



Forum Nachhaltiger Kakao
German Initiative on Sustainable Cocoa

Virtual Event of the German Initiative on Sustainable Cocoa

**“The role of prices and premiums for a living income
in the cocoa sector”**



DOCUMENTATION

German Initiative on Sustainable Cocoa
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The role of prices and premiums for a living income in the cocoa sector

WELCOME

Prof. Dr. Christian Thorun, Executive Director of the ConPolicy Institute



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The moderator of the event, **Prof. Dr. Christian Thorun**, Executive Director of the Con-Policy Institute for Consumer Policy, welcomed all participants of the event and handed over the floor to Mr. Kropp-Büttner, Chairman of the Board of the German Initiative on Sustainable Cocoa (GISCO).

Wolf Kropp-Büttner, Chairman of the German Initiative on Sustainable Cocoa



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Wolf Kropp-Büttner welcomed the numerous guests and members of the German Initiative on Sustainable Cocoa (GISCO) and thanked them for their participation. A special greeting went to H.E. Abou Dosso, Ambassador of Côte d'Ivoire to the Kingdom of Belgium, to the Grand Duchy of Luxembourg and to the European Union, who would

inform about the Ivorian-Ghanaian Living Income Differential (LID) and related complementary strategies during the event. According to Kropp-Büttner, the LID is explicitly supported by GISCO. Kropp-Büttner said he is pleased that despite the cancellation of this year's International Sweets and Biscuits Fair (ISM) due to the pandemic, GISCO's event is taking place – now in digital form.

The starting point for the event was the first of the newly formulated **goals of GISCO**: "...that improved farm-gate prices, minimum price and premium systems as well as other income-generating measures as contributions to a living income of cocoa farming households". Kropp-Büttner emphasized that there can be no sustainable cocoa sector without living incomes for cocoa farmers, as was also stated at the 2018 World Cocoa Conference (ICCO) as part of the Berlin Declaration. The event would therefore highlight and discuss the role of price and premium systems available to companies on a voluntary basis. However, ultimately, only a package of measures could lead to living incomes in

cocoa farming. According to Kropp-Büttner, the major challenge here is to achieve permanently higher farmgate prices – without unintended effects on production volumes and deforestation. To achieve this, he said, cross-sectoral measures would have to be taken, implemented under the responsibility of producer country governments and in collaboration with the various stakeholder groups.

*The full recording of the event is only available to GISCO's members
(Kropp-Büttner's speech starting from minute 04:50).*

Sebastian Lesch, Head of Unit – Sustainable agricultural supply chains, International Agricultural policy, Agriculture and Innovation; Federal Ministry for Economic Cooperation and Development (BMZ)



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Sebastian Lesch emphasized that the discussion about living incomes is not an end in itself, but rather the larger, overarching goal of combating poverty and its consequences, such as child labor. It is a complex issue that is important beyond the confines of development policy, he said, because in Germany, too, the discussion about the distribution of money in

agricultural supply chains is a recurring focus of debate. According to Lesch, complex problems require complex approaches, thus a holistic approach is therefore necessary. As part of a smart mix of intervention strategies, the prizes and premiums that were the focus of the event represented two important levers. Furthermore, Lesch praised the introduction of the Living Income Differential (LID) by the Ivorian and Ghanaian governments and highlighted the BMZ's support of this. The BMZ would like to remain in dialogue with the growing countries in order to further accompany the implementation of the LID.

According to Lesch, GISCO's monitoring system, which is currently being developed, is a milestone towards more transparency in the supply chain, especially with regard to the joint monitoring of the European partners. The results will provide a basis for further exchange and discussion. Furthermore, Lesch pointed out that especially in view of the many current international discussions, such as the multi-stakeholder dialogue on cocoa, as well as the announcement of due diligence regulations by the EU and Germany, there is a need to position oneself and to actively participate in these dialogues.

(Lesch's speech from minute 12:35)

INTRODUCTORY LECTURE ON THE TOPIC "Living Income: concept, methodology and application in different sectors"

Stephanie Daniels, Sustainable Food Lab / Living Income Community of Practice



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Stephanie Daniels provided the introduction to the subject matter of the event. The living income, Daniels said, is defined as the net annual income of a household sufficient to cover the cost of a typical household's decent standard of living in a given location. "Decent", she said, integrates access to food, water, shelter, education, health care, transportation, clothing, and other essential needs, including provisions for unexpected events such as a case of illness in the family.

According to Daniels, in order to judge the existence of a living income, the Living Income Benchmark, which defines the necessary income in a certain region, is compared to the household's real existing income. Studies in cocoa-growing regions in [Côte d'Ivoire](#) and [Ghana](#) have calculated the average income gap that needs to be filled to achieve a living income for smallholder cocoa farmers.

As Daniels pointed out, the concept of a living income evolved from the concept of a living wage, with "living wage" looking at the worker individually, not the household as a whole. The basis for both concepts, Daniels said, are international guidelines and conventions as well as the Sustainable Development Goals (SDGs) and the Universal Declaration of Human Rights. According to Daniels, different approaches are necessary to achieve a living income. The living income, however, is a concept that is applied across sectors, offering opportunities to leverage insights and learn from each other beyond the cocoa sector. In order for more households to achieve a living income in the long term, a multitude of components consisting of cocoa productivity and production costs, pricing and trade, and diversification of income opportunities have to be addressed simultaneously. An enabling environment, i.e. a supportive political, infrastructural and landscape environment, is of particular importance. Daniels emphasised that prices are a key mechanism, but that they alone cannot solve the challenge of living incomes.

(Daniels' presentation from minute 24:34)

IMPULSE LECTURES

Price measures in producing countries: Living Income Differential – Policy levers to increase farm gate prices in Côte d'Ivoire and in Ghana

H.E. Abou Dosso, Ambassador of the Republic of Côte d'Ivoire to the Kingdom of Belgium, the Grand Duchy of Luxembourg and the European Union



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In his presentation, H.E. Abou Dosso emphasized the importance of addressing the problem of low incomes for smallholder farmers. He thanked GISCO for also highlighting the Ghanaian-Ivorian Living Income Differential (LID) during the event. At the heart of efforts for a sustainable cocoa sector, Dosso said, is a living income for smallholder farmers in producing countries.

He explained that under the joint Initiative "Initiative Cacao Côte d'Ivoire-Ghana", the governments of Côte d'Ivoire and Ghana had agreed on the 400 USD price premium for the 20/21 campaign, and an associated reference price of 2,600 USD per ton of cocoa, to guarantee cocoa farmers a minimum price (70% of the reference price) as an important step toward a living income. This reference price is reviewed annually and adjusted if necessary. If the cocoa price exceeds 2600 USD, money is paid into a fund to guarantee the minimum price for the cocoa farmers even if the price is lower. The LID, Dosso said, has been in implementation since October 2020 and is supported by the cocoa and chocolate industries. In the current campaign, the 400 USD premium is being paid for cocoa from Côte d'Ivoire and Ghana, he said. Nevertheless, it is currently far from being possible to guarantee cocoa farmers the intended minimum price in the long term. The newly founded organization "Initiative Cacao Côte d'Ivoire-Ghana", which has recently been headed by a former industry employee, has the task of ensuring the implementation of this price mechanism, Dosso explained.

Increasing the incomes of cocoa farmers is part of a comprehensive strategy that also addresses the problems of child labor and increasing deforestation. This includes, firstly, the implementation of a national forestry and agricultural policy, as part of which a new strategy for the protection and reconstruction of forests in Côte d'Ivoire was already adopted in 2018. This aims to increase Côte d'Ivoire's forest cover from the current 11% to 20% by 2030. Furthermore, he said, the national strategy to fight child labor addresses

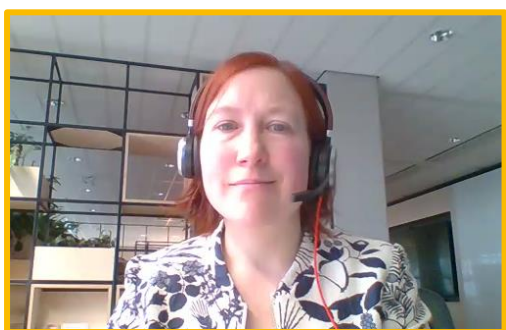
improving access to education, a national monitoring system to monitor child labor, and new laws against child labor, thus addressing the problem on a holistic level.

In conclusion, the Ambassador stressed the importance of working with the European Union and national governments on this important issue. According to Dosso, the importance of LID for a living income is seen at the EU level, which is why the first meeting of the new EU Sustainable Cocoa Initiative will also take a closer look at LID. Ambassador Dosso expressed his special thanks to Mr. Lesch as representative of the German government, who had assured the support of LID in his introductory words. In addition to the exchange between governments, the dialogue with multi-stakeholder partnerships such as GISCO is of great importance for Côte d'Ivoire in order to find sustainable solutions for the problems mentioned.

(Presentation by H.E. Dossos from minute 44:20)

Economic perspectives on a Living Income

Yuca Waarts, Wageningen University & Research



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Yuca Waarts, senior researcher and project manager for Sustainable Value Chains at Wageningen University & Research, emphasised the need for multi-faceted strategies to achieve living incomes. Based on her research, Waarts confirmed the direct impact of higher prices on cocoa farmers' incomes. However, these alone are not sufficient to ensure a living income for all farmers. In particular,

the poorest farmers cannot achieve a living income through price alone. As Waarts' own research shows, the poorest farmers need an income increase of 500 or 600% to achieve a living income.

Her research further revealed three root causes of poverty in the cocoa sector: small farm sizes, low yields because of low ability to invest, and limited opportunities for off-farm income. Accompanying measures such as tailored support services for farmers, land reforms, creation of off-farm employment opportunities and supply management are therefore necessary. Regarding prices, there is a dilemma between price increases and stabilisation as a necessity for higher productivity and higher incomes on the one hand and production surpluses and the associated possible negative effects on prices and the expansion of production areas into forest areas on the other. Price strategies work in niche markets, but when applied on a broad scale, they need to be accompanied by supply management to avoid the negative effects to materialise, according to Waarts.

This can be designed in a variety of ways, including the implementation of national production quotas and buffer stock systems.

From an economic perspective, Waarts cited the International Coffee Agreement of 1962-1989 as a successful example of this, as well as the EU dairy policy between 1984-2015. Finally, she highlighted that it must always be ensured that farmers are part of the design of these approaches and that the implementation of supply management systems have to take into account the effects, for example, on the behaviour of other cocoa-producing countries (free rider problem).

(Waarts' presentation from minute 59:26)

Higher farm-gate prices as part of a holistic approach to a living income – Conclusions from the new Cocoa Barometer (2020)

Friedel Hütz-Adams, SÜDWIND e.V. – Institute for Economy and Ecumenism



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In his presentation, **Friedel Hütz-Adams** also emphasized the importance of a better understanding of the different variables that influence the income situation of cocoa farmers. Hütz-Adams, who has been a research assistant at SÜDWIND Institute since 1993, began by emphasizing the connection between a living income and the Universal Declaration of Human Rights, Article 23 of which

stipulates the right to satisfactory remuneration for an existence in accordance with human dignity. However, this is not the case in the cocoa sector.

According to Hütz-Adams, price data show that inflation-adjusted prices have fallen continuously since the 1950s. To counteract this trend, the LID is a measure of great importance for small farmers, he said. However, many other basic data, such as the productivity and plantation size that lead to the highest net income for farmers, are unknown. According to Hütz-Adams, however, it is necessary to know this data in order to be able to make a statement about which other measures, in addition to price increases, could successfully contribute to a higher income for small farmers. GPS data collected by some companies as part of the Cocoa Barometer suggested that farm sizes in Côte d'Ivoire and Ghana are significantly smaller than previously assumed in the literature. Calculations of net income and the labor input required to achieve it also showed, Hütz-Adams said, that a doubling of productivity did not necessarily mean an increase in income, since in many cases labor had to be purchased to achieve the higher productivity.

Hütz-Adams shared the view of previous speakers that living incomes – especially for the poorest farmers – could only be achieved by combining price measures with other measures. In order to better understand the impact of these additional measures, however, it is essential to improve the data situation.

(Hütz-Adams' presentation from minute 1:12:08)

PRACTICAL EXAMPLES

Practical example from retail: Pilot project REWE/FAIRTRADE in the framework of the Sustainable Agricultural Supply Chains Initiative

Julia Renner, REWE Group

In conversation with moderator Prof. Dr. Christian Thorun, **Julia Renner**, Officer Sustainability Ware at REWE Group, presented the trading company's and its partners' pilot project in Côte d'Ivoire and Ghana. The project, which is funded by the BMZ, was initiated together with Fairtrade and the Initiative for Sustainable Agricultural Supply Chains. Locally, the project is supported by the ComCashew Initiative and Fairtrade Africa. There is also close cooperation with the Ghanaian Ministry of Agriculture. The aim of the project is to generate a living income for the farmers.

Various measures are being used to achieve this: On the one hand, practical training will help farmers to increase the productivity and profitability of their plantations. Secondly, diversification within the project should create other sources of income in addition to cocoa.

According to Renner, the pilot project should reach around 2,400 cocoa and 500 cashew farmers in a total of ten cooperatives. The REWE Group pays the farmers of the cooperative Fanteakwa in Ghana the reference price calculated by Fairtrade for a living income. The chocolate produced from the harvest of these cocoa farmers will soon be available for sale in REWE and PENNY stores. Renner emphasized that the cocoa grown in the project is physically traceable, consequently, it is a segregated supply chain in which the cocoa price plays an essential role, but it is only one part of the overall strategy. In order to obtain reliable data from the project approach, it is planned to measure the income of the cooperative members. For this purpose, Fairtrade has already started a Farm Record Keeping in the Fanteakwa cooperative supported by REWE, which will record the expenses and income of the farmers over the duration of the project.

(Renner's presentation from minute 1:31:35)

***Practical example from the industry:
A balanced approach towards farmer livelihoods***

Anke Massart, Barry Callebaut



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In her presentation, **Anke Massart**, EMEA Sustainability Director at Barry Callebaut, outlined the company's approach to achieving a living income for cocoa farmers. This approach integrates four components that Barry Callebaut considers to be particularly essential for a living income: size of farm, yield, price and non-cocoa income. Through this approach, Barry Callebaut

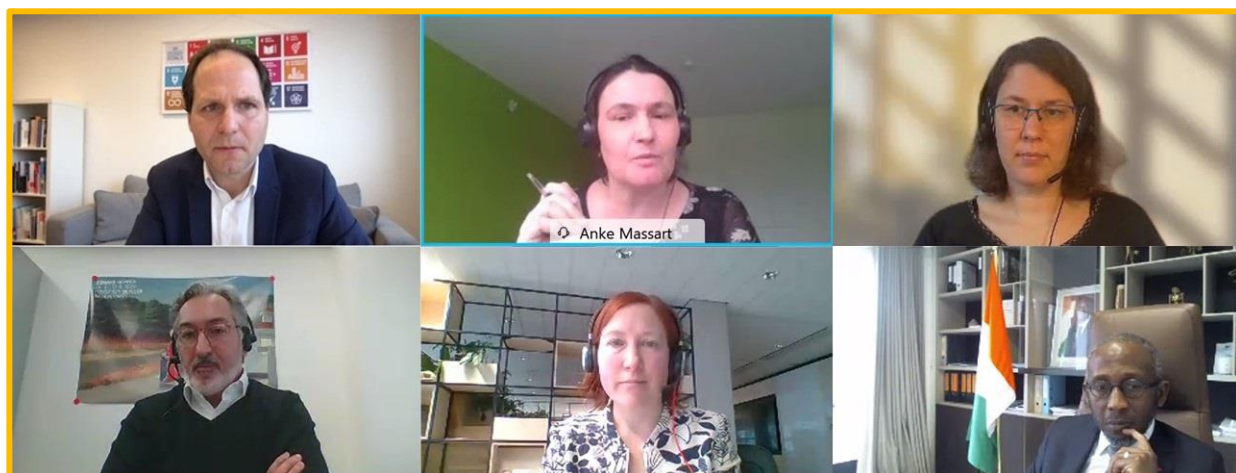
has succeeded in enabling 40 percent of the cocoa farmers participating in the Cocoa Horizons programme in Côte d'Ivoire to live above the poverty line defined by the World Bank, Massart said.

She emphasised that only through transformative change within these four components a living income could be achieved in a sustainable manner. About farm size, she said it is striking that in certain geographic regions of West Africa, the majority of plantations are even below the average size of about four hectares in Côte d'Ivoire and about two to three hectares in Ghana. Accordingly, an interpretation of the measures based on the average sizes could lead to an increased income, but not to a living income, since the small farmers would not be able to derive sufficient benefit from these measures. Massart stated that industry cannot influence farm size directly but said that indirectly land ownership can be supported. In a joint project between Barry Callebaut and Meridia 1,000 land holdings will be transferred to cocoa farmers in Ghana with the aim of securing agricultural investments and facilitating the transfer of land to future generations. Differentiated approaches and tailored solutions are needed for different groups of cocoa farmers, she said.

According to Massart, non-cocoa income sources as a third component of the transformation approach could increase income per household by about 300 USD per year, as shown by a project in Ghana. Finally, the price of cocoa should be integrated into measures for a living wage. In conclusion, Anke Massart stressed that, in addition to the four components listed in the company's own approach, the success of a balanced approach at the farm level is highly dependent on an enabling environment created by governments and policymakers.

(Massart's presentation from minute 1:39:29)

PANEL DISCUSSION



Prof. Dr. Christian Thorun, after thanking all speakers for their extensive input, welcomed the four panel participants Anke Massart (Barry Callebaut) and Yuca Waarts (Wageningen University & Research), Evelyn Bahn from INKOTA-network and Aldo Cristiano from CAOBISCO. Evelyn Bahn welcomed the previous consensus among event members that higher prices, among other factors, play an important role and described this development as a "turning point" for a sustainable cocoa sector. Aldo Cristiano also agreed with the statement that prices, in addition to other factors, play a role in achieving a living income and underlined that the newly introduced LID has been very quickly integrated into the procurement strategies of European companies and that they thus made a major investment and commitment. Against this background, Thorun focused the panel discussion on the question under which conditions and combined with which additional measures price increases can successfully contribute to higher incomes for cocoa farmers in the long run.

Cristiano raised the question of the **effects of rising prices**, which would have to be considered in the global market context and by applying economic laws. For example, in this way, according to Cristiano, the supply could be "managed" in the countries of origin, among others. The industry should rather stimulate demand. The combination of these two measures would have the effect of moving the market towards higher prices. However, higher prices should not be seen as a tool to influence the market. According to Cristiano, sustainable supply chains can only be implemented through efficient supply chains. New supply control solutions for governments of cocoa-producing countries are also needed, Evelyn Bahn said. The question of how to design such a control approach was referred by Prof. Dr. Thorun to Yuca Waarts. She stressed that this is not limited to matching supply and demand, but that other measures such as the parallel creation of alternative income opportunities for cocoa farmers are also important, especially if they

are affected by poverty. According to Waarts, the poorest cocoa farmers are responsible for a significant share of global cocoa production. Prof. Dr. Thorun then asked Anke Massart to recommend government strategies to meet these challenges. Massart explained that it will be necessary to find specific solutions for those cocoa farmers who, despite increased prices, would not achieve a living income because their farm size is too small, and they lack productivity. According to Evelyn Bahn, the question of opportunities for farmers who would not be able to farm profitably under their given conditions has been discussed for a long time and is highly relevant within the necessary holistic approach, but it is a very long-term problem. In contrast, a higher price could be realised in the very short term and also right now, because “every dollar counts”.

To address the **role of local governments** in achieving higher prices without negative side effects, the floor was turned over to H.E. Abou Dosso. The Ambassador argued that the Ivorian government is striving to increase productivity without increasing production too much and thus further increasing the cultivation of cocoa in classified forests. He stressed that both price and productivity measures should not stand alone. The ambassador appealed to cocoa-importing countries and the industry in those countries to continue and increase their support for the Ghanaian-Ivorian initiative and the LID. The Ivorian government, Dosso said, welcomes legislative action at the EU and national levels. But also, from all actors along the supply chain, commitment to support the governments of Côte d'Ivoire and Ghana in achieving long-term living incomes for smallholder farmers is desired, he said.

Anke Massart subsequently emphasised that discussions on the topic of prices and living incomes should take place at the **European level**, if possible, in order to prevent decentralisation and to share data as far as possible. Evelyn Bahn also highlighted that governments at the European and national level are responsible for setting the legal framework, and that the legal binding of all companies to the due diligence regulations is a basic prerequisite for creating a “level playing field”.

(Panel discussion from minute 1:55:27)

CONCLUSION AND FAREWELL

Beate Weiskopf, Executive Director at GISCO

As conclusion of the event, **Beate Weiskopf**, Executive Director at GISCO, thanked all participants for the exciting discussions and impulses. She emphasized that the approach of Côte d'Ivoire and Ghana to increase farmers' incomes through LID is part of a broader sustainability strategy. The institutionalization of the Ghanaian-Ivorian Cocoa Initiative is an important step in further strengthening these efforts, she said. Support from the importing countries is necessary to achieve a broad impact.



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Weiskopf summarized that the event had shown that there was agreement among the stakeholders involved that higher prices and premiums were an important contribution to living incomes. However, this alone is not enough: Rather, higher prices must be embedded in a smart mix of strategies to avoid unintended effects such as deforestation, overproduction or falling world market prices. Important elements of these strategies, which were presented at the event, include tailored support for the professionalization of cocoa farmers and their organizations. In this context, a better data basis is also important in order to better assess which approaches are worthwhile for cocoa farmers. The importance of supportive framework conditions was emphasized in several contributions. This included stable, long-term and global supply management and improving access to land and land rights and financing.

The cooperation and dialogue between business, politics and civil society, and especially between the exporting and cocoa-consuming countries, must continue to grow and a better participation of the cocoa farmers and especially the female cocoa farmers in this dialogue must be ensured. In conclusion, Weiskopf stressed that GISCO will continue to work closely with other national forums to support stakeholder exchanges and the development of implementation strategies in order to contribute to greater alignment.

(Summary and closing remarks starting at minute 2:32:15)

The **programme** and presentations of the forum event are available GISCO's website.



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