



Executive Vice-President Frans Timmermans
Executive Vice-President Valdis Dombrovskis
Commissioner Virginijus Sinkevičius
Commissioner Jutta Urpilainen

27 April 2022

Dear Executive Vice-Presidents Timmermans and Dombrovskis, Commissioners Sinkevičius and Urpilainen,

We write to you in the context of the EU Cocoa Talks, to urge you to take up the offer of the governments of Ghana and Cote d'Ivoire for an Economic Pact for Sustainable Cocoa, as the "next step" in the EU Cocoa Talks. The RBC working group MEPs have followed and championed the Cocoa Talks since their inception. We were encouraged by seeing a diverse group of actors from producer and consumer countries come around the table to discuss sustainability issues in the cocoa sector. However, for now, it remains somewhat unclear as to what is or will be the outcome of these talks.

We have noted the Economic Pact for Sustainable Cocoa proposed by the governments of Cote d'Ivoire and Ghana during their visit to Brussels in February this year. During their visit, the Ivorian and Ghanaian governments rightly called attention to the low cocoa price as a fundamental missing element of the EU's regulatory proposals on deforestation-free products and corporate sustainability due diligence.

The proposal of an Economic Pact provides an opportunity to reach an agreement with the producer countries on a way forward on the key issue of price, as well as on other sustainability issues, and to obtain a concrete outcome of the Cocoa Talks. **We therefore call on the Commission to open negotiations with Cote d'Ivoire & Ghana to reach an Economic Pact for Sustainable Cocoa.**

The low and unstable price West African countries and their farmers receive for their cocoa in Ghana and Cote d'Ivoire is not only a human rights issue in itself, it is also a key driver of child labour and deforestation, both of which the Commission aims to address in its abovementioned recent legislative proposals.

The vast majority of farmers in these two, leading cocoa-producing countries live in extreme poverty, earning well under \$1 USD per day. Despite back-breaking labour, farmers receive a pittance for the cocoa they produce: only around 6% of the final sale price of a chocolate bar. This situation cannot be said to be inevitable: in 1980, farmers received 16% of the final sale price, almost three times what they earn today.

Partly, this is driven by a growing oversupply of cocoa on the world market, which has forced prices downwards over the years. This causes frequent price shocks. Companies can hedge against these risks and protect themselves, but small farmers cannot, and have no government subsidies or insurance to protect them: a cocoa price collapse leaves hundreds of thousands of people in West Africa hungry.

In 2019, the governments of Ghana and Cote d'Ivoire put in place an innovative measure to address these issues, the Living Income Differential (LID) price mechanism. This is a fixed living income differential of \$400 above the market price with a direct payout to farmers. However, in practice it has run into difficulties. Global market prices have decreased since the launch of the LID and companies have since diversified their sourcing so that the two cocoa-producing governments were forced to lower the price paid to farmers.

Meanwhile—despite COVID-- companies have made record profits: in the past decade, Nestlé has bought back around \$46 billion USD in stockholder shares. In early 2020, the Ferrero family paid itself an annual dividend of €642 million. In 2021, major cocoa trader Barry Callebaut surpassed its pre-COVID growth levels, with 6.5% volume growth, and was able to increase its dividends, whilst the price paid to West African farmers remained as low or lower than before. Companies' recent growth in profits outpaced their growth in sales volumes: the low price of cocoa is allowing companies to get richer while farmers in the Global South get poorer.

The Commission's proposals on deforestation-free products and corporate sustainability due diligence are welcome and long overdue. If sufficiently robust they can provide a game-changing effect on sustainability and human rights issues in the cocoa sector. But they must be accompanied by measures to address the low prices that farmers receive for their cocoa. We wish to recall that the right to an adequate standard of living is a human right under the United Nations Declaration on Human Rights.

We urge the Commission to rapidly engage in formal negotiations with the governments of Cote d'Ivoire and Ghana with the aim of reaching an Economic Pact for Sustainable Cocoa.

This should entail an agreement between all parties on:

- **what will be done to resolve the low price of cocoa,**
- **the management of cocoa supply to prevent market shocks, and**
- **sustainability**

The negotiations should not only be conducted between the EU, and governments of Ghana and Cote d'Ivoire, but should bring together all important actors, such as cocoa-buying companies, and NGOs. The Commission should engage stakeholders at the very start and map their vision for the desired outcome of such negotiations to lay the groundwork for the negotiations.

Sincerely,

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