



Brussels, 20<sup>th</sup> April 2021

## COCOA TALKS

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

**SUBJECT: SUMMARY REPORT ON MEETING 4 ON REGULATIONS, WITH A FOCUS ON DUE DILIGENCE.**

On the 20 April 2021, the European Commission hosted Meeting 4 of the *Cocoa Talks*, its multi-stakeholder dialogue on sustainable cocoa, on the topic of Regulations, with a focus on Due Diligence. The objective of the meeting was to 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. Three hundred and sixty-five people attended the meeting, which lasted for three-and-a-half hours.

**Ms. Astrid Schomaker, Director, Global Sustainable development, EU Commission Directorate- General for Environment** opened the event. She explained that the European Commission has committed to step up action to tackle the problem of global deforestation and forest degradation in the European Green Deal, in the Farm to Fork Strategy and in the EU Biodiversity Strategy. She stated her conviction that decisive action is crucial if we want to be successful in our fight against biodiversity loss and climate change. The actions of the EU in this domain are consequential for both EU and third countries, the latter being more affected than the EU by deforestation and by its impacts, be they social, economic or environmental.

The main objective of the legislative initiative on deforestation is to enhance trade in products from “deforestation-free” supply chains. In doing so, the EU is seeking to ensure a level playing field for those producers that are already striving to ensure the sustainability of their supply chains. The rules will apply equally to commodities and products produced inside and outside the EU. Key definitions in the legislative initiative will be aligned with those that already exist at the international level. For example, definitions of forests and deforestation will be in line with the FAO criteria, albeit slightly modified to match internationally agreed climate-related goals.

Ms. Schomaker summarized some components of the initiative:

- First, the proposal is expected to cover a series of commodities (including beef, wood, palm oil, soy, coffee and cocoa) and will include both bulk commodities and derived products.
- Second, the proposal will focus not only on *illegal* deforestation, but also on whether or not specific commodities are associated with deforestation and forest degradation in general. The reason behind this shift from legality to sustainability is simple: as few countries completely prohibit deforestation, an exclusive focus on legality would be much less likely to effectively reduce deforestation. This is because much deforestation may be considered to be legal.
- Third, the proposal will build on the experience of the existing EU rules in place to prevent illegal logging: namely, the EU Timber Regulation and the FLEGT Regulation. One of the main lessons learned is the need to improve due diligence requirements for companies placing those commodities and products on the market.
- Ms. Schomaker further explained that one of the options under consideration to improve due diligence is to combine it with a country benchmarking system. The level of due diligence to be exercised and the intensity of checks and inspections by competent authorities would depend on the level of risk of deforestation and forest degradation associated with products from a given producer country.

In her conclusion, Ms. Schomaker recalled that the legislative initiative on deforestation is part of a larger set of measures that has been outlined by the Commission in its 2019 Communication on Deforestation, as well as other relevant Commission initiatives like the one on Sustainable Corporate Governance. Ms. Schomaker stressed that, at this stage, the two initiatives are being developed in parallel as complementary and mutually supportive instruments. While they share general objective - to strengthen sustainability – they will operate at different levels: the Sustainable Corporate Governance initiative intend is more horizontal, addressing business operations, whereas the one on deforestation focuses on specific products and supply chains.

**Ms. Maija Laurila, Acting Director, Civil Justice, EU Commission, Directorate-General for Justice** started her speech by reminding participants that sustainability is no longer a choice but a necessity. This requires a change in mindset among companies. As part of the European Commission’s effort to foster this transition, the Commission is modernizing EU company law, through its Sustainable Corporate Governance initiative. This process does not focus on any specific sector of the economy as such but is rather a *horizontal* measure. It encourages businesses to frame decisions in terms of their social, human, economic and environmental impact, and seeks to extend the horizon of corporate decision-making to make it more long-term. Directors’ duty of care would encompass the best interests of the company. Directors would set sustainability targets, and integrate them into the company’s strategy. Adverse impacts a company causes, or is foreseeably associated with through its value chain, would be captured through corporate due diligence. The larger and more serious the companies’ impacts are, the more would be expected from it.

Ms. Laurila mentioned a number of specific issues that are still pending, such as the question of the scope and the enforcement. Both civil liability and administrative supervision are being considered. She also explained that the Sustainable Corporate Governance initiative is based on an open public consultation, including EU and non-EU citizens, all of whom recognized that voluntary approaches and reporting cannot bring about the necessary behavioural change. In other words, there was clear support for a mandatory approach.

Insofar as the cocoa sector is concerned, Ms. Laurila, acknowledged the challenge of fully mapping a supply chain consisting of many intermediaries and thousands of farmers. However, she noted that there are many advantages for companies in improving their understanding of their own supply chain, beyond the fulfilment of a legal duty. She observed that an EU standard to address human rights and environmental impacts in the supply chains of EU companies has the potential to improve the conditions of production in the countries concerned, and to lead to more transparency and improved traceability. In a smallholder-dominated cocoa sector, however, it is understood that producers might require further support or guidance.

The complementarity of the two initiatives, she said, lies in the fact that the Sustainable Corporate Governance initiative focuses on behavioural change in business operations while the deforestation initiative targets specific forest risk products. For the cocoa sector, this means clear overarching principles and specific rules from the world’s largest importer of cocoa and cocoa products.

**Mr. Yves Brahima Koné, Director General of the Conseil Café-Cacao (CCC)**, expressed regret that certain experts are seeking to lecture Côte d’Ivoire about their production methods. He called on those experts to listen to national stakeholders and to take into account current practices. He acknowledged that consumers have become more demanding with regards to how cocoa is produced. Côte d’Ivoire is striving to respond to these customers’ demands. The CCC has completed a census, to better understand cocoa farmers and their living conditions. Cocoa farms have been fully mapped. Mr. Koné expressed his willingness to present the national system to interested parties, including information on the location of cocoa farms, and whether or not they are located in the forest. The director affirmed that 15% of the cocoa farms are located in forests. In other words, 85% of the cocoa beans are grown in rural areas. Mr. Kone noted that instead of reducing the number of cocoa farmers from one million to three hundred thousand, as suggested by some experts, the number of farms in forest areas should be reduced. He informed the audience that, in the next four years, Côte d’Ivoire will plant 60 million trees to contribute to the reforestation of his country. This means that 2.400.000 hectares will be restored. Mr. Kone encouraged experts that wish to obtain data about cocoa production in Cote d’Ivoire to consult the national authorities. He insisted that national producers will take into consideration the demands of the EU consumers, without having to adopt a production model that has been imposed from outside. He concluded that current proposals could dismantle the Ivorian production model without offering viable alternatives.

**Mr. Francis Opoku, Director of legal services of the Ghana Cocoa Board**, affirmed that Ghana and the Cocoa Board are committed to sustainability and its three pillars: economic, social and environmental. He expressed the view that economic sustainability is the foundation for environmental and social sustainability. In other words, poverty and the absence of living income is a major driving force of deforestation and child labour. Therefore, according to Mr. Opoku, all endeavours towards sustainability should seriously seek to address the issue of farmer poverty and providing a living income for farmers.

Mr. Opoku then emphasised a series of commitments that have been made towards the Ghanaian cocoa industry:

- The Ghana Cocoa Board has taken the initiative to establish a Cocoa Management System, which will collect data related to Ghanaian cocoa farmers, farm size, farm household, the number of children in the household. This will allow them to track each individual child, and to respond in a targeted way to problems such as school absenteeism, to ensure that children are not involved in the worst forms of child labour.
- The Cocoa Management System will also enable the industry to trace cocoa beans from the source of production. If cocoa harvested in a reserved forest, the authorities would have the capacity to identify it and respond appropriately, to ensure that no farming takes place in protected forests.

Insofar as regulatory and due diligence systems are concerned, Mr. Opoku asked the EU and the industry to examine the peculiar circumstances of each country. For example, he cited the Ghanaian land tenure system, which puts ownership of lands in the hands of chiefs, clans and families. As a consequence, most farmers are tenant farmers. If this land tenure system is not taken into consideration, the new regulatory framework might end up placing onerous requirements on farmers or even make it impossible for farmers to meet the required standards. Mr. Opoku also reminded participants that the regulatory system could impoverish farmers by creating trade barriers to the export of the cocoa to the EU.

Mr. Opoku urged the EU to focus on the financial wellbeing of farmers while designing the due diligence regulation. Environmental degradation, deforestation and child labour are the direct result of poverty. Where there is prosperity, and people are doing well, the likelihood of environmental degradation, deforestation and child labour is diminished.

**Ms. Lise Smit, Senior Research Fellow in Business and Human Rights at the British Institute of International and Comparative Law**, and **Dr. Nathalie Walker, Senior Director for Tropical Forests and Agriculture at the National Wildlife Federation**, made a joint presentation on the due diligence, including the different types of due diligence that exist and the practical implications of due diligence regulations for companies, and for importing and exporting countries.

In her introduction, Ms. Lise Smit explained that the concept of Human Rights Due Diligence (HRDD) has its roots in the UN Guiding Principles on Business and Human Rights (UNGPs), which applies to all sectors and is an “ongoing” (i.e. not a ‘one-off’) exercise. The UNGPs also form the basis for the OECD Guidelines for Multinational Enterprises, the French *Devoir de Vigilance*, and certain industry standards. Ms. Nathalie Walker explained that 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. The European Commission is expected to propose due diligence requirements of both kinds, establishing on one hand horizontal due diligence obligations on all companies operating within the EU, and on the other hand, a legislative proposal to reduce the risk of deforestation and forest degradation associated with products placed on the EU market. 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. General due diligence requirements (which are not product specific) can level the playing field with regards to social and environmental performance across sectors and products and can support a process of continual improvement. Product-specific due diligence, by comparison, aims to prevent non-compliant products from being placed on the market. It can provide guidance which is specific to the nature of the industry or the area of sourcing, making it easier to assess compliance.

Ms. Nathalie Walker proceeded to present some examples of voluntary due diligence processes within the cocoa sector, including the use of voluntary sustainability certification (e.g., Rainforest Alliance, Fairtrade), corporate sustainability programmes, and multi-stakeholder programmes (e.g. Cocoa and Forests Initiative). She explained the weaknesses of these initiatives, including a patchwork of different compliance criteria, a lack of

standardization of reporting requirements, and a lack of transparency in some cases. She then presented some examples of mandatory, product-specific due diligence legislation, which exist across a spectrum from least stringent to most stringent, based on the level of sanctions that are imposed in case of non-compliance. She provided an overview of the EU Responsible Minerals Regulation (which applies to tin, tungsten, tantalum and gold), the EU Timber Regulation, and the EU Regulation to prevent, deter and eliminate illegal, unreported and unregulated fishing (IUU). She clarified some of the differences between these regulations. The EU Timber Regulation, for example, concentrates on compliance with the laws of producing countries, requiring competent authorities in the EU to conduct checks on products that are being sold in the internal market. The EU Regulation to prevent, deter and eliminate illegal, unreported and unregulated fishing (IUU), by comparison, requires exporting countries to issue catch certificates, which are verified by the EU Member States upon importation. The EU holds regular dialogues with exporting countries to strengthen their national policies and procedures to prevent IUU fishing and assesses their performance on a regular basis. Non-compliant products are denied entry, and national actors can be penalized with sanctions and / or product confiscation. One prominent feature of the IUU regulation is the “carding scheme”. Non-compliant countries are issued a yellow card and given some time to resolve any issues and become compliant. If they become compliant, they receive a green card and exports can resume. However, if the exporting country is unwilling to resolve the issue, the EU will issue a ‘red card’ and will ban the importation of fisheries products from vessels that carry the offending country’s flag.

Ms. Lise Smit then provided an overview of the practical implications of these regulations for EU companies. She presented data to show that companies are currently dissatisfied with existing laws on due diligence, including their effectiveness, efficiency and coherence. This in turn suggests that a new horizontal duty of care could provide significant benefits to the private sector, include greater legal certainty, harmonisation across jurisdictions, a level playing field, and increased leverage with third parties through the establishment of a non-negotiable standard at the EU level. Ms Smit emphasized the importance of using due diligence as a context-specific and risk-based approach, as opposed to a ‘tick-box’ exercise. She noted that due diligence processes should be adapted to company size, sector, location and to industry standards and best practices. If corporate efforts are in line with these principles, she explained, due diligence could then be used as a defence against liability for human rights violations and negative environmental impacts in the supply chain. This is particularly important given the expectation that the horizontal due diligence legislation will allow victims to sue companies that have not implemented due diligence measures. Companies that *have* implemented a due diligence system, by contrast, will be able to point to their efforts as a legal defence against litigation. This is one of the reasons why the private sector has demonstrated support for due diligence legislation. Finally, she explained the interaction / complementarity of the due diligence requirements with other regulatory requirements, such as the EU Non-Financial Reporting Directive, as well as with sector-, commodity- and product-specific industry standards.

Ms. Walker observed that the most successful supply chain governance initiatives are based on a clear set of rules on what is expected from products that are placed on the EU market. This can lead to cost-efficiency savings and improved sourcing, resulting from an increase in the percentage of compliant products that are available to companies and making it easier to boost investment in livelihoods and in social and environmental standards. Due diligence requirements can also prevent a ‘race to the bottom’, whereby less responsible companies outcompete those that have invested in responsible business practices, since all companies selling into the EU market will have to respect the same set of rules. In addition to this, the EU regulation 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. In other words, due diligence requirements could eliminate multiple, complex market requirements, create a level playing field, encourage long-term relationships with suppliers and investment in the supply chain, and incentivize producing-country governments to improve the national compliance framework, including forest governance and national policies for sustainable agricultural production. She ended by urging stakeholders to ensure that due diligence requirements do not become a burden for farmers.

Ms. Lise Smit then provided an overview of two possible instruments for enforcement of the upcoming due diligence requirements: enforcement through a regulatory body at the EU Member State-level, and enforcement through judicial remedies of civil remedies. The latter would be more resource-efficient and would be more effective in aligning incentives for stakeholders with the objectives (avoiding harm) since courts have the capacity to ‘go beyond the paperwork’. She also noted that there could be a combined approach, since the two

methods are not mutually exclusive. She urged stakeholders to ensure that due diligence requirements *do not* result in divestment or termination of risky relationships and to focus instead on the idea of ‘continuous improvement’ that is enshrined in the UNGPs.

Ms. Walker congratulated the governments of cocoa-producing governments for setting ambitious goals, setting a joint framework of action, and making improvements in the area of transparency and traceability. This places the cocoa sector far ahead of other sectors, especially in places where governments are putting in place national deforestation monitoring systems. This will simplify the process of 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, for example. She advised producing-country governments to continue working on a roadmap towards the establishment of a national system that can facilitate compliance. She called for further dialogue between producing- and consuming-country governments and other stakeholders from across the supply chain.

### **Panel Discussion**

**Ms. Julia Christian, Acting Campaigns Coordinators at FERN**, welcomed both of the EU due diligence initiatives. She reminded the audience that – despite twenty years of voluntary due diligence – the market has completely failed to deliver on child labour, deforestation and poverty in the cocoa sector. This market failure is why NGOs and companies in the cocoa sector are supporting the proposed regulations. Companies know they cannot fix the issues consumers are worried about unless they invest substantially in their supply chains. Companies also know that they will struggle in the market unless their competitors are willing to invest as well. However, there are other elements that lie beyond the reach of individual companies, namely, governments’ responsibility to create an enabling environment. Supply chains interventions should only be one aspect of a ‘smart mix’ of measures. It is also necessary to look at the broader enabling environment, national laws, policies, investment, etc. The lack of supply management policies in cocoa-producing countries, for example, is contributing to cocoa price crashes, while on the European side, there are no policies to support higher cocoa prices. In both Ghana and Côte d’Ivoire, unclear land and tree tenure regulations discourage farmers from protecting trees. Forest reserves are not being adequately protected due to policy incoherence between cocoa agencies and environmental ministries. Ms. Christian also reminded that the EU regulations will probably be enforced by 2023 or 2024, leaving West African countries with three or four years to prepare for the entry into force of these due diligence regulations, or risk of losing market access. The good news is that there is an overall willingness to cooperate. Ms. Christian also expressed her belief that the new regulation could be an opportunity for producing countries to foster and implement national plans to tackle child labour and deforestation, and agreed with the experts’ proposal to develop a common roadmap to set out what needs to be done from now to 2023.

**Mr. Sebastian Lesch, Head of Division, Sustainable Agricultural Supply Chains, German Federal Ministry for Economic Cooperation and Development (BmZ)**, gave a speech on behalf of the European platforms on sustainable cocoa (the ‘ISCOs’) and BmZ. Mr. Lesch confirmed the ISCOs’ support for upcoming EU due diligence regulations, highlighting the importance of creating a level playing field for businesses. However, he expressed his belief that the new regulatory framework would not be sufficient to address all the challenges in the cocoa sector. This must be complemented by a smart-mix of strategies, he insisted, including legislation, enhanced transparency and measures to provide a living income for farmers. He conveyed the strong consensus amongst ISCOs on the need for holistic approach that includes revenue diversification and an increase in the farmers’ income, and that the Living Income Differential and supply management should be part of the strategy. On behalf of the Federal Ministry for Economic Cooperation and Development (BmZ), Mr. Lesch welcomed the mandatory nature of the forthcoming legislative initiatives, observing that voluntary approaches have not been fully successful in achieving their goals. He informed participants about the legislative initiative on due diligence that is currently going through the German parliament. He expressed his expectation that the German legislation will provide some sort of “tail wind” for the forthcoming EU regulations, which enjoy the full support of the German government. Mr. Lesch also emphasised the need to create incentives for producers, including trade ones, and called for the dialogue should concentrate on long-term structural transformation within producing countries, through complementary supply- and demand-side measures. Mr. Lesch concluded by confirming Germany’s support for the €25 million programme to enhance sustainability cocoa in West Africa and expressed a support for a partnership agreement with producing countries and the EU.

**Mr. Francesco Tramontin, VP Group Public Policy Center and EU Institutional Relations, Ferrero Group** agreed with Ms. Laurila about the need for a change in mindset among companies. He expressed the industry view that mandatory environmental and human rights due diligence are a great opportunity for the cocoa and chocolate sector in Europe, as it will create a common framework for transparency and accountability. He expressed his conviction that the combination of new legislation with sector-specific intervention could be a game-changer in how the industry invests in its supply chain. The cocoa sector could even become an example of best practice across sectors and raw materials. However, he underlined some aspects that might need some attention:

- The legislation needs to work for smaller businesses in the cocoa sector. The industry is fragmented on the consumer side, so there is a need for some kind of proportionality principle.
- 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.

When it comes to deforestation, Mr. Tramontin explained, a robust traceability system is key. These systems need to be driven by producing countries, with EU support. They also need to fit into a smart mix of trade policies, development policies, and environmental policies, and contribute to the creation of an enabling environment. Mr. Tramontin also stressed the importance of Public Partner Partnerships to the process.

He concluded by summarizing some of the main requests from the industry. He called for concrete sectoral due diligence guidelines, observing that such 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. Due diligence legislation must also be harmonised with rules across all other Member States. Lastly, he said, a multistakeholder roadmap withing producing countries will be essential to ensure that plans are aligned with national priorities.

**Mr. Richard Gardiner, Senior Campaigner, Corporate Accountability, Global Witness**, started his presentation by introducing Global Witness, and its mandate to preserve forests and protect biodiversity. He informed the audience that – between 2005-2017 – the EU was the second largest responsible for imported deforestation. In this context, due diligence obligations are of crucial importance. He expressed the view that the horizontal and the sector-/commodity-specific due diligence legislations are complementary and equally important. The horizontal due diligence requirement will set the overarching framework for companies to identify, analyse and mitigate risks in their value chains, including how they should map and disclose the risks in their value chains. The commodity-specific due diligence requirement will be able to provide more detail on the risks within certain sectors linked to deforestation risk commodities. In both cases, Mr. Gardiner highlighted the crucial role of remediation in holding companies to account and in encouraging victims to bring cases to court. Finally, Mr. Gardiner praised the fact that the legislations emphasise stakeholders and the local community as partners in achieving sustainable supply chains. He urged the burden of the legislation not to be pushed down to the supply chain, but to be shared along the value chain, including financial institutions.

### **Question and Answer Session**

In response to a question about how due diligence requirements can address the issue of farmer poverty, as a root cause behind human rights violations and deforestation in cocoa supply chains, **Dr. Nathalie Walker** explained that due diligence seeks to change the relationship between sourcing companies and their suppliers, fostering long-term contracts over purchases on the spot market. **Ms. Lise Smit** reinforced the message that due diligence requirements can transform purchasing practices and contractual arrangements that currently burden small farmers. She also reminded participants that the right to a decent standard of living is a human right, and it is therefore a central part of human rights due diligence.

In response to a series of questions regarding the possible prohibition on placing products associated with deforestation on the EU market, **Ms. Nathalie Walker** emphasized that even the most stringent regulation currently in place (the IUU regulation) applies few restrictions on market access – i.e. “red cards” – insisting instead on constant dialogue and cooperation. The Commission’s initiative on reducing the impact on deforestation and forest degradation of products placed on the EU market, moreover, will not necessarily include a carding system that allows for market-wide sanctions such as trade bans. Instead, sanctions could focus on specific consignments or companies that are in violation of the law. However, she said, some sort of market

access requirement is needed to raise the bar and provide companies with an incentive to change their business practices. **Ms. Smit** complemented this response by explaining that the idea of the horizontal duty of care differs from the idea of ‘strict liability’, which would imply complete exclusion or trade bans as soon as human rights or environmental harms are identified. Strict liability would result in extensive divestment, as companies would extricate themselves entirely from risky relationships and risky countries. The ‘duty of care’, by contrast, takes into account the reasonable efforts that have been made to mitigate risks and seeks to foster deeper engagement.

In response to questions on **the role of the African Regional Standard on Sustainable Cocoa** in the forthcoming legislative proposal reducing the impact on deforestation and forest degradation of products placed on the EU market, **Mr. Hugo Schally** from the **European Commission, Directorate General for Environment** clarified that the due diligence obligation will be based on international definitions of deforestation and forest degradation, based on the work of the UN Food and Agriculture Organization. The standards that are being implemented in cocoa-producing countries and regions can play a useful role if they contribute ensuring that the product or the commodity is not associated with deforestation forest degradation. However, the Commission does not foresee any formal recognition of other standards or systems. **On the issue of transition periods**, Mr. Schally explained that an adequate amount of time is always provided before EU legislation comes into force, and this case will not be an exception. Lastly, **on the issue of prohibition**, Mr. Schally echoed the response from the experts, observing that prohibition does not necessarily imply a market ban. In the case of the EU Timber Regulation, for example, the prohibition on placing non-compliant products on the EU market is not a border measure; instead, the regulation stipulates that products and / or operators can be subject to legal proceedings in criminal or administrative courts, and if they are found to be non-compliant with the terms of the law, they may face sanctions and / or be removed from the market. The IUU regulation can, in specific cases, deny entry into the EU market of specific products from specific countries. However, the alternative approach that is being considered is to assume that imported products in principle comply with the standard, and to launch legal proceedings after importation, if it can be proven that due diligence has not been exercised or if the products are found to be linked to deforestation and / or forest degradation.

In response to a question on the benefits of due diligence regulations for cocoa farmers, Ms. **Julia Christian** explained that there is a broad coalition of NGOs who identify mandatory human rights due diligence legislation as an opportunity to get legal obligations in place, to require companies to pay a living income to cocoa farmers. Because the right to an adequate standard of living is a human right, companies would be legally required to deliver this right, by reforming their and purchasing practices and the prices that are paid. At the end of the day, she explained, low and fluctuating cocoa prices are the key issue driving child labour and poverty in the sector.

**Mr. Yves Brahima Koné** echoed these remarks in his concluding statement. He informed the audience that Ivoirian producers have always practiced crop diversification and sought new and improved sources of income. The fundamental question is that cocoa prices have to cover the costs of production, and to allow farmers to earn a profit margin that compensates them for their efforts. This is the principle behind the Living Income Differential. **Mr. Francis Opoku** reaffirmed the point that the costs associated with the due diligence regime should be borne by the entire value chain and should not be passed on to smallholder farmers. If the costs are passed on the farmers, they will be further impoverished and the whole purpose of the process will have been defeated.