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| **Consultation document for Fairtrade Stakeholders:**Review of the Fairtrade Standard for Coffee |
| To: | Interested stakeholders in Fairtrade Coffee |
| Consultation Period: | 23.09.2019 – 29.11.2019 |
| Project ManagerContact details  | Alina Amador, Senior Project Manager, a.amador@fairtrade.net +49 (0) 228 949 23 276. |

* **PART 1: Introduction**
1. **General introduction**

Fairtrade Standards support the sustainable development of small-scale producers and workers in the Global South. Producers and traders must meet applicable Fairtrade Standards for their products to be certified as Fairtrade. Within Fairtrade International, Standards & Pricing (S&P) is responsible for developing Fairtrade Standards. The procedure followed, as outlined in the Standard Operating Procedure for the Development of Fairtrade Standards is designed in compliance with all requirements of the ISEAL Code of Good Practice for Setting Social and Environmental Standards. This involves wide consultation with stakeholders to ensure that new and revised standards reflect Fairtrade International’s strategic objectives, are based on producers’ and traders’ realities and meet consumers’ expectations.

You are kindly invited to participate in this consultation reviewing the Fairtrade Standard for Coffee for small-scale producers and traders. For this purpose, we kindly ask you to comment on the proposals suggested in this document and encourage you to give explanations, analysis and examples underlying your statements.

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

**Please submit your comments to the Project Manager, Alina Amador at:** **a.amador@fairtrade.net** **by 29-11-2019.**

*This document is a “form” for that reason you can only indicate your input in the designated spaces and your choices in the multiple choice boxes. Please send this document back in Word format (do not convert to PDF).*

Following the consultation round, we will prepare a paper compiling the comments made, in an aggregated and anonymous form, which will be shared with all participants and also be available on our Fairtrade International website. Next steps of the project are presented below in section 4.

1. **Background**

Fairtrade Coffee has grown to become one of the top three Fairtrade products, with about 876 000 Fairtrade farmers and Fairtrade coffee sales of more than 220 000 MT in 2018.

The [2018 Coffee Barometer](https://www.hivos.org/assets/2018/06/Coffee-Barometer-2018.pdf)[[1]](#footnote-2) presented an overview of the current challenges to the coffee sector and the industry trends. In the complex and evolving context for coffee, the current project to review the Fairtrade Standard for Coffee seeks to contribute to a greater sustainability of coffee production and trade, fairer trade practices and sustainable livelihoods for coffee producers and their families.

This review of the Fairtrade Standard for Coffee is the opportunity to adapt requirements and to ensure that they are in line with Fairtrade’s strategy 2016-2020 and contribute to its achievement. One of the key objectives of the global strategy is to ensure that "standards allow equity and impact." Additionally, it is vital to have a standard that supports the empowerment and development of producer organisations, as such the review will focus on these aspects. The review also considers input that has been provided by stakeholders in the past years, either in writing or personally to colleagues within the Fairtrade system.

1. **Project objectives**

Considering the background given, the project objectives are as follows:

* Align the Coffee Standard with the Trader Standard (TS); and adapt TS rules to the specific context of coffee, if necessary.
* Align the Coffee Standard with the Fairtrade Standard for Small-scale Producer Organisations (SPOs). Explore ways to better ensure that certified producer organisations are genuine and viable SPOs, with the possibility to trade effectively their coffee in an increasingly challenging commercial environment, on the basis of fair trading conditions and with the potential to further develop and become empowered organisations, enabling sustainable livelihoods for their members.
* Define clearer rules on pricing and contract issues so that commercial actors contribute to, and their activities lead to, transparent and fair trade relations with producer organisations while recognizing their crucial role throughout the value chain.
* Ensure consistency with international trade rules while promoting good trading practices in coffee.
* Apply the new standard design, including the changes that have been applied to Fairtrade Standards on simplification of wording, reorganisation of requirements, deletion of redundancies, added or improved guidance and adapting to the new standard layout.

 The target groups of this consultation are:

* Coffee producers currently certified under the Fairtrade Standard for Coffee.
* Licensees and traders certified under the Fairtrade Trader Standard and the Fairtrade Standard for Coffee.
* Producer Networks, National Fairtrade Organisations (NFOs), Fairtrade International, FLOCERT, public sector and civil society actors, researchers, and other stakeholders.
1. **Project and process information**

The project officially started in June 2019 with the publication of the final project assignment. The project assignment is available on the Fairtrade International website here: <https://files.fairtrade.net/standards/2019_06_12-ProjectAssignment_CoffeeStandardReview_EN.pdf>.

The current Fairtrade Standard for Coffee is also available on the Fairtrade International website, under this link: <https://files.fairtrade.net/standards/Coffee_SPO_EN.pdf>

The Fairtrade SPO Standard is available here: <https://files.fairtrade.net/standards/SPO_EN.pdf>

The Fairtrade Trader Standard can be consulted here: <https://files.fairtrade.net/standards/TS_EN.pdf>

The progress to date and next steps are described below:

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| **Timeline** | **Activity** |
| May 2019 | * Scoping and planning
 |
| June 2019 | * Project Assignment publication
 |
| July – August 2019 | * Preparation of proposals for consultation
 |
| **September 23rd – November 2019** | * **Consultation**
 |
| Dec. 2019– Jan. 2020 | * Analysis of feedback and preparation of final proposal

*Note:* Second round of consultation to be considered as needed |
| Feb. - March 2020 | * Preparation of final proposals with the project team, decision paper and presentation to Standards Committee for approval
 |
| April – May 2020 | * Publication of revised standard and implementation
 |

1. **Acronyms and definitions**

ESCC: European Standard Contract for Coffee

ECF: European Coffee Federation

FMP: Fairtrade Minimum Price

FP: Fairtrade Premium

GCA: Green Coffee Association

GPM: Global Product Management

NFO: National Fairtrade Organisation

PN: Producer Network

SPO: Small – scale producer organisation

SC: Standards Committee

S&P: Standards & Pricing

* **PART 2: Consultation**

This consultation is divided into the following sections:

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[**Annex** 25](#_Toc19796672)

Each section first introduces the topic by giving the background information to the specific issue. Where relevant the proposed changes to the standard are then presented and then you are asked for your opinions and feedback.

**Please take as much space as you need to respond to the questions. Provide as much as possible your rationale for your responses and any other comments you may have on the proposals, or suggest alternative proposals.**

## **Information about your organisation**

Please complete the information below:

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| **Q0.1.** **Please provide us with information about your organisation so that we can analyse the data precisely and contact you for clarifications if needed. The results of the survey will only be presented in an aggregated form and all respondents’ information will be kept confidential.**Name of your organisation      Name of contact person      E-mail of contact person      Country      FLO ID       |
| **Q0.2. Are your responses based on your own personal opinion or is it a collective opinion representing your organisation?**[ ]  Individual opinion[ ]  Collective opinion representing my organisation/company |
| **Q0.3. What is your main responsibility in the supply chain?** [ ]  SPO 1st grade [ ]  SPO 2nd or 3rd grade[ ]  Processor[ ]  Processor / Exporter[ ]  Exporter[ ]  Importer[ ]  Licensee[ ]  Fairtrade system (Fairtrade International, NFO, PN or FLOCERT)[ ]  Other (please specify):       |

## **General Requirements**

### **Certification - Entry requirements for new SPOs**

The certification and entry requirements for new producer organisations in the Fairtrade certification scope have been a topic of concern for the Fairtrade system and this has been addressed in the recent review of the SPO Standard. The new SPO Standard requirements require that the organisation is an established organisation with market potential (SPO Standard requirements 1.1.3, 1.1.4), and that decisions are taken in a democratic manner by the General Assembly (SPO Standard requirement 1.1.5).

In addition, the concern of excessive influence of exporters over producer organisations has been brought as critical item in Fairtrade coffee. The current review, is the opportunity to address these topics from the perspective of coffee producer organisations and supply chain partners.

Particularly for coffee, where the majority of Fairtrade certified organisations sell in average only 30 percent of their production under Fairtrade terms, it is important to guarantee that newcomers have quick and tangible benefits from Fairtrade without taking away market from existing Fairtrade certified organisations. It is also taken into consideration that in some cases organisations may show weak structures, limited or no experience working cooperatively with their members and general limited commercial experience to be able to sign and fulfil a contract. In those cases, the organisations should work actively in strengthening their structures and at a later stage apply for Fairtrade certification (guidance and support can be sought from the respective PNs). It is therefore proposed that only established organisations with more experience in working together join Fairtrade. In that way the producer organisations will be able to have a more successful journey in Fairtrade making it more difficult that opportunistic behaviour and short term market demand opportunities undermine the producer organisations’ structures.

As such, these section proposes the following:

* Require that new coffee producer organisations, interested in Fairtrade certification demonstrate being an established organisation for at least 2 years.
* Require that new coffee producer organisations, interested in Fairtrade certification demonstrate having a minimum capacity to assist their members and export experience of the crop.
* Require that new coffee producer organisations, interested in Fairtrade certification demonstrate market potential for at least the first 2 years of Fairtrade certification.

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| **Q1. Do you agree on introducing a requirement that for the certification application a coffee organisation wishing to join Fairtrade fulfils the requirements for entry as detailed above?****Certification – Entry Requirements**

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| --- | --- |
| **Core** | **You demonstrate that you are an established organisation for at least two years prior to requesting certification, with capacity to assist your members, and export the crop. In addition, you demonstrate that you have market potential for at least the first 2 years of Fairtrade certification.** |
| **Year 0** |
| Guidance: An established organisation can be demonstrated through the following documents: legal registration, records of commercialization, General Assembly minutes, financial statements or a recommendation from a Fairtrade Producer Network. Capacity to assist the members can be demonstrated with the organigram and job descriptions, technical assistance priorities and work plans and membership development plan. In case the organisation does not export directly the crop, the assistance of an exporter needs to be confirmed, whether already Fairtrade certified or following the requirement for new exporters (see entry requirements section 1.2). Market potential can be demonstrated with a letter of intent from an identified market partner(s) in buying the Fairtrade product, formal communication of business engagement with a Fairtrade buyer (importer/roaster), or a business plan agreed between the producer and the Fairtrade buyer (importer/roaster). |

**[ ]** Yes**[ ]** No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

### **Certification - Entry requirements for new exporters**

The participation of exporters in Fairtrade coffee is bound to the need of the producer organisations for the services of an exporter. This is due to the limited capacity of some organisations to export on their own because of their inability to commercialize large volumes, country specific export regulations or because of the organisations’ business model. In addition, it is important that the organisations with capacity to export, can provide this service to other producer organisations and are encouraged to do so.

The proposal is to revise the current requirement 1.1.1. and limit the entry of new exporters to those with a direct commercial engagement with a producer organisation, which is confirmed by the producer organisation. Furthermore, producer organisations interested in the Fairtrade certification that may also provide this service, and are interested to enter the Fairtrade system to provide exporting services are also considered.

As such, the proposal is to:

* Require that new coffee exporters, as well as producer organisations with the capacity to provide export services to other organisations, enter the Fairtrade system only if their assistance to export the Fairtrade coffee is requested by a producer organisation.

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| **Q2. Do you agree that the requirement for certification of new export service providers (exporters and producer organisations) is included as follows? Please note, that currently Fairtrade certified producer organisations may already provide export services to other producer organisations.****Certification – Entry Requirements for producer organisations that provide exporting services to other producer organisations and exporters**

|  |  |
| --- | --- |
| **Core** | **You, demonstrate that your assistance as export service provider is required by an organisation to undertake Fairtrade exports.** |
| **Year 0** |
| Guidance: Assistance required can be demonstrated through the following documents: confirmation letter from the identified Fairtrade certified producer organisation or in application process, or business plan agreed between exporter and the producer organisation. The producer organisation that requests the service from a third party exporter will be responsible to contact the certification body and present the documentation that proves the requested assistance to export.  |

**[ ]** Yes**[ ]** No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

## **Business and Development**

A revised version of the Fairtrade Trader Standard was published in March 2015. The Fairtrade Standard for Coffee complements and defines more specific requirements or exceptions to the Trader Standard where necessary. The following questions present a subset of the revised rules established in the Trader Standard and the corresponding requirements in the Fairtrade Standard for Coffee. They examine whether specifications are needed in the coffee context.

### **Contracts**

* + 1. **Role as payer or conveyor**

The Fairtrade Trader Standard stipulates in requirement 4.1.1, that stakeholders are aware of their role as Fairtrade price and premium payer and/or conveyor following the Annex 1 definition per product. An alternative arrangement is allowed provided it is agreed with all affected parties, documented in writing and reported to the certification body. For coffee supply chains, the proposal is to limit or regulate the role of traders to enable more transparent contractual arrangements. As such, the role of exporters will be limited to conveyors in Fairtrade. In alignment with question 2. the role of the exporter becomes clearer and closer to the one of service provider working in coordination and supporting the commercial activities of the SPO (as processor /exporter or only as exporter). This means that the exporters, in their capacity as Fairtrade conveyors will have to comply with the TS requirements which are applicable to conveyors. For example, conveyors will sign a Fairtrade contract with the producer, which includes all elements mentioned in TS requirement 4.1.2, and additionally the modalities of payment of the price differential[[2]](#footnote-3) (if applicable) and Fairtrade Premium, including timelines and the system of reporting (TS requirement 4.1.4). In addition, exporters will send the producer, on a quarterly basis, a report including for each purchase contract, the exact volumes that have been sold, the price differential (if applicable) and Fairtrade Premium due, and FLO ID of the buyer it was sold to (TS requirement 4.1.5).

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| **Q3. Do you agree that a requirement to limit the role of exporters as Fairtrade conveyors in coffee supply chains is included as follows?****Role as payer or conveyor**

|  |  |
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| **Core** | **Fairtrade exporters act as Fairtrade conveyors in all coffee supply chains.** |
| **Year 0** |
| Guidance: In cases where an SPO with export capacity provides the export service to other producer organisations, the role of conveyor also applies. |

**[ ]** Yes**[ ]** No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

* + 1. **Tripartite contracts with producers**

The current Trader Standard requirement 4.1.8 includes tripartite contracts as a voluntary best practice (VBP). The proposal to enable more transparent trading relations in coffee is to implement tripartite contracts in the presence of a conveyor in a coffee supply chain as a core requirement. As such, the role of the conveyor, in its majority processor/exporters or only exporters, is made transparent as well as the quantity and value of the coffee commercialized under Fairtrade terms.

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| **Q4. Do you agree in adding a requirement to make tripartite contracts between the producer, the price and premium payer, and the conveyor a core requirement?****Tripartite contracts**

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| --- | --- |
| **Core** | **You sign a tripartite contract between the producer, the price and premium payer, and yourself as conveyor.** |
| **Year 0** |
| Guidance: The intent is to provide transparency of Fairtrade operations and allows the producer to know the conditions under which the Fairtrade product is sold. Fairtrade International provides guidance on breakdown of costs items and contract details in tripartite contracts.  |

**[ ]** Yes**[ ]** No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

* + 1. **Fairtrade contracts**

Currently, the Fairtrade Trader Standard stipulates in requirement 4.1.2 that contracts must follow industry regulations and indicates the minimum requirements that Fairtrade contracts must meet. For coffee contracts, the Green Coffee Association (GCA) and European Coffee Federation contract (ESCC) formats are the industry norm.

Furthermore, in Fairtrade several forms of supply chains exist which require different details to be considered in the contracts in order to have transactions done in the most transparent way. The contracts will vary, for instance in the cases where there are contracts agreed between the buyer (importer/roaster) and the producer organisation a specific contract is applicable. In situations where tripartite contracts apply, the conditions that need to be indicated in the contract would need to detail further the services that the processor/exporter provides to the producer organisation to determine if a fair price has been paid.

For this purpose, this consultation requests stakeholders to provide their views on implementing a Fairtrade contract template as a core requirement for Fairtrade coffee contracts.

Based on the results of this consultation, the implementation of contract template will be assessed (see below question 7). As such, and provided that Fairtrade International needs to include all relevant items, the next two questions request that stakeholders provide their views on the details that need to be considered for Fairtrade coffee contracts (e.g. contract information, and price breakdown complementary to standard coffee contracts, etc.). Such contracts will allow alignment and transparency in the information that is provided for Fairtrade coffee contracts.

The details to be considered in coffee contracts are the following items:

Table 1 Items to be indicated in coffee contracts as applicable

|  |  |  |  |
| --- | --- | --- | --- |
| **Contract details**  | **Applicable to** | **Justification** | **Comments** |
| Form in which the coffee is purchased from the SPO, i.e. where ownership changes from the SPO to the buyer | All coffee contracts | Defines where the responsibility of the SPO ends  |       |
| Humidity level of coffee purchased (indicate %) | Contracts where the Processor/exporter provides processing services | Defines the stage at which the coffee is purchased |       |
| Real yield of green coffee (indicate %), detailing: parchment to green coffee, parchment to green exportablecoffee  | Contracts where the Processor/exporter provides processing services | Defines the stage at which the coffee is purchased, this is normally indicated in the milling report.  |       |
| Quality (screen size, number of defects and if available cupping score) | All coffee contracts | Defines the quality agreed in the contract. Necessary for any quality assessment. |       |
| Place of delivery and party responsible | All coffee contracts | Defines who assumes the transport costs |       |
| Detail description of services delivered to the SPO | All coffee contracts where services are provided to the SPO | Details all additional costs that the SPO assumes  |       |
| Payment terms | All coffee contracts | Defines the payment terms agreed between the parties involved |       |
| Price risk management strategy terms and conditions | All outright price contracts | Defines the price risk management strategy and stakeholders’ responsibilities |       |

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| **Q5. Do you agree in the previous list of items to be considered as core requirement for coffee contracts?** Please note that this list would be complementary the current TS requirement 4.1.2. which is currently a core requirement for Fairtrade contracts applicable to Fairtrade payers, details to be included as applicable. In addition, the requirement applies to conveyors as per TS requirement 4.1.4, therefore in case of tripartite contracts, the contracts between the payer, conveyor and producer organisation are to include all the details in the list.**Fairtrade coffee contracts**

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| **Core** | **You sign a purchase contract for Fairtrade coffee with the producer (or the conveyor, if applicable). Contracts follow industry regulations, and in addition indicate:** * Form in which the coffee is purchased from the SPO, i.e. where ownership changes from the SPO to the exporter
* Humidity level of coffee purchased (indicate %)
* Real yield of green coffee (indicate %): parchment to green coffee, and parchment to green exportable coffee
* Quality (screen size, number of defects and if available cupping score)
* Place of delivery and party responsible
* Detail description of services delivered to the SPO
* Payment terms
* Price risk management strategy terms and conditions
 |
| **Year 0** |
| Guidance: The milling report may be attached to the contract to complement the information provided in the contracts regarding the actual yields, humidity level, and quality description.  |

**[ ]** Yes**[ ]** No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

The current Fairtrade Standard for Coffee (requirement 4.3.2), requires that all contracts include a detailed breakdown of the price, including the prevailing differential, the organic differential and the Fairtrade Premium. According to the Trader Standard, requirement 4.1.3, Fairtrade payers and conveyors must include a price breakdown of the price calculation in case the Fairtrade Minimum Price, the market price reference and/or the Fairtrade Premium are set at a different level or for a different product form than the product purchased. The detailed breakdown of the price calculation must include deducted or added cost items and their value, and conversion rate in case of processing. It is only possible to deduct costs that are included in the Fairtrade Minimum Price. Furthermore, TS requirement 4.2.6 applicable to Fairtrade conveyors, indicates that the price differential is paid to the producer organisation. To calculate this price differential a detail of the calculation needs to be available to audit on price payment.

Therefore, if the coffee is purchased from the producer organisation at a different level than FOB (green exportable coffee) the costs that may be deducted from the price (following the FMP definition) in case applicable, are the following:

Table 2 Cost items part of the FOB price, based on FMP definition[[3]](#footnote-4):

|  |  |
| --- | --- |
| **List of items** | **Justification** |
| **Transport to processing facilities costs** | In case the processor / exporter, exporter or importer covers the costs of any of these items, those can be deducted from the price to be paid to the SPO, as part of the contract agreement between the SPO and the processor / exporter, exporter or the importer. The contracts must indicate the detailed items and costs. |
| Transport |
| Loading and Off-loading |
| Insurance |
| **Processing costs** |
| Processing |
| Drying |
| Bags |
| Labelling  |
| **Export costs** |
| Transport to port |
| Loading and Off-loading |
| Insurance |
| Customs & Handling |
| Sample & documents sending |
| Taxes  |

The exporters’ margin, is not included in the previous list in Table 2 as this is not a direct cost of export considered in the FMP definition because is a margin corresponding to a cost structure which has not been considered in the FMP. T33herefore, this margin is not officially discounted from the FOB price according to the definition of the Fairtrade minimum price (see footnote 3); although it is recognized that this is part of the negotiation with the producer organisation as part of the service fee. Specific guidance is provided for key countries on the average costs. Those are to be used as a reference for the producer organisations and for auditing purposes, and they are available on Fairtrade’s website.

The proposal is to add a requirement that provides the detailed coffee price breakdown to be used to calculate deducted or added cost items whenever the coffee is bought at different level than the one where the FMP is set. As such, the contracts will include the items in Table 2 in any FOB price breakdown (Fairtrade payer and conveyor) as applicable.

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| **Q6. Do you agree that the previous list of costs items has to be considered for coffee contracts where the processor / exporter, exporter or the importer provides services to the producer organisation?** Please note thatthis requirement will complement the current TS requirement 4.1.3.applicable to contracts involving payers and conveyors.**Fairtrade coffee contracts**

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| --- | --- |
| **Core** | **If the Fairtrade Minimum Price, the market price reference and / or Fairtrade Premium are set at a different level or for a different product form[[4]](#footnote-5) than the one you are buying, then you include in the contract with the producer (or the conveyor if applicable) a detailed breakdown of the price calculation (deducted or added cost items and their value, and conversion rate in case of processing). You may only deduct costs that are included in the Fairtrade Minimum Price. No discount can be made from the Fairtrade Premium. You must consider the following items:*** Transport to processing facilities costs
	+ Transport
	+ Loading and Off-loading
	+ Insurance
* Processing costs
	+ Processing
	+ Drying
	+ Bags
	+ Labelling
* Export costs
	+ Transport to port
	+ Loading and Off-loading
	+ Insurance
	+ Customs & Handling
	+ Sample & documents sending
	+ Taxes
 |
| **Year 0** |
| Guidance: Country specific guidance on the values is available on Fairtrade International’s website.  |

**[ ]** Yes**[ ]** No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

Stakeholders in Fairtrade coffee have brought forward the interest in having a template contract that may include the items included in Table 1 and Table 2, and other items as needed, that will facilitate the standardization of the information provided in Fairtrade coffee contracts. In case this proposal is supported by the majority of stakeholders, a transition period will be set for those certified producer organisations and buyers as of the publication of the revised Fairtrade Standard for Coffee.

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| **Q7. Do you agree in implementing a template for coffee contracts applicable to all Fairtrade coffee transactions up to the Fairtrade payer level as compulsory requirement?**[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

* + 1. **Price to be fixed contracts**

The current Fairtrade Standard for Coffee, requirement 2.3.1, indicates that a “price to be fixed contract” (PTBF) should be used between the seller and the buyer, the seller being the producer organisation or the exporter if the organisation sells through an exporter. In some cases, an outright priced contract is used (e.g. an auction system invalidates the PTBF contract, or when the seller has the coffee in stock when making the contract). It is also used in the cases where it is agreed that is mutually beneficial for seller and buyer to have such a contract provided that an agreed price risk management strategy is in place and confirmed in writing. A concrete price risk management strategy, such as hedging, may be agreed between seller and buyer, in such cases the costs of the hedge must be agreed in the contract.

As such, in case a mutually beneficial price risk management strategy is agreed, the conditions and the costs must be clearly indicated in the contract. If a hedging operation is agreed between a seller and buyer and placed on the account of the producer organisation, a maximum cost of 0.05 USD / lb may be attributed to the producer organisation.

Please note that the FMP is the primary safety net for SPOs against a price decrease that threatens their ability to cover costs of production.

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| **Q8. Do you agree in adding a requirement on price risk management and related costs shared between seller (SPO) and buyer? The requirement will allow a maximum cost for the hedging operation to be paid by the producer organisation, in case a hedge is placed on the account of the producer organisation. This requirement will complement the current Coffee Standard requirement 2.3.1.****Price risk management**

|  |  |
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| **Core** | **In case a mutually beneficial price risk management strategy is agreed between you and the producer organisation, the conditions and the costs must be clearly indicated in the contract.** **If a hedging operation is agreed between you and the SPO and placed on the account of the producer organisation, a maximum cost of 0.05 USD / lb can be covered by the producer organisation due to the hedging operation.**  |
| **Year 0** |
| Guidance: The intent is to provide clarity to the price risk management strategies and the costs distribution between seller and buyer if applicable. The cost of the hedge cannot affect the Fairtrade Premium and organic differential in case of organic coffee. |

[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

* + 1. **Price fixation**

The current Fairtrade Standard for Coffee, requirement 4.3.5, indicates that in case of outright price contracts, prices must not be fixed for a period longer than one crop period. This requirement was introduced a few years ago when prices increased and price risk management strategies were not in place i.e. contracts were not hedged, which resulted in wide spread contract defaulting. Currently it is common practice, in some countries, for producer organisations to sell more than one harvest at the same time (to sell forward more than one harvest) to take advantage of good prices and/or favourable exchange rates and hedging is widely used to reduce price risks.

The proposal is to eliminate the requirement that forward sales at a fixed price cannot be made for more than one season (Coffee Standard requirement 4.3.5.) subject to a price risk management strategy agreed in writing between buyer and seller through, e.g. the use of hedging tools following current requirements 2.3.1.and 4.3.3. The buyer and the seller may agree upon sharing the cost of hedging, if they consider it to be mutually beneficial.

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| **Q9. Do you agree in eliminating the requirement 4.3.5, allowing for forward sales for more than one crop, subject to an agreed price risk management strategy between seller and buyer?****~~4.3.5~~****~~Price fixation:~~** ~~In the case of outright priced contracts, prices must not be fixed for a period longer than one crop period.~~[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

### **Pricing**

* + 1. **Prevailing** **differentials**

The Fairtrade Standard for Coffee, following industry practices, considers the prevailing differentials for non-Fairtrade coffee as part of the reference market price. Fairtrade International publishes bi-weekly references for the coffee differentials per country where available. The references available are based on an aggregate of prices on a national level that takes into consideration specific grades, quality, bean size and density, etc. Furthermore, differentials can vary significantly based on volume purchased, shipment date, logistics, financing terms, regional differences and individual trader policies, amongst other criteria.

Stakeholders are invited to provide their views on the relevance of current references published by Fairtrade International. In addition, stakeholders can also give their ideas on how to improve the information provided as reference on coffee differentials that serve as a price discovery tool for producers, traders as well as for the certification body.

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| **Q10. Do you consider that the current information provided by Fairtrade International on prevailing differentials is relevant and useful?** [ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and suggestions for improvement if any:**      |

In addition, Fairtrade coffee stakeholders are invited to provide their views on the auditing of the prevailing differential in Fairtrade coffee contracts.

Currently the auditing practice is that the certification body checks whether the price paid for coffee contracts is compliant with the reference market price and prevailing differential (+ or -), or the FMP, whichever is higher. In many countries, the prevailing differential as it is published by Fairtrade International in the prevailing differentials guidance document does not accurately represents the prevailing differentials for non-Fairtrade mainstream coffee market.

The proposal is to have the contracts audited to comply with the FMP, and allowing that the prevailing differentials publicly available are only used as a reference and a price discovery tool by the producer organisations and buyers. It also serves the certification body to check that a differential is negotiated and indicated separately in the Fairtrade contracts.

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| **Q11. Do you agree to have the Fairtrade price checked in audits to comply with the FMP, and that prevailing differentials serve as a price discovery tool for the producer organisations, and buyers? The certification body will check that a differential is negotiated and paid, and indicated separately from the reference price or FMP whichever is higher, the organic differential and Fairtrade Premium in Fairtrade coffee contracts.** [ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and if applicable any suggestions to be considered:**      |

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### **Premium**

Currently, the Fairtrade Standard for Small-scale producer organisations (SPO) does not prescribe how the Fairtrade Premium should be invested. It is up to the SPO to decide in their General Assembly (GA), in line with Fairtrade’s principle of empowerment.

The Fairtrade Premium use should be in line with farmers’ needs and priorities. The current Fairtrade SPO Standard includes a requirement for organisations to implement needs identification processes. The needs identified are linked with the Fairtrade Development Plan which addresses the progress of the business, organisation, members, workers, the community and/or the environment.

In the current Fairtrade Standard for Coffee (requirement 4.3.11) there is an earmarked 0.05 USD / lb (25% of the total Fairtrade Premium) destined to productivity and quality improvement. This was a provision implemented in 2011 based on an identified need to invest in productivity and renovation activities. The current coffee market situation has evolved in the last years, which may lead to different priorities for the use of the Fairtrade Premium (0.20 USD / lb) for coffee.

The proposal is therefore to delete the current requirement (Fairtrade Standard for Coffee requirement 4.3.11) for the earmarked Fairtrade Premium. (Please refer to the annex for reference on the current requirement 4.3.11)

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| **Q12. Do you agree in removing the current 0.05 USD / lb earmarked Fairtrade Premium for productivity and quality improvement?**[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

### **Reporting on the use of the Fairtrade organic differential**

The organic differential is an important component of the overall Fairtrade price and stakeholders have manifested interest in knowing how this differential, which in Fairtrade coffee market is substantial, is used and invested by the producer organisations. Furthermore, in view of recent findings that in main Fairtrade markets there have been instances of non-organic coffee sold under Fairtrade organic certification, there is a need for more transparency in the use and handling of the organic differential.

The proposal is to explore the possibility to implement a reporting system for the producer organisations to provide yearly reports of how the organic differential is used. Please note that the reporting system, template or procedure would need to be developed in case the proposal is received positively in this consultation and implemented.

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| **Q13. Do you agree to consider the implementation of reporting system on the use of the organic differential?**[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

### **Payment terms**

The current Fairtrade Standard for Coffee, requirement 4.3.7 indicates the following:

**4.3.7** ***Payments:*** *Payment shall be net cash against a full set of documents on first presentation. The documents to be presented will be those stipulated in the contract and will be in line with what is customary in the coffee trade.*

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| **Q14. Do you consider this requirement clear and relevant for Fairtrade coffee transactions?** [ ] Yes[ ] No, to be removed[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

### **Pre-Finance**

Currently, the Fairtrade Standard for Coffee requirement 4.2.1 indicates the following:

**4.2.1** *On request from the producer, the Fairtrade payer must make up to 60% of the value of the contract available as pre-finance to the producer at any time after signing the contract. The pre-finance must be made available* ***at least eight weeks prior to shipment****.*

With the review of the Trader Standard (TS. 4.4.1 Pre-financing Fairtrade contracts), the responsibility is now on the **trader** to offer pre-finance (first buyer as referred to in the TS), and the amount is understood as **at least 60%.** These two items will be amended in this review project and it is proposed that the timeframe remains as above (at least eight weeks prior to shipment). (See [Trader Standard interpretation note](https://files.fairtrade.net/standards/TS-INT-EN.pdf)).

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| **Q15. Do you consider that the amount (at least 60%) and time-frame (at least eight weeks prior to shipment) for pre-finance can remain as they currently stand in the current requirement 4.2.1?**[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |

### **Sourcing and market information for planning**

Sourcing plans have been a topic of discussion for traders, producers and the certification body, and the intention in this section is to invite stakeholders to evaluate the relevance and usefulness of the current requirement. The current Fairtrade Standard for Coffee (requirement 4.1.1) requires that

**4.1.1** *Sourcing plans must cover each harvest. Sourcing plans must be renewed a minimum of three months before they expire.*

The question here is whether this requirement is effective or not on ensuring producers are better informed in advance about their market prospects, and they can better estimate the volume that they will be able to sell as Fairtrade, so that they can manage their business and their Fairtrade Development plan more effectively.

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| **Q16. Do you think the existing requirement is relevant and effective to ensure that producers are better informed about their market prospects and should remain as it is?** [ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and add suggestions for amendment if any:**      |

### **Long term commitments**

The Fairtrade Trader Standard requirement 4.1.8. requires as voluntary best practice (VBP) that all traders have a long term commitment with the producer or suppliers. Long-term relationships enable marginalized producers and their organisations to look ahead and plan for investment. In this context long term means at least 2 years or more. It is important that the certified operators in Fairtrade are committed to the development of producer organisations and work towards their sustainability. In addition, as stated in section 1.1 on certification and entry requirements it is necessary that SPOs interested in certification show that there is market potential for their product, therefore long term partnerships become more important. At the same time, it is also essential that already Fairtrade certified producer organisations have a concrete market outlook for their product and therefore should have clarity on commitments from their buyers.

As such, in this consultation stakeholders are invited to share opinions and insights on their views on long term commitments in Fairtrade coffee as well as the role that Fairtrade may play to foster those relationships.

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| **Q17. Do you consider that it is important to encourage long term relationships between Fairtrade producer organisations and buyers?**[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and suggestions if any:**      |
| **Q18. What role can Fairtrade play to encourage long term relationships between SPOs and buyers?****Please explain your rationale and suggestions if any:**      |

### **Sharing risks**

* + 1. **Quality claims**

Coffee quality shall be in accordance with the contract description. The current Trader Standard, requirement (4.6.1) indicates that quality claims must be documented in full detail and communicated to the producer as soon as they are identified. The buyer does not make quality claims for quality problems generated beyond the responsibility of the producer.

The proposal in this consultation considers that in coffee trading, it may happen that a shipped coffee does not meet the quality conditions agreed in the contract, in those cases the conditions to settle the claim that are prescribed in the ESCC or the GCA contracts prevail (industry norms). The proposal is that in such cases, if the seller agrees to the claim which is proven following industry norms, a defined allowance may be applicable for Fairtrade coffee. The allowance being considered in case the claim is accepted is a maximum discount of 0.05 USD/lb. This maximum allowance is proposed to protect the producer organisations, in particular those less experienced and vulnerable. Nevertheless, it is possible that a justified claim results in a quality claim for a larger value that will require a negotiation to settle the claim and for the organisation to try to minimize any potential loses. In such cases, how can Fairtrade monitor and ensure that the position of the SPO is not compromised?

Please note that the current rule is that quality claims are not allowed, and the FMP is an absolute minimum. Therefore, if due to a quality claim the price paid for the coffee is below the FMP, then the coffee is declassified and can no longer be commercialized under Fairtrade terms.

Stakeholders are invited to share their opinions and views on the issue of quality claims and minimum requirements to allow the claim, the maximum allowance proposed and on how to ensure that the SPOs are not compromised in this negotiation.

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| **Q19. Do you agree to consider the following documentation and evidence as the necessary information to submit in case of a quality claim?**

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| **In case you have a quality claim, you present the following documentation:*** **Details on coffee contract and coffee delivered with visual evidence**
* **Third party inspection and confirmation of the discrepancy in quality**
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[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and add suggestions if any:**      |
| **Q20. Do you agree to consider a maximum discount on quality claims of 0.05 USD / lb from the price to be paid to the producer organisation for Fairtrade coffee? This would only be accepted if the required documentation and evidence is presented.**[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and add suggestions if any:**      |
| **Q21. How can Fairtrade ensure SPOs interests are not compromised in the negotiation of quality claims that may result in an allowance higher than the 0.05 USD / lb?****Please explain your rationale and add suggestions if any:**      |

### **Unfair trading practices**

The Trader Standard requirement 4.8.1 specifies that Fairtrade does not accept unfair practices that clearly damage producers’ or other traders’ capacity to compete or the imposition of trading conditions on suppliers that would make it difficult for them to comply with Fairtrade Standards.

The situations considered unfair trading practices under this requirement are as follows:

* Buyers do not impose to the seller (producer organisation) price fixation conditions or timeframe for Fairtrade contracts. As stipulated in the Fairtrade Standard for Coffee, the price fixation must be made at seller’s call.
* The use of seller’s call should be done in a manner that does not limit the stakeholders further up the supply chain to trade in both profitable and ethical way, while ensuring that Fairtrade coffee remains competitive in the market.
* In case of an outright price contract, the buyer may not impose the cost of hedging upon the producer organisation that supplies the coffee and must secure that the cost of hedging does not undermine the competitiveness of the producer organisation.
* Buyers must not offer to buy certified products from a producer on the condition that the producer sells a quantity of non-certified product under terms that are distinctively disadvantageous to the producer.
* Buyers must not demand payment terms to importers or suppliers that result in additional financing costs being passed on to SPOs and negatively impact the FMP.
* Traders, at /or beyond the price and premium payer, cannot buy Fairtrade products from their suppliers / sell to their customers below the Fairtrade Minimum Price (FMP) and Fairtrade Premium.

In this consultation stakeholders are invited to share examples that are considered unfair trading practices as per the definition provided above.

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| **Q22. Do you have any input on the preliminary list of unfair trading practices indicated above?** [ ] Yes[ ] No[ ] I am unsure**Please explain your rationale and suggestions for amendments if any:**      |
| **Q23. Are there other practices that you would consider to be unfair and that should be included in this list:**      |

### **Secondary products**

Secondary products are considered in the current Fairtrade Standard for Coffee (requirement 4.3.12). As a general rule, there are no Fairtrade Minimum Prices defined for secondary products and their derivatives. Sellers of the product and its next buyers must negotiate prices for secondary products and their derivatives. A default Fairtrade premium of 15% of the negotiated price must be paid in addition.

In recent years, and due to the increased interest in soluble coffees, which mainly consist of lower quality coffee (also known as *segundas*, *pasillas* in Colombia and *grinders* in Brazil), the proposal is to explore whether it is appropriate to include the low quality coffees as secondary product. In case of a positive response, it has to be determined what can be the conditions under which a concrete definition for low quality coffee can be applied.

The proposal in this consultation is to collect input on the option to include those coffees in the secondary product list as well as on the set of guidelines to qualify a coffee as of a lower quality.

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| **Q24. Are you in agreement to explore the inclusion of low quality coffee as a secondary product?**[ ] Yes[ ] No[ ] I am unsure**Please indicate your opinion and explain your rationale:**       |

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| **Q25. In case you answered yes to the previous question:** **Which conditions need to be considered to qualify a low quality coffee as a secondary product? Please be thorough in your assessment and when feasible please provide details that reflect your own market situation.**       |

## **General stakeholder feedback on the Fairtrade Standard for Coffee**

### **Transition period**

For new certified operators, all changes proposed would apply after publication of the revised Fairtrade Standard for Coffee once the compliance criteria are developed. For existing certified operators, a transition period of 1 year is envisaged.

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| **Q26. Do you agree to a one-year transition period for existing certified operators?**[ ] Yes[ ] No[ ] I am unsure**Please explain your rationale:**      |
| **Q27. If you do not agree to Q26, are there any particular topics / requirements for which a shorter or longer transition period is needed?**Please include the topic and suggested transition period.

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| Topic | Transition period |
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### **Additional topics**

In this section you are invited to comment on topics covered by this consultation document as well as on any other requirement of the existing Fairtrade Standard for Coffee here:

<https://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/generic-standards/Coffee_SPO_EN.pdf>.

Please include the specific requirement number from the standard where applicable and standard section with your comments. We welcome alternative proposals, amendments for topics or any other suggestion with your rationale and analysis as detailed as possible so that we are able to understand and consider in the further process.

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| **Topic / Requirement number** | **Comment / feedback** |
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If you need some more information before commenting on this document do not hesitate to contact Alina Amador, Senior Project Manager, Standards & Pricing (a.amador@fairtade.net) or Peter Kettler, GPM Senior Coffee Manager (p.kettler@fairtrade.net).

# **Annex**

Fairtrade Standard for Coffee, requirement 4.3.11

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| **(4.3.11** **Fairtrade Premium:** At least 5 cents of the Fairtrade premium must be invested in the improvement of productivity and/or quality of Fairtrade coffee[[5]](#footnote-6). Investment can be made at the level of individual members and/or the producer organisation. The General Assembly decides on the activities to be carried out. The producer organisation needs to keep records on the use of the monies and to explain in which way it contributes to the improvement of productivity and/or quality.)***Guidance:*** Productivity and/or quality investment refer to any measures that will increase the quantity and quality of coffee produced. It can include measures to improve yields such as, for example, training on agricultural practices, farm-level replanting and renewal projects, purchase of equipment or infrastructure investments. It can include measures for quality such as hiring cuppers, investing in cupping labs, trainings and similar activities. |

1. 2018 Coffee Barometer. The publication can be found following this link: <https://www.hivos.org/assets/2018/06/Coffee-Barometer-2018.pdf> [↑](#footnote-ref-2)
2. Price differential in this context is understood as the difference between the Fairtrade Minimum Price (or the reference market price whichever is higher) and the price at which you initially bought the product from the producer. (TS requirement 4.2.6) [↑](#footnote-ref-3)
3. Refers to the minimum price, which covers the average costs of sustainable production (COSP) of producers. In the case of FOB price for coffee, the costs considered include the costs that producer organisations incur for producing, processing, commercializing and exporting coffee. Those costs are calculated using the [guideline for estimating costs of sustainable production](https://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/3.1_Guidance_COSP_EN_2011-11-21.pdf). [↑](#footnote-ref-4)
4. Form is understood as processing stage. [↑](#footnote-ref-5)
5. Please refer to the Guidance document on productivity and/or quality improvement for more information on what is meant. This document is available on the following website: <https://files.fairtrade.net/standards/EN-Guidance-document_Productivity_Quality-Improvement_2012-01-11_Final.pdf>. [↑](#footnote-ref-6)