The EU sustainable cocoa initiative (with Cameroon, Côte d'Ivoire and Ghana)

Context

The cocoa sector represents a special case that justifies frontloading EU action on the supply chain. about two thirds of cocoa production worldwide originates in Côte d'Ivoire and Ghana; adding production from Cameroun, it reaches 70%; and over 60% of their cocoa production is exported to the EU. Cocoa exports benefit from tariff free access to the EU market under the Economic Partnership Agreements (EPAs) with the two countries. Cocoa production entails particular risks relating to child labour, deforestation and forest degradation in the countries concerned.

Theory of change

Historically, global commodity markets have been buyers' markets driven by demand. Value chains have been organised around this principle, with, in the case of tropical products alike cocoa or coffee, futures markets, trading houses, processors and retailers located or registered in the consumer countries.

The consequence of this organisation of the supply chain is that producers, even though they are at the origin of the value because they supply the raw material, receive what the entire downstream part of the supply chain has agreed to grant them. The competition rules of global markets give rise to competition between operators at the same node in the chain: primary processors among themselves, traders among themselves, chocolate makers among themselves in the case of cocoa. The real challenge is to organise competition not within a single node, but vertically, between each stage of the chain. What weight indeed does a producer, or a cooperative, have against a processor, an international trader, or an off-taker, when that producer or that cooperative has limited access to credit, limited storage possibilities, and is faced with a constant need for working capital?

The ambition of the Sustainable Cocoa Initiative was to put the producer back at the centre of the value chain, and to build prices from the bottom up, from the farm-gate to the terminal, integrating all sustainability costs and essential needs. This was the pre-requisite to triangulate the three dimensions of sustainability : we tackle forest protection, child labour eradication and the generation of a decent income for farmers at the same time. **This is how, over time, the EU sustainable cocoa initiative has grown to become a flagship initiative of the EU Green Deal**, bringing to life the ambitions that the Commission adopted back in 2019 when President Von der Leyen's administration took office.

What did the EU did?

Although the supply chain problems in this sector are not new, the **EU sustainable cocoa initiative launched in 2020** building on the action by governments of Ghana and Côte d'Ivoire to support farmers' income through a guaranteed minimum price for cocoa. This effort should go hand in hand with further work on the elimination of child labour and preventing deforestation in the cocoa sector. Step by step:

- In September 2020, DG TRADE and DG INTPA launched the Sustainable Cocoa Initiative to improve the sustainability of the cocoa supply chain with countries of West Africa Ghana and Cote d'Ivoire, the top producers of cocoa in the world, as well as Cameroon.
- Through this initiative, in the context of the European Commission's political priorities, including the European Green Deal and a zero-tolerance approach to child labour, the Commission initiated a dialogue in support of a sustainable cocoa sector.

- The objective of the Initiative is to support sustainable cocoa production and trade on the three pillars of sustainability, i.e., the elimination of child labour, the protection and restoration of forests, and the realization of a living income for cocoa farmers, primarily through a better price for cocoa farmers.
- The Sustainable Cocoa Initiative builds on Côte d'Ivoire and Ghana's joint initiative on farmgate prices of June 2019 for a Living Income Differential (LID), a premium price for cocoa farmers and to trigger further progress on key sustainability issues in the cocoa sector in the longer term.
- Furthermore, efforts made in the context of the Initiative accompany important EU policy, demonstrating policy coherence, in particular: the EU Regulation on Deforestation-free products (EUDR), the Proposal for a EU Regulation on prohibiting products made with forced labour on the Union market, and the Corporate Sustainability Due Diligence Directive (CS3D).

Components:

- Pillar 1: multi-stakeholder dialogue (the Cocoa Talks), an inclusive multi-stakeholder dialogue, organised by the European Commission. These roundtables bring together key EU stakeholders, including representatives of Member States, the European Parliament, the cocoa and chocolate industry and civil society organisations, as well as representatives of producer countries; Côte d'Ivoire, Ghana and Cameroon.
- Pillar 2: supporting countries in the transformation of the sector for sustainable cocoa production and trade through a comprehensive development cooperation programme, launched in 2022 in the three countries and co-financed by the Germany/BMZ.

EU financial commitments

- EU Sustainable Cocoa Programme: total 41.4 Mill (EUR 25 Mill ongoing + EUR 10 Mill in 2025 (Commission) + EUR 6.4 Mill (BmZ))
- Côte d'Ivoire bilateral *Team Europe Initiative on sustainable cocoa*: EUR 326 Mill, with 128 Mill (Commission) and EUR 198 Mill Member States (Germany, the Netherlands, Belgium and France).
- Complementary resources from other EU Delegations starting 2025: 1.2 Mill in Ghana; 2.5 Mill in Cameroon etc.

EU cooperation is framed by the results of the national **Cocoa talks** and work at policy level and technical level to support national sector reform (national cocoa strategies; stakeholder platforms); the development of traceability systems and sustainability standards; the strengthening of deforestation and child labour risk monitoring; the adoption of sustainable agricultural practices; the participation of civil society; the definition of the living income etc.

At global level: the Cocoa Talks, the multi-stakeholder dialogue proved open/transparent/inclusive – quite a unique trend at EU level; the partnership between TRADE and INTPA is a great foundation for achieving the stated goal(s) and should be replicated for other commodities; the overall effort demonstrates policy coherence (especially with the EUDR). The Cocoa Talks led to the endorsement of an 'Alliance on Sustainable Cocoa', and a 'Roadmap' to improve the economic, social and environmental sustainability of cocoa production and trade, with concrete time-bound actions to improve the sustainability of the cocoa supply chain in West Africa.

- In Cameroon: in 2022-2023, the EU and government organized an in-depth dialogue through the national *Cocoa Talks* attended by no less than 500 participants, from all groups of the value chain. The results were translated into 13 projects that are/will be implemented with the support of the EU, including the development of a national technical directive on sustainable cocoa, funding for cocoa plot geolocation, capacity-building of cooperatives on the EUDR, or a study on the situation of child labour.
- In Ghana: The EU is supporting the development and piloting of the National traceability system, and reflecting on how it could support compliance assessment with regards to the EUDR requirements. In addition, the system will be linked to risk assessment information with relation to deforestation and child labour.
- In Cote d'Ivoire: the EU supports the availability of robust reference data for the management of deforestation risk and assess compliance with upcoming EUDR. This includes the production of a national reference land-use map for 2020, launched in December 2023, which represents a major achievement to ensure traceability of deforestation-free cocoa.

The EU has used three main levers to pave the way for what we could call a "Cocoa 2.0".

First, its **convening power**, by organising dialogues among stakeholders, and also Chatham House-rule based meetings with operators in the sector to consider mechanisms for transforming the cocoa sector into a fully sustainable commodity market – the first in history.

Our main task was to help producing countries **restore confidence between public and private operators,** because confidence and transparency are prerequisites for delivering this cocoa 2.0.

The balance of power has changed since the launch of the Living Income Differential (LID), joint initiative of Côte d'Ivoire, Ghana (producing together 60% of cocoa globally) . The fall in production in Côte d'Ivoire and Ghana has accentuated this phenomenon: exporting countries are now in a better position to influence prices, either voluntarily with the LID, or involuntarily through the scarcity of production. The LID was actually a turning point. Vilified by many buyers on the grounds that it raised prices to an impossible level, it had the extraordinarily positive effect of establishing the idea of a decent price and income for farmers as a cornerstone of sustainability.

Today, nobody disputes the idea that no cocoa can claim to be sustainable if the producer does not receive a return that meets his costs and basic needs. This is a great victory. **A collective achievement with partner countries and private stakeholders.** No one could have predicted it 5 years ago.

Another lever was finance. EU has spared no effort to support the transformation of the cocoa sector, not only as regards price and income, but also environmental sustainability. The development of a credible national traceability system in Côte d'Ivoire and Ghana to meet the requirements of the regional standard (ARS 1000) and the European regulation on deforestation (EUDR) has unfolded at an impressive pace, making Côte d'Ivoire and Ghana leading countries in this matter.

Way forward

EU-funded research on opportunities to channel more investment toward local processing of cocoa in West Africa have provided cocoa and development finance partners with key insights on working capital financing. The higher the price of cocoa, the closer we get to cocoa 2.0, the higher the need for pre-financing and working capital finance. European DFIs have a critical role to play in easing the working capital constraint of local investors through the provision of "cocoa credit lines" to local commercial banks, and in cascade, to cooperatives and farmers. This is the next challenge, increasing local processing, boosted by foreign and local investors.

The Sustainable Cocoa Initiative, a partnership between DG INTPA and DG TRADE has the ambition to enshrine in our trade and investment policy framework these considerations on sustainable cocoa, discussions are ongoing with Côte d'Ivoire and Ghana to negotiate a Sustainable Investment Facilitation Agreement (SIFA). That will boost investment in the sector and will stabilize for the long term the various components of cocoa sustainability. With interest in this demarche for other significant producing countries like Cameroon or Nigeria, Cocoa 2.0 will become the new standard at global level.

Finally, this initiative on cocoa has raised interest on other commodity markets, on coffee global market, where similar evolutions are ongoing. A new Team Europe Initiative on coffee, launched in the framework of the Italian G7 Presidency has been put in place, the experience acquired on cocoa will inspire this new challenge for creating in the same spirit "Coffee 2.0"