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| **Consultation document:**  Review of the Fairtrade Prices for Coffee | |
| Consultation Period | 12.12.2022 – 05.02.2023 |
| Project Manager | Yun-Chu Chiu, Senior Project Manager, Pricing  Tatiana Casagua, Project Manager, Pricing |

# PART 1: Introduction

1. General Introduction

This consultation reviews the current Fairtrade Coffee prices for small producers and traders by inviting all coffee stakeholders to comment on the proposals enclosed.The feedback received through this consultation will be used as the basis for setting future Fairtrade Coffee prices. Please comment on the proposals suggested in this document and provide explanations, analysis and examples underlying your statements.

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 standards and pricing email by 05-02-2023.**

1. Background of the project:

The Fairtrade Minimum Price (FMP) and the Fairtrade Premium (FP) for coffee are due for review. The last review took place in 2011, and since then:

* The world market prices for coffee have fallen and surged significantly during the past years, resulting from a series of environmental and political events, the global pandemic, and the volatile nature of the coffee market.
* The costs of production for Fairtrade farmers have increased since the last price review
* Ongoing work to establish living income reference prices for coffee in Fairtrade

For these reasons it is necessary to review the Fairtrade coffee prices.

1. Project goal and objectives

The goal of this project is to review the Fairtrade Minimum Price (FMP), the Fairtrade Premium (FP) and the Organic Differential for coffee, with the objective to alleviate the risks to the sustainable business of SPOs and farmers.

The consultation seeks to:

1. Evaluate the effectiveness of Fairtrade’s current prices for coffee in times of high and low market prices.
2. Address increased costs of production, currency fluctuations and inflations.
3. Ensure that organic production is financially viable.
4. Develop price proposals, which benefit the majority of Fairtrade Coffee producers globally while providing a meaningful safety net for times of decreasing market prices and to create opportunities for producers to increase Fairtrade sales.
5. Project and process information

The progress to date and next steps are described below:

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| **Timeline** | **Activity** |
| Mid Nov 2022 | * Final Cost of Production reports delivered |
| End Nov 2022 | * Discussion on price proposals * Draft consultation document |
| Dec 2022 | * Preparation of public consultation |
| **Dec 2022 -**  **Feb 2023** | * Stakeholder engagement and expert interviews: Global public consultation |
| Feb – Mar 2023 | * Analysis of feedback and preparation of final proposal * Define proposals for SC approval * Draft SC paper |
| April 2023 | * Decision making by Standards Committee |
| April-May 2023 | * Communication andpublication of revised Fairtrade prices for coffee |

1. Acronyms and definitions

**FMP**: Fairtrade Minimum Price

**FP**: Fairtrade Premium

**PN**: Producer Network

**SC**: Standards Committee

**S&P**: Standards &Pricing

**SPO:** Small Producer Organisation

**Fairtrade Price Model / Price Setting**: Refers to the Fairtrade’s pricing interventions (i.e. FMP and FP) and how these interventions are implemented for a particular product (e.g. globally vs. regionally, FOB, currency used, Standards regulating their use).

**FOB ‘Free-on-Board’ price**: Term of sale under which the price invoiced or quoted by a seller includes all charges up to placing the goods on board of a ship at the port of departure specified by the buyer.

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# Part 2: Background information and consultation questionnaire

Information about your organization

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| **Q 0.1** **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 Click here to enter text  Name of contact person Click here to enter text  Email/phone number of contact person Click here to enter text  Country Click here to enter text  FLO ID Click here to enter text |
| **Q 0.2 What is your responsibility in the supply chain? Please tick all applicable boxes**  Producer only Producer who also exports  Exporter  Importer  Roaster  Retailer  Licensee  Fairtrade system staff (Fairtrade International, NFO, PN or FLOCERT staff)  Other, please specify: Click here to enter text |
| **Q 0.3 Variety of coffee you are producing/trading:**   |  |  |  |  | | --- | --- | --- | --- | | **Type of coffee** | | **Conventional** | **Organic** | | **Arabica** | **Washed** |  |  | | **Natural** |  |  | | **Robusta** | **Washed** |  |  | | **Natural** |  |  | |
| **Q 0.4 Information about the interviewer (for project team members only)**  **This consultation is conducted by:**  Name of interviewer: Click here to enter text Date: Click here to enter text |

The following sections provide background information on the key issues this consultation seeks to address. It is important that you read the background information before answering the questions, so you can respond to the questionnaire in an informed and accurate way. Please provide your rationale for your responses and/or suggest alternative proposals.

Current Fairtrade coffee prices and market information

The current Fairtrade price setting for coffee takes a global approach, meaning the price model applies to all Fairtrade coffee producing countries (See table 1).

By default, the market price reference is the international market price, either ICE New York C contract (for Arabica) or ICE London RC contract (for Robusta). However, the prevailing differential for the relevant quality and origin must be taken into account and agreed upon by producers and traders. If the market reference price, international market price +/- differentials, is above the Fairtrade Minimum Prices, then the market price has to be respected. The Fairtrade Premium and organic differential (in case of organic coffee) are to be added to that, clearly separated from the prevailing differential and are not subject to negotiation.

**Table 1 Current Fairtrade prices for Coffee**

\*the prices indicated in the table are set for green bean equivalent.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Product | Quality | Form | Price level | Unit | Fairtrade Minimum Price | Fairtrade Premium |
| Arabica | Conventional | Natural | FOB | USD/Pound | 1.35 | 0.2 |
| Arabica | Conventional | Washed | FOB | USD/Pound | 1.40 | 0.2 |
| Robusta | Conventional | Natural | FOB | USD/Pound | 1.01 | 0.2 |
| Robusta | Conventional | Washed | FOB | USD/Pound | 1.05 | 0.2 |
| Arabica | Organic | Natural | FOB | USD/Pound | Organic differential  +0.30 | 0.2 |
| Arabica | Organic | Washed | FOB | USD/Pound | Organic differential  +0.30 | 0.2 |
| Robusta | Organic | Natural | FOB | USD/Pound | Organic differential  +0.30 | 0.2 |
| Robusta | Organic | Washed | FOB | USD/Pound | Organic differential  +0.30 | 0.2 |

1. General feedback on Fairtrade coffee prices

The purpose of this section is to gather general feedback and better understand market price elasticity through the responses from stakeholders. The table below presents options for Fairtrade coffee pricing proposals. Please note, the questions below are only to understand general feedback on Fairtrade prices. Specific values will be consulted in the following sections.

* 1. Arabica

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **Q1. Please indicate what you think should be the general direction for changing, per Fairtrade minimum price, Fairtrade premium and Organic differential for Arabica coffee:**   |  |  |  |  | | --- | --- | --- | --- | |  | **Fairtrade minimum price** | **Fairtrade Premium** | **Organic differential** | | **No increase** |  |  |  | | **or** | **or** | **or** | **or** | | **Low increase** |  |  |  | | **or** | **or** | **or** | **or** | | **Significant increase** |  |  |  |   **Please explain your rationale**  Click here to enter text |

* 1. Robusta

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| **Q2. Please indicate what you think should be the general direction for changing, per Fairtrade minimum price, Fairtrade premium and Organic differential for Robusta coffee:**   |  |  |  |  | | --- | --- | --- | --- | |  | **Fairtrade minimum price** | **Fairtrade Premium** | **Organic differential** | | **No increase** |  |  |  | | **or** | **or** | **or** | **or** | | **Low increase** |  |  |  | | **or** | **or** | **or** | **or** | | **Significant increase** |  |  |  |   **Please explain your rationale**  Click here to enter text |

1. Fairtrade Minimum Price

The FMP calculation is based on the principle of covering average costs of sustainable production of coffee, enabling the “average” producer to produce in an economic and financially sustainable way. The FMP intends to cover the average costs of sustainable production while considering market acceptance, to ensure that the Fairtrade producers are able to sell their products under Fairtrade terms.

Costs of sustainable production vary significantly from one country to another and from one producer to another. According to the cost of production study in 2022[[1]](#footnote-1), together with the analysis of various external studies, we came to the following points:

* The increase in cost of production is due to global and regional/country specific situations which occurred at different levels in a supply chain, such as production, processing and exporting.
* Several events have impacted costs of production in the last years, including climate change, COVID-19, internal/external migration and the Ukraine war.
* Higher oil and energy prices have caused key cost items, such as chemical inputs, fertilizers, and transport costs, to increase compared to the previous COSP study in 2017; COVID-19 lockdowns and health issues within the labour force in producing countries, have led in many countries to labour shortage coupled up with higher labour costs; Climate change has also affected in temperature and rainfall that obviously have an impact on the yield.
* Yield is a key factor in the calculation of costs of production. It is expected that increasing yields would lower the costs of production per pound. However, producers need significant investments in order to improve their yields and higher yields are often accompanied by higher labour and input costs.
* The price increase reflects currency fluctuations but, above all, inflation. This phenomenon has particularly affected all major FT coffee producing countries and is likely to continue.

The main function of FMP is to provide price protection in case low market prices. Since 2011, 52% of the time[[2]](#footnote-2) FMP for Arabica (conventional, washed) has been above international market price. During the past years, Fairtrade has made important progress in moving the Living Income Strategy forward. Any increase in Coffee prices is also contributing to reaching a Living Income goal for farmers as part of Fairtrade’s 2021-2025 strategy. More information about Living income for Fairtrade’s Coffee farmers, please see Annex chapter 4.

Please be aware, the cost of production values used to establish different FMP proposals in the following sections are calculated at global level, which means:

a) it might go above or below the cost of production values in some origins. It only intends to cover average costs of production at global level.

b) it accounts for different farming variables, such as coffee variety, yield levels and farm size, as well as different levels of living costs when considering living income goals.

c) the values might be impacted by recent inflation and currency fluctuations, when converting local prices to US dollar.

* 1. Fairtrade minimum price for Arabica

**This section is only for stakeholders who produce and/or trade Arabica coffee.**

Nearly all Fairtrade coffee is Arabica, up to 96% of all Fairtrade coffee sales.

**Washed**

In 2021, washed Arabica coffee accounts for approximately 90% of the total Fairtrade Arabica coffee sold, of which approximately 30% is conventional. Currently FMP for conventional washed Arabica coffee is at 1.40 USD/lbs. Based on the cost of production findings, the weighted average cost of production for conventional Arabica coffee is at 1.76 USD/lbs and when adjusting[[3]](#footnote-3) current FMP for conventional Arabica coffee to year 2022 using inflation rates, 1.85 USD/lbs is obtained.

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| **Q3. The current FMP for conventional washed Arabica coffee is 1.40 USD/lbs. Please indicate which FMP value (USD/lbs) you consider the most appropriate for conventional washed Arabica coffee:**  1.60 1.75 1.85  1.40 (no change) Other, please specify: Click here to enter text  **Please explain your rationale**  Click here to enter text |

**Natural**

In 2021, natural Arabica coffee accounts for approx. 10% of the total Fairtrade Arabica coffee sold, of which 67% is conventional. Currently FMP for natural Arabica coffee is at 1.35 USD/lbs, i.e., 5 cents less than the FMP for washed Arabica coffee.

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| **Q4. The current FMP for conventional natural Arabica coffee is 1.35 USD/lbs. Please indicate which FMP value (USD/lbs) you consider the most appropriate for conventional natural Arabica coffee:**  No change (remain at 1.35 USD/lbs)  Maintain a 5 cents differential below washed (whichever is its new value)  Increase/decrease to another values, please specify Click here to enter text  **Please explain your rationale**  Click here to enter text |

* 1. Fairtrade minimum price for Robusta

**This section is only for stakeholders who produce and/or trade Robusta coffee.**

FT Robusta coffee makes up less than 10% of the total FT sales and typically it is unwashed. Since 2011, the last Fairtrade price review, the growth of Fairtrade Robusta coffee remains at a very low level.

Top Fairtrade Robusta producing countries are: Uganda, Vietnam, Tanzania, Brazil and India, which represents up to 90% of Fairtrade Robusta coffee volume. Cost of production varies greatly amongst these countries, some are way above the existing FMP and some are similar to the current FMP. At the same time, market prices for Robusta have been competing with current FMP for natural, 1.01 USD/lbs. Since 2011, 94% of the time[[4]](#footnote-4) FMP for Robusta (conventional, natural) has been above international market price. That is to say, any further increase in FMP might have a negative impact on FT sales and that should be carefully evaluated together with the feedback on the proposed FP and Organic Differential values.

**Natural**

In 2021, Natural Robusta coffee represents approx. 97% of the total Fairtrade Robusta coffee sold, of which more than a half is conventional. Currently FMP for conventional natural Robusta coffee is at 1.01 USD/lbs. Based on the cost of production findings, the weighted average cost for conventional natural Robusta coffee is at 1.14 USD/lbs and when adjusting[[5]](#footnote-5) current FMP for conventional natural Robusta coffee to year 2022 using inflation rates, 1.30 USD/lbs is obtained.

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| **Q5. The current FMP for conventional natural Robusta coffee is 1.01 USD/lbs. Please indicate which FMP value (USD/lbs) you consider the most appropriate for conventional natural Robusta coffee:**  1.05 1.15 1.30 1.01 (no change) Other, please specify: Click here to enter text  **Please explain your rationale**  Click here to enter text |

**Washed**

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| **Q6. The current FMP for conventional washed Robusta coffee is 1.05 USD/lbs. Please indicate which FMP value (USD/lbs) you consider the most appropriate for conventional washed Robusta coffee:**  No change (remain at 1.05 USD/lbs)  Maintain a 4 cents differential above natural (whichever is its new value)  Increase/decrease to another values, please specify Click here to enter text  **Please explain your rationale**  Click here to enter text |

In 2021, washed Robusta coffee accounts for approx. 3% of the total Fairtrade Robusta coffee sold. Currently FMP for washed Robusta coffee is at 1.05 USD/lbs, i.e., 4 cents more than the FMP for natural Robusta coffee.

1. Fairtrade Premium

The FP is intended to provide additional investment capacity for farmers to improve their social, economic and environmental conditions. The use of this additional income is decided democratically by the members within the producer organization. The current FP for coffee is 0.2 USD/lbs which is between 14%-20% of the FMP (for washed Arabica and natural Robusta).

Fairtrade recognises the rising expectations to mitigate Human rights and environmental risks and harms along the supply chain. A chapter with regards to Environmental development and Labour conditions was introduced in the Fairtrade Coffee standard in 2021[[6]](#footnote-6). Therefore, the FP will play a crucial role to finance the associated activities. In addition to that, in Fairtrade Coffee standard requirement 4.1.5, it is specified that producers should invest at least 5 cents of FP, for every pound of FT coffee sold, in improving the productivity, quality of Fairtrade coffee and/or enhancing sustainable agriculture practices.

On the other hand, the FP adds costs to FT coffee. Particularly in high market prices situations the FP comes on top of an already high market price. Especially given the recent worldwide economic conditions, high inflation and increased energy prices worldwide, many traders, roasters and retailers are facing a difficult situation. When answering the following question, our recommendation is to consider both low and high market price situations and to be mindful about the risk of losing market share in a very competitive environment, risking reduced sales and Fairtrade premium for producers. More information, see Annex chapter 2

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| **Q7. The current FP for all types Fairtrade coffee is 0.2 USD/lbs. Do you agree to maintain the FMP value (USD/lbs) as it is:**    Yes, keep it as it is (0.2 USD/lbs)  No, I will propose another value, please specify: Click here to enter text  **Please explain your rationale**  Click here to enter text |

1. Organic differential

In 2021, more than half of Fairtrade sales, Arabica and Robusta combined, is organic.

The current price setting for Fairtrade organic coffee is calculated by adding an extra amount, as Organic differential currently 0.3 USD/lbs, on top of the FMP for conventional coffee or market reference price. Organic producers face increasing labour costs, the extra costs of the organic certification, and organic practices typically lead to lower production volumes[[7]](#footnote-7). With that in mind, the higher costs of production and reduced income due to potentially lower yields need to be compensated by the organic differentials. More information, see Annex chapter 1.

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| **Q8. The current organic differential for all types of Fairtrade coffee is 0.3 USD/lbs. Do you agree to maintain the Organic differential value (USD/lbs) as it is:**  Yes, keep it as it is (0.3 USD/lbs)  No, I will propose another value, please specify:Click here to enter text  **Please explain your rationale**  Click here to enter text |

1. Validity

Fairtrade International is aware of the commercial realities of coffee contracting and is suggesting that new prices be activated following the harvest cycle for majority of the coffee producing countries. As such, a transition period of at least three to six months is proposed below. This is to allow commercial stakeholders to prepare for any changes to Fairtrade Coffee pricing.

Please note that contracts agreed for Fairtrade coffee before the date of validity will refer to the current Fairtrade prices. For contracts which are agreed after the validity date, the new Fairtrade prices for coffee should be respected.

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| **Q9. Do you agree that any changes to Fairtrade coffee prices, as a result of this review, should become mandatory:**  From July 2023  From October 2023  Neither, I would like to propose a different date: Click here to enter text  **Please explain your rationale**  Click here to enter text |

1. Other suggestions and general stakeholder feedback on the coffee pricing

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| **Q10. Do you have any other suggestions to the price elements mentioned above or any other proposal?**  Click here to enter text  **Q11. You are invited to comment on topics covered by this consultation document as well as on any other pricing related requirement.**  Click here to enter text |

1. Annex

For further information, please refer to the complete annex clicking [here](https://files.fairtrade.net/standards/2022-12-12_-Fairtrade-Coffee-price-review-consultation-Annex.pdf).

1. See Annex chapter 1 [↑](#footnote-ref-1)
2. Based on ICE New York C contract price, counted as per trading day [↑](#footnote-ref-2)
3. Using inflation rates, please see Annex chapter 2 [↑](#footnote-ref-3)
4. Based on London RC prices, counted as per trading day [↑](#footnote-ref-4)
5. Using inflation rates, please see Annex chapter 2 [↑](#footnote-ref-5)
6. The revised Fairtrade Coffee standard includes three main areas of changes: 1. improvement of trade practices along Fairtrade certified supply chains in line with the Fairtrade values; 2. environmental requirements with a holistic approach to empower producers in being more resilient to the effects of climate change; 3. human rights requirements to complement SPO requirements while aligning with the Fairtrade HRDD approach.

   More details, please see: https://files.fairtrade.net/standards/Coffee\_SPO\_EN.pdf [↑](#footnote-ref-6)
7. For more information on organic cost of production, please refer to Annex chapter 1 [↑](#footnote-ref-7)