

# Fairtrade Living Income Reference Prices for coffee: COLOMBIA

## Questions and Answers

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### **What is meant by a 'living income' and Living Income Reference Price?**

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

A Living Income Reference Price is what farmers need to be paid to invest in sustainable farm practices and be able to achieve a living income, when other key parameters such as viable farm size and sustainable yields are met.

Establishing these farm gate prices is a first step. We are in discussions with forward-thinking brands to put these prices into practice, along with developing pilot projects to achieve the other components necessary for a living income.

### **How did Fairtrade establish the Living Income Reference Prices for Colombia?**

The new Living Income Reference Prices for coffee were established through Fairtrade's unique price discovery approach. We worked with Fairtrade coffee farmers to collect their actual farm expenses and revenue for one year. Combining these data with that of other research, and internationally accepted benchmarks, we calculated the price farmers need to achieve a living income, assuming key parameters of viable farm size and sustainable yields are met. We validated the specific values for each component with a multi-stakeholder roundtable in Colombia to ensure the resulting prices are realistic and acceptable to farmers.

You can read more about the details of our model and the price calculations in our explanatory note on our [website](#).

### **What is the Fairtrade Living Income Reference Price for coffee from Colombia?**

We have established Living Income Reference Prices for conventional and organic coffee. The prices are set in local currency at farm gate for dried parchment coffee sold by individual farmers to their organizations. The recommended prices are:

- 9,900 Colombian pesos per kg for conventional coffee
- 11,000 Colombian pesos per kg for organic coffee

At an exchange rate of 3,600 Colombian pesos to 1 US\$, this equates to \$2.75 per kg of dried parchment coffee for conventional, and \$3.06 per kg for organic.<sup>1</sup>

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<sup>1</sup> The exchange rate fluctuates significantly, so this rate is just for comparative purposes.

	Conventional		Organic	
	COP	US\$ estimate	COP	US\$ estimate
Farm gate price (dried parchment) per kg	9,900	\$2.75	11,000	\$3.06
Farm gate price (dried parchment) per lb	4,500	\$1.25	5,000	\$1.39
Farm gate price (green bean equivalent) per lb	6,048	\$1.68	6,720	\$1.87
Conversion rate: 1 lb dried parchment = 0.744 lb green bean equivalent				

Recognizing there are different living income benchmarks available for Colombia and that costs of living vary by region, for now we have set a range of living income reference prices for Colombian coffee. The lower end of this range is 8,570 pesos per kg and 9,500 pesos per kg for conventional and organic coffee, respectively. Companies moving forward on a living income pathway can determine, through discussions with their supplier, which price is relevant for the region where they are sourcing coffee in Colombia.

A follow-up study using the internationally recognized Anker methodology for living income benchmark-setting is now underway. We will review this benchmark once it is completed next year, and use it to update our Living Income Reference Prices if appropriate and in consultation with the multi-stakeholder roundtable.

### **Is the Living Income Reference Price replacing the Fairtrade Minimum Price?**

No. The Fairtrade Minimum Price or the prevailing market price, whichever is higher, plus the Fairtrade Premium continue to be the required minimum for all coffee sales on Fairtrade terms, as usual. The current market prices, with an additional positive country differential for Colombia, are well above the Fairtrade Minimum Price and even surpass the Fairtrade Living Income Reference Price and apply for Fairtrade contracts.

Payment of a Fairtrade Living Income Reference Price is voluntary for companies that want to develop a pathway toward living incomes for the farmers who supply their coffee. Our Living Income Reference Prices are defined at farm gate level, the price that farmers receive at point of sale. This is different from the Fairtrade Minimum Price, which is set at the point of export (also known as FOB or Free on Board), and includes additional costs such as cooperative operations, transport to a port and coffee taxes.

For companies that want to commit to sustainable pricing to enable living incomes for farmers in their supply chain, the applicable FOB price required to allow the payment of Living Income Reference Prices at farm gate will be determined and agreed with the respective producer organizations. The higher prices provide security to farmers and support investments in farm improvements, as well as putting the human right of a decent standard of living within reach.

### **What about the Fairtrade Premium?**

The mandatory Fairtrade Premium, paid on top of the Fairtrade Minimum Price or the prevailing market price, whichever is higher, is a key resource for Fairtrade producer organizations. They decide democratically how to invest it in their businesses and communities, which can include covering some of their operational costs, investing in collective projects and delivering services to members.

Fairtrade recommends that the Fairtrade Premium is also paid on top of the Living Income Reference Price. This way, producer organizations are empowered to play a crucial role in supporting their members reach target yields, reduce costs, add value, diversify income sources and enhance farm resilience, all of which contribute to achieve living incomes.

## What do the Fairtrade Living Income Reference Prices mean for me today?

- **If you're a Fairtrade certified coffee producer organization in Colombia:** Your Fairtrade buyers will continue to pay at least the Fairtrade Minimum Price and Premium, or the market price if it is higher. If you have a commercial partner that wants to pay living income-supporting prices, you will negotiate a corresponding FOB price with your partner and any intermediary buyers, so that the farm gate price you pay to farmer members is within the Living Income Reference Price range or a farm gate price increase is realized in proportion to the volume percentage sold to the respective buyer. You agree with your buyer on the mechanism for distributing the price differential among your members, depending on the volumes sourced and the members who supplied these volumes. You are expected to document all payments to your members for traceability purposes. The Fairtrade Producer Network in your region, CLAC, can support you.
- **If you're a Fairtrade certified coffee producer organization in another country:** Your buyers will continue to pay at least the Fairtrade Minimum Price and Premium, or the market price if it is higher. Living Income Reference Prices for Fairtrade coffee from Uganda and Indonesia are in development, and we expect to announce these toward the end of the year. Other country-specific prices for Peru, Honduras and Ethiopia will also be developed in the course of next year.
- **If you're a Fairtrade certified coffee importer:** You will continue to pay at least the Fairtrade Minimum Price and Premium on all Fairtrade sales from Colombian producers, or the market price if it is higher. If you are committed to decent livelihoods of farmers and want to pay living income-supporting prices to the coffee farmers you source from, we will work with you and your supply chain partner to design customized living income projects, including the payment of Living Income Reference Prices. Based on the relevant Living Income Reference Price paid at farm gate, you negotiate an FOB price with the producer organization, taking into account their operational and export handling costs.

An additional payment of the Fairtrade Premium to the producer organization allows them to fund complementary services to support their members in improving productivity, quality, cost efficiency, diversification or other income improvement measures.

Actual prices received by farmers and their overall incomes will be closely monitored as integral part of living income projects to evaluate the effectiveness of the combined interventions.

- **If you're a roaster or brand:** You or your importer will continue to pay at least the Fairtrade Minimum Price and Premium on all Fairtrade sales from Colombian producers, or the market price if it is higher. If you want to support the payment of Living Income Reference Prices to the farmers supplying your beans, we will work with you and your supply chain partners to design customized living income projects.

You factor in the related additional costs your green bean importer negotiates with the respective producer organization. These will include Living Income Reference Prices for producers, operational costs of the producer organization and export handling, such as shipping and warehousing costs. All negotiated payments should be clearly reflected in contracts for traceability purposes.

## Given the complexity of coffee supply chains, how will coffee companies be sure the price they are paying results in the coffee farmer being paid the Living Income Reference Price?

Companies should expect to cover costs associated with producer organization operations and export handling on top of the farm gate Living Income Reference Prices. These costs are estimated at 35 dollar cents per pound of green bean equivalent on average for Colombia. However, the cost structure and internal price mechanisms vary from one producer organization to another and affect the actual price farmers receive for their coffee.

We will work with companies and cooperatives to determine appropriate price mechanisms to support the intention to progress in partnership towards living incomes for farmer members of the producer organization and monitor the prices farmers effectively receive, in order to evaluate the effectiveness and adjust where necessary. This way we will continuously improve our model.

## **Will Fairtrade coffee become more expensive for consumers if companies start paying a Living Income Reference Price?**

It's important to note that internal market prices for Colombian coffee beans right now are higher than our new Living Income Reference Prices. This shows that these prices are not out of the question for companies to pay, but likewise these high prices are not guaranteed to continue in the volatile global coffee trade and market speculation.

That said, Fairtrade does not dictate final consumer prices. The Fairtrade Living Income Reference Prices apply at the point where the farmer sells their coffee to their cooperative, which then sells on to the next buyer in the supply chain. Final retail prices are negotiated between the product manufacturer and the retailer.

Even if consumer prices for Fairtrade coffee were to increase, it is very important to understand the cost of food in relation to the lives of the people who grow it. Research shows that [companies paying a fair wage and farmers and workers earning a decent income are some of consumers' most strongly held sustainability expectations](#).

Ultimately, this is not just about Fairtrade. Each actor in global coffee supply chains – including businesses, farmers, certification schemes, governments, and consumers – has a part to play in enabling a sustainable future for coffee farmers.

## **Whom should I contact if my company wants to pay a Living Income Reference Price for coffee?**

Interested coffee traders and roasters are invited to work with Fairtrade to make progress towards living incomes for farmers in their supply chains and co-design customized living income projects. Please contact your usual contact at the national Fairtrade organization in your country.