Consultation Results Synopsis Information to Stakeholders on outcomes of the consultation for the Review of the Fairtrade Standard for Coffee	
To	Fairtrade coffee stakeholders
Consultation Period	23rd September 2019 – 18th December 2019
Project Manager Contact Details	Alina Amador, Senior Project Manager, and Giovanna Michelotto, Project Manager standards-pricing@fairtrade.net

Fairtrade International's Standards & Pricing would like to thank all stakeholders for the time and effort they have put into participating in the consultation on the review of the Fairtrade Standard for Coffee. The consultation concluded on December 18th 2019, with a total of 107 participating stakeholders via the Word document questionnaire and 374 small-scale producer organizations via workshops, providing Fairtrade International's (FI) S&P their views and perspectives. Thanks to the input provided by stakeholders, Standards & Pricing has gained a good understanding of critical issues and concerns including potential solutions. This information provides the basis for our recommendation to the Standards Committee, therefore the decision on the final standards will be taken in full knowledge of stakeholders' comments.

This document aims to present the outcome of the consultation in the most transparent way possible without disclosing confidential stakeholder information.

Should you have any queries or remarks concerning this report, please contact the project manager: Alina Amador, Senior Project Manager or Giovanna Michelotto, Project Manager at standards-pricing@fairtrade.net

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Introduction and Executive summary

Executive Summary

The purpose of this project is to review the globally-applied Fairtrade Standard for Coffee, as part of the regular standard monitoring and review cycle. The overall objective is to ensure that the standard continues contributing to the Fairtrade 2016-20 strategy and is in line with the Fairtrade Theory of Change, as it is vital to have a standard that supports the empowerment and development of producer organisations, and the proposed review focuses on these aspects. It more specifically aims to align the Coffee Standard with the content and design of other Fairtrade Standards (Trader Standard and Standard for Small-scale Producer Organisations), explore ways to better ensure that certified producer organisations are genuine and viable SPOs, define clearer rules on pricing and contract issues to promote transparent and fair trade relations, ensure consistency with international trade rules while promoting good trading practices in coffee.

Below a summary of the consultation topics and an overview of the responses per topic:

Topic and explanation	Main outcomes of consultation
Entry requirements SPOs The following entry criteria was proposed: • *Require that new coffee producer organisations, interested in Fairtrade certification demonstrate being an established organisation for at least 2 years.* • *Require that new coffee producer organisations, interested in Fairtrade certification demonstrate having a minimum capacity to assist their members and export experience of the crop.* • *Require that new coffee producer organisations, interested in Fairtrade certification demonstrate market potential for at least the first 2 years of Fairtrade certification.*	Majority in agreement (79%) because this potentially reduces opportunistic behaviour and fictitious SPO creation. Although concerns were raised on generating bias in detriment of more vulnerable SPOs and the focus on documentary compliance which is possible to demonstrate and does not solve underlying problems.
Entry requirements export service providers The following entry criteria was proposed: • *Require that new coffee exporters, as well as producer organisations with the capacity to provide export services to other organisations, enter the Fairtrade system only if their assistance to export the Fairtrade coffee is requested by a producer organisation.*	89% in agreement, arguing that the proposal fosters transparency and traceability. Nevertheless, stakeholders also consider that limiting competition at the exporter level may work against the interest of SPOs, and risk of only increasing the administrative burden.
Role of exporters The proposal was that all exporters in Fairtrade acts as conveyors[1] in all coffee supply chains.	76% agreed with the proposal arguing increase in transparency and reduce abusive behaviour towards the SPO (price and premium payment). 11% disagreed, arguing that the additional bureaucracy will delay payments and reduce Fairtrade sales.
Tripartite contracts The proposal was that conveyors sign a tripartite contract between the producer, the price and premium payer.	Although the majority agreed (74%), compelling arguments against implementing such contracts was presented: administrative complication, reducing the capacity to manage sourcing risks via the exporter.
Coffee contracts Increase level of details in Fairtrade contracts was proposed depending on the level in the supply chain and the stakeholders involved. The	Increase details in contracts was by a majority agreed (78%) although it needs to be clear to which contracts the details belong, as is not all relevant to all contracts (milling vs. purchasing contract) and at

[1] Fairtrade conveyors are buyers who buy directly from the producer, buy Fairtrade products under Fairtrade conditions, except that they pay the price differential (i.e. the difference between the Fairtrade minimum price and the price already paid, if applicable) and the Fairtrade premium only once they have received it from the Fairtrade payer.

proposal is to add a requirement that provides the detailed coffee price breakdown to be used to calculate deducted or added cost items whenever the coffee is bought at different level than the one where the FMP is set. Stakeholders were also asked whether they would agree to implementing a template for coffee contracts applicable to all Fairtrade coffee transactions up to the Fairtrade payer level as compulsory requirement.	times the information is not available. A contract template was deemed useful in particular for those SPOs that are less experienced. Other items were also indicated and those inputs will be considered for the second round of consultation.
Price to be fixed contracts and price fixation. The proposal was to add a requirement on price risk management and that related costs are shared between seller (SPO) and buyer. The requirement will allow a maximum cost for the hedging operation to be paid by the producer organisation, in case a hedge is placed on the account of the producer organisation. This would be complementary to the current Coffee Standard requirement 2.3.1. Stakeholders were also asked if they agree to eliminate the requirement 4.3.5, allowing for forward sales for more than one crop, subject to an agreed price risk management strategy between seller and buyer.	54% of respondents in favour of having PRM costs shared between SPO and buyer (up to a maximum of 0.05 USD/lb) although subject to caveats to is implementation: proper training for SPOs, documentation needs to be available, 5 USD cents is a maximum cost but the services costs may actually vary. It was argued that the responsibility should be shared by all in the supply chain, and not be deducted from the price. This is also seen as risky for SPOs less versed in this topic. 63% agreed with eliminating the requirement on forward sales for more than one crop, subject to PRM strategy, arguing that this may encourage long term commitments, nevertheless there was concern that still the market is volatile and that this represents an important risk for the SPOs. If the requirement is removed then the price risk management topic becomes even more critical.
Prevailing differential Stakeholders were asked about the relevance of the information that FI has been publishing about differentials. Stakeholders were also asked on how Fairtrade price is checked in audits to comply with the FMP, proposing that the prevailing differentials serve as a price discovery tool for the producer organisations, and buyers.	62% of respondents considered the information on differentials provided by FI relevant, as long as it is updated and used as a reference. Stakeholders argue that Fairtrade should focus on prices covering the costs of sustainable production and monitor payment of FMP and FP. There was some indication based on comments from some stakeholders that the question on how the price is audited to comply on price payment was not fully understood.
Premium use The proposal made was to remove the current 0.05 USD / lb earmarked Fairtrade Premium for productivity and quality improvement.	54% of stakeholders prefer maintaining the earmarked 0.05 USD/lb for productivity and quality improvement. Although, an important part of respondents suggested that the decision should be primarily a decision of the SPO based on their needs assessment. Majority of SPOs (around 60%) indicated preference to maintain the earmarked FP.
Organic differential reporting	A 57% of respondents disagreed to consider a reporting system for organic differential usage. The main argument is that the differential is basically to

Stakeholders were asked about the possibility to consider the implementation of reporting system on the use of the organic differential.	cover a higher cost of production of organic production. In addition, respondents showed concern with non-organic coffees sold as organic.
Payment terms	Majority of stakeholders agreed with the current requirement.
Pre-finance Stakeholders were asked to consider the current pre-finance requirement and to indicate if the amount (at least 60%) and time-frame (at least eight weeks prior to shipment) for pre-finance can remain as it currently stands in the current requirement 4.2.1.	71% of respondents agreed with the current requirement, although several comments indicated that 12 weeks prior to shipment is most beneficial for SPOs that require financing to be able to fulfill contractual arrangements.
Sourcing plans & Long term commitments Stakeholders were asked if the existing requirement on sourcing plans is relevant and effective to ensure that producers are better informed about their market prospects. On long term commitments, stakeholders' opinion on the relevance of fostering long term commitments and how could Fairtrade support.	66% of respondents considered that the current requirement is relevant and effective for SPOs to be better informed about their market prospects, although for 27% the requirement is only administrative and the sourcing plans are not binding which may misguide decision making at the SPO level. Long term commitments are considered important to foster development although many considered that this is outside of Fairtrade's scope, and those commitments are created and developed depending on the willingness and by creating trust and not by imposing rules.
Sharing risks- quality claims Agreement on necessary documentation in case of a quality claim was proposed as follows: In case you have a quality claim, you present the following documentation: 1. Details on coffee contract and coffee delivered with visual evidence 2. Third party inspection and confirmation of the discrepancy in quality A follow up question asked whether stakeholders agreed to consider a maximum discount on quality claims of 0.05 USD / lb from the price to be paid to the producer organisation for Fairtrade coffee? This would only be accepted if the required documentation and evidence is presented. Stakeholders were also asked on how can Fairtrade ensure SPOs interests are not compromised in the negotiation of quality claims	74% agreed with the documentation to be presented in case of filing a quality claim, although arguments were made that already customary trade regulates quality claims and is therefore out of Fairtrade's scope. The proposal of a maximum discount to be deducted from the price paid to producers was only supported by 44% of respondents and 42% disagreed with the proposal arguing that discounts can be for a larger amount and according to the quality of the coffee. Fairtrade has a role to play in supporting the development of capacities at the producer level, and to support the negotiation capacity.

that may result in an allowance higher than the 0.05 USD / lb?	
Unfair trading practices Stakeholders were asked to provide any additional input to the lists of practices that are currently identified as unfair, in addition further practices or situations were also captured.	Unfair trading practices indicated were identified in several countries as recurring and needed to be addressed although the limitations of certification scheme were also recognized and further work to change the trade power dynamics is needed. The recommendations from the stakeholders are taken into consideration for the second round of consultation and to advance the work in other areas in the Fairtrade system.
Low quality coffee as Secondary products Stakeholders were asked whether they agreed to explore the inclusion of low quality coffee as a secondary product, and if they did to provide further information on the conditions needed to be considered to qualify a low quality coffee as a secondary product.	51% of stakeholders were against exploring further the topic of lower grade coffees in the Fairtrade scope. Arguments in favour indicate that this may actually be of benefit for producer organizations, although strong arguments against indicate that this represents a considerable risk for Fairtrade and it also undermines the progress that SPOs have made in working towards increasing quality of their coffees.

Way forward

S&P will launch the second round of consultation in Mid - May 2020, for a period of maximum six weeks. The outcomes of the project are expected to be shared with the SC for decision on September 2020. The reviewed timelines are updated in the project assignment online.

Abbreviations

FI Fairtrade International

FMP Fairtrade Minimum Price

FP Fairtrade Premium

NFO National Fairtrade Organisation

PN Producer Network

PTBF Price to be fixed

SPO Small – scale producer organisation

SC Standards Committee

S&P Standards & Pricing

Fairtrade Standard for Coffee review - Consultation results

Consultation process and participation

The consultation was conducted via online questionnaires sent individually and published on Fairtrade's website. The questionnaire was sent out to all stakeholders involved in Fairtrade Coffee, including producers, traders, licensees, as well as to all members of the Fairtrade system. It was sent to currently certified SPOs and traders as well as licensees. The consultation document was available in five languages (English, Spanish, Portuguese, French and German).

The consultation was launched on the 23th of September 2019 and finished including an extension on the 18th of December 2019. All respondents gave their input responding in written to the questionnaire or by participating in one of the workshops organized by the local producer networks. Producer workshops were held in Asia, Latin America and Africa. Many of the participants also provided individual input in addition to the input shared during the workshop. In some workshops individual votes were collected per question and in others there was only a collection of the general discussion and consensus in the meeting. More details on this will be provided in the next section on the aggregation of consultation results.

The results in this document may be presented per region, country, per stakeholders' main function, or only aggregated according to yes, no and unsure responses. This aggregation assists the presentation of results and analysis of data.

The result analysis depicts the results from individual responses received on the consultation document and the responses captured in consultation workshops. It is important to note that consultation workshops were attended in some cases by more than one participant per SPO. There is an overall duplication of 44 respondents (10% of all workshop participation) which is considered in the analysis.

For clarification purposes, please refer to the table below with details of the response aggregation.

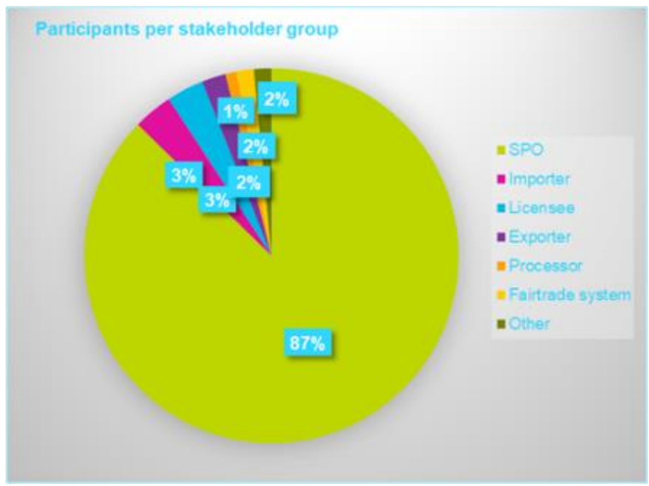
Source	
Word document	**Workshop**
All individual responses received via Email	Kenya, Uganda, Rwanda, Tanzania, Ethiopia, Indonesia, India, PNG, Vietnam, Latin America
Total questionnaires **107** Questionnaires SPOs: **46**	Total number of SPOs represented: **374** Total number of participants: **422** (with FLO ID: 418)

Regions (according to FI's geographical scope for certification)	**Countries**
Australia	Australia, New Zealand
South Eastern Asia	Indonesia, Laos, Timor-Leste, Viet Nam (Singapore due to geography)
Southern Asia	India
Pacific	Papua New Guinea
North America	Canada, USA
Europe	Austria, Belgium, Denmark, Finland, France, Germany, The Netherlands, Italy, Switzerland, Sweden, UK
Eastern Africa	Ethiopia, Kenya, Uganda, Burundi, DR Congo, Rwanda, Tanzania,
Southern Africa	South Africa
Central America & Mexico	Mexico, Guatemala, Honduras, Nicaragua, El Salvador, Costa Rica
South America	Colombia, Peru, Brazil

Main functions aggregated	**Main functions**	**Explanation**
SPO	SPO	Small Producer Organizations 1st and 2nd/3rd

Trader	Exporter	Does not include SPOs that export on their own
	Processor	Processors (soluble coffee manufacturers, roasters with no licensee status) in country of origin and consumption
	Importer	Importers only, excludes the one with licensee status
	Licensee	Includes retailers, and importers/roasters with licensee status
Fairtrade system	Fairtrade system	NFOs, FLOCERT
Other	Other	Individual stakeholders interested in Fairtrade coffee, academia and NGOs

There are 42 countries represented in the results, including the major coffee producing and importing countries for conventional and organic coffee. The consultation therefore represents broader views from different stakeholders. In the next section you will find the consultation results as follows:



- The questions and proposals as presented in the consultation documents
- A graphic representation of all responses
- A summary of the feedback received

Given the amount of data and granularity in which the data can be presented, it is only on those cases where the feedbacks' tendency is clearly divided where there is more in depth depiction of data and analysis included.

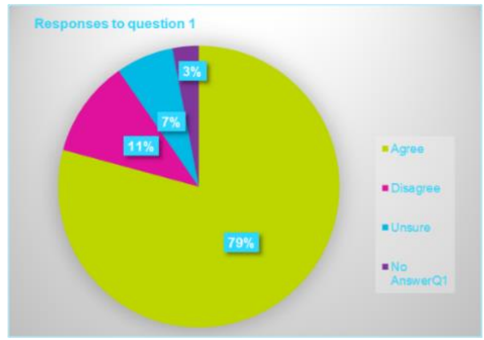
Consultation results

Question 1. Do you agree on introducing a requirement that for the certification application a coffee organization wishing to join Fairtrade fulfils the requirements for entry as follows?

Require that new coffee producer organisations, interested in Fairtrade certification demonstrate:

- *being an established organisation for at least 2 years.*
- *having a minimum capacity to assist their members and export experience of the crop.*
- *market potential for at least the first 2 years of Fairtrade certification.*

Stakeholders in agreement (79%) argue the following:



- ✓ Potential of increased confidence in the Fairtrade system, preventing "fictitious" organizations from being created.
- ✓ Fosters maturity in SPOs' management, supporting the already existing producers to enhance Fairtrade sales. Traders can perceive this as guarantee that the SPOs will fulfil contracts.
- ✓ For some this is already basic requirements to have a fully functional organization.
- ✓ Fairtrade should nevertheless ensure that certified groups are able to handle additional resources, and invest in continuous improvement projects or programs.

The stakeholders against (11%) argue that:

- ✓ The proposal favors established and larger SPOs to the detriment of more fragile ones (who would need more of the potential benefits of Fairtrade): challenge the theory of change and FI approach
- ✓ It is difficult to find buyers in Fairtrade if SPO is not certified.
- ✓ In the case of Kenya, buyers are not known before the coffee reaches the market which for an important part of the coffee traded is the auction.
- ✓ Producer organizations may shy away from joining Fairtrade because of stringent measures, thus will not compete well with other schemes.

A 7% of stakeholders remained unsure, arguing that:

- ✓ The measures can be seen as a discriminatory or de-incentivizing effect for farmers who wish to become members, especially for young farmers with new and innovative ideas whom the industry needs to encourage.
- ✓ For a dynamic business 2 years is a long time and it reduces the opportunity to start new projects with the cooperatives, particularly when Fairtrade is the best option for them to get access to the market.
- ✓ SPOs created by a trader might be the only ones that can provide long term market potential. It may make sense to have a year of preparation before achieving the certification where the SPO shows being an established organization.

General comments:

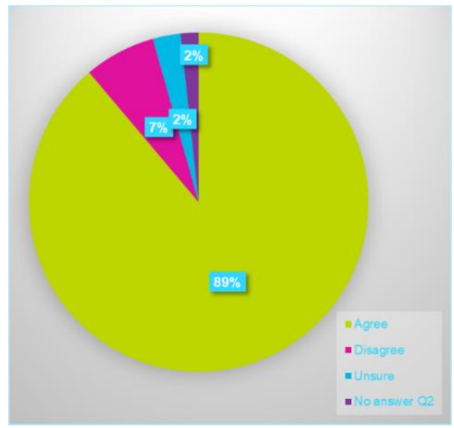
- ✓ The relevance of the support that the PNs and FI can provide to organizations that require it in order to become Fairtrade certified or for continuity and/or earlier training.
- ✓ For some it is most important to show democratic decisions and development aspects of the organization than just documentary compliance (easy to produce).
- ✓ The market potential is open to interpretation. Letter of intent is not binding. Experience in local market is also relevant, not only export. A suggestion: make it as progress requirement and not entry one.

Some Latin America stakeholders propose not two but three to five years of proof of being established. In other regions the two-year period seemed long because of the dynamic nature of the industry and some organisations could be ready before that in order to respond to market demand.

Question 2. Do you agree that the requirement for certification of new export service providers (exporters and producer organizations) is included as follows?

*Require that new coffee exporters, as well as producer organizations with the capacity to provide export services to other organizations, enter the Fairtrade system only if their assistance to export the Fairtrade coffee is requested by a producer organization***.**

This proposal follows the requirements 1.1.1 from the current Fairtrade Standard for Coffee, but this requirement explicitly includes SPOs that also provide export services to other SPOs.



Stakeholders in agreement (89%) argue the following:

- ✓ Proposal is fair and fosters more supply chain transparency and traceability. Nine respondents also nuanced their views, by explaining that some problems on the ground may also come from long established exporters, and that the requirement could only work properly if the buyers guarantee to buy from the concerned SPO. Therefore, it is said that the existence of a market should be ensured before starting the certification investments.

7% of stakeholders disagree:

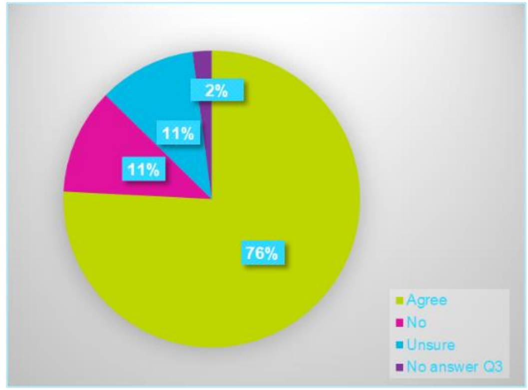
- ✓ International traders are against limiting competition and if the export service provider meets the Fairtrade criteria, it is not necessary to rely on producer organizations to qualify for certification. Furthermore, more exporters should provide more services at competitive prices for producers. Limiting competition can be detrimental to the organizations.
- ✓ It is an administrative task that may hinder commercial flow.
- ✓ It was mentioned the producers should be free to establish the most convenient marketing channels and chose who they want to trade with. One exporter said that introducing requirement would contribute to further "strengthen an oligopsony market trend". Two stakeholders indicated that this requirement should be for exporters, and not SPOs that want to provide the export services.

2% of stakeholders replied unsure: These respondents had the impression that the loopholes were more within the Fairtrade system than on the amount of new exporters, whose rather stimulate trade. One respondent also asked for clarification as to what is it that we are addressing and further background on the question. One stakeholder was not clear how this is different to the current requirement (1.1.1).

General comments:

- ✓ Some stakeholders suggested to request more responsibility on the buyer to provide documentation on their activities and export records.
- ✓ Sustainability of commercial relations and ensuring that the exporter will continue to purchase from the SPO, the topic was brought in the previous section on market potential, how to measure it and if its binding.
- ✓ Challenge to consider the national legislation and local contexts to implement such a requirement. In some countries producers are bound to work with exporters (Colombia and Brazil, auctions for Kenya).
- ✓ Latin American stakeholders suggested more binding requirements, such as a commitment that guarantees good commercial practices (transparency) to avoid unfair practices.

Question 3. Do you agree to include a requirement to limit the role of exporters as Fairtrade conveyors in coffee supply chains?



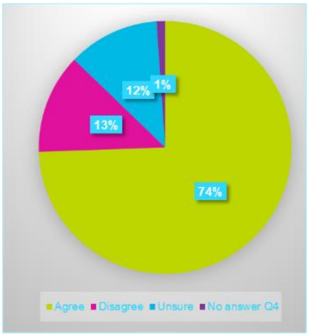
A 76% of the respondents responded in favor:
- ✓ Brings more transparency and balance
- ✓ Producers able to better monitor where their coffee is going
- ✓ Minimizes the chances of selling non-Fairtrade coffee as Fairtrade
- ✓ May protect SPOs from potential abuse especially in regards to the payment of FP.
- ✓ Fair to have all exporters playing the role of conveyors whether they were SPOs or not.
- ✓ Enables SPOs who cannot pay for export costs to have their coffee exported with much more ease.
- ✓ It will better protect producers regarding the payment of the Fairtrade Premium and avoid abuses.

11% of stakeholders against (mainly importers, exporters and few SPOs) argued that:
- ✓ Add bureaucracy and limit the payment methods. If FMP and FP are properly audited and paid this would only delay payment to SPOs which would only happen after the payment by the payer.
- ✓ Exporters' costs should remain confidential. In cases they have their own operations/subsidiaries in origin, if acting as conveyors there will be access to competitors on information of costs.
- ✓ It may lead exporters to leave the Fairtrade market if they feel they have no interest in being just "service providers", resulting in reduced Fairtrade demand due to business restrictions and bureaucracy. Small cooperatives that are really small family producers might fail.
- ✓ The role of exporters is also to provide optional services to a cooperative: diversifying the risk and controlling the quality, compliance and timely delivery of the product.
- ✓ Having exporters act as Fairtrade payers, paying the FMP and FP is transparent and clear for all actors in the supply chain.
- ✓ Exporters play a vital and developing role in coffee supply chains, generating visibility and handling which is also favourable for producers in many cases. They also offer greater liquidity as price and premium payers.

11% unsure stakeholders:
- ✓ If exporters (the conveyor) and importers belong to the same company, transparency will still be missed.
- ✓ Fairtrade would need to define a clear definition of the (various roles of) exporters and responsibilities.
- ✓ Exporter's role won't be limited to conveyor when it offers sorting services, bagging, or others. In cases where the exporter buys coffee parchment directly the traceability must be ensured and the price paid must be framed to meet Fairtrade standards. Consider the cases of aged coffees, the risks that exporters take on these coffees for which the SPOs would not have the liquidity to cover.
- ✓ Role of multi-nationals: The exporters acting for / on behalf of multi-nationals (e.g. ECOM, Volcafe) are not considered. Many of them do in fact act as Fairtrade price & premium payers towards producer organizations, although based in the countries of origin of Fairtrade coffee. Turning all of them into conveyors (again) would make it clearer on paper, but not reflect reality. In the case of cocoa - Is it possible to implement a rule similar to cocoa that would - by default - turn all exporters within a multi-national organization into the Fairtrade price & premium payer, for all transactions and without the possibility to change the role?

Question 4. Do you agree in adding a requirement to make tripartite contracts between the producer, the price and premium payer, and the conveyor a core requirement?

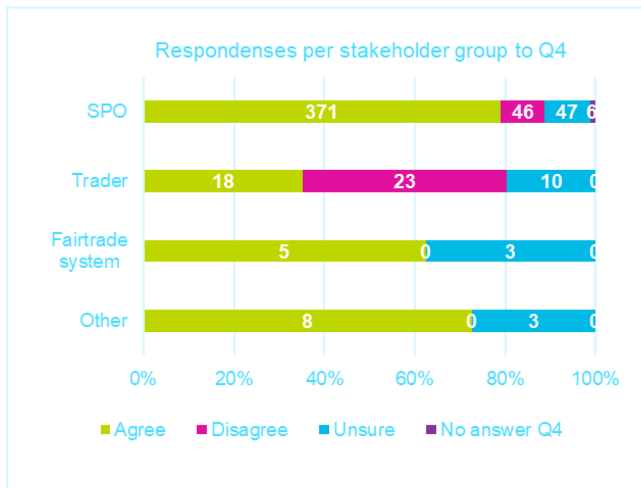
An overall majority of stakeholders are in favor of the implementation of tripartite contracts. Moreover, SPOs primarily indicated agreement with the proposal. The main argument is that this measure brings more transparency and for producers increasing knowledge on contracts (quality, volume, price, final market) and empower producers to be part of the negotiation.



Other arguments in favor included caveats to its implementation:

- ✓ Transparency is only requested at the producer, exporter and importer level, but not to the roaster or final actor in the chain.
- ✓ A tripartite contract does not seem possible unless retroactive once coffee has found a buyer. Tripartite contracts are not feasible in the case of purchase of a single container but only in case of purchase of multiple lots.
- ✓ Mutual agreement by all the parties promotes transparency and traceability. It can also help to develop confidence of the newly certified SPOs, but there is a risk that the conveyors withdraw and therefore access to the Fairtrade markets is limited.

13% disagree with tripartite contracts (primarily traders)



- ✓ At times traders source from the same cooperative for several customers. This proposal is therefore complicated from an administrative and legal perspective. In addition, due to the seasonality of the coffee crop, there needs to be flexibility to select the best supplier for each costumer. This proposal threatens Fairtrade business.
- ✓ A commercial channel of an SPO would be conditioned to a customers' demand. Allowing only a "Back to Back" business, which is not the exporters' reality. It would be a further limiting factor for small producers, benefiting the larger and better structured cooperatives.
- ✓ Exporters are entitled to buy and sell without sharing information. They are transparent in their business when the price and the premium are paid. It is acceptable to indicate to the cooperative that the coffee will be sold to X importer, but not needed to show the contract between the exporter and importer.
- ✓ Likely to distort the contractual relationships and obligations. Where an exporter is involved, the trader relies on the agreement with the exporter to meet obligations. Moreover, tripartite contracts are likely to reduce possibilities of long term contracts between traders and exporters as well as the exporter's flexibility in case of quality or quantity issues that arise from the producer organisation.
- ✓ Tripartite contracts would be an unnecessary administrative effort and eventual discussion points can lead to delayed contract negotiations.

12% stakeholders are unsure

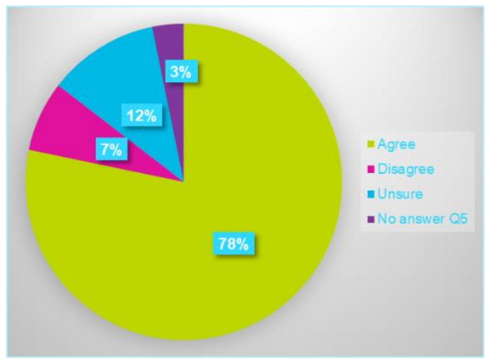
- ✓ It is necessary to establish what the content of this contract should be, as some information regarding the cost charges should not be open to any customer, as they are strategic for the company.

- ✓ The concept is good; but making it mandatory might open the door for fake agreements. To achieve a truly tri-partite agreement requires more than a specific type of contract but mainly a change in business practices.
- ✓ It assumes efficiency at the producer level. Disruption in supply from one producer organisation can be covered with supply from another cooperative. There should be other mechanisms to ensure transparency that does not require tripartite agreements.
- ✓ Limitation to implement this when there are cases of auctions, as in Kenya.
- ✓ It is more important to define the audit control point, and avoid increasing pressure on the SPOs.

Question 5. Do you agree in the following list of items to be considered as core requirement for coffee contracts?

Please note that this list would be complementary the current TS requirement 4.1.2. which is currently a core requirement for Fairtrade contracts applicable to Fairtrade payers, details to be included as applicable. In addition, the requirement applies to conveyors as per TS requirement 4.1.4, therefore in case of tripartite contracts, the contracts between the payer, conveyor and producer organisation are to include all the details in the list:

- ✓ *Form in which the coffee is purchased from the SPO, i.e. where ownership changes from the SPO to the exporter*
- ✓ *Humidity level of coffee purchased (indicate %)*
- ✓ *Real yield of green coffee (indicate %): parchment to green coffee and parchment to green exportable coffee*
- ✓ *Quality (screen size, number of defects and if available cupping score)*
- ✓ *Place of delivery and party responsible*
- ✓ *Detail description of services delivered to the SPO*
- ✓ *Payment terms*
- ✓ *Price risk management strategy terms and conditions*



78% of respondents in favor indicated the following:

- ✓ More information on price transparency is useful and needed for the product integrity and traceability
- ✓ It is core for transparency and compliance purposes especially in cases where a percentage of the coffee sold is on non-Fairtrade terms for the same consignment.
- ✓ It is a good approach for value chain monitoring; but the template should be simple and allow flexibility for both parties to decide how best to manage their contract.
- ✓ Ideally for greater transparency; but using a unique contract (based on own templates) which includes all coffee purchases; Fairtrade and non-Fairtrade, would also aim at avoiding unfair trading practices
- ✓ It is another way of building the capacity of the newly certified SPOs on contract management. This may help building long-term relationship between the producer and the buyer.

7% of respondents disagree with the proposal:

- ✓ Most of them are more operational parameters that are not necessarily known at the time of signing an agreement. Adds again more complexity and makes Fairtrade sales more rigid and difficult.
- ✓ Certain aspects of this list are not requirements related to Fairtrade regulations and should be left to the parties entering a contract to decide upon. Implementing this is opening a risk to interpretation and lacking specific data points to ensure accuracy.
- ✓ The details are not relevant for specific country cases, i.e. Kenya. It is also a high risk for the SPO to add in the contract details about the product when there are factors that are outside of their control such as transportation, or weather. In the case of cupping scores, seems worst because a score can

be indicated that does not coincide with the buyers' assessment leading to a rejection and need to resort to arbitration. This may happen when prices are high or when the buyers wish to maintain open contracts.

- ✓ This list should be parameters that serve the auditor to verify compliance. The detail is not feasible because it can be confusing at the time of liquidating business, it should refer to international standards that contemplate these details and further requirements can confuse organizations more.
- ✓ The level of detail is already known although not in written, if those details are indicated this may increase risks of contract non-compliance for the SPO.

A 12% of respondents were unsure of the proposal:

- ✓ Some information may not be available at the time of trading (humidity, yield, etc.).
- ✓ These items may be more important between origin parties than between origin and destination trader
- ✓ The listed requirements are essential only in a contract between SPO and exporter / conveyor. The necessity for transparent cost calculation from delivered parchment to green is acknowledged. The importer perspective is that proper liquidation is expected (parchment to green / detailed list) of coffee of supply chain processes in the country of origin. In addition, in real life only a percentage of the quality delivered to exporter will be forwarded to final buyer in line with final buyer specification so that it seems not clear how e.g. conversion rates can be assessed by final buyer. Information should match the sales contract.
- ✓ Particular attention should be paid to small scale farmers and their ability to understand contracts and deliver the information asked for in the contracts. Calculating percentages and measurements of humidity might be difficult.

Stakeholders provided detailed input on the table presented for consultation on the items to be included in the contracts, this will be considered for the proposals in the second round of consultation.

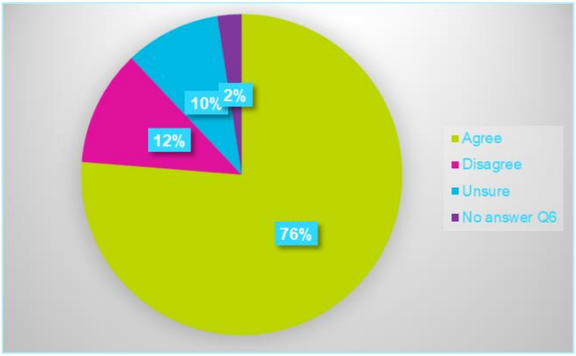
Question 6. Do you agree that the list of costs items (see below) has to be considered for coffee contracts where the processor / exporter, exporter or the importer provides services to the producer organization?

Please note that this requirement will complement the current TS requirement 4.1.3. applicable to contracts involving payers and conveyors.

Cost items part of the FOB price, based on FMP definition

List of items	Justification
Transport to processing facilities costs	In case the processor / exporter, exporter or importer covers the costs of any of these items, those can be deducted from the price to be paid to the SPO, as part of the contract agreement between the SPO and the processor / exporter, exporter or the importer. The contracts must indicate the detailed items and costs.
Transport	
Loading and Off-loading	
Insurance	
Processing costs	
Processing	
Drying	
Bags	
Labelling	
Export costs	
Transport to port	
Loading and Off-loading	
Insurance	
Customs & Handling	
Sample & documents sending	
Taxes	

A 76% of the total stakeholders agreed with the list of cost item. Although some indicated some suggestions (indicated in list of topics for consideration below).



- ✓ This will enable both parties to understand the costs involved so that a fair price is made to the producer. Buyers should also inform the SPOs about the markets I.e. Feedback about their coffee and where it is sold as well as where to improve.
- ✓ It is necessary to have the FOB cost guide for Colombia, as in Peru, this will provide greater transparency, although not included in the contract but kept as an annex with the price calculation. Consider not to have fixed values because there are variables that can affect costs.
- ✓ The breakdown is important because for some SPOs the FP is used to cover some costs in particular those of compliance.
- ✓ A detailed breakdown is a good first step, but there is still a risk that the charged values are too high. FLOCERT must check if the charged values are in line with the guidance on the values on FI website.
- ✓ The breakdown would help to control the processing and exporting costs deducted from FMP which would increase cost and margins transparency. By standardizing the costs structure format in contracts, producers have the chance to compare costs across traders which increases competition, having more information to negotiate the trader's margin. More transparency would make cost validation in audits easier, reducing overcharge to the producers.
- ✓ This has been the common practise in coffee trading in Kenya and in Vietnam.

12% of respondents disagree with the proposal:

- ✓ The items in the table are incomplete and do not allow flexibility to include the activities that the exporter performs. It is suggested to include costs such as hedging cost, the overhead and the exporter's profit margin. The last must be treated the same as the margin of a broker (commercial intermediation agent), therefore it should be included within the FMP, to the extent that it is demonstrated that it adds value and collects risks to organizations, it is negotiated transparently between the parties.
- ✓ In Brazil, is proposed to have a maximum charge of 15 cents.
- ✓ Internal costs often vary from company to company, local laws, etc. It is not possible to limit the costs valid in the standard, they must be transparent and agreed with the producer organization, but they undergo frequent changes.
- ✓ This will mean changes in accounting systems.
- ✓ The responsibilities are regulated in Incoterms, and the producer is free to choose a service provider; therefore, these prices should not be part of any Fairtrade negotiation. FMP are FOB-prices.

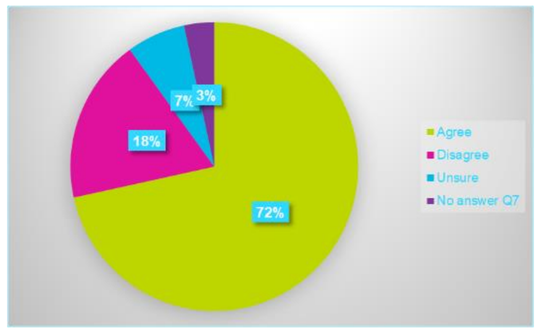
10% are unsure with the proposal:

- ✓ Organizations need to be in position to negotiate based on the guidance provided.
- ✓ In case this breakdown is implemented, it would have to be indicated in different sets of contracts. In case tripartite contracts are implemented, this might become unworkable.
- ✓ Are the contract/agreement templates the correct place where these breakdowns should be included? It might make the system more complex and rigid, hampering Fairtrade sales.
- ✓ In practice the exporters will be able to fix the price of their service, which will not change much to the current situation and to abuses, especially when the exporter buys coffee in parchment from the SPOs. There are currently anomalies in the FOB transport and placing scales, particularly in Brazil, which greatly disadvantages FOB buyers.

Additional input to consider:

- ✓ Other items (needs to be clarified who bears this costs): Weight losses during storage and transport, yield factor differences between estimated yields at reception and the realized one at processing, coffee contributions paid i.e. Colombia's National Coffee Federation, stuffing of container, cost of chemical analysis for Ochratoxin A (OTA), Dichlorvos, glyphosate, and others. The inclusion of overheads and other items that can respond to a changing business environment.
- ✓ National certificates, such as the KEPHIS for the Kenyan coffee.
- ✓ Difficult to calculate on a regular basis for processors / exporters. For this to be valid, the costs would have to be re-adjusted every year.
- ✓ To introduce a minimum price for red cherries so that all other expenses will be covered by the buyer.
- ✓ Even implementing new requirements, bad practices will continue to exists by non-committed stakeholders, and more time and money to control and audit these practices will be needed.
- ✓ Instead of FOB prices, why not introducing ex-works prices? Would it not solve all kind of issues at the export level?
- ✓ Some countries already regulate this costs breakdown by law, such as Costa Rica.

Question 7. Do you agree in implementing a template for coffee contracts applicable to all Fairtrade coffee transactions up to the Fairtrade payer level as compulsory requirement?



72% of respondents responded in favor of the proposal. The feedback referred to the benefits of more transparency on the financial flows between the different actors of the chain. In cases where the exporter provides more services to the SPOs having a contract template will make it more transparent and aid estimating the corresponding price, with the caveat that the template would need to be seen prior to accepting it because it needs to be a fair deal for exporters as well as they convey important functions. It is also useful to standardize auditing processes. By some respondents this would be a valuable guiding tool for negotiations as it reduces risk of non-compliance, making contracts more transparent for each part involve, however it has to be flexible enough to be adaptable to local regulations and conditions. In this way, the template would be a good solution, as long as it is specified that what is required refers to the minimum established in the criteria, any other negotiation linked to the specific contract must also be registered as an additional clause in the same contract. Model contracts could be a source of inspiration for newly certified organizations or for weaker SPOs that need info on terms and conditions of contracts.

18% disagreed with the proposal. The main arguments against a contract template were the following:

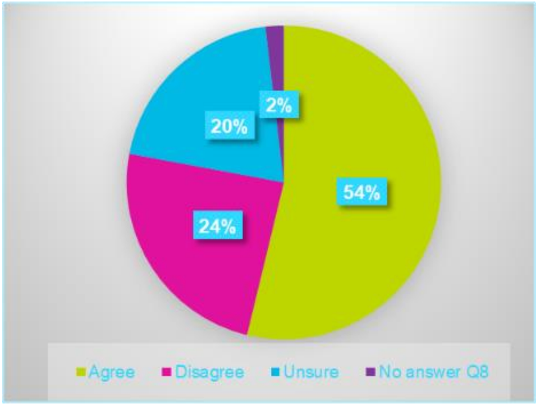
- ✓ Companies have their established accounting and invoice systems and this would make it very hard to comply with a template contract, this will create costs that at the end can be passed on to the SPOs. The option would be to have set contractual guidelines and a template as best practice, but not compulsory for all.
- ✓ Some concerns relate to having contracts that release sensitive information to clients (importers/roasters) which goes against competitiveness of exporters.
- ✓ Clear guidelines for contracts and audits on the requirements of contracts are necessary, but compulsory templates are not required.
- ✓ A stakeholder suggests to have addendums made to contracts to comply with additional requirements, because all situations and contractual arrangements will be different and one template won't cover all situations.

- ✓ Already Green Coffee Association and European Coffee contracts exist, other templates will create confusion.
- ✓ Mandatory use is not practical and adds complexity, but regardless of the contract format, all information required by Fairtrade must be part of the contract.
- ✓ The platform *Fairtrace* is already requesting more information, it is not necessary to implement more tools.

The 7% of respondents unsure of the proposal indicated that:

- ✓ A template is not applicable in all countries that have different legal frameworks
- ✓ It would need to be adapted any how to accommodate any missing criteria
- ✓ In theory it is useful but implementation of a template is not really feasible
- ✓ Some SPOs consider that the complexities are increased, the suggestion is to have country specific documents as guidance. The SPOs will benefit to have details on costs per service and not a total coffee purchase contract.

Question 8. Do you agree in adding a requirement on Price Risk Management (PRM) and related costs shared between seller (SPO) and buyer?



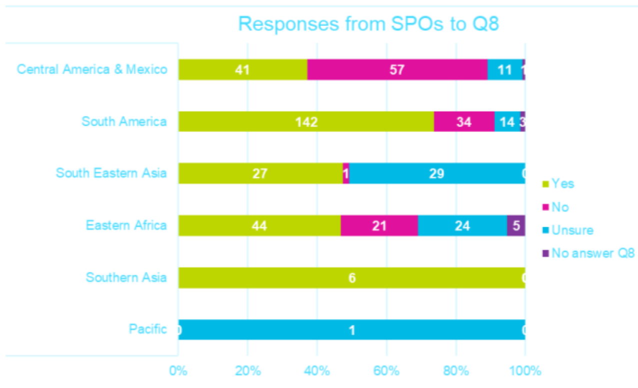
54% of respondents in favour, although some caveats were provided:

- ✓ This standard is not valid if the market is below the minimum price. Fixing at 140 US cents / lb should be mandatory for SPOs, if the market goes below the FMP to limit the risk of loss for exporters or importers.
- ✓ Training is required in this type of risk management tools to support SPOs protect themselves against flat-rate deductions, that may compromise the premium and organic differential.
- ✓ This refers to maximum costs but these services depend on the market and costs may vary and cannot be limited in a contract.
- ✓ Fluctuation of coffee prices should be supported by the whole supply chain, not just between producers and exporters. The mechanism should, as much as possible, prevent the purchase from being conditional on prices, avoiding market opportunism to the detriment of smallholder farmers.
- ✓ It is important to have documentation that supports the hedge, to see if it is really being placed. Also to request all contracts from exporters to monitor the bounded contracts below the 140.
- ✓ SPOs should maintain open contracts, and that this remains as a possibility in case convenient.
- ✓ In case when a hedge is needed, the costs should be shared between the SPO and the buyer.
- ✓ More information and capacity building is needed by SPO on PRM. Some suggested the hedging costs should be included in the FOB deductions lists, others said this costs should not affect the FMP and neither the FP.
- ✓ It was suggested not to indicate a value because it is considered a risk. Or, a percentage indication instead of a nominal value should be indicated because the cost of the insurance is not known.

24% disagree with the proposal because:

- ✓ Depending on the agreed risk strategy, the cost may vary. There is no need to create a maximum cost for the hedging operation. This could limit the SPOs to access better risk coverage, since the exporter will not be willing to cover most of the cost.

- ✓ 5 cents/lb is a very limited value and will not cover the risk the producer wants to mitigate. This amount does not acknowledge the cost of Time Value implicit in the costs of derivatives which are higher the longer period you want to cover your risk.
- ✓ Do not agree with deductions on the FMP. There should be a price risk management strategy, but any costs on PRM should go on top of price of minimum price on contract.
- ✓ If a contract is negotiated on outright price basis, no hedging costs are involved. If a contract is negotiated on Price to be fixed (PTBF)-basis, an option strategy might be indicated for market prices above the minimum price. The costs of this strategy should be borne entirely by the producer.
- ✓ The protection price of the importer who has to buy options can greatly exceed 0.05 USD / pound. you should not limit this amount but rather ask for supporting documents.
- ✓ The SPOs against the proposal argue that hedging is not a known practice or that in general is not a common practice and some SPOs do not understand the topic and consider that this may generate additional loses. In addition, there is no clarity why it is 0.05 Usd/Lb.
- ✓ It is suggested to leave optional based mutual agreement between the parties and declared in the contract, but not closed and not at that price. This applies when the prices of the stock market go above 1.40, the SPO should decide.
- ✓ There are hedges for the rise and for the low and in fact they are used more for the low, it is not seen that the coffee goes upwards of 140 to require a coverage, currently they do not consider it necessary. If long-term benefits should be seen, it is suggested that it be changed to 0.02 since 0.05 is too much.



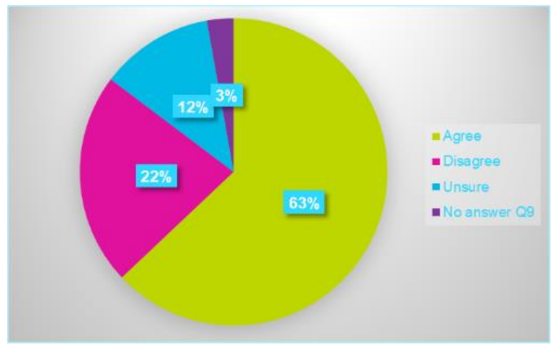
20% of respondents were unsure with the proposal:

- ✓ It is not possible to limit the cost, if risk management is shared and agreed upon.
- ✓ Only very big producer organizations have their own accounts. How much is traded back-to-back? Still big volumes to make hedging within Fairtrade relevant? In general, is a good idea to find a way to allow risk management for producers. If parties agree on this conditions, it seems reasonable.
- ✓ Hedging is possible for the SPOs with high turnovers. This requirement may negatively affect SPOs with small volumes.
- ✓ It is good that this position is clarified. However, it is not clear why 5c/lb is the appropriate level. In some cases, a higher amount may be justified, depending on the nature of the business.
- ✓ Further background to this question would be useful. In principle a risk management system is sensible regarding the high price volatility. Especially when it comes to more long-term contracts.
- ✓ Ethiopia: It seems good, but there is no hedging policy in Ethiopia. Contracts are signed for a maximum of 3 months or 90 days according to the policy of Ethiopia. Long term contract, more than 3 months is not accepted by the National Bank of Ethiopia.
- ✓ Limited expertise from auditors on evaluation of risk management strategies like hedging.
- ✓ If there is a tripartite contract, it is necessary to clearly define whether the risk management strategy will be, for the negotiated price between producer and exporter, or between exporter and importer or both. Related the maximum cost of 0.05 USD / lb, it is important to justify this amount, during audits some auditors have found costs of 2 USD.
- ✓ How common is that the SPO covers such costs which should be shared among trading partners? The key point needs to be to only have SPOs applying hedging strategies that also have the capacities to do so.

To be considered:

- ✓ In some cases, the respondents, indicated that the proposal was not clearly understood.
- ✓ There is concern amongst the SPOs that this will be imposed and that it should remain a choice taken by the SPO.
- ✓ This is a scenario that is only appropriate when the market price is above the FMP.
- ✓ The question raised by some stakeholders is to what extent is this an issue in Fairtrade transactions, for which there is no definitive answer because most of those hedging operations are not visible in Fairtrade coffee contracts.

Question 9. Do you agree in eliminating the requirement 4.3.5, allowing for forward sales for more than one crop, subject to an agreed price risk management strategy between seller and buyer?



63% of stakeholders were in favor of the proposal:

- ✓ SPOs in consultation workshops in Latin America indicated agreement with the proposal but subject to the price risk management strategy. Although there were also concerns of buyers taking advantage of less experienced SPOs.
- ✓ There are advantages to this approach as there are buyers with good market information, being an opportunity for SPOs.
- ✓ Removing this requirement may encourage long term relationships.
- ✓ It may help to take advantage of favorable market times to the advantage of producers and other actors
- ✓ It must be ensured that this is deliberately agreed upon by both parties to avoid power imbalances.
- ✓ If forward sales are allowed, the use of hedging operations becomes even more relevant, allowing long term planning. If a price increase-mechanism is coupled, defaulting issues may be reduced. The participant of the supply chain offering fixed price must be using futures and options to manage the risk inherent in offering fixed price on any forward contracts at a fixed price.

22% disagree with the proposal:

- ✓ Increased uncertainties and risks both in production and trading, one crop should be maintained.
- ✓ When there is high management turnover, that puts at risk long term decisions for the SPOs.
- ✓ Risk of non-compliance with high market price volatility on Fairtrade contracts due to the FMP and FP.
- ✓ Fairtrade would promote producer speculation, and it could be used by unscrupulous coffee operators/ importers.
- ✓ Risk for SPOs not to be putting their pricing strategy beyond the current harvest. Importer or exporter would be able to impose their "risk management strategy" to the detriment of SPOs.
- ✓ Few producers benefited. When prices are low, the majority, with less purchasing power, might sign 2-3 years contract upon pressure of the buyer, so it is not ideal to delete this requirement.
- ✓ It should not limit hedging costs by 5c/lb. Options costs are likely be higher for more than one year.
- ✓ Doesn't apply to Ethiopia, as government policy doesn't allow to fix price for more than one crop season.
- ✓ Regardless of agreed hedging strategies in the case of forward sales for more than one crop discussions in the event of higher prices will be chaotic.

12% were unsure of the proposal:

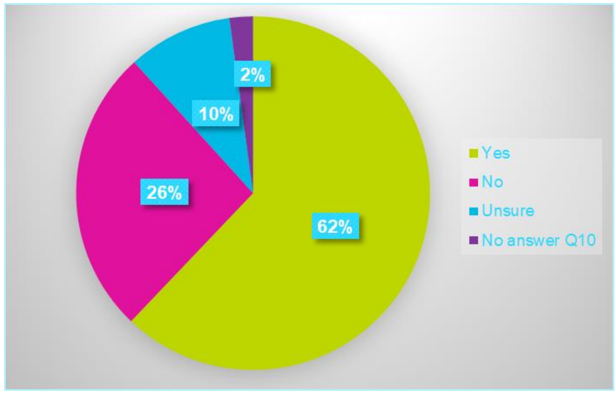
- ✓ It's risky as the quality differential, highly fluctuating, is a component of coffee price and is not included in a hedging. It would work well between producers and importers (many importers have an account in the commodities exchange).

To be considered:

- ✓ Stakeholders in favor and against are concerned with the capacity and knowledge of SPOs to manage risks as many of them are still in often not well versed in the use of PRM strategies. Are there capacities to actually facilitate proper training to the SPOs?
- ✓ Consider it to be applicable to only a maximum amount or % of the crop.
- ✓ It was not clear to all stakeholders that this refers to outright priced contracts.

Question 10. Do you consider that the current information provided by Fairtrade International on prevailing differentials is relevant and useful?

Several stakeholders mentioned not being aware the Fairtrade International made this information available. 62% of respondents considered the information provided by FI relevant and useful, as long as it is updated.



- ✓ As a reference is very useful but it is a bi-weekly publication and the market is much more dynamic and differentials may vary considerably in that time period.
- ✓ It is an average and might be positive or negative differences between what is published by Fairtrade and the situation of each exporter.
- ✓ Lower quality grades are not considered in the published differentials (basis UGQ quality), resulting in having a lower quality grade based on the physical qualification commercialized at the current minimum UGQ prices.

26% of respondents do not consider the information provided by Fairtrade International as relevant:

- ✓ Pricing varies according to supply and demand. Each exporter establishes the differentials based on various criteria: supply and demand, quality and origin.
- ✓ Not relevant in countries where the main source is a government agency, in countries where the price reference is taken from the conventional local market of the country (regions), or when it is built on the basis of available offers (not liquid market.
- ✓ Never used by final buyers at the time of concluding a contract.
- ✓ Highly differential volatility makes this too complicated to properly follow.
- ✓ Not useful in building of long term relationships, but it is interesting for historical reference and benchmarking the market.
- ✓ There is also discrepancy from other sources. It would be better to conduct a monthly survey to all exporters to create the differential benchmark as well as to publish the differentials as a guidance and request in audits the evidence of the transparency of the price negotiation.
- ✓ The certification faces difficulties in auditing the differentials applied in practice because those can deviate from the differentials published by FI / CLAC. Many countries / origins / qualities are missing in the current overview, e.g. Arabica coffee from Asia or Africa.

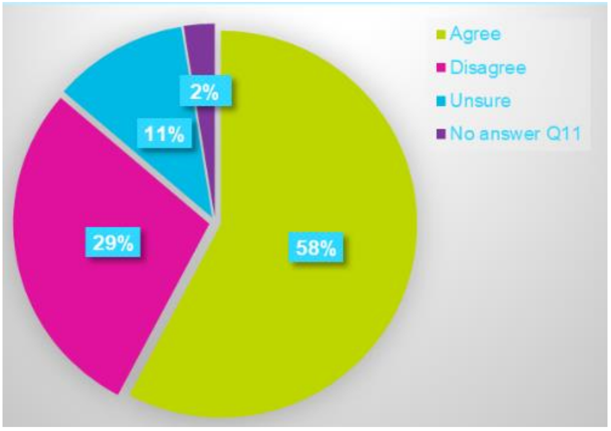
10% of respondents indicated being unsure:

- ✓ Lack of knowledge about the information provided or do not refer to this information for their business (i.e. retailers).
- ✓ Other comments indicated that differentials depend on the source and commercial aspects such as quality and market conditions that are obtained at the time of negotiation.

- ✓ Information is helpful as a rough guide, but it is not clear which source it comes from and how exactly it is created. It could be used as reference by auditors and involved parties but should not be used to issue non-conformities.

Question 11. Do you agree to have the Fairtrade price checked in audits to comply with the FMP, and that prevailing differentials serve as a price discovery tool for the producer organizations and buyers? The certification body will check that a differential is negotiated and paid, and indicated separately from the reference price or FMP whichever is higher, the organic differential and FP in Fairtrade coffee contracts.

It is important to recognize that the question might not be understood as it was intended: in audits, FMP compliance is checked. The differential is checked to be negotiated and paid, but not against any predefined value. It is also indicated separately in the contract from the price, FP and organic differential.



The majority of stakeholders (58%) agree, expressing:

- ✓ There is a minimum differential for each country as they have a commercially established differential which is in practice the minimum differential.
- ✓ Information to be handled with highest confidentiality, as this might lead to a conflict with anti-trust legislation or even make a buyer less competitive.
- ✓ It is core for transparency and compliance purposes especially in cases where a percentage of the coffee sold is on non-Fairtrade terms.
- ✓ Let it clear in the standard that the prevailing differential reference is the one published by FI, linking to the webpage and making sure auditors are aware of this.
- ✓ Traders might agree upon highly negative differentials as if a considerable price/differential deviation is visible, auditors could request other source of differentials or request for conventional contracts. Having a historical differential record could be useful during audits.
- ✓ The guidance on prevailing differential does not serve during the contracting or price fixation as it is historical data, not real time data, limited list of differentials, regions or qualities not always reflected.

A third of the participants (29%) disagree with the proposal:
SPOs from Guatemala, El Salvador and Costa Rica disagree in their totality arguing that Fairtrade must analyze only FMP and cover production costs. SPOs from Kenya mentioned that there is no price differential in the country. SPOs from Honduras, Ethiopia, Tanzania and Colombia mainly disagree with the proposal as well.

Other comments:

- ✓ Differential volatility makes this too complicated and messy to properly follow as it is highly volatile
- ✓ Its non-sense for the audits to check the organic differential which is not under its certification.
- ✓ The differential data base is not transparent, lag in time and quality parameters
- ✓ Other information sources would be required as it remains difficult to capture traded differentials
- ✓ It serves for negotiation, protects the minimum price and can help with the negotiation of differentials.
- ✓ It is not necessary for Fairtrade to get involved in price verification.

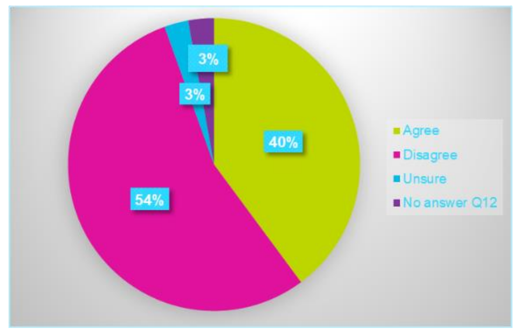
11% were unsure of the proposal, mainly indicating that the question was not sufficiently clear:

- ✓ Not clear why Fairtrade checks non-Fairtrade pricing.

- ✓ As long as the FMP is paid and FLOCERT continues to monitor FMP and FP. More background on the rationale to monitor the rest of the contractual price negotiation is needed.
- ✓ If we only use the list as a price discovery tool, we have a risk that paid differentials (if at all) are below average. Agreed differentials must be in line with the guidance document on country specific values.
- ✓ Differentials (and Guidance document) to be included into the purchase contract requirements.
- ✓ Fairtrade must provide a template to specifically indicate the differentials.
- ✓ Ensure that buyers review the differentials and that FMP is not affected with negative differentials.

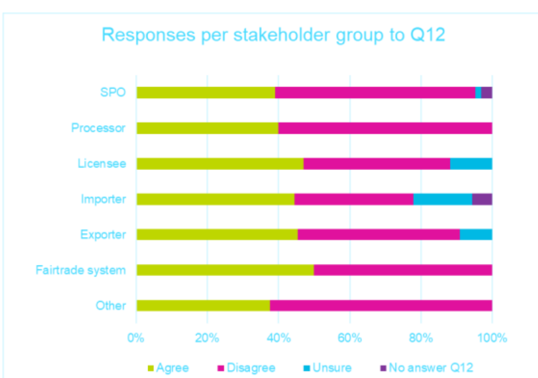
Question 12. Do you agree in removing the current 0.05 USD / lb earmarked Fairtrade Premium for productivity and quality improvement?

More than half of respondents disagree with the proposal which intends to give SPOs more independence deciding on the usage of the Fairtrade Premium based on the needs assessment (SPO Standard section 4.1).



The comments against the changes were the following:

- ✓ The premium should continue to be used for quality enhancement and diversification or productivity improvement depending on SPOs views, and to improve quality, invest in sustainable development of cooperatives. Both productivity and quality contribute to higher prices (more income for producers) on the longer term.
- ✓ Although it is questionable to impose on the use of the FP, mandating a degree of investment in quality is useful to continue to drive the progress of the SPOs with Fairtrade certification. Keeps Fairtrade relevant and drives progress on specialty coffee.
- ✓ This serves as a reminder and commitment to quality parameters. It is also a basis for negotiation and reinvestment in quality management practices in the value chain.
- ✓ Investment in coffee quality is essential for the Fair Trade to remain competitive and attractive to exporters and consumers. Failing to invest in quality can mean losing market share of an important share of the specialty coffee market.
- ✓ Productivity and quality improvement are vital activities in coffee production chain. Should be raised instead of removing it. The SPOs to decide which way is best to invest.
- ✓ Producers should be encouraged to keep investing in productivity and quality. Having examples of premium spend is very beneficial when explaining the benefits of Fairtrade and economic sustainability.



- ✓ Not unless producer response shows otherwise, and producer opinion is key on this. It has been successful having the earmarked premium in place and if this is removed, reduced or changed, is there something else which coffee farmers would like to focus on, such as climate change?
- ✓ The earmarked premium for quality as a sales tool to grow Fairtrade coffee and businesses would ask about changes made. Some of our partners have used the earmark FP to make calculations around their contributions to productivity approaches and it gives a level of transparency around premium use that is important. There are further questions and analysis needed on this: is there a report showing

how premium is being used currently to inform next steps. This could be a key area for second round consultation based on such an analysis.

- ✓ Good to keep it as a norm, but also can be fine if SPOs have important issues, natural disasters etc. to have the flexibility that the priorities can change.
- ✓ Taking this requirement away will give them the chance to use the total FP amount to share it in cash with members and even though coffee prices are low at this point and this would constitute a good price adjustment, the main goal behind the Fairtrade system is sustainability. This is a way to create a discussion inside the organizations about how they can improve their production and quality through time.
- ✓ The tendency observed is that the FP becomes increasingly part of the price, thus losing the nature for which the premium was designed, which is to contribute to the development of the organization, its members and its environment. In countries like Colombia, the premium has been used in organizations with more than 1000 members in the creation of bank funds, regardless of the needs of the members, it is not invested to benefit them. Maintaining the 0.05 USD / lb at least can follow up and control that percentage of the FP that goes to maintenance and productivity development, which ultimately means maintaining the business and thus the standard of living of its members.
- ✓ There is a risk that individual producers will not give priority to quality and productivity to meet other needs and this could affect the process and programs that organizations have already started in this direction and there would be a risk of not responding to market demands.
- ✓ The investment of the premium is the decision of the organization and should be improved in this regard specially to generate impact with the investment of the premium. It could be destined to technology, climate change and not only to production and quality.

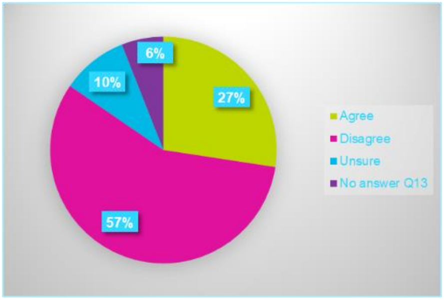
40% in favor of the proposal:

- ✓ It is very important that the use of the FP is determined primarily by SPOs. This makes it unique compared to many other certification schemes. While it is true that some companies do not like this, preferring metrics they can more readily measured, Fairtrade needs to be careful to maintain its unique model which should not be eliminated, but rather replicated.
- ✓ The producers may have more pressing needs which are justifiable.
- ✓ In practice improving quality and productivity are almost always priorities for producer organizations, likely the removal of this requirement won't change much on field.
- ✓ Use of the premium should be based on needs, however, not to detriment or compromise of productivity or renovation.
- ✓ Buyers and sellers can choose to negotiate quality and productivity incentives in addition to Fairtrade premium.
- ✓ Fairtrade promotes the strengthening of SPO, therefore removing the earmark and keeping it as a reference premium price gives them the opportunity to invest in farm activities in agreement with their development plans.
- ✓ An earmarked use of the premium can have negative consequences. The case of cocoa: "productivity at all costs" that led to deforestation and price crisis. There is already oversupply. Comment by one trader: it would be a lot more useful to have a mandatory percentage of premium spent for social investments (education, health care). This is what customers actually expect the FP to be spend for and right now this only holds true for a small percentage. Usually larger more developed SPOs do so, but smaller SPOs invest quite a big amount in productivity, and processing.
- ✓ Flexibility is important. For some SPO the amount is high and have allocated the fund for doing the same thing every year just to spend the money which wasteful. The SPO (GA) should have more authority in allocating the budget of the FP fund.

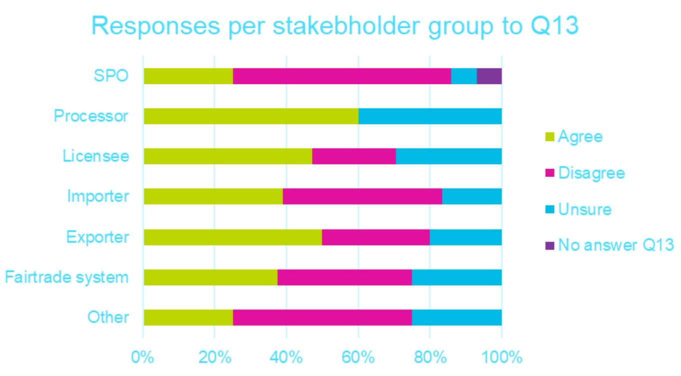
- ✓ This will allow SPOs to be more innovative in projects that improve productivity and impact the community.
- ✓ The SPOs should have already matured in the investment decisions of the FP. Giving more freedom to choose according to priorities is important. It is quite cumbersome to proof an investment of 5 cents /lb.

To be considered:
- ✓ This is following a requirement in the SPO Standard.
- ✓ There are some already mature SPOs in the Fairtrade system but others that require more follow –up and support, therefore the earmarked FP is an important tool.
- ✓ Eliminating the earmark FP recognizes the independent role of the SPOs in decision making, nevertheless it is a guiding principle for many less experienced SPOs.
- ✓ Several comments recognize that stakeholders are interested in the use/investment details of the FP.

Question 13. Do you agree to consider the implementation of reporting system on the use of the organic differential?



The majority of stakeholders, and particularly producer organisations, disagree with the proposal, arguing that:
- ✓ Imposition of additional burdens on farmers
- ✓ The organic differential constitutes a higher value of the product, nevertheless there should be transparency on the transmission of this organic differential to the producer.
- ✓ From a roaster perspective, adding reporting with separate process would cause un-necessary duplication and would be a waste of resources.



- ✓ The organic premium is reincorporated into the price paid to producers. Reporting must be mandatory on the social premium and those who are organic certified may report on it as a good practice but not as a requirement
- ✓ The organic surcharge is part of the price that should be passed on by the producer organization to the producers themselves.
- ✓ No need to treat these two certifications under one umbrella as if they are controlled by one accreditation. Unless, these two certification bodies have a mutual agreement and one auditing system.
- ✓ Organic means lower yields and therefore higher costs, there is no need to justify this differential. If necessary, it could be included in the premium reporting.
- ✓ Organic differential is accepted in “combo” deals therefore this is actually an amount that is not necessarily received, it is used to offset the price of non – organic sales.
- ✓ Any reporting provides transparency and could be implemented as a guidance for usage, but not to be audited.
- ✓ It should be considered when the price of a conventional coffee is high, and the differential does not represent an economic utility, so prices for producers are averaged. Generating a report does not necessarily represent transparency, because organizations also have their own internal controls.

One third of stakeholders in agreement argue that:

- ✓ Only if reporting is not an administrative burden and considered as an indication for the final consumers of the product (rather than another obligation for the SPO).
- ✓ The reporting is useful for transparency and to know if it actually arrived at the producer level.
- ✓ Reporting on glyphosate management for example.
- ✓ The transparency on the needs analysis that has led to the decisions on the allocation of premiums should apply not only to organic premiums, but Fairtrade social premiums as well, to understand that premiums benefit producers and their communities.
- ✓ It is a way to better understand how frauds (non-organic sold as organic) can be avoided. The high premiums may also lead to temptation to try to use certified cooperatives as a way to sell uncertified coffee through them as certified.
- ✓ There is increased demand for information on Premium use and impact; adding the organic differential will add valuable data.
- ✓ It would be a good idea to design a report template. The basic information to get would be sales of organic volumes and the amount obtained as an organic differential.
- ✓ The additional amount is taken as a price adjustment for some SPOs, chances are that this report will only show that all organizations just distribute it among their members, so there would be nothing important to report.
- ✓ The organic differential should be used as incentive for producers to increase or maintain the competitiveness in markets where stricter organic rules exists.
- ✓ Ultimately untangling organic premium might be difficult with differentials go to producers and reporting and that can be burdensome. But could be useful to outline best practices for premium use and internal reporting.

The 6% unsure, explained that:

- ✓ Important to ensure traceability Organic Fairtrade coffees, investment in this sense could be done.
- ✓ More transparency on the payment of organic premiums needed (in particular to avoid the combo systems that exist in Peru and Honduras). However, it seems that premium might be used to improve the prices paid to producers since organic yields are often lower than conventional yields. In this case, a reporting system would not make much sense.
- ✓ We are unsure, as we do not know where the 30 cts organic differential derives from. We are also unsure if the 30 cts are in direct link to organic farming. Here topics seem to be mixed. One is selling non-organic as organic which requires more transparency and traceability on potential volumes and identity. The other reporting on use of premium. The latter will not solve the fraud cases. If non-organic has been sold as organic the existing legal requirements should be strengthened. Fairtrade could e. g. require organic audits by Fairtrade accredited (reliable) organic certifier and improve on potential volumes of certified groups. The aim should not be to burden the producers with more reporting, but finding alternative mechanisms as to how it can be assured that organic certified coffee is fulfilling legal organic requirements.
- ✓ This measure does not answer the problem of sales of non-organic products in organic. The premium is a price differential, require reporting is irrelevant.
- ✓ Extend the Fairtrade premium reporting system to the organic differential as it is not really clear the organic differential is really being paid only to organic farmers.
- ✓ In some countries the organic coffee is not relevant, therefore the answers leaned to unsure.

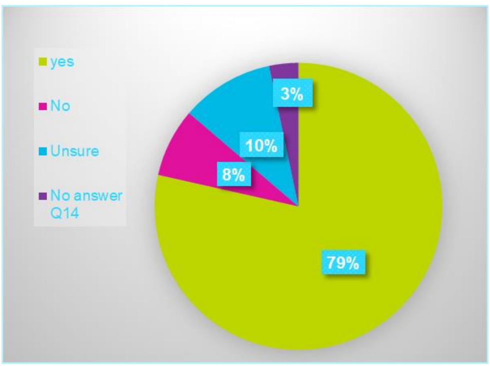
To be considered:

- ✓ Some respondents are not clear about the concept on whether it is a price differential linked to higher costs of production or a premium. This may reduce the attractiveness of the organic coffee in Fairtrade.
- ✓ This measure does not answer the problem of sales of non-organic products as organic.

✓ The organizations do agree on the implementation of a reporting system that reflects the organic differential is transferred to producers.
✓ Suggestion of amendment: delete the word use and replace it with the word transferred to producers. This differential is not a gift but is reflects a cost for the producer.
✓ It is suggested to modify or complement the question; indicating that the implementation of an organic differential report, in the future, could demonstrate the effort and the high cost of producing organic coffee for organizations. In the case of requests to improve amounts, the report can be an important argument to modify or increase the amount of the organic differential. It is necessary to prevent the report from becoming a documentary burden, and may lead to confusion in the SPOs and possibly the risk of having a greater number of nonconformities in the SPOs.
✓ Stakeholders remain concerned with the use of glyphosate and the sales of non-organic coffees as organic.

Question 14. Do you consider this requirement clear and relevant for Fairtrade coffee transactions?

4.3.7 ***Payments:*** *Payment shall be net cash against a full set of documents on first presentation. The documents to be presented will be those stipulated in the contract and will be in line with what is customary in the coffee trade.*



The majority of stakeholders consider the requirement clear and relevant as it follows industry practices. The arguments are as follows:

✓ It is fair to consider 'what is customary in the coffee trade' and also to avoid unmerited additional costs that some rogue traders may want.
✓ Provides security for the producer, the system works well.
✓ Should be clearer language also to be understood by all SPOs. It could be included in the template contract so that it is clear for all parties. There needs to be clarity on which documents need to be presented.
✓ This is what sector rules like ECC state, although reality in origin may demand flexibility.
✓ If full set of documents is referred to then it is important to know that Organic Transaction Certificates are often presented very late; therefore, payment shall be made upon receipt of the complete set of document only.
✓ Standard clause for our contracts, also relevant for Fairtrade coffee, this also includes the organic certificate.

The opposing arguments (8% of stakeholders) are:

✓ This is already standard practice therefore the requirement is unnecessary.
✓ Comments: a) net cash means that bank charges would be 100% borne by the buyer, which is not fair. b) Paying against presentation of shipping documents prevents compensation in case of non-compliant product, which can only be detected at destination and after quality control.
✓ The wording is not clear. What exactly does "on first presentation" mean? This should be worded in more detail or instead be based on individual payment agreements between buyer and seller.
✓ The criterion is not clear, since it depends directly on the negotiation with the client, for example the advances and the way in which the payment will be made.
✓ The term can be interpreted in cash in such a way that bank transfers cannot be made, it is better to specify the concept.

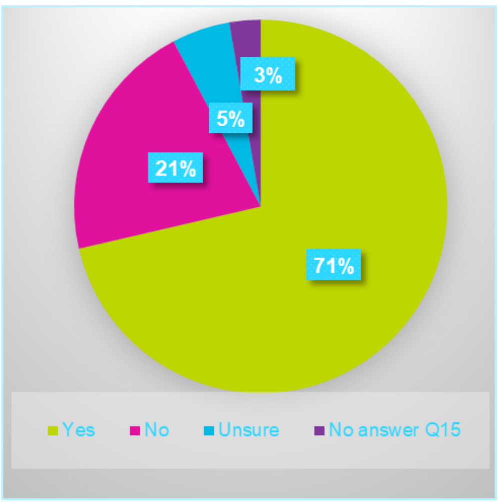
- ✓ The payment terms should be agreed separately between exporter and buyer. Also, we are wondering how this requirement enables pre-financing for producer organizations?
- ✓ Payments should be effected as per contractual conditions that could differ from CAD (cash against documents) on first presentation.

10% Unsure:

- ✓ Payment against full set of original documents.
- ✓ The question was for two respondents not clear.

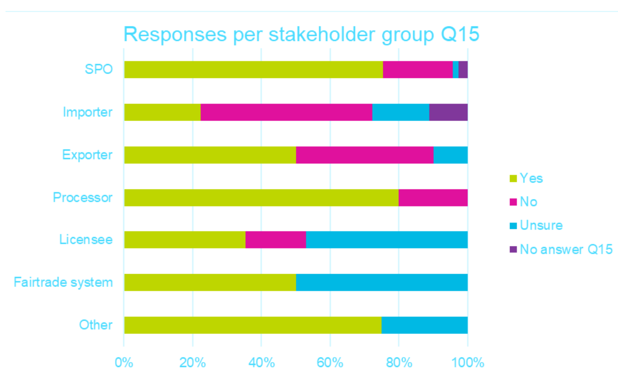
Question 15. Do you consider that the amount (at least 60%) and time-frame (at least eight weeks prior to shipment) for pre-finance can remain as they currently stand in the current requirement 4.2.1?

4.2.1 *On request from the producer, the Fairtrade payer must make up to 60% of the value of the contract available as pre-finance to the producer at any time after signing the contract. The pre-finance must be made available at least eight weeks prior to shipment.*



71% of respondents agree, also suggesting:

- ✓ The percentage of financing must be established by the exporter according to the credit analysis.
- ✓ SPOs consider an increase to 70% - 80% ideal.
- ✓ The period stipulated is enough for the producers to fulfil the contract especially where the members are willing to deliver but the SPO does not have the crop finance.
- ✓ SPOs should add a minimum set of requirements for the assessment such as bank statements.
- ✓ Useful when the buyer co-signs financing with a financial institution.
- ✓ To be emphasized as in practice almost no-one does pre-finance. Sometimes it is even asked to SPO to formally reject any offer, and to maintain harmony with trader/buyer, they agree.
- ✓ It can take up to 24 weeks from the harvesting until the coffee is ready for shipment. Pre-finance period should be extended. Suggestions were from 12 to 24 weeks.
- ✓ The period stipulated is enough for the producers to fulfil the requirement especially where the members are willing to deliver but should be 75% of the contract value.
- ✓ This is always an advantage for producers. It will protect farmers also not to pay unreasonable bank interest rate.



21% of the stakeholders disagree, adding:

- ✓ The role of requesting pre-financing must be maintained to the SPO. It cannot be the "responsibility" of the buyer. Proposed: 50% minimum without interest rate, or alternatively, 60% with interest rate.
- ✓ There is no guarantee for the buyer about this financing. If the producers do not deliver the coffee, who is taking that risk?
- ✓ The financing should be optional and based on the value of the product, otherwise, it would generate a greater risk or delays in the confirmation of the business.

- ✓ In case of PTBF contracts, e.g. Kenyan case, it would be difficult to determine what 60% would be.
- ✓ It should be agreed between the participants of the transaction. And additional flexibility would enable other pre-financing modalities.
- ✓ More transparency is needed in case pre-finance is not given, and if rejected why was it rejected.
- ✓ 60% pre-finance is a high amount for buyers and the fear is that buyer will shift towards bigger, stronger SPOs, who do not need pre-finance (because they work with alternative lenders). Pre-finance of at least 60% can also be a constraint for buyers willing to buy from a new, young SPO.
- ✓ The condition of providing finance to the SPOs should be an optional choice for exporters, not an obligation or responsibility because of the following reasons:
    - The cost of financing is not allowed to be covered by the organizations - being a conveyor, the cost of financing will only reduce the minimum margin of a business.
    - Conveyors are classified as 'first buyer' when they transact with organizations directly, but are still primarily “conveyor”. While exporters might choose to provide finance for "creditworthy" organizations.
- ✓ This has two main problems: few traders have the liquidity or banking terms to offer pre-finance and is just not practical. If trading 250+ containers of Fairtrade per year. There is a risk of breach banking limits on pre-finance (set at $1m) on just 20 containers of FTO if needed to pre-finance, and that is just basis paying FMP. Moreover, the high risk of smaller cooperatives means that trader would take on an unacceptable level of exposure. This strongly favours multinational entities who can use origin presence to gain competitive advantage.
- ✓ The payment agreement will be based on contract made between buyer and seller. If so, the timeframe and pre-finance is better to shift as agreed by as buyer and sellers.
- ✓ At least 60% pre- finance can remain. However, the pre-finance should be availed at the earliest time possible to assist the producer in production and processing. The producers need to acquire the farm inputs as early as possible if they are to achieve quality and quantity production. Thus Pre-finance should be immediately on signing a contract with the buyer and at least 15 months prior to shipment.
- ✓ Must be an agreement between the two parts, and should consider specific country situations.
- ✓ Define what is pre-financing or if what is sought is a pre-payment.

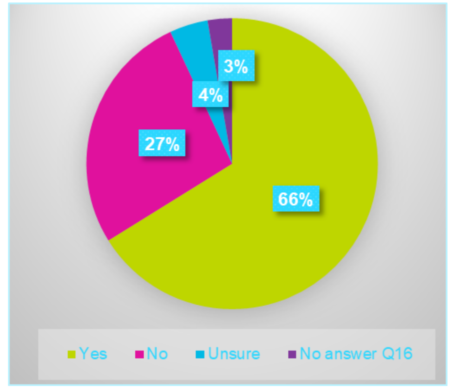
Unsure (5%):

- ✓ This works as long as the producers comply with pre-financing policies of each company, this amount is fine. Otherwise, a cost of insurance for non-compliance or default has to be included within the costs to be negotiated with producers and discounted from Fairtrade minimum price.
- ✓ We are unclear how this would work with potential longer contracts and favour shorter supply chains and lessen the use of intermediaries.
- ✓ It might give supply chain players further down the chain more room for their risk assessment.
- ✓ Smaller companies may not be able to offer pre-finance.
- ✓ Important to better inform producers on the means and methods of accessing to pre-financing
- ✓ The minimum of 60% can be limiting when SPOs might want a smaller percentage. Maybe consider a bracket, e.g. at minimum 20% and maximum 80%.
- ✓ Sometimes the contract with producer could be signed in less than eight weeks prior to shipment, the same happens with contract between importers and exporters

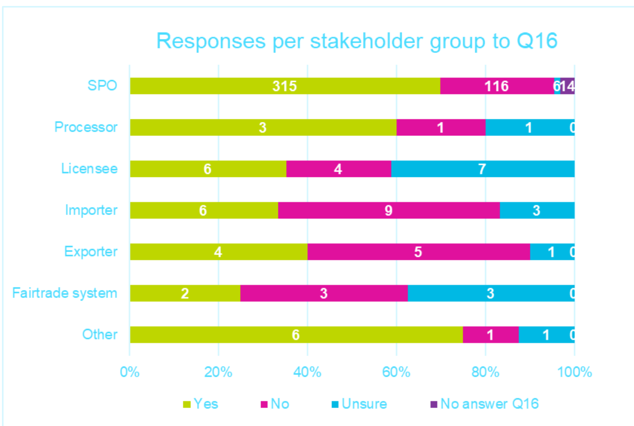
Question 16. Do you think the existing requirement is relevant and effective to ensure that producers are better informed about their market prospects and should remain as it is?

4.1.1 *Sourcing plans must cover each harvest. Sourcing plans must be renewed a minimum of three months before they expire.*

66% of the stakeholders agreed with the requirement as it stands. The comments are as follows:



- ✓ Useful tool to have an idea of potential sales.
- ✓ Help to strengthen the partnership between the buyer and seller and to make good projections to fulfil contracts.
- ✓ This information is strategic and can be a great point for improving decision making and planning.
- ✓ We agree with long term commitments for better business and market access. It is better to manage in terms of commitments; strengths and weaknesses as well as risks.
- ✓ Any form of advance planning is a good thing. Would it make sense to extend the period covered?
- ✓ An organization must carry out its plan according to its cycle of harvest.
- ✓ It allows organizations to plan their support and know how much they will sell in the Fairtrade market.
- ✓ Suggestion: Fairtrade to monitor this topic, is relevant and of great benefit to organizations.



27% of stakeholders disagree with the current requirement:

- ✓ Eliminate renewal of supply plans within 3 months.
- ✓ This is according to plans for supply depending on price, it seems that the restriction on renewal at least three months before the expiration is irrelevant.
- ✓ , purchases and demand from roasters are not known.
- ✓ It is not effective because it is only a projection, a requirement on paper. And there is no penalty for non-compliance. This is often consumer market dependant and difficult to accurately predict.
- ✓ Recommended to organize meetings before the crop.
- ✓ It would be a tall order to estimate the volume to be sold as Fairtrade in the ever changing market conditions.
- ✓ Unclear what a sourcing plan should be (e-mail? signed document?) and how firm this is. SPOs that need information in order to plan the coming season will contact buyers, to our opinion this should not be a requirement for buyers (nor in the scope of audits).
- ✓ A trader depends on the requirements of the final buyer. A trader cannot predict roasters' needs in terms of origin, quality or timing. At best, the sourcing plan is guesswork - and in worst case scenarios that can be downright misleading.
- ✓ Consider that the supply plans can distort the reality of the markets for organizations, since it is unknown to exporters to whom they will sell well in advance of one or more crops.
- ✓ Traders issue sourcing plans to exporters, in turn exporters select the SPO. In the direct relation between SPO and exporter it might make more sense. Even with the tri-parties contract the exporter will select. How relevant and reliable are those plans in Fairtrade experience? Can a requirement of a plan lead to a real relationship or does it take other conditions to create real long term trustful relationships?

- ✓ This obligation should only exist if end users (Roasters/Retail) confirm their intentions. Everyone else in the supply chain can only give estimates/assumptions and commitments will only be honoured if the end buyer commits.
- ✓ Currently only 30 % of the certified volume available is sold as certified, the demand information should be rather clear for producers, meaning there is more supply than demand for all the certified coffee available. Also, roasters have no volume commitments from our customer's/end consumers to Fairtrade certified products in advance so giving such estimations further in the supply chains is purely fictional.
- ✓ The regulations should be binding (also along the whole supply chain) to ensure that sourcing plans are actually in place and required.
- ✓ Some SPOs mentioned that it is not relevant because it is not met, the requirement does not fit the reality of the coffee market, it all may change because of the harvest outcomes, it is unpractical and does not generate benefit to the SPO and it is wise not to promise too much to the SPO members.
- ✓ In order for the producers to fully comprehend about their market prospects, sourcing planning should be done every mid harvest season.
- ✓ The requirement should be removed as they are not legally binding documents and hence can be very misleading for SPOs. Traders can only assure a certain volume/purchase intention, once they have the buyers interest confirmed. There is absolutely no value added for any of the parties involved. it also does not really represent a valuable tool to promote long term trade relationships.
- ✓ For traders these sourcing plans represent an additional workload.

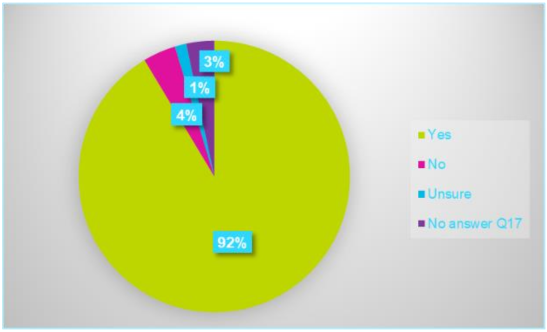
Unsure (4%):

- ✓ We are not sure on this, but the steps involved do not seem entirely effective at the goal intended and may just add to the already high burden imposed on SPOs.
- ✓ Sourcing plans are only a reference.
- ✓ It's a producer question- they need to decide whether this is relevant for them. Roasters do not issue sourcing plans to SPO's, but do it with their importers.
- ✓ Procurement plans are important and give both sides clarity about the deliveries. The obligation that these have to be extended at least 3 months before expiration is less relevant. In particular, if it is now also possible to fix contracts beyond a harvest period.
- ✓ This is a general question which might be asked for any commodity and should rather be addressed in a Trader Standard revision. Unless sourcing plan quantities are binding; this tool wouldn't be 100% effective for the producer to plan accordingly. However; normally once traders have to send out the sourcing plan; then try to indicate a realistic quantity.
- ✓ The producer and the business response is significant here. We would need strong producer benefits to extending this further, and would need to understand the practicalities for businesses. This is a question that response on should inform second consultation.

To be considered:

- ✓ Could it be possible to make a percentage of the sourcing plan a compulsory for purchase?
- ✓ Regularity of sourcing plans can be changed: to be done every mid harvest season or quaterly, depending on the harvest season?

Question 17. Do you consider that it is important to encourage long term relationships between Fairtrade producer organisations and buyers?



An overwhelming majority considered that it is important to encourage long term relationships between Fairtrade producer organisations and buyers. The few disagreeing (importers) responses alluded that long term or short term relationships may well reflect market conditions, changes and fluctuations. What may be desirable in some circumstances may not be desirable in other contexts, i.e. neither producer nor buyer must be coerced to stick in market relations that they want to deviate from, but only they ought to be encouraged between the producers and buyers. In all events long term relationships are not created by imposing a ban on divorce. In addition, the terms of a relationship depend on the final buyer only; all other members of the supply chain likely have no influence.

The 92% of responses that agreed, commented the following:

- ✓ Only with long-term contracts can investments in the production and adoption of criteria be equalized and offset by their higher costs. Long-term commitments allow the logic of profit to be minimized by a logic of better income distribution, environmental and social commitments.
- ✓ Provide security and enable planning for the SPOs, which in turn has a positive effect on investments and further development of the SPOs (business plan development). It also allows to better mitigate risks, with appropriate terms of reference and also clear exit paths from the long term relations.
- ✓ Long term relations are based on trust, transparency and friendship, and can be regarded as advisable and basis for good co-operation and exchange. The key is to motivate, instead of penalize, using incentives as triggers that are built on trust.
- ✓ Although important, how are those defined? Should there be memorandums of understanding, declaration of intents, for the coming 3 years? The challenge is that these are no firm commitments.
- ✓ One example was an operator that set for themselves a commitment to develop long-term partnerships, more than 3 years.
- ✓ In France national legislation defines long term relationships as 3 years.
- ✓ It is really important to encourage both sides, particularly producers (as sellers) to improve their communication and service to their buyers.
- ✓ It is vital to be able to guarantee the direct relationship between SPO and the buyer, because in many cases the producers do not know the buyer.
- ✓ Several comments questioned if long term relations are something to be included in the Standards, because those evolve based on a trustful relationship (resulting from good behavior on both sides) and a good product. They develop over time based on trust. But they cannot be regulated or enforced.

To be considered:

- ✓ In the Trader Standard long-term commitments is a voluntary best practice (VBP), the guidance provided refers to long-term as of 2 years or more.

Note: Long term relationships are based on trust therefore the fact that there is an intention to increase transparency via tripartite contracts or setting the role of exporters / service providers as conveyors puts an important question mark. It is possible that back to back contracts might become the norm whenever an exporter is involved, in the form of a conveyor, which may work against the long-term commitments.

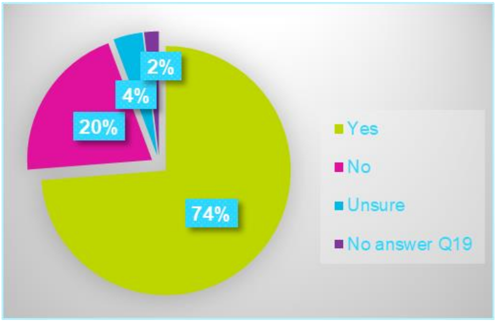
Question 18. What role can Fairtrade play to encourage long term relationships between SPOs and buyers?

There were few sceptical comments about the role that Fairtrade can play, as this is primarily a supply and demand, and depends on market conditions, on which Fairtrade has no influence. Nevertheless, some other comments pointed to ideas on how Fairtrade could play an important role:

- ✓ Require an increase in commitment over time aiming to resolve the challenge of only selling 30% as Fairtrade certified.
- ✓ Implement a tool that contains information about what is expected of a long-term relationship would be useful, e.g. good practices, commitments, understanding, trust, clear and transparent information.
- ✓ Pay more attention to compliance against the Standards to maintain or increase trust amongst consumers in the Fairtrade mark.
- ✓ Decrease rate at which the supply of Fairtrade coffee is increasing.
- ✓ Greater consistency between audits to SPOs and exporters.
- ✓ Establish a distinction between Fairtrade players according to their additional voluntary commitments (producer side or industry side). This would allow buyers to be directed towards SPOs having the most reliable / committed supplier practices, and conversely to distinguish more or less virtuous buyers in order to pull the players up. Several labels / initiatives have put this kind of system in place.
- ✓ Promote that buyers and final roasters ensure the commercial transparency of their purchases (Fairtrade and non-Fairtrade) or fixing contracts, making this requirement enforceable to the producer, as well as promoting long-term relationships from the roaster back, otherwise, it is not possible.
- ✓ Monitor pricing gaps between producer and buyer for harmonisation.
- ✓ Best practice could be to include key performance indicators (KPIs) that require sellers (producer organisations) to evaluate their supply chains. This can be a wider set of data than just standard KPIs (shipping performance, quality, price).
- ✓ Measure years of engagement that buyers have with producers and share this information with producers. For example, 98% one importers' purchases in the last year were from relationships maintained for 3 years or longer.
- ✓ Avoid stereotyping roles of producers towards traders/exporters and stressing out the value added of mutual support and co-operation. Providing a clear structure and enough knowledge, parties should be able to trust each other and trade on an enriched level.
- ✓ Creating recognition for customers who show availability to maintain long-term relationships. Inviting organisations and importers who already have a trajectory within the system to tell their experiences of how to create the conditions to maintain long-term relationships. Keep a list of preferred buyers that the producers could be referred to. Producer networks to pro-actively interact with traders.
- ✓ NFOs suggest there is work to be done like supply chain mapping, with impact information, and only if market partners source over a longer time-span from the same organisation, generated impact can become visible. In addition, explore the possibilities with offer to business to promote long term relationships. Offer to Business (O2B) will be as important as standards in the future.

Question 19. Do you agree to consider the following documentation and evidence as the necessary information to submit in case of a quality claim?

- Details on coffee contract and coffee delivered with visual evidence
- Third party inspection and confirmation of the discrepancy in quality



74% of stakeholders agree:

✓ Precise if the final buyer is considered a third party or not, so that the standard is not incomplete. The criteria should be fair and transparent to all.

✓ Clearly define the figure of the third party making the inspection and who would make the payment. It should be an outside, independent party. In the practice this could be an agent, or another trading house. It is usually also the customer of the trader who provides their opinion in addition to the traders' analysis.

✓ It is recommended that the costs of quality analysis and traces of products not allowed, should be covered by the buyer.

✓ What about the organoleptic inspection (cupping) by third party?

✓ Important for evidence during claims from buyers and for arbitration purposes. This will help protect the interest of vulnerable producer organizations.

✓ Other documents can be added such as the transformation report as well as the profile of the pre-shipment sample so that the inspection is well done.

✓ The creation of ethics committees in the SPO's can be a good step in view to strengthen ethical among the actors in the network, with the training for mediation and arbitration, professionals dedicated to Fairtrade, can contribute to the reduction of complaints and solutions that preserve the good relationship, increase responsibility and credibility in the network. The development of an administrative process with clear and transparent rules, can contribute to legal security in situations of complaints.

✓ One additional suggestion is to send arrival sample to producer for their analysis.

✓ The quality claim needs to be declassified as Fairtrade to prevent that coffee is sold below FMP (high risk for unfair trading practices).

✓ It is also important to define the deadline for submitting the quality claim and regulate it .to avoid bad practices or abuse as credit notes, which have been used in an abusive way to cover up quality discounts

✓ Important for evidence during claims from buyers and for arbitration purposes when there is aggrieved party.

✓ It is necessary to request a counter-sample of the coffee sold as an additional document.

✓ Fairtrade can suggest a protocol tool that should include claims and how to resolve them step by step. In visual evidence, a video that highlights the appearance of the container hour by day before loading, seals before opening the container, plates. Responsible for opening the container, panoramic of the cargo, photos, doc that extends the buyer, cupping at destination.

20% of respondents disagree with the proposal:

✓ If the amount for a quality claim is limited, who would cover the cost of the third party inspection? It could be more expensive than the limit allowed. It should be a report with photos of the coffee received vs the shipped coffee, justifying the claim of quality fully evidenced, but the amount should not be restricted.

✓ What happens if the coffee that arrives FTO contains high levels of glyphosate outside the limit allowed by the destination country? Roasters would not normally pay the organic premium, but then the importer would have to bear the entire loss of thirty cents per pound? Where is the producer's responsibility to use products that are not allowed?

✓ The third party inspection could only be valid if it is in a neutral and recognized place in the country as an arbitration center. The question of scoring under Fairtrade contracts should not exist as this arbitration center does not exist and the scores differ greatly from cupper to cupper. The producers can be harmed by scoring under Fairtrade contracts.

- ✓ We consider claims and claims procedure to be satisfactorily dealt with in the European Standard Contract for Coffee (ESCC), cf. 2018 Edition, Article 24. Also, the third party inspections cannot be familiar with each company quality specifications and often there is no visual evidence available on the sensory evaluation.
- ✓ Qualified inspection would be sufficient (Q-grader certification)
- ✓ If in terms of quality is clearly detailed in the contracts, no intervention of a third party is needed. Include the procedure for the invalidity of the contract in case it happens or is required.
- ✓ Clarify which is the visual evidence and which would be the third party that would do the inspection.
- ✓ There are standard procedures in place for the coffee business; if something is not acceptable for one of the parties, there exists always the possibility to have an arbitration.
- ✓ The quality controls for SPO are limited to the country of origin once shipped, it is the responsibility of the exporter, taking into account three checkpoints in the SPO warehouse, milling facility (parchment coffee) and port.
- ✓ The arbitration tribunal is normally in the country where the client is and puts organizations at a disadvantage. An entity such as the producer network (CLAC) should be considered as the third party that supports resolving conflicts over quality.

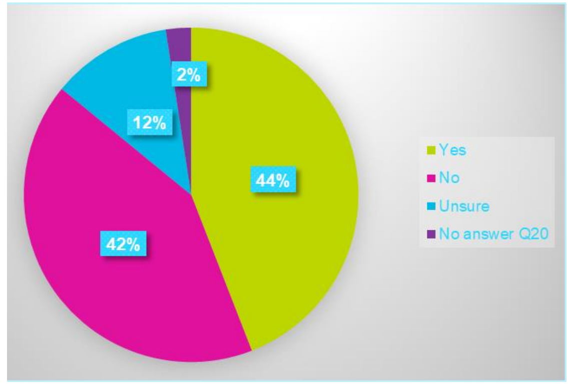
Unsure (4%):

- ✓ A more precise definition of who or what an outside party can be would be desirable.
- ✓ Third party inspection has to be paid by somebody; might take time to be organized and if the assessor is chosen by the buyer there is little guarantee of impartiality. Given the above; can visual evidence be enough? Third party inspection may have little added value.
- ✓ Create antecedents within the system of buyers that are not clear-transparent in terms of discrepancies.
- ✓ There are also contamination risks not necessarily responsibility of the SPO.
- ✓ Under what circumstances within the chain of custody and clearly specify what the participation of the Fairtrade system would be (suggestion; that it be a true mediator).

Further suggestions:

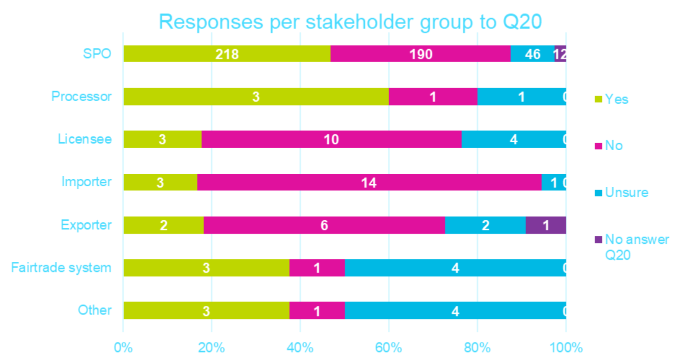
- ✓ It is suggested that the third party inspection be designated by FI who must identify where the problem that caused the claim occurred or that FI is a mediator.
- ✓ Consider third party inspection on claims in excess of 5c/lb.
- ✓ In reference to question 5 the quality claims should be documented in the contract from the start. Details on the quality contract and the coffee delivered with visual evidence
- ✓ It is necessary to clarify what is understood as quality, what is its scope, should be very well defined.
- ✓ Text suggestion: In case you have a quality claim in the country of origin, you must submit the following documentation:
  - Details on coffee contract and coffee delivered with visual evidence
  - Third party inspection and confirmation of the discrepancy in quality

Question 20. Do you agree to consider a maximum discount on quality claims of 0.05 USD / lb from the price to be paid to the producer organisation for Fairtrade coffee? This would only be accepted if the required documentation and evidence is presented.



The answers in this question were evenly split. 44% of respondents are in favour:

- ✓ It limits the claims that buyers can make.
- ✓ It has been a regular practice in Indonesia, however the maximum amount was agreed or negotiated between SPO/trader and buyer.
- ✓ With some conditions:1. a minimum quality must be ensured so buyers do not have to cover the risk of having to sell the coffee for a much lower price than expected; and 2. if this makes possible to limit the already existing penalties and do not add additional ones. The current rule which states that the minimum fair price is an absolute minimum must continue to apply. proper procedures need to be laid out on quality claim process to ensure this provision is not misused.



42% disagree:

- ✓ Quality issue should be discussed individually, depending on the amount and the type of complaint.
- ✓ The discount must be according to the quality of the coffee presented and calculations must be demonstrable and mutually agreed between both parties It is a measure that should not be obligatory
- ✓ Limiting the discounts could increase the shipment of very low quality and increase risks of rejection.
- ✓ Claims should be determined by third party. Fairtrade could support to allow proper arbitration on quality claim for all sides. Arbitration must be impartial and independent. In function of the case and conditions, paid by those who are responsible.
- ✓ FMP should be protected. This brings the possibility for systematic discounts and for dishonest practices on the part of exporters and buyers.
- ✓ Fairtrade volume need to be declassified as Fairtrade to prevent unfair trading practices.
- ✓ In case of serious quality claims there should be room for commercial solutions that are workable as it is not fair that buyers have to pay for it
- ✓ In the event of a quality problem, the SPO must take back the defective batch and replace it, taking all of the costs to its charge. Otherwise the discount must correspond to the loss suffered between the purchase price and the actual sale price on the market.
- ✓ One avenue might be to make sure that the buyer has no solution for marketing or processing coffee for the degraded quality noted.
- ✓ When the FMP is higher compared to international prices or when there is a large production; buyers risk speculative behavior saying that coffee is of poor quality when it is not so.
- ✓ If the Fairtrade quality is not as contracted to the extent that the buyer is unable to use the coffee, it should be downgraded to conventional coffee with a loss of the full 20 cts/lb Fairtrade premium. In addition, in case coffee is organic, the discount could go to 50 Usc/lb.

- ✓ Buyer ultimately decides to buy against a sample. There should be no quality discount. However, if quality claims are validated via a third party particularly in the case of rejectable defects in specialty coffee (phenol ferment mold) or mis-shipment (receiving a different coffee from that shipped) both parties are encouraged to negotiate without any parameters to facilitate the least bad outcome for all involved parties.
- ✓ If glyphosate was found in an organic sample, the organic status -and the premium is lost- 0.30 USD/lb. Moreover, the holder of the coffee has thereafter to find a home for the now Fairtrade -coffee without Organic status, which, at times, involves a discount; or, might even be forced to sell the coffee as conventional coffee, losing the Fairtrade -premium, and the minimum price does not apply anymore.
- ✓ Claims can be much higher than stipulated 0.05 USD/Lbs. Producers should be motivated to keep higher quality standards and offer and deliver qualities as per contracts. By stipulating a maximum discount, we could trigger the inverse behavior which, could be avoided by sending to FLOCERT copies of the claims in order to flag any systematical misconduct by particular buyers (or producers)
- ✓ What about national guarantees, done at the port stage, such as the ones of the National Coffee Federation in Colombia?

12% of respondents were unsure with the proposals:

- ✓ The amount indicated is too high and there is risk that this is going to become a regular practice. It is difficult to verify authenticity of documents produced by the buyer. Negotiation should be considered for price revision.
- ✓ We suggest establishing a time limit to make claims.
- ✓ It is good to limit how much percentage can be deducted, at the same time, and more controls in place to determine on which side quality issues surfaced.
- ✓ With tripartite contracts the responsibilities are not shared.
- ✓ It can be negotiated whenever there is valid claim and even Fairtrade can be involved in these negotiations whenever valid claims are made.
- ✓ It depends on how each organization handles its quality control, but each company must be responsible for ensuring the quality of its products under a contract.
- ✓ There are risks at both ends. The SPOs and traders can claim higher quality prior to export and accept the discount- which still gives them a good price. It feels like it's open to abuse.
- ✓ As Fairtrade coffee is more traceable; there are less quality issues.
- ✓ We understand that in cases of over $ 0.05 / pound, Fairtrade would be consulted. Partly, this could happen if, for example, organic status is lost due to pesticide discoveries.
- ✓ It should be a percentage value, not a fixed discount. A fixed value is not realistic, not reflecting the real situation. The final price should not be lower than the FMP, otherwise this might create a system-wide risk.
- ✓ The notion of a discount for the buyer could be a good thing but producers and businesses would need to inform this. Our concern is that the discount could fall below FMP and then the buyer cannot sell as Fairtrade – so this would be bad for the buyer.

To be considered:
Opinions of producer organizations are evenly split. If SPOs are segregated per region, it is clear that the SPOs in Latin America are against the suggested maximum value for quality discounts. Eastern Africa is in principal in favour of the proposal.

Question 21. How can Fairtrade ensure SPOs interests are not compromised in the negotiation of quality claims that may result in an allowance higher than the 0.05 USD / lb?

SPOs' answers to the questions on quality claims were evenly split (based on question 20). Given the comments, it is visible that some organisations consider that the support from Fairtrade and the respective producer network can be greater, those are perhaps the less experienced organisations, newly established and more vulnerable in the market.

Other organisations consider that the role of Fairtrade around quality claims should not be considered because this is out of scope of Fairtrade and as long as the contracts are clear and the industry rules are practiced the quality claims would be settled.

Many organisations, including workshop outcomes, mentioned that quality claims should not be allowed, and some also disagreed with setting a maximum value for the quality claims.

Traders were in general even more skeptical of the role of Fairtrade around quality claims, although it was mentioned that having Fairtrade more involved in the negotiations whenever claims are raised can be helpful for producers. SPOs need to be supported and briefed on this matter.

Other suggestions agreed with the support of a third party to assess the quality and to set a clear definition of when discounts or bonuses apply.

If industry practices are followed, a quality claim is a commercial negotiation with supporting evidence. For that reason, if it is all in place and the SPO is responsible and reliable then problems should be easily avoided. Although, any undocumented or unjustified abuse must be penalized. That is that Fairtrade must demand from all member's transparency. One suggestion to increase transparency was to implement an electronic complaint registry, to assess systematic abuses or without proper justification.

To be considered:
Quality claims are a regular issue in trade, clarity in contracts on how to proceed are key to make sure that producer organisations are not put in a disadvantaged position. Correspondingly, producer organisations should strive to deliver consistently high quality products to cultivate good relations with their buyers.

Currently the Fairtrade Standards do not allow any quality claims when those bring the price below the FMP. Those are the cases that are most challenging, particularly in a low price market. Nevertheless, in all market situations a fair and transparent set of conditions should be in place to make sure unfair practices do not occur. In conversations with traders it came up that if a situation arises and a quality claim is due, it is highly costly for an organisation to have the entire contract (shipped coffee) declassified, this might put at risk the solvency of the organisation and a total loss of the FP. It was also mentioned that for a trader it is possible to issue a quality claim without being noticed in a Fairtrade contract.

The scope of Fairtrade in the issue of quality claims is questioned by stakeholders at all levels of the supply chain, but there were also opportunities mentioned where Fairtrade may assist in providing a space for such claims to be assessed (facilitate a network of third party inspectors to support organisations, become more involved in supporting the organisations when claims happen, train/inform organisations on quality improvement and claims' procedures).

The need for transparency at all levels of the supply chain is mentioned, not only for this question but in others as well. This is an opportunity to consider areas where transparency can be improved with the Standards.

Question 22. Do you have any input on the preliminary list of unfair trading practices indicated below?

The list of unfair trading practices is as follows:

- ✓ *Buyers do not impose to the seller (producer organisation) price fixation conditions or timeframe for Fairtrade contracts. As stipulated in the Fairtrade Standard for Coffee, the price fixation must be made at seller's call.*

- ✓ *The use of seller's call should be done in a manner that does not limit the stakeholders further up the supply chain to trade in both profitable and ethical way, while ensuring that Fairtrade coffee remains competitive in the market.*
- ✓ *In case of an outright price contract, the buyer may not impose the cost of hedging upon the producer organisation that supplies the coffee and must secure that the cost of hedging does not undermine the competitiveness of the producer organisation.*
- ✓ *Buyers must not offer to buy certified products from a producer on the condition that the producer sells a quantity of non-certified product under terms that are distinctively disadvantageous to the producer.*
- ✓ *Buyers must not demand payment terms to importers or suppliers that result in additional financing costs being passed on to SPOs and negatively impact the FMP.*
- ✓ *Traders, at /or beyond the price and premium payer, cannot buy Fairtrade products from their suppliers / sell to their customers below the FMP and FP.*

The following items were brought forward or confirmed the current practices by SPOs:

- ✓ Certified buyers ask for conventional coffee from certified producers without buying any certified coffee, resulting in having the FP covering pre-finance and export support. That is the Fairtrade business ends up subsidizing the conventional coffee business.
- ✓ Buyers do not accept an open price contract but only fixed price.
- ✓ Increase in costs due to Fairtrade compliance are not completely covered by FMP.
- ✓ Exporters give priority to its own market needs leading to Fairtrade coffee being given second priority.
- ✓ Certification of organisations that do not comply with the requirements and of non-real organisations
- ✓ It is suggested to limit the new organisations, until standards are improved or allow prudential time to be more competitive in the Fairtrade market, review costs at all links in the chain, it is a matter of unfair competition and has a lot to do with the way certification works.
- ✓ SPOs do not receive feedback from FLOCERT if it detects any of these actions with customers. SPOs are equally responsible if irregularities are found, the SPOs sometimes out of necessity end up selling the coffee to an unfair trader.
- ✓ The living income of the small producer versus the worker's living wage is not really being considered.

Traders commented the following:

- ✓ Combo is unfair, either if purchases are done in the same season or for the next season. These unfair practices can only be known if SPOs inform FI about them.
- ✓ There should be a system to make sure the SPO is not the last one in line being paid for its coffee that has in most cases left the country for several months already. Traders should pay SPO before they sell to buyer
- ✓ Charging costs to the SPOs for PRM strategies because no buyer wants currently to pay fees having the exposure risk concentrated only on the importer is unfair.
- ✓ Traders must be able to offer discounts on FMP for old or low-quality products to sell all stocks.
- ✓ Traders consider challenging to have an approved PRM strategy by the SPOs' board. The last item is difficult because on the one hand, being able to sell Fairtrade inventory at lower prices is a great way to manage smaller amounts of inventory needed to unload. On the other hand, companies selling larger amounts of Fairtrade coffee at below Fairtrade prices can compete in the consumer market and take away from sales that would have been to Fairtrade producers.
- ✓ Hedging costs should solely be on buyer's account.
- ✓ Upon perspective of a trading company, malpractices can be favoured by complicated structures hindering control. Standards should be kept simple to allow easier understanding and implementation as well as greater transparency with emphasis on control of production at origin level and processing at consumer level.

- ✓ Roasters in most cases expect to buy at FMP even when there are supply chain actors between them and the SPO, this results in SPOs having trading margins deducted from their farm gate price in addition to the above listed authorized deductions (question 6). Fairtrade should define "distinctly disadvantageous" as this happens all the time. Even though we agree with most requirements, there are points that can change according auditors' interpretation it therefore needs to be clearer to avoid misinterpretation.
- ✓ The main problem is unregulated organisations in origin that manipulate the system and then allow the importer to buy at aggressive prices. Traders need to be regulated of course. This list on its own it won't solve the problem.
- ✓ The scale admitted by FI between FCA factory in Brazil and FOB is much higher than the real cost resulting in unfair competition for FOB buyers.
- ✓ Especially in today′s environment many producers are keen to sell below FMP because from a financial perspective SPOs would prefer to sell a larger portion of their crop at lower than FMP / but higher than conventional; as opposed to just the very high end and then sell the other coffee as conventional. Fairtrade′s rules cannot be one sided if wishing to enforce the Fairtrade Standards it must be seen that suppliers are monitored– not just the buyers. Therefore, the following amendment is suggested: *Buyers must not offer to buy, and producers must not offer to Sell certified products from a producer on the condition that the producer sells a quantity of non-certified product under terms that are distinctively disadvantageous to the producer i.e. significantly below the actively quoted conventional coffee price*.

Question 23. Are there other practices that you would consider to be unfair and that should be included in this list?

- ✓ Splitting SPOs, taking advantage of the efforts from the former SPO to the new one.
- ✓ Middle-men buying coffee at farm gate and creating cooperatives to sell Fairtrade coffee or creation of "ghost" SPOs managed by multinationals (technically and politically).
- ✓ Organisational issues in SPOs led to late delivery and inferior qualities to maximize premium value.
- ✓ While some mentioned that quality discount should not be applied to the producer when a trader is acting as an intermediate (trader owns the coffee when it is shipped); others mentioned that quality risks outside the producer's chain of custody should be shared with the organisation
- ✓ Utilization of pre-finance, initially for crop and logistics of Fairtrade products, to fulfill other contracts.
- ✓ Coffees non – Fairtrade sold as Fairtrade or/and mixing coffee to improve low quality coffees.
- ✓ Duplicity in the membership does not guarantee the quality of the certified product.
- ✓ Organisations deliver coffee in dry parchment and do not receive milling yields.
- ✓ Rejection for quality coffees after 6 months of arrival at destination.
- ✓ Exporters receive premium proceeds from buyers and do not disclose the same to the producers.
- ✓ Colombia compared to Peru and Brazil has very high export costs and have not been regulated.
- ✓ Negotiate Fairtrade Premium or discounting from the Premium as payment for pre-finance
- ✓ Purchases of coffee parchment by traders is an unfair negotiation for the SPO.
- ✓ Applying negative differentials to Fairtrade coffee
- ✓ Credit notes for unreal discounts as a way to pay less than FMP.
- ✓ Contract signature left blank.
- ✓ Manipulation of contracts to take advantage of exchange rates by fixing the contract price with retroactive dollar and putting the date of the retroactive contract. The organisation agree with the exporter to date the contract prior to the negotiation, choosing a date with a dollar price more interesting for the exporter, with the intention of paying below the minimum price (after conversion of the payment of dollars to the local currency).
- ✓ Excessive delay in Fairtrade premium re-liquidation, sometimes more than 4 months of delay
- ✓ Lack of transparency in supply chain, origin and destination of coffee.

- ✓ Some importers buy high quality coffees directly from the producer, weakening cooperatives.
- ✓ Switching of shipment documents.
- ✓ Untimely payments and clauses related to payments are not respected.
- ✓ Price comparisons between certified organisations in the same country or another.
- ✓ Importers being exporters at the same time in the countries of origin creates unfair competition.
- ✓ Buyer transfers the FP money to other accounts but the SPO in long standing relations.
- ✓ Commissions being required outside the general framework of the contract.
- ✓ Commercial sabotage by stealing customers from another organisation.
- ✓ Outright priced contract used even when coffee isn't in stock, and without a risk management strategy.
- ✓ Final price of parchment coffee negotiated according to the reference value of the country, but exporters define costs whether by exchange rate or prices.
- ✓ When contracts are signed, real yields are not known. Exporters place an expected return in the contracts and therefore calculate the premium on a yield that is not real.
- ✓ In the cost structure to get the FOB price, some costs included that are not related to Fairtrade coffee, such as: Overhead (leasing of office equipment, internal services, travel expenses, restaurants, etc.); logistics costs: some exporters include transport costs of parchment when the exporter buys green coffee, the lease and surveillance of unused warehouses for Fairtrade coffee; financial costs; administration costs of the trader or technical assistance to the SPO.
- ✓ Organisations have to pay the brokers' commission, when it is the buyer who needs a broker.
- ✓ Refusing to work with a specific cooperative because they need pre-financing.
- ✓ Producers who are located in remote areas with limited network connectivity often get convinced to sign contracts wherein price fixation is set at buyer's call as they lack market information.

Ideas shared by respondents on what can be done:

- ✓ Promote transparency from exporter, buyers and final roasters purchases (Fairtrade and non-Fairtrade), informing their suppliers when they have a problem.
- ✓ Request a unique contract both for Fairtrade and non-Fairtrade products.
- ✓ Revise the costs for differences FCA and FOB.
- ✓ The purchase of parchment coffee diverts from the fundamentals of the Fairtrade system.
- ✓ Taking higher quantities for coffee quality monitoring samples compared to what governments/regulatory bodies allow for coffee quality sampling.
- ✓ Quality claims need to lead to a declassification as Fairtrade.
- ✓ Traders should agree to comply with the principles of the EU unfair trading practices directive which contains 15 practices being outlawed, including for non-EU suppliers supplying into the EU market.
- ✓ SPOs need to share risk information in regards to quality and price negotiation. Reason why price control when the FMP applies is necessary at the SPO level.
- ✓ Establish some sort of arbitrage to avoid unfair behavior.
- ✓ Create a more rigid inspection system, an orientation channel and an anonymous complaints channel, which could encourage the adoption of a fairer, accurate and adequate inspection.
- ✓ Establish a mechanism for updating the minimum price more often.
- ✓ Request after 15 days the registration of the signature with a notary (by one of the parties, to confirm that the date of negotiation and signature of the contract are real) to avoid taking advantage of favourable exchange rates
- ✓ Fairtrace should have more details like introduce a tracking number for each transaction rather than just invoice number as it would empower producer organisations to make promptly follow ups.
- ✓ Set a minimum percentage of Fairtrade volume as a measure to reduce the combo deals
- ✓ Evaluate "confidential purchases" and trader debit notes.
- ✓ Increase penalization, especially for combos

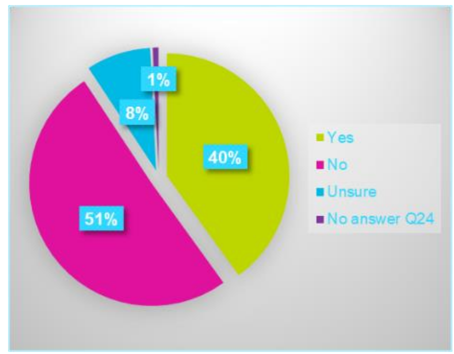
- ✓ Review the audit procedure at the level of producer associations, according to size and volume.
- ✓ Incentivize and reward good practice. Built on the VBP section already included in the Trader Standard.

To be considered:

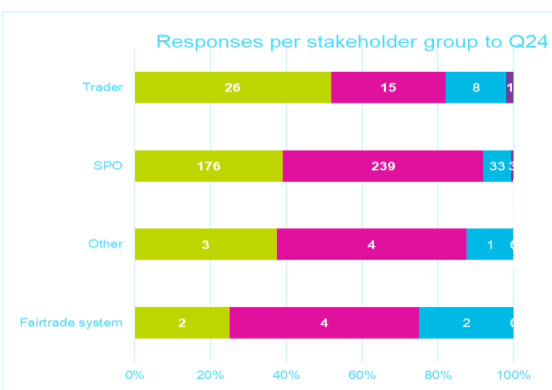
- ✓ The certification body is working to overcome challenges to the unfair trading practice by an improved risk-based approach.
- ✓ Some stakeholders consider that tolerance in the system causes unfair practice to exist, some argue that auditors' interpretation may change and that some companies are not audited with the same rigor (transnational, are less rigid than to a SPO) as others.
- ✓ In a previous version of the Trader Standard a requirement was in place directed to those bonded contracts (combo deals). It could be a possibility to implement it once again after assessment.

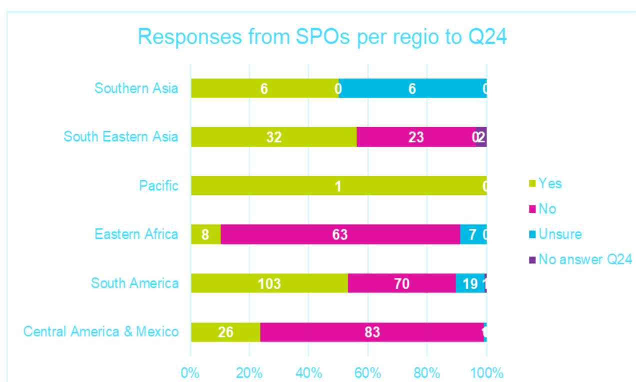
Question 24. Are you in agreement to explore the inclusion of low quality coffee as a secondary product?

The majority of stakeholders (51%) disagreed arguing that:



- ✓ No need to encourage poor quality products when there is still high quality coffee without a market. This will always compromise quality along the value chain. The certified producers already have high grades which can fetch the reasonable prices.
- ✓ It could generate unfair competition, market saturation, the little Fairtrade market may end up buying coffee at lower prices and switching to soluble.
- ✓ Risk of increasing unfair trade practices. Traders would buy the coffee as a low quality just to lower prices and sold at the same price as the Fairtrade in coffee shops. This would also increase the supply of coffees on the Fairtrade market. It would only increase the profit of the coffee industry, decreasing that of the producer.
- ✓ Fairtrade is known as high quality coffee, and should focus on specialty coffee. This may discourage producers to work towards quality improvement.
- ✓ The term of low quality coffees should not be used, but low altitude coffees, by size or shape.
- ✓ It is important to keep the distinction for coffee quality.
- ✓ When coffee is sold in the Fairtrade market, it will be possible to talk about other qualities, not before.





- ✓ High risk of discrediting the mark and erode the brand perception further.
- ✓ The default 15% Fairtade Premium could be in some cases higher than the 20 Usc/lb of today, depending on market conditions. This will be difficult to monitor and manage. However, this would undoubtedly open up the opportunity to use this lower price to ship better quality coffee undermining the FMP. It would be too hard to monitor and manage, the rules need to be clearer, it can be another

product for the market, but will compete against the actual Fairtrade market that is not capable of absorbing the actual production.
- ✓ This would be a slippery slope.

The SPOs that agreed commented that:
- ✓ Producers would sell at a more or less advantageous export price what they would have sold locally at a cheaper price. Buyers are reluctant to buy lower grade coffee at the same average grade price.
- ✓ Lower quality coffees not marketable as Fairtrade is a missed opportunity for producers as lower grades are not in the scope.
- ✓ All production should be recognized with a clear scope and definitions
- ✓ Possibility to increase the sales and SPOs' income, mainly in specific countries where the production and yields of coffee are very low and many times the second quality coffee is sold in the local market.
- ✓ Those qualities will always be produced and there is a market for those qualities. FP should be maintained

The traders' views in agreement:
- ✓ As long as consultation with all relevant parties is done is acceptable.
- ✓ Fairtrade minimum to be adjusted accordingly with the lower quality. It could be considered as a percentage below the FMP to keep the same reference base. It could generate an extra income that coffee growers are not having today.
- ✓ It is important to well define the legal and physical properties of this type of product
- ✓ There is a market, and bad practices that harm the market would be avoided.
- ✓ It has to be clearly defined but there is a need to link premium prices to quality (physical and cup quality) so that it is an incentive to trade Fairtrade quality coffees.
- ✓ It opens market opportunities for a broader range of qualities under Fairtrade and potential to sell for SPOs.
- ✓ This makes sense, as these are currently sold almost exclusively by conventional means due to high prices and thus escapes SPO income.
- ✓ If the effect is that the SPO can sell more certified coffee, this should be assessed positively.

Within the Fairtrade system there are also mixed views:
- ✓ Supportive where the soluble/instant market has potential and set minimum price for lower qualities.
- ✓ Others suggested this is highly risky for reputation and for the system, as substitution of regular coffee being sold as a low quality with the Fairtrade logo mark. All other parts (like cascara) can be included in the secondary product list.
- ✓ Lack of trust in the auditing procedures that could actually spot abuses and unfair practices in this market.
- ✓ Low quality coffee is paid a FMP as well as a higher quality coffee. This is not reasonable as it doesn't reflect what happens in the coffee market: low-quality coffees are cheaper. Lately, there has been a reduction in the purchase of Fairtrade low quality coffee to process as the price is very high (FMP) in relation to Fairtrade high quality coffee.

Question 25. In case you answered yes to the previous question: Which conditions need to be considered to qualify a low quality coffee as a secondary product?

Answers to this question provided only slight insight into a potential classification and no further input is shared in this document.

Question 26. Do you agree to a one-year transition period for existing certified operators?

Majority of respondents agree (82%) although for some of the proposals there were some concerns with the capacities to make the necessary changes.

Annex

Question 18 was an opportunity for stakeholders to bring ideas forward on how to enhance long term relationships. Those are presented here as an annex.

Many concrete ideas were presented as follows, most of them outside of the scope of Fairtrade Standards, nevertheless worth to outline here below:

- ✓ Plan/facilitate meetings, discussions and trips to have buyers visit producers' farms and processing units to improve the link between the two, share experiences and present options, new ideas on innovation issues, market development, and climate change. Fairtrade will enhance trust between the buyer and producer which will then feel confident and create durable commercial ties.
- ✓ Fairtrade to support the consolidation of supply and demand, by working from the producer side and the buyer side and meet the criteria required. The same with working with the consumers.
- ✓ Facilitate transparent information sharing platforms generating trust among stakeholders.
- ✓ Support from the respective producer network to facilitate exchange visits to the markets and supporting documents for visa processing, this could be agreed once membership fees are paid to the network.
- ✓ Development of profiles for the SPOs and facilitation of forums to engage with buyers were mentioned several times as measures to foster long term relationships.
- ✓ Create a liaison program, buyers-producers, involving the producer networks or Fairtrade. Customers today want to come see what happens with the SPOs.
- ✓ Further promote the Fairtrade market, creating awareness.
- ✓ Training in negotiations and management of technological platforms.
- ✓ Promote pre-financing with lower interest rates than those offered by the commercial market.
- ✓ Fairtrade should come up with a plan on how to position the SPOs with the customers. A monitoring of the market, identification of clients and matching requirements.
- ✓ Greater advertising campaign at the producer level on the importance of Fairtrade.
- ✓ Facilitate spaces to establish and strengthen business relationships. Increased promotion and presence in business conferences.
- ✓ Socialize and publicize the development plans of organisations.
- ✓ Fairtrade develops and designs its own international Fairtrade products fair.
- ✓ FI must have an arbitration function between buyers and producers so that the principle of transparency is not broken.
- ✓ Create and design communication and impact visibility strategies to respond to the international market to meet social and environmental responsibility.
- ✓ Information on the investment of resources, impact of the organisation with the Fairtrade premium.
- ✓ That there is a link between the communication and promotion strategy of Fairtrade to other structures that are part of the system as NFOs and even to the same certification body.
- ✓ Ensure that there are risk management mechanisms in producer organisations.
- ✓ Coffee network, at the producer level, should have mechanisms to feedback information to the organisations. It is suggested to formalize the feedback once the organisations have sent their information or have participated in trade fairs and cuppings where the coffee network informs them about the use of the information and results.
- ✓ Establish contact mechanisms by country and in the corresponding language
- ✓ Not only increasing the market for Fairtrade coffee, but to also to look at providing access to resources for SPOs, facilitate pre-financing access, and other tools.
- ✓ Bring together buyers and SPOs to meet and interact on business matters whitin specific events
- ✓ Communication and enhancement of mark recognition with the consumers.
- ✓ Promote internal consumption (south-south markets)
- ✓ In addition, NFOs work is key to promote and reach out the consumers