

## Price Review For Semi-Processed Cocoa (Revised 28.05.2019)

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:

The current Fairtrade Standard for Cocoa defines the processing yields of equivalent cocoa beans for semi-processed cocoa products, such as cocoa liquor, cocoa butter and powder. The principle and calculation examples of the Fairtrade Minimum Price (FMP) and the Fairtrade Premium (FP) for semi-processed products are therefore included in the Standard. The last revision for semi-processed cocoa took place in 2014 and there was no decision made by the Standards Committee. In addition, following the outcomes of the Standards review in 2017 and Price review in 2018, there are some necessary changes to be made to the requirements for semi-processed cocoa products. As such, semi-processed cocoa are due for review, rationales and issues to be addressed are detailed as follows:

For semi-processed cocoa products sold by producer organizations:

- There are different processing yields (from beans to semi-processed products e.g. liquor, butter and powder) applied for traders applying mass balance and for certified producers who process cocoa beans. It has created confusion during compliance.
- The average export costs indicated in the standard might have evolved over time.
- Traders, producers and FLOCERT have reported challenges when applying/auditing the calculation of FMP and FP for semi-processed cocoa products.
- The requirements itself should be reviewed to assure they are realistic and auditable. This should be accompanied with an increased understanding of how 'market ratios' (i.e. industry-accepted dynamic ratios that exist in order to price products in the semi-processed cocoa markets) are used in the conventional market, so that Fairtrade can better understand the implications of setting minimum prices and premiums for semi-processed cocoa products.
- The introduction of the Fairtrade organic differential as a result of the Fairtrade Cocoa Price Review took place in 2018 means the calculation of the FMP/FP for semi-processed cocoa products needs revision.

### Risk assessment:

Risk: there are very few Fairtrade cocoa producers who process cocoa beans and are concentrated in a certain region or countries. Therefore it has implication on the representativeness of the data collection and consultation responses.

Mitigation: project team members from Producer Networks will make stakeholders aware of the project and closely assist during consultation process.

Risk: revision of the processing yields/conversion ratios might result in different processing yields which do not reflect individual producers' realities.

Mitigation: it is essential to collect relevant information from producers and have a consensus from the stakeholders on the solutions provided by the project team before decision making.

Risk: investigating price escalation further along the supply chain is inherently difficult due to the confidential nature of the issue, therefore accessing the necessary information may be challenging

Mitigation: ensure we set the correct expectations internally with colleagues on the feasible outputs of our investigation

<p><b>Project Start Event:</b> Preparation of project assignment</p>	<p><b>Project Start Date:</b> 19.02.2019</p>
<p><b>Project End Event:</b> Communication of the decisions on Fairtrade prices and Premium for semi-processed cocoa</p>	<p><b>Project End Date:</b> Q4 2019</p>
<p><b>Project Goal and Objectives:</b></p> <p><b>Goal:</b> Review the pricing of semi-processed cocoa products sold by producers</p> <p><b>Objectives:</b></p> <ul style="list-style-type: none"> <li>• Conduct case study exploring processing yields of semi-processed cocoa products from Fairtrade certified producers</li> <li>• Collect and understand the Cost of Sustainable Production (COSP), focusing on processing and export costs, from Fairtrade producers who process cocoa beans, while taking into account the information from the market and non-Fairtrade cocoa producers</li> <li>• Harmonise processing yields and mass balance conversion ratios in the Cocoa Standard</li> <li>• Review the applicability of the current FMP calculation method for semi-processed products considering pricing dynamics in the conventional market, requirement 4.2.5 and 4.2.6, to ensure they are realistic and auditable</li> <li>• Incorporate the new Fairtrade organic differential pricing into the calculation of the Fairtrade Minimum Price and Fairtrade Premium for semi-processed cocoa products</li> <li>• Update Standard requirements in line with pricing model changes from this review</li> </ul> <p><b>Connection with Theory of Change (ToC):</b> This project contributes to the goals of Fairtrade International which is to make trade fair, empower small producers and foster sustainable livelihoods. For more information on Fairtrade's ToC see this <a href="#">link</a>.</p>	
<p><b>Project scope:</b></p> <ul style="list-style-type: none"> <li>- This project will review the pricing for semi-processed cocoa products (limited to cocoa liquor/ mass, cocoa butter and powder) purchased from certified producers, requirement 4.2.5 and 4.2.6</li> <li>- Any other section in the standard which the project proposal implies changes</li> </ul> <p><b>Note:</b> The Fairtrade Standard for Cocoa is complementary to the standard for producers (Fairtrade Standard for SPOs), and the standard for traders (Trader Standard). So, it applies to both producers and traders. For more information on Fairtrade Standards click this <a href="#">link</a>.</p>	<p><b>Out of scope:</b></p> <ul style="list-style-type: none"> <li>- Requirement 2.1.1 mass balance processing yields/conversion ratios for traders</li> <li>- Processing yields for certified producers applying mass balance</li> <li>- Any other requirements in the Cocoa Standard</li> </ul>

<p><b>Project timelines and information on opportunities to contribute:</b></p> <p><b>Feb-March 2019</b> Project planning and preparation</p> <p><b>March-April 2019</b> Planning and preparation of research</p> <p><b>May-June 2019</b> Rollout of stakeholder interviews</p> <p><b>July-Aug 2019</b></p> <ul style="list-style-type: none"> <li>• Preparation of public consultation</li> <li>• Stakeholder engagement on the potential pricing proposals – public consultation</li> </ul> <p><b>Sept-Oct 2019</b> Analyse consultation results and define decision points for SC approval</p> <p><b>Nov 2019</b> Decision making by SC</p> <p><b>Dec 2019</b> Publication of revised pricing for semi-processed cocoa products</p> <p><b>More information will be provided closer to the consultation period on our <a href="#">website</a>. If you are identified as key stakeholders, you will receive an invitation to participate.</b></p>	<p><b>Decision making process:</b></p> <p>The results of the research and consultation will be presented to the Standards Committee (SC). The SC will decide on the new pricing for semi-processed cocoa.</p>
<p><b>Project Owner (Unit):</b></p> <p>Ricardo Guimaraes Head of Pricing</p>	<p><b>Project Manager (contact point for the project):</b></p> <p>Yun-Chu Chiu Project Manager Pricing</p>
<p><b>Project Team (Unit):</b></p> <p>National Fairtrade Organisation</p> <ul style="list-style-type: none"> <li>• Samantha Dormer, FTF/ Jon Walker, Fairtrade International</li> <li>• Jakob Hömberg, FT Germany</li> </ul> <p>Producer Network</p> <ul style="list-style-type: none"> <li>• María Trinidad/ Basilio Almonte/ Luis Mendoza, CLAC</li> <li>• Anne-Marie Yao/ Fabien Patrick Aka, FTA</li> <li>• Hung Tran/ Praveen Kumar, NAPP</li> </ul> <p>FLOCERT</p> <ul style="list-style-type: none"> <li>• Johannes Wolpert</li> </ul>	<p><b>Project Environment (stakeholder groups not part of the project team):</b></p> <p>Fairtrade International</p> <ul style="list-style-type: none"> <li>• Standards</li> </ul>