Project Assignment

Instant Coffee project
26. August, 2014

This project assignment contains the most important information about the project. For additional information on the project, please contact the project co-managers (contact details can be found below). The project will be carried out according to the Standard Operating Procedures for the development of Fairtrade Standards respectively Minimum Prices and Premiums. More information on these procedures can be found on the website: www.fairtrade.net

1. Rationale for and justification of need for the project:

Fairtrade Standards support the sustainable development of small producers and workers in the South. Therefore, new options to explore pricing mechanisms that will enable increase sales of Fairtrade coffee is the intention of the current Project Assignment. Market data on Fairtrade Instant Coffee retail sales shows important growth potential, and this requires a revision of the pricing scheme for lower grade coffee, in particular, to be manufactured into instant coffee. The need for this project was initially indicated by producers and manufacturers of instant coffee from producer countries such as Colombia and Brazil. Manufacturers and producers from other continents have indicated the relevance of the project as well. At the same time, Fairtrade stakeholders like the UK Fairtrade Foundation (current biggest market for Fairtrade Instant coffee), Producer Networks and Global Product Management GPM Coffee have confirmed the need for such a project.

2. Background information

This proposal for project follows up from previous sessions of the Standards Committee (SC) (June/November 2013, and March/June 2014). GPM Coffee and Standards & Pricing have jointly updated the SC on challenges on Instant coffee, and received guidance, on the scope of the project and recommended to ensure a level playing field for all manufacturers in producer and importer countries.

Instant coffee and lower-grade coffee beans bring interconnected challenges and opportunities. Both in the wide coffee sector, and in Fairtrade, lower-grade beans are a typical sourcing option for manufacturing some types of instant coffee. The goal of the project is to enable potential Fairtrade coffee sales from producer countries, specifically through supporting the sales of lower-grade beans of Arabica and Robusta coffee that are used to manufacture instant coffee. The project would be focusing on the first three following issues that have been encountered during a preliminary phase of research; nevertheless the remaining issues might be also addressed:

1. Lower grade beans and their price as raw material to manufacture instant coffee: lower grade beans are used to manufacture instant coffee after been traded at lower price.
2. Lower grades can typically be part of the production volume of producer organizations (e.g. also at organizations that focus on obtaining higher-grades).
3. Low conversion rate from green beans (raw material) into instant coffee in the manufacturing process: the amount of green beans needed to obtain 1kg of instant is typically between 2 and 3.5 kg. This is reflected in the price of the final product, and contributes to make lower grade/ lower price beans attractive for the industry.
4. Market dynamics: Instant coffee is often sold on promotion and at discounted prices.
5. Supply availability of Robusta coffee: in Fairtrade there would be the need for more Robusta coffee.
6. Local markets: Instant coffee is widely consumed in producer countries. Challenges related to finished...
product can be very specific to local markets. However the challenges related to the raw materials (lower grade beans) are shared by both the local and the export markets.

3. Elements of the project

This project will focus on exploring options on lower-grade beans that are manufactured into instant coffee, the following are initial ideas but further options may result as the project progresses:

1. To establish, for lower-grade beans that are manufactured into instant coffee, a new FMP and FP, or
2. To consider such lower-grade beans as a secondary product (i.e. secondary products are not given a specific price in the Fairtrade standard; however a Fairtrade premium of 15% of the negotiated price must be paid in addition).

The potential new rules would apply to Fairtrade instant coffee manufactured in producer and importer countries, with a current 30% and 70% Fairtrade market share respectively. In producer countries, the biggest volumes of Fairtrade Instant coffee are currently manufactured in Colombia (mainly Arabica) and Brazil (mainly Robusta). Countries with smaller volumes include India, Mexico, Ecuador and Tanzania.

The project should follow a set of guiding principles:

1. Proposals for decision-making put forward will be based on consensus, including the consensus of the three Producer Networks (PNs, i.e., Latin America/ Caribbean - CLAC, Fairtrade Africa, Asia/ Pacific - NAPP).
2. Guarantee benefits for producers and a level playing field for manufacturers of instant coffee in producer and importer countries.
3. FMP and FP for lower grades that are manufactured into instant coffee are set at the step of the product chain where producers have ownership of the product (e.g. green coffee), to the extent possible.
4. Clear rules that can be audited against, also taking into account technical elements to differentiate lower coffee grades from other grades.
5. Provide the safeguards to limit risk of substitution and fraud, and to avoid creating commercial barriers to those already active in the Fairtrade instant coffee market segment.
6. Secure the participation of Fairtrade supply chain actors that already participate in the instant coffee market (e.g. including producers and buyers). The project would aim to run pilots in order to test the implementation of the potential new rules. Pilots would, for example: cover different supply chains in terms of whether the manufacturing of the instant coffee takes place in the country where the green beans were produced.
7. Continue to enforce physical traceability in coffee, and not to consider mass-balance.

4. Risk assessment:

1. Proper enforcement of Fairtrade price at the step of the product chain where producer ownership of the product ends (e.g. Minimum Price) must not be compromised.
2. Grading of coffee: A clear and applicable concept of lower grade coffee going into instant coffee (as enforced through compliance criteria) is required for the potential new price scheme.
3. Trade of lower grade coffee, destined to instant coffee manufacturing, into other coffee segments (roast & ground) should not be enabled.
4. Pricing of lower-grade coffees that are currently traded for purposes other than instant coffee should not change.
5. New lower price might lead to lower producers’ sales value in case producers’ sales volume would not increase.

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<thead>
<tr>
<th>Project Start Event:</th>
<th>Project Start Date:</th>
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<tr>
<td>Publication of Draft Project Assignment in Fairtrade International’s website</td>
<td>July 14th 2014.</td>
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<th>Project End Event:</th>
<th>Project End Date:</th>
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<tr>
<td>Announcement of project outcome in Fairtrade International’s website, which would coincide with the start of the validity of the potential new rules. Close down of project.</td>
<td>September 2015</td>
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**Project Goal and Objectives**

**General goal:** to increase potential Fairtrade coffee sales from producer countries, specifically through supporting the sales of lower-grade coffee beans that are manufactured into instant coffee.

**Specific objectives:**
- To define which pricing option for lower-grade coffee beans that are manufactured into instant coffee would enable increasing producers’ sales.
- To investigate whether setting a new FMP and FP for those lower-grade beans, or to consider them as secondary product, would be the best option.
- To set, in collaboration with FLO-CERT, an auditing model that controls / minimizes the risk of the new prices for low grade beans being used to displace the prices paid for higher quality coffee, or that lower-grade beans that are traded to manufacture instant coffee would later go into segments like roast & ground.
- To propose the technical elements for the application of the new rules, e.g. coffee form (green bean, or parchment), price level, currency, Incoterm (e.g. FOB).

**Out of scope**
- Review the current levels of Fairtrade Coffee Premium and Organic differentials.
- Review the current FMP.
- Consider Mass balance or re-visit physical traceability.
- Minimum price for lower-grade coffee beans in value chains other than instant coffee.

**Project scope**
- Product: Coffee
- Variety: Arabica and Robusta
- Processing: washed/ unwashed.
- Quality: organic and conventional
- Geographic scope: worldwide (i.e. including the manufacturing of instant coffee in both producer and importer countries).

**Project Resources and Costs (tentative)**

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<th>Costs (EUR)</th>
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<tr>
<td>Total (tentative):</td>
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<tr>
<td>Workshops in Latin America and Caribbean (tentatively including for example: Mexico, Colombia, Brasil, Peru, Central America),</td>
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<tr>
<td>To be confirmed.</td>
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## Project timelines:

Tentatively, in 2014/2015:

**2014 July 14th:** Publication of the Draft Project Assignment (PA) in the website of Fairtrade International.

**2014 July 14th – August 8th:** feedback period to PA.

**2014, by August 27th:** refinement of project assignment and publication of final version in the website of Fairtrade International.

**2014 August 27th – Sept. 11th:** preparation of consultation document.

**2014 Sept. 11th – Oct. 15th:** Consultation document published. Consultation is implemented in producer countries (e.g. by Producer Networks PNs supported by PSR) and in importer/ market countries.

**2014 Oct. 16th – Nov. 14th:** Analysis of consultation results. Planning of pilots in specific supply chains in order to test the implementation of potential new rules (e.g. also in collaboration with FLO-CERT). Pilots shall secure the participation of Fairtrade supply chain actors that already participate in the Fairtrade instant coffee segment (including producers and buyers).

**2014 Nov. 17th – 2015 June:** Implementation of pilots.

**2015 April – June:** Preparation of proposal paper for decision making at the SC of June 2015. This will be based on the results of the consultation and preliminary results of pilots.

The proposal for decision will be based on consensus, including the consensus of the three Producer Networks (PNs, i.e., Latin America/ Caribbean - CLAC, Fairtrade Africa, Asia/ Pacific - NAPP).

**2015 June:** Paper/ proposal for decision are submitted to the SC. SC meeting takes place.

**2015 July - August:** Implementation phase (e.g. writing up compliance criteria, trainings of FLO-CERT auditors and other stakeholders, planning Indicators/ Follow up mechanism.

**2015 September:** validity of potential new rules starts.

## Decision making process:

Proposals for decision-making on potential new rules (in the June 2015 session of the SC). The proposal for decision will be based on consensus, including the consensus of the three Producer Networks (PNs, i.e., Latin America/ Caribbean - CLAC, Fairtrade Africa, Asia/ Pacific - NAPP). Milestones would include:

- 2014 Sept./ Nov., and 2015 March: opportunities for further updates to the SC, and guidance request as needed.

- 2015 June: Presentation of proposal for decision-making at the SC.

## Project Owner

Ricardo Guimaraes (Head of Pricing, Fairtrade International).

## Project Co-Managers

Alina Amador, Pricing Project Manager, Fairtrade International, a.amador@fairtrade.net, Rene Capote, Coffee Officer, Fairtrade International.
### Project Team:

Representatives of:
- Fairtrade International’s Global Product Management GPM Coffee and Pricing Team.
- Producer Networks: Latin America/ Caribbean (CLAC), Fairtrade Africa, Asia/ Pacific (NAPP).
- National Fairtrade Organizations (NFOs)/ Fairtrade Marketing Organizations (FMOs).

### Project Environment (stakeholder groups not part of the project team):

Project participants:
- Kate Lewis, Fairtrade Foundation/ UK.
- Coffee Help Desk (providing technical advice on request, coordinated by GPM Coffee).
- Coffee managers at National Fairtrade Organizations (NFOs).
- FLO-CERT: including analysts, managers and/ or auditors
- PSR: in coordination with Producer Networks.