|  |
| --- |
| **Consultation document:**Review of the Fairtrade Pricing model for Semi-Processed Cocoa Sold by Small Producer Organizations |
| Consultation Period | 03.09.2019 –03.10.2019 |
| Project Manager | Yun-Chu Chiu, Project Manager, Pricing y.chiu@fairtrade.net  |

Table of Contents

[General Introduction 1](#_Toc18414514)

[Overview of the current Fairtrade Pricing for semi-processed cocoa products sold by Small Producer Organizations 2](#_Toc18414515)

[Results of the research through stakeholder interviews 3](#_Toc18414516)

[1. Information about your organization 4](#_Toc18414517)

[2. Processing yields and aligning conversion ratios for producers 4](#_Toc18414518)

[3. Fairtrade Minimum Prices 5](#_Toc18414519)

[4. Fairtrade Premium & Fairtrade Organic Differential Values 8](#_Toc18414520)

[4.1 Fairtrade Premium for Liquor 9](#_Toc18414521)

[4.2 Tackling the Fairtrade Premium butter and powder challenge 10](#_Toc18414522)

[4.3 Fairtrade Organic Differential 12](#_Toc18414523)

[Annex 1 Current standard requirements 14](#_Toc18414524)

[Annex 2 Summary of the interview results 15](#_Toc18414525)

General Introduction

This public consultation reviews the current Fairtrade cocoa pricing for semi-processed products **sold by Small Producer Organizations** by inviting stakeholders to comment on the proposals enclosed. The insights gained through the research and stakeholder interviews conducted, as well as the analysis thereof have formed the basis of these proposals. You are kindly invited to participate in this consultation.

The key objective of this project is to:

Assess and improve the impact of Fairtrade current pricing for semi-processed products sold by producers.

During the research phase, the project team invited specific stakeholders[[1]](#footnote-1) to provide information related to the production, sales and price structure of semi-processed cocoa. Furthermore, we also asked stakeholders for guidance on the principles to be adopted for Fairtrade semi-processed cocoa pricing in the future.

You are kindly invited to respond to and comment on the proposals presented in this document.

Confidentiality: Please note that **all information we receive from respondents will be treated with care and kept confidential.**

**Please submit your comments to your Fairtrade contact point or the Project Manager, Yun-Chu Chiu at: y.chiu@fairtrade.net by 03-10-2019**. If you have any questions regarding the interview, please contact the Project Manager by email.

Overview of the current Fairtrade Pricing for semi-processed cocoa products sold by Small Producer Organizations

Requirement 4.2.5 and 4.2.6 in the [Cocoa standard](https://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/Cocoa_SPO_EN.pdf) describe the pricing calculation methodology for semi-processed cocoa products sold by Small Producer Organizations, see Annex 1. The calculation framework for the FMP and the FP is outlined in the requirements with examples based on the reference values provided. Nevertheless, Fairtrade encourages SPOs and traders to use the actual values based on the trading expenditure and production realities when calculating prices. The current system aims to provide guidance in price setting for producers while keeping flexibility when calculating prices for semi-processed products, specifically:

* The price of the beans is negotiated by the producer based on the volume of beans needed to produce the semi-processed product, starting with the FMP as a floor price.
* If the average processing yield is not available to the producer, then the processing yields from beans in 4.2.6 applies.
* The FMP reference value is based on the FMP at FOB level minus USD 250 for average export costs, however alternative export costs are permitted if they can be justified.
* The processing costs are not defined in the requirement.

In summary, the current pricing model provides some flexibility for producers and traders in price calculations and price negotiation.

Results of the research through stakeholder interviews

The stakeholder interviews, which served as part of the research phase, took place between May and July 2019. Fairtrade semi-processed cocoa pricing topics were discussed via workshops and interviews. The interview was addressed to specific stakeholders: semi-processed cocoa producers, including prospective SPOs who were interested in producing semi-processed cocoa products, and trading partners. SPOs were invited to contribute to the Cost of Sustainable Production data collection and both SPO and traders provided guidance on the principles to be adopted for Fairtrade Cocoa Pricing.

A range of key topics were discussed regarding Fairtrade’s current pricing model for semi-processed cocoa including: SPO’s semi-processed products prices, processing costs, processing yields, alignment of conversion ratios, export costs and pricing principles to be adopted for semi-processed products moving forward. In total 10 stakeholders participated in the interview, including 8 SPOs and 2 commercial partners. The SPOs who participated represent 66 % of all Fairtrade certified Semi-Processed Cocoa SPOs and 88% of the total FP generated from semi-processed cocoa sales. Out of 10 traders who purchased semi-processed cocoa products over the past 2-3 years, 2 traders contributed their views to the project. The interviewees were from Bolivia, Côte d’Ivoire, Dominican Republic, Ecuador, India[[2]](#footnote-2), Honduras, Peru, UK and USA.

In summary, the majority of stakeholders, 5 out of 7, are in favour of adapting the current pricing system to a more flexible model whereby enabling price negotiations and unlocking market access for SPOs. At the same time, 5 out of 7 stakeholders have expressed that the new pricing model should provide a higher level of guarantee on the Fairtrade Premium and Organic differential, such as by fixing the values for semi-processed cocoa products.

The information collected on COSP is analysed and fed into the pricing model(s) proposed in this document. All data reported refers to volume produced and/or sold by the producer organization during the period of March 2018 to April 2019. Alternative reporting periods are allowed considering the availability and robustness of data. Any proposed values in this document are adjusted average values resulting from the data collection with calibration of producer’s realities, such as SPO’s function in the supply chain, scale of processing ability per SPO and cost level per country, etc. Key insights from the data included the following:

* SPOs sell liquor more than any other semi-processed product, followed by butter and then powder.
* SPOs obtain the highest prices for butter, followed by liquor and then powder. This reflects the supply/demand balance that exists between the butter and power market.

For further information on the COSP, see Annex 2.

1. Information about your organization

|  |
| --- |
| 1. **Please provide us with information about your organization so that we can analyse the data precisely and contact you for clarifications if needed.**

Name of your organisation      Name of contact person      Email/phone number of contact person      Country      FLO ID       |
| 1. **What is your responsibility in the supply chain? Please tick all applicable boxes**

I am a Fairtrade certified [ ] producer [ ] traderI am a processor, I produce [ ] liquor [ ] butter [ ] powderI am a seller of [ ] beans at EXW [ ] beans at FOB [ ] liquor [ ] butter [ ] powderI export [ ] beans [ ] liquor [ ] butter [ ] powder [ ] other products:       |
| 1. **Information about the interviewer (for project team members only)**

**This interview is conducted by:**Name of interviewer:       Date:       |

1. Processing yields and aligning conversion ratios for producers

Based on the current pricing and premium model, processing yields are used to calculate the equivalent amount of cocoa beans needed to produce 1 MT of the processed products. The amount of FMP and FP payable for each processed products are then defined based on the equivalent amount of cocoa beans needed. We recognise processing yields differ from producer to producer. Nevertheless, Fairtrade has traditionally provided a reference set of processing yields (see requirement 4.2.6) for calculating minimum prices of Fairtrade semi-processed products, when actual processing yields are not available to producer organisations. Likewise, the reference values of the FP have also been calculated and provided in the requirement.

In 2017, Fairtrade aligned the conversion ratios for mass balance (see requirement 2.1.1) with figures published by the CEN/ISO Standard for Sustainable and Traceable cocoa. These figures are widely accepted by the industry in terms of standard compliance under mass balance. However, the conversion ratios for SPOs selling semi-processed products have not been reviewed (requirement 4.2.6). Coexistence of two sets of conversion ratios has led to confusion.

The results of the interviews indicated, for simplification and harmonization purposes, SPO selling processed products are supportive of aligning the conversion ratios in 4.2.6 with those stipulated in requirement 2.1.1 for mass balance. It was mentioned by some SPOs and that the conversion ratios provided in the Standard should be used as reference values only when actual processing yields are not available to producer organisations. Traders were also supportive of the alignment of 4.6.2 and 2.1.1, but one trader did say they would still like to see some flexibility to allow SPOs and trading partners to agree to use actual yields should the figures become available.

In order to fix values for semi-processed cocoa products, the processing yields used for calculation must be fixed in the standard. “Fixing” means the figures published in the requirement are mandatory to be applied in price calculation. One advantage of the “fixed” approach is that there is a guaranteed amount, which provides clarity and certainty for both SPOs and traders. However, a disadvantage of this approach is that it might result in losses for some SPOs when compared to the current model which allows SPOs to use their actual processing yields if they so wish.

**Current processing yields and proposed processing yields**

|  |  |  |
| --- | --- | --- |
|  | **Current Processing yield from beans per requirement 4.2.6** | **Proposed Processing yield from beans (aligning with requirement 2.1.1)** |
| **Beans** | *-* | *-* |
| **Liquor** | *0.8* | *0.82* |
| **Butter** | *0.376* | *0.41* |
| **Powder** | *0.424* | *0.41* |
| **Butter and Powder** | *(0.8)* | *(0.8)* |

**Question 1: Following stakeholders’ feedback during the interviews and for simplification and harmonisation purpose, Fairtrade will apply the conversion ratios stipulated in requirement 2.1.1 also to 4.2.6 for SPOs selling semi-processed cocoa products. Should you have other feedback, please specify and provide your rationale:**

**Question 2: Do you agree that Fairtrade should fix values for semi processed cocoa products by referring to the conversion factors in the cocoa standard only (req. 2.1.1.)?**

[ ]  Yes

[ ]  No, I still want the option to refer to actual producer yields if available.

[ ]  I have another suggestion

Please provide your rationale:

1. Fairtrade Minimum Prices

The current pricing includes a FMP reference, but not an FMP guarantee, for semi-processed cocoa products, due to the possible variable costs included in the price calculation. These variables include **processing costs**, **processing yields** and **export costs**.

During the interviews, Fairtrade asked stakeholders to consider if the priority for semi-processed products sold by SPOs should be **increased price certainty OR increased price flexibility.**

The majority of the interviewees expressed that Fairtrade should adopt an approach which simplifies the current pricing calculation methodology whilst providing more price flexibility for producers and trader price negotiation. Some of the challenges mentioned by interviewees included:

* Imbalances in Fairtrade butter and powder demand, resulting in most SPOs only able to sell one leg (usually butter). As most SPOs have few buyers, this makes it very difficult for SPOs to balance their butter and powder sales.
* It is highly *disadvantageous* for a buyer to purchase only one leg with the current pricing model. It was suggested that buyers should own some of the risk of the producer not being able to sell the other product, but not be held accountable for 100% of the bean cost.
* Butter and powder prices are greatly interlinked. Typically, when cocoa butter prices go up, cocoa powder prices go down meaning any pricing model needs to adapt to this reality if producers are to be competitive.
* Due to the relative small amount of beans processed by the SPOs, the SPO’s processing cost per unit is significantly higher than the large international processors. Since processing cost is one of the key factors contributing to the overall product prices, this puts SPOs in a difficult position to negotiate and sell their products. Therefore, fixing elements of a final price restricts an SPOs ability to adapt their pricing taking into account their actual processing costs and their competitive landscape.

As most stakeholders supported improved price flexibility we are not proposing to set fixed Fairtrade Minimum Prices for semi processed products, which take into account bean price + processing costs + conversion ratios + export costs. However, some of the following proposals do include an FMP reference value based on the volume of beans required.

**Proposal 3A - Market Price**

The market prices for liquor, butter and powder prevail meaning the SPO must at least receive market value for their products. The advantages of this approach is that it allows producer pricing to adapt to market dynamics whilst still ensuring that the producer receives at least market value for their products. Referencing market price could also be seen as an agile approach to increase producers’ competitiveness. The disadvantage of this approach is that it does not provide price protection when the market price of a product declines.

**Proposal 3B – FMP EX Works Beans Reference for Liquor, Market Price for Butter and Powder**

Fairtrade provides an FMP reference price for liquor based on the FOB bean price (2400 USD/MT) minus typical bean export costs (250 USD/MT) and divided by the bean to liquor conversion ratio (1 MT beans: 0.82 MT liquor). The calculation formula is as follows: (2400-250) / 0.82= 2622. This approach is suggested for liquor only as liquor pricing is more straightforward due to the 1:1 relationship compared to the complex 1:2 relationship between beans and butter/powder with the associated supply/demand dynamics. Please note the Organic Differential is proposed in section 4.3 and will be added on top of the FMP.

Fairtrade will expect that processing costs and export costs (when the producers export themselves) are taken into account when determining the final price for liquor. However, instead of providing a reference value for export costs, Fairtrade encourages producers to use their actual export costs for liquor. This allows for the fact that export costs vary greatly amongst SPOs[[3]](#footnote-3) and different products. The advantages of this approach is that it does provide a level of price protection on liquor, the semi processed product most commonly sold by producers, whilst still allowing for price flexibility on more complex butter and powder pricing. The disadvantage of this approach is less price flexibility on liquor compared to butter and powder.

|  |
| --- |
| **FMP at EXW** |
|  | **Proposal 3A** | **Proposal 3B** |
| **Liquor** | Market price | $ 2622/MT + individual processing and export costs(when applicable)  |
| **Butter** | Market price | Market price |
| **Powder** | Market price | Market price |

**Question 3: Which of the above proposals do you think Fairtrade should implement for the price setting of cocoa semi-processed products?**

[ ]  Proposal 3A

[ ]  Proposal 3B

[ ]  I have another suggestion

Please provide your rationale:

1. Fairtrade Premium & Fairtrade Organic Differential Values

Under the current pricing, the Fairtrade Premium payable for semi-processed products is calculated by dividing the Fairtrade Premium for conventional cocoa beans by the processing yields of producers, see requirement 4.2.6. Again, if the actual processing yield is not available to the producer, then the processing yields in 4.2.6 applies.

The Fairtrade Organic differential of $300 per MT of organic beans was introduced as a result of the 2018 Fairtrade Price and Premium review. The Fairtrade organic differential is paid on top of the conventional Fairtrade Minimum Price or the market price whichever is highest, when purchasing Fairtrade organic cocoa. The Fairtrade organic differential becomes active as of 1st October 2019. This is a change from the current Fairtrade Minimum Price of 2300 USD/MT for Fairtrade certified organic cocoa beans. This review seeks to establish how the new Fairtrade Organic differential is best incorporated into price setting for semi-processed cocoa products.

The Fairtrade organic differential’s structure is the same as the Fairtrade Premium’s (it is a value paid on top of the convention FMP or the market price for beans). It would then seem logical to apply the same methodology to calculate the Fairtrade Organic differential payable for semi-processed products (by dividing the Fairtrade Organic differential by producer processing yields OR conversion ratios in the standard). However, despite having the same structure, the Fairtrade Premium and the Fairtrade Organic differential do not have the same function.

The purpose of the Fairtrade Organic differential is to cover the additional costs of organic production, especially when the market fails to do so. It is more naturally an element of pricing as opposed to a developmental premium. The Fairtrade Premium is intended to provide additional investment capacity for development, to improve social, economic and environmental conditions for SPO members. The use of this additional income is decided democratically by the members within the SPO. Because of these key differences it is not necessarily logical to apply the same methodology to calculate the Fairtrade Organic differential payable on semi-processed products. Fairtrade request that stakeholders should consider this when reviewing the proposals for Fairtrade Premium and the Fairtrade Organic differential below.

During the research phase, Fairtrade asked stakeholders to consider if the priority for Fairtrade Premium and the Fairtrade Organic Differential derived from the sale of semi-processed products by SPOs should be **certainty OR flexibility.**

****

SPOs reported price certainty as the priority. The two traders were also supportive of fixing the FP values of semi-processed cocoa products, however it was mentioned how highly disadvantageous it is for a buyer to purchase only one leg (butter or powder) with the current pricing model. It was suggested that buyers should own some of the risk of the producer not being able to sell the other product, but not be held accountable for 100% of the bean cost. This challenge also applies to the price and the organic differential, not just FP. In fact, with the new Fairtrade Organic differential, it will be even more disadvantageous for a buyer to purchase only one leg (butter or powder). However, it was mentioned by traders that fixing the organic differential in an effective way may provide enough certainty for producers, negating the need for FMP references on all semi processed products, but only if there is clear evidence of a buyer/seller agreement on a fair price for the producers.

1. Fairtrade Premium for Liquor

The project team did not receive any feedback, which suggested issues related to the current premium calculation model for liquor. As such, we propose the FP value for liquor continues to be calculated from the FP value for beans ($240/MT, applicable as of 1st October 2019) and the bean/liquor conversion, namely 240/0.82=293 USD/MT[[4]](#footnote-4). This approach is suggested for liquor only, as liquor has a 1:1 processing relationship with beans, making the calculation more straightforward.

|  |
| --- |
| **Fairtrade Premium** |
|  | **Proposal** |
| **Liquor** | $ 293/MT  |

**Question 4: Do you agree that Fairtrade should set the FP for liquor as above:**

[ ]  Yes

[ ]  No, I have another suggestion

Please provide your rationale:

4.2 Tackling the Fairtrade Premium butter and powder challenge

The prices of butter and powder can fluctuate independently of the cocoa bean price. The imbalanced demand on butter and powder challenges the current FP model. Currently the cocoa standard requirement prescribes that the full amount of FP is charged on one leg if the other leg is not sold as Fairtrade under the same contract. Very few buyers (if any) purchase butter and powder simultaneously from SPOs. This requirement can result in double charging if the SPO is able to sell both legs as Fairtrade to different buyers. This does not allow SPOs the flexibility to balance their powder and butter sales and to incorporate this into how they charge FP to partners.

**Proposal 4A: Current model with** **elimination of the eligible Fairtrade volume on the unsold product**

Based on the current model, to ensure the total amount of FP charged corresponds correctly to the combined butter and power sales, this proposal requires elimination of the eligible Fairtrade volume on the unsold leg (e.g. powder if butter is sold as Fairtrade). For example, if a butter contract includes the full amount of FP ($585/MT), the corresponding powder volume can no longer be sold as Fairtrade to avoid the full FP being charged twice (once on the butter contract and once on the powder contract). When SPOs sell both products under the same contract, the combined FP model would still be applied (1 MT of butter and 1MT of powder for $ 585). The advantage of this approach is it removes the likelihood of overcharging on FP whilst warranting the entitled amount of FP to SPOs. The proposal works in a similar way as the current model. It requires minimum change to current practices. However, the disadvantage of this approach is that it does not tackle how highly *disadvantageous* it is for a buyer to purchase only one leg (butter or powder) with the current pricing model.

**Proposal 4B: Joint butter/powder FP conversion across different buyers**

This proposal would allow SPOs to balance the full amount of FP across different butter and powder buyers; so across different contracts within a given timeframe. For example, SPOs can choose to offset one buyer’s butter purchases with another’s powder purchases, if they have buyers for both legs and hereby only charge a single buyer FP on their proportion of the bean. For example[[5]](#footnote-5):

* Customer A purchases 1 MT of butter
* Customer B purchases 1 MT of powder
* To produce 1MT of butter + 1MT of powder, 2.44 MT of beans are processed
* 2.44 MT of beans = $585.60 FP
* SPO Charges Customer A $292.80 and Customer B $292.80 INSTEAD of $585.60 each.
* Therefore the combined butter and powder conversion ratio of 0.82 (see section 2) can be applied in this scenario to the 1MT of butter and the 1MT of powder to calculate the Fairtrade Premium cost per customer, thus recognizing that the butter sales are offset by the powder sales and vice-versa.

In order to function, this proposal makes the following assumptions:

* A strong level of trust and transparency in the trading partnership
* SPOs know their semi processed sales well in advance of the season
* Most buyers are repeat purchasers who stick by their commitments each season

The advantage of this approach is that SPOs can charge based on combined butter and powder sales, meaning traders buying just one leg, are not automatically held accountable for 100% of the FP bean cost. SPOs still receive the correct amounts of Fairtrade Premium based on the volume of beans they have processed for the combined butter/powder sales, and traders only pay for their proportion of the bean. However, the disadvantage of this approach is that these cost efficiencies are only gained when the SPO is able to sell both legs (butter and powder) within a given timeframe. Otherwise the trader is still liable for the full FP cost.

**Proposal 4C: Applying risk sharing model to calculate fixed values for butter and powder**

Fairtrade calculates the cost of FP for butter and powder using a risk sharing method. The current challenge is that a trader assumes all the risk of the SPO not being able to sell the other product leg as Fairtrade by paying 100% of the FP cost (using a 0.41 conversion ratio on butter or powder sales = $585/MT). Proposal 4C proposes that traders assume 75% of the cost to act as a middle ground and share the risk between the SPO and the trader of unequal butter and powder sales. The alternative is that an SPO assumes all the risk of not being able to sell the other leg as Fairtrade and only charges the trader for half of the bean cost (by using 0.82 conversion ratio on butter or powder sales = $293/MT).

Trader carries all the risk: 1 MT of butter or powder purchased with $585 MT

Producer carries all the risk: 1 MT of butter or powder sold with $293 MT

**Proposed: Producer and Trader shares the risk: 1 MT of butter or powder sold with $439 MT**

Note: $439 MT represents 75% of the FP cost and is calculated as follows: $585 MT x 0.75 = $439

The advantages of this model is that it solves the butter/powder challenge in a simple and equitable way between SPOs and traders. It does not require any additional administrative work to record butter and powder sales volumes in order to calculate FP receivable. It is easy to implement.

However, it may disadvantage buyers of those SPOs who are buying equal quantities of powder and butter and as such apply the combined conversion factor for butter and powder sales, resulting in higher FP costs on butter and powder when comparing with the current system. Nevertheless, based on Fairtrade’s data, buyers rarely purchase both butter and powder.

Summary of the Fairtrade Premium Proposals:

|  |
| --- |
| **Fairtrade Premium** |
|  | **Proposal 4A** | **Proposal 4B** | **Proposal 4C** |
| **1MT of Butter** | $ 585 | $ 585 | $ 439 |
| **1MT of Powder** | $ 585 | $ 585 | $ 439 |
| **1 MT of Butter****&****1 MT of Powder** | $ 585 | $ 585 | Not applicable |
| Additional requirement: | * When full FP is charged on one leg, the corresponded FT volume of other leg cannot be sold as FT
* An accounting system is required by SPOs
 | * SPOs should reconcile all FP received across all FT contracts for butter and powder within a cocoa trading season
* An accounting system is required by SPOs.
 | No |

**Question 5: Which of the above proposals do you think Fairtrade should implement for the premium setting of cocoa semi-processed products?**

[ ]  Proposal 4A

[ ]  Proposal 4B and the full amount of FP should be balanced on a(n)       basis.(e.g., annual, cocoa trading season, etc.)

[ ]  Proposal 4C

[ ]  I have another suggestion

Please provide your rationale:

4.3 Fairtrade Organic Differential

Fairtrade International is suggesting alternative approaches for the new Fairtrade Organic differential ($300/MT paid on top of the FMP or the market price whichever is higher, applicable as of 1st October 2019) on cocoa.

**Proposal 5A: No mandatory Fairtrade Organic differential on semi-processed products**

As previously mentioned, the Fairtrade Organic differential is more naturally an element of pricing as opposed to a developmental premium. Therefore an alternative approach is that no separate mandatory organic differential is required for Fairtrade cocoa semi products liquor, butter or powder. Instead, the application and value of an organic differential is an outcome of the price negotiation between an SPO and their buyer. The advantage of this approach is that it avoids further price escalation caused by the Fairtrade organic differential, due to butter/powder imbalances and SPOs being obliged to include the organic differential in their product pricing, adding further fixed costs when the SPO requires pricing flexibility.

**Proposal 5B: Fairtrade Organic differential reference value for liquor, no mandatory Fairtrade Organic differential for butter and powder**

Fairtrade provides a reference value for liquor based on the bean organic differential value and the bean to liquor conversion ratio (300/0.82=$366/MT). The final conversion ratio will be determined by the standard or yields reported by the producer, see question 2. This approach is suggested for liquor only as liquor has a 1:1 processing relationship with beans, making the calculation more straightforward, compared to the complex 1:2 relationship between beans and butter/powder with the associated supply/demand dynamics. No separate mandatory organic differential is required for butter or powder.

The advantages of this approach is that it does provide a level of certainty on the organic differential for liquor, the semi processed product most commonly sold by producers, whilst still allowing for price flexibility on more complex butter and powder pricing.

**Proposal 5C: Fairtrade Organic differential reference values for liquor, butter and powder**

Fairtrade provides a reference value for liquor, butter and powder based on the bean organic differential value and the bean to liquor conversion ratio. However, this approach applies the combined conversion factor for butter and powder 0.82 (see section 2) to calculate the organic differential costs. (The precise conversion ratio used will be determined by the standard or yields reported by the producer, see question 2). The logic of this approach for the Fairtrade Organic differential (versus the Fairtrade Premium) is that any leg not sold as Fairtrade organic, can still be sold as organic and as such can still attract a certain market price premium.

The advantage of this approach is that traders buying just one leg, are not automatically held accountable for 100% of the Fairtrade Organic differential bean cost. Instead SPOs can charge traders for just their proportion of the bean and are not obliged to apply further fixed costs to their pricing.

|  |
| --- |
| **Organic Differential** |
|  | **Proposal 5A** | **Proposal 5B** | **Proposal 5C** |
| **1MT of Liquor** | Market price | $ 366/MT | $ 366/MT |
| **1MT of Butter** | Market price | Market price | $ 366/MT |
| **1MT of Powder** | Market price | Market price | $ 366/MT |

**Question 6: Which of the above proposals do you think Fairtrade should implement for the organic differential price setting of cocoa semi-processed products?**

[ ]  Proposal 5A

[ ]  Proposal 5B

[ ]  Proposal 5C

Please provide your rationale:

**Question 7: General comments**

You are invited to comment on questions of this document and anything other semi-processed cocoa related topics:

Annex 1 Current standard requirements

4.2.5 NEW OCTOBER 2019 Fairtrade Minimum Price for cocoa semi-processed products purchased from certified producers

|  |
| --- |
| **Applies to:** Fairtrade payers buying semi-processed cocoa from producers |
| Core | You negotiate the price of the semi-processed product with the producer. This negotiated price is based on, at least, the cocoa beans reference values[[6]](#footnote-6) of USD 2150/MT (for conventional) and USD 2450/MT (for organic) at producers’ level plus all relevant processing costs. The Fairtrade Minimum Price is calculated using the average processing yield calculated by the producer. It is only if this information is not available to the producer that the processing yields from beans in 4.2.6 apply (see details in the second column in the table and the calculation examples in the guidance). |
| Year 0 |
| **Guidance:** Until 1 October 2019, the following cocoa beans reference values apply: USD 1750/MT (for conventional) and USD 2050/MT (for organic) at producers’ level plus all relevant processing costs.  |

4.2.6 NEW OCTOBER 2019 Fairtrade Premium for cocoa semi-processed products purchased from certified producers

|  |
| --- |
| **Applies to:** Fairtrade payers buying cocoa semi-processed products from certified producers |
| Core | The value of the Fairtrade Premium for semi-processed products is derived from the average processing yield calculated by the producer (see examples below). Only if this information is not available to the producer the following values apply:

|  |  |  |
| --- | --- | --- |
|  | **Processing yield from beans**[[7]](#footnote-7) | **Fairtrade Premium** |
| **Beans** | *-* | *USD 240 /MT* |
| **Liquor** | *0.8* | *USD 300 /MT* |
| **Butter** | *0.376* | *USD 638 /MT* |
| **Powder** | *0.424* | *USD 566 /MT* |
| **Butter and Powder** | *(0.8)* | *USD 300 /MT* |

The Fairtrade Premium for semi-processed products is subject to the same rules as any other Fairtrade Premium and follows sections 4.2 and 4.3 of the Trader Standard |
| Year 0 |

Annex 2 Summary of the interview results

This section presents the summary of the interview results which builds the basis for the consultation.

**Background information of the producer organisations**

The majority of the Fairtrade SPOs producing semi-processed cocoa products are from Latin America. Most also produce organic cocoa products. 5 out of the 6 SPOs interviewed export processed products themselves. All SPOs sell liquor but butter has the highest sales volume amongst semi-processed products. All SPOs mentioned during their interviews that they have taken their actual processing costs into account when negotiating final prices with buyers and that the contract price normally covers their processing costs. SPOs reported their processing yields, either based on the actual production records or estimations due to the renovation of the processing plants.

**Fairtrade Minimum Price:**

3 out of the 6 SPOs who participated in the interview voted to improve price flexibility, whereas one SPO voted to have complete price certainty and one other voted to have improved price certainty. The 3 SPOs who voted to have a more flexible FMP model, expressed that the current FMP calculation system is complicated and that cost variables should not be fixed since costs vary from SPO to SPO. They also mentioned that a flexible system would allow for price negotiations hereby unlocking market access. The SPOs who voted to have increased price certainty, whether improved certainty or complete certainty, voiced that the FMP should function as an absolute minimum, safeguarding the producer price.

The two traders interviewed voted either to improve price flexibility or to have complete price flexibility.

**Fairtrade Premium:**

5 out of 6 SPOs were in favour of fixing the FP values for semi-processed cocoa products whilst 1 SPO abstained. The SPOs in favour of fixing the FP said having the FP fixed provides greater security of income hereby facilitating SPO development planning. They also mentioned that it allows for greater price transparency in the supply chain.

The two traders interviewed voted were also supportive of fixing the FP values of semi-processed cocoa products, however it was mentioned how highly disadvantageous it is for a buyer to purchase only one leg (butter or powder) with the current pricing model. It was suggested that buyers should own some of the risk of the producer not being able to sell the other product, but not be held accountable for 100% of the bean cost. (This of course applies to price, premium and any organic differential payable).

**Organic differentials:**

5 out of 6 SPOs were in favour of fixing the Organic differential values for semi-processed cocoa products whereas 1 SPO abstained. The SPOs who were in favour of fixing the organic differential did not share their rationales. However, one mentioned that the organic differential should be established based on the bean price.

1. This included traders and producers who had purchased/sold (producer manufactured) semi-processed cocoa products over the past 2-3 years. [↑](#footnote-ref-1)
2. The 2 SPOs are prospective SPOs who are interested in processing cocoa. Therefore, there was no COSP provided. [↑](#footnote-ref-2)
3. Export costs can vary greatly amongst SPOs, depending on the distance of the processing plants to the port, price level of petrol and logistic costs within the country and applicable tax related expenses. As such, applying a single average export value will not be able to reflect different SPO’s scenarios. [↑](#footnote-ref-3)
4. The final conversion ratio will be determined by the standard or yields reported by the producer, see question 2. [↑](#footnote-ref-4)
5. For the purpose of this exercise, the conversion factors in req 2.1.1. (detailed in section 2) are used. [↑](#footnote-ref-5)
6. The reference prices values are based on the Fairtrade Minimum Prices at FOB level minus USD 250 for average export costs. [↑](#footnote-ref-6)
7. The processing yield gives the quantity of semi-processed product obtained from 1 unit of cocoa beans [↑](#footnote-ref-7)