

Project Assignment Deductions in FOB prices for coffee (February, 2017)

This project assignment contains the most important information about the project. For additional information on the project, please contact the project manager (contact details below). The project will be carried out according to the Standard Operating Procedures for the Development of Fairtrade Standards/Minimum Prices and Premiums. More information on these procedures can be found on the website: <http://www.fairtrade.net/standards/setting-the-standards.html>

Rationale for and justification of need for the project:

This project is part of the “fairer coffee project” work stream lead by the global coffee facilitation team. One of the objectives of the fairer coffee work stream is to ensure compliance with the payment of the Fairtrade minimum price (FMP) and premium. Within this work the topic of FOB deductions has been identified as a key area to work further.

The payment of the FMP is subject to deductions that are stipulated in general terms in the Standards, but there is no clear guidance on what are the items and the amounts to be considered appropriate. This topic has been visible in the FLOCERT audits, resulting in ambiguous and uncertain results in the audits.

In section 4 of the Trader Standard, the requirement 4.1.3 stipulates the price breakdown of price calculation in contracts. This requirement states that if the market price reference and/or the Fairtrade Premium are set at a different level or for a different product form than the one the trader is buying at, then the trader includes in the contract with the producer, or conveyor as applicable, a detailed breakdown of the price calculation (deducted or added cost items and their value, and conversion rate in case of processing). It is stated that it is only possible to deduct costs that are included in the FMP, and no discount can be made from the Fairtrade Premium.

In requirement 4.2.3 is mentioned that in case the FMP is set at a different level in the supply chain than the one the trader is buying at, then the trader adjusts the FMP accordingly. The calculations are transparent and reflect real costs.

In view of this, the project will aim to: clarify the items that can be deducted from the FMP according to the stage in which the coffee is purchased from the SPO. This will enable the fulfillment of the requirements 4.1.3 and 4.2.3. Subsequently, provide guidance for country specific price breakdown; which will provide indication on items to be included and potentially deducted as well as the respective indicative values. All the above provided that the interested stakeholders actively participate into defining the items and indicative values which will support the compliance of the Standards.

Risk assessment:

- Providing general guidance which will satisfy all commercial situations balanced with a detailed guidance document which might not be sufficient enough to all parties as not all situations and supply chains are equal.
- The lack of stakeholder feedback on average real costs needed in order to define the values.
- Not have a consensus in a final proposal due to the large diversity of situations on how deductions are made.

Project Start Event:

Publication of the PA

Project Start Date:

February 27th 2017

<p>Project End Event: Publication of the guidance document for the Standard and publication of indicative values (or range of values) for selected countries.</p>	<p>Project End Date: Peru and Brazil in May 2017 Colombia and Honduras in September 2017</p>
<p>Project Goal and Objectives</p> <p>Goal: Provide general and country specific guidance on the FOB price breakdown for coffee.</p> <p>Objectives:</p> <ul style="list-style-type: none"> • Understand the current operations of private exporters for Fairtrade coffee • Understand current practices in coffee price negotiations and price breakdown in general. • Understand and provide guidance to FLOCERT, producers and traders, from the countries where more issues on auditing have been detected, on price breakdown and deductions according to the stage in which the coffee is purchased from the SPO (for Peru, Brazil with priority for Q1/Q2 2017 and at a later stage in Q3 2017 for Colombia and Honduras). • Stakeholder engagement and consultation on clarifications and guidance development. • Propose an updating procedure for the price breakdown and deductions. <p>NEW: Connection with Theory of Change (ToC): This project relates to the first goal of Fairtrade International, which is to make Trade Fair, and that is by providing the tools to enable Fairtrade minimum price and premium payment compliance. This is specifically, the intervention related to standards & certification for supply chain business.</p>	
<p>Project scope:</p> <ul style="list-style-type: none"> - Worldwide - Arabica and Robusta coffee for both conventional and organic coffee 	<p>Out of scope:</p> <ul style="list-style-type: none"> Price review for Arabica and Robusta coffee for both conventional and organic coffee. Revision of TS related requirements.
<p>Project timelines and information on opportunities to contribute:</p> <ul style="list-style-type: none"> - Jan 13th 2017 –Feb. 27th – discussion of PA - Feb. 27th 2017 – Publication of the PA - Feb. and March - topic research, discussions, revising with PNs, GPM and FLOCERT the most relevant topics. - Feb. 27th– prepare and share a first draft of FOB price deductions template - Feb. 27th - March. 10th – Discuss first draft of template and data with key stakeholders (workshops in Peru 27-28th Feb. and 6-7th March) - March – meeting/workshop in Brazil tbd with representatives from CLAC - March. 23rd– Present final draft on FOB deductions to key stakeholders - March. 24th - April 14th - Consultation period - April 18th – 28th – Consolidate feedback, prepare and present final proposal. - May/June – publication of guidance document and implementation with 	<p>Decision making process: Director S&P makes final decision or delegates the decision as necessary on the guidance documentation.</p>



FAIRTRADE
INTERNATIONAL

FAIRTRADE INTERNATIONAL – STANDARDS & PRICING

<p>FLOCERT and S&P as needed for the cases of Peru and Brazil</p> <ul style="list-style-type: none">- June/July – initiate the work in Colombia and Honduras, based on work for Peru/Brazil.- September – publication of guidance document and implementation with FLOCERT and S&P as needed, for the cases of Colombia and Honduras <p>* More information will be provided closer to the consultation period on our website. If you are identified as key stakeholders, you will receive an invitation to participate.</p>	
<p>Project Owner (Unit): Ricardo Guimaraes</p>	<p>Project Manager (contact point for the project): Alina Amador, Project manager pricing a.amador@fairtrade.net</p>
<p>Project Team (Unit):</p> <ul style="list-style-type: none">- GPM Coffee – Rene Capote- Head of Standards - Gelkha Buitrago- Red Café/CLAC – Joao Mattos and Maria Trinidad- FLOCERT – Debora Rosado/Regina Ortiz- Coffee Help Desk – Jos Algra	<p>Project Environment (stakeholder groups not part of the project team):</p> <ul style="list-style-type: none">- Red café/CLAC- FLOCERT- FTA- NAPP- NFOs