

FAIRTRADE LIVING INCOME REFERENCE PRICE MODEL

LIVING INCOME REFERENCE PRICE CONCEPT

A Living Income Reference Price indicates the price needed for an average farmer household with a viable farm size and an adequate productivity level to make a living income from the sales of their crop. It is based on the following key parameters:

- Cost of a decent standard of living (Living Income benchmark)
- Sustainable yields (productivity benchmark)
- Viable farm size (to fully employ the available household labour)
- Cost of sustainable production (in order to achieve above mentioned yields)

It is important to note that for calculating the reference price we focus on the Fairtrade crop as our sphere of influence. Although it is recognized that farm income may well be diversified, the formula is based on the Fairtrade product as a single crop, assuming that any other farm activity would be as profitable as the Fairtrade crop and thus generate a proportionate share of the living income.

The price that allows an average farmer household with a viable farm size and a sustainable productivity level to earn a living income is calculated with the formula: price x total volumes produced = cost of decent living + cost of sustainable production.

$$\text{Living Income Reference Price} = \frac{\text{cost of decent living} + \text{cost of sustainable production}}{\text{viable land area} \times \text{sustainable yields}}$$

ESTABLISHING A LIVING INCOME REFERENCE PRICE

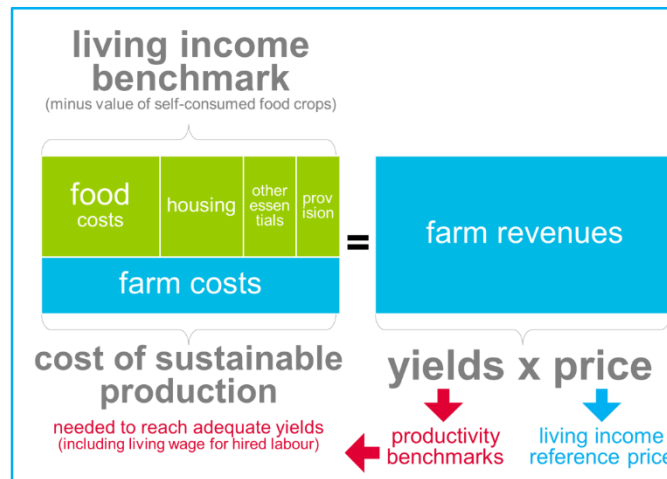
The following section describes how the values for each parameter are determined.

Living Income benchmark

Living Income is defined as sufficient income generated by a household to afford a decent standard of living for the household members. Elements of a decent standard of living include: food, water, housing, education, healthcare,

transport, clothing and other essential needs, including a provision for unexpected events.

If a household typically produces food crops for home consumption, these would be considered as in-kind income to be deducted from the cost of living as it reduces the food expenditures for the household.



Sustainable yields

Adequate productivity levels are determined based on feasible yields, obtained when implementing sustainable agricultural practices.

In establishing productivity benchmarks, it is crucial to consider potential adverse macro-effects of increased yields. A sector-wide steep increase in productivity will lead to oversupply and downward pressure on commodity prices. In addition, higher yields do not necessarily translate into higher profitability for farmers. Therefore, we should balance maximum possible yields with optimal returns for the farmer in the long run.

Viable farm size

The Universal Declaration of Human Rights establishes: "Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity." Hence, hired workers have the right to a living wage and self-employed farmers should be able to make a living income from their farm proceedings. Following this principle, a farm should be big enough to fully absorb the average household labour force in order to generate a living income. This would be considered a viable farm size or a "full-employment farm size".

Cost of Sustainable Production

The costs associated with producing sustainable yields are likely to be higher than the current production costs, since the actual low productivity is often a result of low farm investment. Hence we need to project the costs of production at the sustainable yield level.

This calculation is based on fully employed non-remunerated household labour. Additional hired labour needs are factored in at Living Wages. This way the living income reference price covers a living income for the household members (provided the available household labour is effectively employed on their farm) from the farm profits and a living wage for hired workers.