

QUESTIONS & ANSWERS

December 2018

What will change in the price structure of Fairtrade certified cocoa?

The Fairtrade Standards Committee has decided that the Fairtrade Minimum Price for conventional cocoa will increase by 20 percent, from \$2,000 to \$2,400 per metric tonne at the point of export (FOB). For organic cocoa, the Fairtrade Minimum Price will be \$300 above the market price or the Fairtrade Minimum Price, whichever is higher at the time of sale. This is a change from the current minimum fixed price of \$2,300 per metric tonne for Fairtrade certified organic cocoa.

The changes will take effect on 1 October 2019.

Will the Fairtrade Premium for cocoa also change?

The Fairtrade Minimum Price is a separate intervention from the Fairtrade Premium, which is an amount paid on top of the selling price for producer organizations to invest in projects of their choice. The Fairtrade Premium will increase from \$200 to \$240 per metric tonne, the highest fixed premium of any certification scheme.

How does the new Fairtrade Minimum Price apply in the West African cocoa sector?

Some cocoa markets, such as Côte d'Ivoire and Ghana, are regulated by governments. When the Fairtrade Minimum Price is higher than the government-set market price, buyers pay farmer organizations the difference. Under the revised Standard, Ivorian and Ghanaian farmer organizations will be obliged to pass 100 percent of this payment to their members, to allow for greater transparency with the aim to maximize income at farm level.

Why is the Fairtrade Minimum Price needed?

The Fairtrade Minimum Price provides farmer organizations with a safety net to counterbalance the negative impact of falling market prices and allow long-term planning and stability. It is based on the principle of covering farmers' average costs of sustainable production, including expenses such as labour, equipment, processing, packaging and transportation.

Who sets the Fairtrade Minimum Price?

The Fairtrade Minimum Price for cocoa is set through a transparent process that involves both research and consultation with Fairtrade farmers, buyers, government representatives, chocolate brands, retailers and civil society. Based on the consultation, a proposal is presented to the Fairtrade Standards Committee, a multi-stakeholder body which includes farmer and trader representatives.

The Fairtrade Standards Committee decided on the new Fairtrade Minimum Price for cocoa during their meeting on 22-23 November 2018. A formal price announcement with full technical details will be made in February 2019. Fairtrade expects to review its cocoa Minimum Price and Premium again in three years.

What do the changes mean for cocoa farmers?

The new Fairtrade Minimum Price is 20 percent higher than the previous level, raising the safety net for farmers. They will therefore earn more when they sell their cocoa on Fairtrade terms in markets where the Fairtrade Minimum Price is higher than the prevailing market price. For organic cocoa, farmers will receive the additional value of \$300 as part of the selling price, ensuring that even when market prices are higher than the Fairtrade Minimum Price, the organic differential will still be effective.

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In addition, farmer organizations will receive a Fairtrade Premium of \$240 per metric tonne of cocoa. The new Fairtrade Premium will enable Fairtrade farmer cooperatives to invest more in services to members, in community projects, and in their own organizational strengthening, including developing long-term business relationships with their buyers.

Fairtrade is committed to working with brands and retailers to continue the year-on-year growth in Fairtrade cocoa sales, which is how farmers realize the most benefits.

However, increasing the Fairtrade Minimum Price and Premium is not without risk to Fairtrade farmers, as it is possible some retail buyers and brands may choose not to continue sourcing cocoa on Fairtrade terms to avoid paying the additional amount. Fairtrade is actively raising awareness of the gap between current incomes and a living income, as we believe that open discussion will establish a common goal for all actors in cocoa supply chains to move closer towards a decent standard of living for cocoa growing communities.

Does the new Fairtrade Minimum Price mean cocoa farmers will earn a living income?

Increasing the Fairtrade Minimum Price by 20 percent is an important step for cocoa farmer organizations, but it will not in itself enable the average cocoa farmer to earn a living income. When setting the price, Fairtrade needs to balance market circumstances and farmer needs, in order to not set prices so high that farmers lose overall Fairtrade sales.

In the current market situation, the increase would enable average Fairtrade farmers in the biggest Fairtrade cocoa origin, Côte d'Ivoire, to move out of extreme poverty if they sell a certain percentage of their crop on Fairtrade terms and the rest at market price level.

In addition to the Fairtrade Minimum Price and Premium decision, Fairtrade International has also established a target reference price for the industry that should enable cocoa farmers to earn a living income if implemented as part of a holistic strategy. This Living Income Reference Price for cocoa is calculated at \$2,668 per metric tonne at farm gate level in Côte d'Ivoire and \$2,300 in Ghana. (For comparison, the new Fairtrade Minimum Price at FOB level would equate to approximately \$1,600 per metric tonne at farm gate level in Côte d'Ivoire at today's rates.) The strategy also includes doubling average productivity levels to around 800 kg per hectare, enabling higher production from less land so that farmers can supplement their cocoa income by diversifying into other crops. Fairtrade recognises and respects the Ivorian government's current ban on productivity projects.

In order for farmers to receive the Living Income Reference Price at farm gate level, the Fairtrade Minimum Price at FOB would need to be approximately \$3,468 per metric tonne in Côte d'Ivoire at today's rates, representing a significant increase over current market prices. The current increase in Fairtrade Minimum Price therefore closes about a quarter of the gap between the average Ivorian cocoa farmer's income and a living income.

Unlike the Fairtrade Minimum Price, the Living Income Reference Price is not mandatory. Fairtrade will develop projects with pioneering partners to test the Fairtrade Living Income Strategy, including price and diversification initiatives, and identify learning that will move the cocoa industry closer to supporting a living income.

What is meant by 'living income'?

A living income is defined as sufficient income generated by a rural household to afford a decent standard of living for all the household members, including food, housing, clothing, healthcare, children's education, and some additional costs.

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What do the new Fairtrade Minimum Price and Premium mean for companies who source Fairtrade cocoa?

Companies sourcing cocoa on Fairtrade terms will need to pay the new Fairtrade Minimum Price – or the relevant market price if it is higher – and the new Fairtrade Premium starting on 1 October 2019. All changes will become mandatory for all contracts signed on or after 1 October 2019. For price regulated markets (Ghana, Côte d'Ivoire), the changes will come into force for all deliveries (from the producer organization to the first buyer) starting on 1 October 2019. Additional technical information will be released in February 2019.

We appreciate that this does add costs to trading Fairtrade cocoa in an overall volatile market. However, we believe the time is right to take this step, and the price consultation showed that there are companies who are ready to take action towards enabling a living income for farmers. Ultimately, this is not just about Fairtrade. Each actor in global cocoa supply chains – including businesses, farmers, certification schemes, governments, and consumers – has a part to play in enabling a sustainable future for cocoa.

Will Fairtrade chocolate become more expensive for consumers?

Fairtrade does not dictate final consumer prices. The Fairtrade Minimum Price applies at the point where the producer organization sells to the next buyer in the supply chain. It is not calculated as a proportion of the final retail price, which is negotiated between the product manufacturer and the retailer.

Even if consumer prices for Fairtrade chocolate were to increase, it is very important to understand the cost of food in relation to the lives of the people who grow it. We are convinced that very few consumers want their pleasure of enjoying chocolate to come at the expense of keeping others in poverty.