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Interpretation Note Fairtrade Coffee Standard (15.07.2021_v.2.6)

Date	January 22 th 2024					
Affected standard requirements	<p>2.2.8 NEW 2022** Role of exporters</p> <table border="1"> <tr> <td colspan="2">Applies to: Exporters</td></tr> <tr> <td>Core</td><td rowspan="2">You define your role as payer or conveyor clearly in the contract. The responsibilities outlined in the Trader Standard regarding the payment and agreement on market price and the price differential for conveyors are explicit in the contract. If acting as a conveyor, you sell directly to a Fairtrade payer.</td></tr> <tr> <td>Year 0</td></tr> </table> <p>Guidance: Please note that this requirement complements Trader Standard requirement 4.2.1 and 4.2.6. In cases where an SPO with export capacity provides an export service to other producer organizations, the role of payer or conveyor also applies.</p> <p>If acting as a payer, exporters own the Fairtrade coffee and are responsible for all payments including Fairtrade Premium, organic differential and negotiated prevailing differential. The payment should be completed on usual Cash Against Document (CAD) terms.</p>	Applies to: Exporters		Core	You define your role as payer or conveyor clearly in the contract. The responsibilities outlined in the Trader Standard regarding the payment and agreement on market price and the price differential for conveyors are explicit in the contract. If acting as a conveyor, you sell directly to a Fairtrade payer.	Year 0
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Interpretation	<p><i>The Intention of the requirement:</i></p> <p>To ensure exporters have a clear and transparent role in the supply chain and their responsibilities are known by the Fairtrade Producer Organisations. As per the requirement 2.2.8 on the Role of exporters of the Coffee Standards, exporters, when acting as premium and minimum price conveyors, shall sell coffee directly to a Fairtrade payer.</p> <p><i>The problem statement:</i></p> <p>In Colombia, the coffee supply chain is well structured since some years already. The country has two main exporters who act as conveyors. Nevertheless, they have many POs supplying them coffee, from now on refer as cooperatives. Those cooperatives have their own production, but they can also buy Fairtrade coffee from other SPOs, and in such case they act as a trader to the SPO. In this situation the cooperative pays local price for the product and provides services to the SPO, then sells the product to an exporter who sells to an importer that act as the Fairtrade Premium and Price Payer. This situation is accepted only when a tripartite contract is signed between the SPO, the cooperative (acting as trader), and the exporter, specifying that the exporters (acting as a conveyors of the premium), must directly transmit the premium to the SPO. Also, the cooperatives (acting as traders) will be price conveyors and will have to pay the applicable differentials (e.g. organic and prevailing) and the difference between the local price and price agreed with the Fairtrade price payer, but it cannot be lower than the Fairtrade minimum price.</p> <p>The tripartite contract must specify the following:</p> <ul style="list-style-type: none"> • Price paid by the cooperative when purchasing from the SPO. • Price paid by the exporter to the cooperative (acting as trader), breaking down the price agreed, the differentials and premium. 					



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	<ul style="list-style-type: none">• The terms of payment of the Fairtrade Price, differentials and premium, to the SPO from the cooperative and the exporter.• The date on which the settlements will be made (SPO to the cooperative, and the cooperative to the exporter).• Applicable exchange rate for the payments.• Deductions made for the services provided by the cooperative (acting as trader) and the exporter.• Profit margins deducted by both traders.• Amount of coffee sold from the Fairtrade Producer Organisations to the cooperative (acting as trader).																				
Date	October 4 th 2022																				
Affected standard requirements	<div>4.1.1 Market price reference</div> <div><div>Applies to: Fairtrade producers organizations, payers and conveyors</div><table><tr><td>Core</td><td colspan="3">When market prices for coffee are higher than the Fairtrade Minimum Price, traders and producers are to agree coffee prices using the Fairtrade reference for market prices as follows:</td></tr><tr><td>Year 0</td><td colspan="3"><table><tr><td colspan="2">Reference market price</td><td></td></tr><tr><td>NYC' (Arabica) or London RC (Robusta)</td><td>+ prevailing differential</td><td></td></tr></table><p>The reference market price can never be below the Fairtrade Minimum Price.</p><p>For Arabica coffees the reference market price is based on the ICE New York C contract in US\$-cents per pound, plus the prevailing differential (positive or negative) for the relevant quality, basis FOB origin and, net shipped weight.</p><p>For Robusta coffee, the reference market price is based on the ICE London RC contract in US\$ per metric ton, plus the prevailing differential (positive or negative) for the relevant quality and origin, basis FOB origin and, net shipped weight.</p><p>The 'prevailing differential' refers to the average differential or range valid in the mainstream market for conventional coffee of that country and grade at that moment. Producers and buyers agree upon a differential, using the differential that prevails in the mainstream market for non-Fairtrade coffee, as a baseline, and taking into account actual quality, shipment date, logistics, risk, and availability. A negative differential cannot be applied to the Fairtrade Minimum Price.</p><p>The organic differential and Fairtrade Premium can never be below the levels defined in the Fairtrade Minimum Price and Premium table. The Fairtrade Premium and organic differential (in the case of organic coffee) are to be added, clearly separated from the prevailing differential, and are not subject to negotiations.</p><p>The Fairtrade coffee price is as follows:</p><table><tr><td colspan="2">Reference market price or FMP (whichever is higher)</td><td rowspan="2">+ Fairtrade organic differential (in case of organic coffee)</td><td rowspan="2">+ Fairtrade Premium</td></tr><tr><td>NYC' (Arabica) or London RC (Robusta)</td><td>+ prevailing differential</td></tr></table></td></tr></table><div><p>Guidance: If the Reference market price is above the Fairtrade Minimum Price, contracts should clearly state the Reference market price by breaking down the NYC' or London RC prices plus the prevailing differential. If the Reference market price is below the Fairtrade Minimum Prices, then only the Fairtrade Minimum Price is sufficient. In both cases, the Fairtrade organic differential (in case of organic coffee) and the Fairtrade Premium should also be stated in the contracts, in addition to the prevailing differential, regardless of its value.</p><p>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, but defined in the standards.</p><p>This is valid for price-to-be-fixed contracts and fixed-price contracts.</p></div></div>	Core	When market prices for coffee are higher than the Fairtrade Minimum Price, traders and producers are to agree coffee prices using the Fairtrade reference for market prices as follows:			Year 0	<table><tr><td colspan="2">Reference market price</td><td></td></tr><tr><td>NYC' (Arabica) or London RC (Robusta)</td><td>+ prevailing differential</td><td></td></tr></table> <p>The reference market price can never be below the Fairtrade Minimum Price.</p> <p>For Arabica coffees the reference market price is based on the ICE New York C contract in US\$-cents per pound, plus the prevailing differential (positive or negative) for the relevant quality, basis FOB origin and, net shipped weight.</p> <p>For Robusta coffee, the reference market price is based on the ICE London RC contract in US\$ per metric ton, plus the prevailing differential (positive or negative) for the relevant quality and origin, basis FOB origin and, net shipped weight.</p> <p>The 'prevailing differential' refers to the average differential or range valid in the mainstream market for conventional coffee of that country and grade at that moment. 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Interpretation	The Intention of the requirement:																				

To ensure producers get a fair price for their coffee (including the relevant country and grade specific prevailing differentials) even when market prices are higher than the Fairtrade Minimum Price.

The problem statement:

Prevailing differentials are understood as price variances which the market will pay due to quality, demand, etc. The amount of the prevailing differential will depend not only on how much buyers are willing to pay in the mainstream market for conventional coffee of that origin and grade, but also on the specifications the coffee product. Differentials are very volatile, they are agreed on an individual basis between buyer and seller and there is not one official source for differential values. Therefore it is not possible to use such list as reference. This lack of a clear reference makes it impossible to assess whether reference values were paid. Furthermore it is also not possible to compare the prevailing differentials agreed upon and paid, to a reference prevailing differential.

To ensure the requirement is implemented and assessed in line with the intention of the standard, Fairtrade International is issuing this interpretation note on how prevailing differentials are to be audited.

How to audit the prevailing differentials if there is no official or generally accepted source for coffee differential that prevails in the mainstream market for non-Fairtrade coffee?

The Certification Body audits the following:

1. A prevailing differential has been agreed upon between the seller and buyer i.e. that a prevailing differential exists and is listed in the contract;
2. The price breakdown is stipulated in all contracts, i.e. the agreed prevailing differential is mentioned explicitly and separately in a contract and, as best practice, also in the price fixation confirmation e.g. NYC December 2022 or fixed price + 0.10 USD/lbs prevailing differential + 0.30 USD/lbs organic differential + 0.20 USD/lbs Fairtrade Premium);
3. Market price plus agreed upon prevailing differential are not below Fairtrade Minimum Price. Differentials applied can either be zero differentials or even negative differentials, as long as market price plus the agreed upon differentials are not below the FT minimum price.

The Certification Body, does **NOT** audit the following:



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| | <ol style="list-style-type: none">4. The comparison of the prevailing differentials agreed upon between buyer and seller with information on prevailing differentials published (e.g. by Producer Networks or any other body);5. The comparison of prevailing differentials agreed upon for Fairtrade contracts with prevailing differentials agreed upon for non-Fairtrade contracts;6. Whether the agreed prevailing differential value had considered quality, shipment date, logistics, risk, and availability of the coffee. |
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This interpretation is applicable for price-to-be-fixed contracts or fixed-price contracts. The interpretation applies to the requirement with immediate effect in all upcoming audits.

With the above interpretation, the guidance to this requirement has also changed to reflect the current practise.