the market. It provides guidance which is specific to the nature of the industry or the area of sourcing, making it easier to assess compliance.
  - From the point of view of the private sector, a horizontal duty of care can provide significant benefits, including greater legal certainty, harmonisation across jurisdictions and a level playing field. Companies that have implemented a due diligence system will be able to point to their efforts as a legal defence against litigation.
  - From the point of view of producing countries, horizontal due diligence legislation can help to eliminate multiple, complex market requirements, encourage longer term relationships between suppliers and buyers, attract investment into the supply chain, and create incentives to improve the national compliance framework, including forest governance and national policies for sustainable agricultural production.
  - Taken together, the legislative proposals could create a ‘critical mass’ of demand for responsibly sourced commodities, encouraging companies to apply the standard throughout their supply chains even when the products are not destined for the EU market.
- The Commission has adopted a legislative proposal that seeks to reduce the impact of products placed on the EU market on deforestation and forest degradation in producing countries (“product-specific due diligence”). [Update] The legislative proposal issued on 17 November 2021 says:
  - The proposed Regulation scope covers six commodities – beef, wood, palm oil, soya, coffee and cocoa as well as a number of products containing or produced with such commodities
  - It sets mandatory due diligence rules for any company intending to place on the EU market the commodities and products in scope
  - The proposal relies on internationally backed definitions, and specifically on the work of the FAO, to establish what is considered deforestation-free commodities and products under the Regulation.
  - Only deforestation-free (according to the definition in the Regulation) and legal products (according to the laws of the country of origin) will be allowed on the EU market.
  - The proposal sets 31 December 2020 as ‘cut-off date’. This means that no commodities and products in the scope of the regulation will be allowed to be placed on the EU market if they were produced on land subject to deforestation or forest degradation after that date.
  - The proposal requires operators and traders to collect the geographic coordinates (latitude and longitude) of all commodities and products placed on the EU market. Commodities and products of unknown origin are not allowed on the EU market.
  - A benchmarking system operated by the Commission will categorise countries (or parts of countries) in three categories (high, standard and low) according to the level of risk of deforestation and forest degradation driven by the commodities in scope, taking into account relevant policies and legislation.
  - The obligations for operators and member states authorities will vary according to the level of risk of the country of production, with simplified due diligence duties for products coming from low risk countries and enhanced scrutiny for high risk countries.
  - Operators working with sustainable supply chains will not have any problems under the new regulation, even if they are sourcing in high-risk countries. Also, if there are doubts when sourcing from low-risk countries, all the due diligence requirements (as for standard or high-risk countries) will still apply.
  - According to the provisions of the Regulation, the Commission will engage with producer countries to develop partnerships and cooperation to jointly address deforestation and forest degradation. It also

commits the Commission to engage multilaterally and bilaterally with other consumer countries to promote sustainable agricultural production and supply chains.

- The European Commission is working on a Sustainable Corporate Governance initiative, which includes a proposed “Due Diligence Directive” (“general corporate due diligence”).
  - This is a *horizontal* initiative and as such will not focus on a specific economic sector.
  - It will encourage businesses to frame decisions in terms of their social, human, economic and environmental impact, extending the horizon of corporate decision-making into the long-term.
  - Directors’ duty of care will be enlarged to include the best interests of the company and its stakeholders.
  - Directors will set sustainability targets and integrate them into the company’s strategy.
  - Companies must identify / address adverse impacts in their supply chains by exercising due diligence.
  - The larger and more serious the companies’ impacts are, the greater the efforts that it will have to make.
  - Enforcement mechanisms are still under discussion. Both civil liability and administrative supervision are being considered.
- The two initiatives are being developed in parallel as complementary and mutually supportive instruments. While they share a general objective - to strengthen sustainability – they will operate at different levels: the Sustainable Corporate Governance initiative focuses on behavioural change in business operations while the deforestation initiative targets specific “forest risk” products.
- The cocoa sector is far ahead of other sectors, with many producing-country governments having already set ambitious goals, established joint frameworks for action, and made improvements in the area of transparency and traceability. Those governments that are putting in place national deforestation monitoring systems, in particular, will facilitate compliance with product-specific due diligence requirements, since companies will be able to find official data and baseline maps on land-use at the cut-off date.

#### *Recommendations made by stakeholders during the webinar:*

- On the legislative proposals:
  - Due diligence requirements should not become an additional burden for farmers. The burden of compliance should be shared between all value chain participants, including financial institutions.
  - Similarly, due diligence requirements should not result in divestment or termination of risky relationships. Instead, the implementation of due diligence process should be anchored in the idea of ‘continuous improvement’ that is enshrined in the UNGPs
  - Due diligence requirements should consider company size, sector, location and to industry standards and best practices. The cocoa industry is fragmented on the consumer side, so there is a need for some kind of proportionality principle to ensure that the legislation works well for smaller businesses.
  - There is a need to strike the right balance between remediation for victims of human rights abuses and the encouragement of continuous disclosure and transparency in the industry. This balance needs to feature in the legislation as well as in practice.
- On sectoral due diligence guidelines:
  - The cocoa sector should lead the way by developing sectoral due diligence guidelines. This guidance can be made available even before the legislation has come into force and should consist of a common set of rules that are known to drive transparency in a consistent manner.
- On accompanying measures:
  - The legislative proposals need to be accompanied by serious efforts to address the issue of farmer poverty and living income. The Living Income Differential and supply management policies should be part of an overall strategy.
  - Producing-country governments should continue to work on the establishment of national deforestation / child labour monitoring systems and cocoa traceability systems, to facilitate compliance with the upcoming legislation.
  - Supply chains interventions should only be one aspect of a ‘smart mix’ of trade policies, development policies, and environmental policies. Stakeholders must continue to work together to improve

the broader enabling environment, including stronger legislation (on e.g. land and tree tenure, forest protection), enhanced transparency, and measures to provide a living income for farmers.

## Meeting 5: Sustainable Cocoa Production

### *Key take-aways from the webinar:*

- The cocoa sector is affected by both economic instability (price volatility and decline) and environmental instability (climate change). Many cocoa farmers are witnessing a deterioration of growing conditions and falling yields, which leads them to abandon their cocoa farms or reconvert them to other crops. At the same time, forests are cleared in other, more fertile areas, to make way for new cocoa farms. The consequence is a model of itinerant cocoa farming and continuous displacement of cocoa cultivation that takes place to the detriment of forest cover.
- Cocoa agroforestry refers to “land-use systems where cocoa is deliberately interplanted with food crops, fruit trees and native timber tree species on the same land, in a defined temporal sequence and spatial arrangement”. This cocoa production model drives reforestation and afforestation. It is also compatible with climate change adaptation.
- Shaded cocoa systems increase resilience and improve agro-ecosystem functions at plant, plot and landscape levels. Agroforestry systems promote soil fertility (reducing dependence on chemical fertilizers), increase the longevity of standing crops and boost yields in the long-term. They can also function as an alternative form of pest management, reducing dependence on synthetic products.
- There are important economic benefits to be derived from agroforestry systems such as the diversification of production and income.

### *Recommendations made by stakeholders during the webinar:*

- It is of urgent importance to identify a cocoa farming model - or models - that will enable cocoa farmers to move towards more sustainable production and adapt to future constraints.
- All actors (researchers, extension service officers, farmers, traders, NGOs) must work together to experiment and scale up innovative solutions that combine local know-how with the most recent scientific research. Research can identify specific trees that are more compatible with cocoa and can increase resilience against diseases.
- Research on agroforestry is more effective if based on interaction and dialogue with cocoa farmers. In other words, there is a need to move away from top-down methods towards those approaches that put greater emphasis on knowledge-sharing and capacity-building.
- Farmers need technical assistance and other support to make the transition to sustainable production practices. This should include concrete recommendations on the management of the production system (how many trees, the type of trees and agricultural products, how much shade, etc.)
- In addition to capacity-building for farmers and cocoa cooperatives, there is a need to;
  - mobilize public and private investment to finance the transition towards more sustainable production practices;
  - design and implement public policies that encourage the transition towards more sustainable production practices.
- When promoting agroecological models, stakeholders should take into account the profitability and productivity of cocoa farming activities. Farmers need to be motivated to adopt agroforestry systems, including through price mechanisms such as the Living Income Differential. Payments for ecosystem services should also be considered.
- Farmers and cooperatives also need access to finance to enable the adoption, implementation and economic sustainability of agroecological systems.

## Meeting 6: Mobilizing Development Cooperation and Finance

### *Key take-aways from the webinar:*

- The sustainability agenda calls for radical changes in the way cocoa is produced. Development cooperation can help to facilitate the transition.
- The EU Commission and EU Member States are already committed to improving the sustainability of the cocoa sector through their development cooperation instruments. Over the course of the next Multiannual Financial Framework, the EU Commission will continue to allocate resources to the sector and to scale up its efforts, working together with the EU Member States through “flagship” Team Europe Initiatives.
- Multi-stakeholder initiatives at the European level – including Beyond Chocolate (Belgium Partnership for a Sustainable Belgian Chocolate Industry), DISCO, (Dutch Initiative on Sustainable Cocoa), GISCO (German Initiative on Sustainable Cocoa) and SWISSCO (The Swiss Platform for Sustainable Cocoa) – are also important actors and should continue to play a key role.
- In addition to government actors, the private sector and civil society have been a driving force behind collective efforts towards the sustainability of the cocoa, developing innovative solutions that have become mainstream (voluntary certification systems, traceability systems, due diligence systems).

### *Recommendations made by stakeholders during the webinar:*

- There is a need for coordination between development partners and the allocation of resources:
  - The EU must collaborate and coordinate with its Member States’ development programmes, such as those lead by GIZ, IDH and others
  - The EU should also coordinate with development organizations such as the World Bank, UNDP, UNICEF, and with international organizations such as the ICCO.
  - The allocation of donor and other resources must be optimized by engaging in dialogues with producing countries.
  - Producing countries must lead on the development of national plans, establishing priorities, setting milestones and attributing responsibilities to each stakeholder.
- EU development assistance and finance must be part of a smart policy mix that includes mutually reinforcing measures that foster business respect for human rights, such as trade measures and due diligence regulation.
- Impact measurement is critical to assess the changes made by development assistance or funding.
- The following areas should receive investment on a priority basis:
  - Poverty reduction should be one of the main focus areas of development cooperation. Producers are entitled to a decent income, which can be provided through existing instruments such as the Living Income Differential but also through new mechanisms (e.g. supply management, financial compensation for sustainable production practices).
  - Farmers also need help to get organised into effective cooperatives that are professional and add value for their members. Collective, organised action enables farmers to better organise their sales and gives them a stronger voice within the broader business environment.
  - Access to finance is another area that could prove catalytic. This could include the establishment of microcredit and microinsurance services and innovative digital financial services.
  - Government-mandated sector-wide traceability and child labour / deforestation monitoring systems, as detailed in Meetings 3a and 3b, also merit targeted investments to facilitate compliance with upcoming due diligence legislation.
  - In terms of public investment and public goods, it is necessary to finance infrastructure such as roads, ports and warehouses, as well as digital infrastructure.



## Meeting 7: EU Consumers and Sustainable Chocolate Products

### *Key take-aways from the webinar:*

- Consumers play an important role in the cocoa supply chain, as they ultimately determine what kind of products are placed on supermarket shelves.
- 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 EU consumer, in particular, is an informed consumer who cares about a range of issues beyond quality-price ratios, including the impact of their consumption on the environment and on people working in the supply chain. The COVID-19 pandemic has reinforced these attitudes.
- Several studies support the characterization of EU consumers as ‘responsible’ or ‘ethical’ consumers:
  - One survey of consumers from four EU countries (May 2020) found that a majority of consumers were willing to buy sustainable products even if they cost more.
  - Le Basic 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 asked about the definition of “sustainability”, consumers cited child labour, living income (wages) and deforestation.
  - The same study found that the maximum price beyond which consumers begin to question their consumption of chocolate was sixty to seventy per cent above the price they claimed to be paying today.
- There are nevertheless significant differences between EU countries. Le Basic, for example, finds that German consumers are much more sensitive to price increases than French consumers.
- There are significant market opportunities associated with evolving consumer preferences. Private sustainability standards, for example, have enjoyed widespread success on the European market, despite applying a price premium for sustainable production.
- Furthermore, Le Basic has shown that the share of cocoa in overall value addition within the cocoa value chain amounts to ca. 5%. Increases in the price of cocoa would therefore only have a minor impact on the price that the final consumer pays.
- Insofar as competition law is concerned, guidance is in the making that seeks to broaden
  - the notion of consumer benefits, to include non-monetary benefits as well as monetary benefits, and
  - 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.

These developments attempt to ensure that competition law does not act as a barrier to price initiatives that are designed to improve sustainability.

### *Recommendations made by stakeholders during the webinar:*

- Cocoa sector stakeholders need to improve their understanding of EU consumers. In particular, they should investigate:
  - whether there is a typology of EU consumers (i.e. distinguishing between consumers from different Member States);
  - the price elasticity of chocolate products in different EU countries;
  - the impact of digital traceability and transparency on the aforementioned elasticity of chocolate products.
- Researchers need to dive deeper into the actual behaviour of consumers, and not just their intentions.
- 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. Emphasis should be placed on 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.

- Changes in consumer behaviour can be a contributing factor towards better living standards but this cannot be the only lever for change, due to limitations in consumer willingness to pay.
- There is a need to work on transparency and traceability, as willingness to pay is influenced by the extent to which consumers can be confident that premiums reach cocoa farmers.
- Stakeholders must also take competition law into account when setting up living income initiatives and cooperation frameworks. In particular, they should:
  - ensure that price increases imposed on consumers are effectively passed on to the farmers;
  - quantify the impacts of sustainability initiatives. (When such initiatives have a restrictive impact on competition, they can nevertheless be exempted from the relevant disciplines if the benefits outweigh the costs).
- The cocoa sector should present its price initiative to the EU Directorate-General on Competition to be assessed as a ‘test case’.