

Project Assignment

Review of the Fairtrade Pricing for Cocoa (Version 06.05.2024)

Update

Due to the fact that cocoa market prices reached all-time high levels in the recent months, and the current limited supply of cocoa beans on the market, the project team decided to extend the research phase to better understand and analyse this unprecedented situation in the cocoa market and its potential implications for Fairtrade's businesses. As a result, the timelines of the consultation phase and decision-making process are currently under review.

Background

Between 2016 and 2018, Fairtrade International (FI) undertook a review of the Fairtrade Minimum Price (FMP) and Fairtrade Premium (FP) for cocoa beans. The consultation process with stakeholders and the final decision made by the Fairtrade Standards Committee (SC) members resulted in an increase of the FMP, an organic differential and an increase of the FP.

In Côte d'Ivoire, the FMP was active between October 2019 and April 2023, and the FMP differential value (the FMP minus the government price) has been fluctuating widely, whereas in Ghana the FMP has never/rarely been applied as reference price has usually exceeded the FMP; In Latin America and the Caribbean, most producer organisations receive on average higher prices due to their specialisation in fine/flavour and/or organic cocoa. As such, the FMP is impacting the cocoa origins to a different extent, even amongst countries which are price regulated. In contrast, the Fairtrade (FT) organic differential of 300 USD/MT as an additional price intervention has been working regardless of the market price or origin.

In June 2023, after a limited consultation process with small producer organisations (SPOs) and commercial partners, the SC approved the implementation of prices in EUR for Côte d'Ivoire only. The new FMP of 2,206 EUR/MT, an organic differential of +276 EUR/MT and a FP of 221 EUR/MT will be applicable for all deliveries from Côte d'Ivoire as of 1 October 2023. Euro values were converted based on the USD/EUR exchange rate on 1 April 2023.

FI also sets a voluntary Living Income Reference Price (LIRP), which is currently 2,120 USD/MT and 2,200 EUR/MT at farm gate level for the major cocoa producing origins of Ghana and Côte d'Ivoire, respectively.

This project is part of Fairtrade's regular cocoa price review cycle and in line with the 2021-2025 Fairtrade Global Strategy.

Rationale

1. Production and living costs for farmers have significantly risen since the start of the war in Ukraine due to the contagion phenomenon - the spread of the economic crisis from Europe to other regions. The long-term effects of Covid-19, combined with the

war in Ukraine and the subsequent energy crisis, had a negative impact on the (chocolate) manufacturing industry in Europe, with significant increases in raw material transportation and operating costs over the period 2022-2023. Since the end of 2023, extreme climate events and crop diseases in both West Africa and Latin America & the Caribbean have negatively impacted yields, thereby increasing costs for farmers and leading to a significant drop in global supply. As a result, market prices have substantially increased, reaching levels around 10,000 USD/MT.

2. The revaluation of the US dollar led to a historically high Ivorian FMP differential in October 2022 and that brings significant disruptions along the chocolate value chain.
3. In line with the 2021-2025 Fairtrade Global Strategy and results from commissioned research on farmers' household income in Côte d'Ivoire in 2020-2021, the cocoa pricing model is to consider impact on farmers' income not only in terms of a safety net, but also progress toward a living income. In addition, Fairtrade's monitoring and evaluation work has shown that Fairtrade can only positively impact farmer livelihoods when farmers are able to sell a significant part of their production under Fairtrade terms (as minimum 30%).
4. Fairtrade International has revised the Cocoa Standards and its COSP guidance document, including new elements such as compliance costs related to HREDD (Human Rights and Environmental Due Diligence).
5. Living Income Reference Prices have been first calculated for cocoa beans from Ghana and Côte d'Ivoire in 2018. FI updated these country LIRPs in October 2022 in view of high inflation levels. A full review of the LIRPs is due in 2023-2024 in alignment with the review of the cocoa FMP, FP, and the FT organic differential.
6. The 2021-2022 Evaluating the Fairtrade Cocoa Pricing Model study by SEO Amsterdam Economics and KIT Royal Tropical Institute, strongly recommends that Fairtrade should consider adaptations to its pricing tools to increase the impact on farmer incomes and commercial partners' willingness to pay.

Project Start Event:

Kick-off of the project activities

Project Start Date:

01.06.23

Project End Event:

Decision-making by the Fairtrade Standard Committee

Project End Date:

31.10.24 - delayed

Project Goal(s):

1. Revision of COSP template and incorporation of LIRP

- To define Fairtrade standard compliance cost items and include them in the COSP template. This work involves the identification and inclusion of HREDD and other environmental costs applicable to cocoa, following the COSP guidelines approved by the SC in March 2023.
- This work requires the incorporation of the LIRP methodology into the same cost template to enable future data collection and calculations for both the FMP and LIRP.

2. Assess current pricing model

- With the intention to increase Fairtrade sales, farmers' incomes and commercial partners' willingness to pay.
- To incorporate HREDD and other environmental costs.

<ul style="list-style-type: none"> • To research cost impact of the European organic legislation for organic cocoa. • To understand and/or reduce the cost escalation along the supply chain. • To build regional-specific solutions or explore potential adaptations on the current pricing model for both regulated and non-regulated markets to address aforementioned topics. To do this, recommendations of the recent SEO-KIT study will be considered. <p>3. Update the values</p> <ul style="list-style-type: none"> • Based on the proposed Pricing model/price tools, the FMP, FP, the Fairtrade organic differential, or any other corresponding value(s) will be calculated. • The LIRP values for Côte d'Ivoire and Ghana will be updated. <p>4. Update the Cocoa Standard in line with any pricing changes from this review</p>	
<p>Project scope:</p> <p>The project will include the revision of the cocoa COSP template, sampling strategy, data collection and calculation methodology; the effectiveness of the current Fairtrade pricing model, namely global FMP, FP and organic differential will be reassessed.</p> <p>All price values will be updated based on COSP information collected in the key cocoa origins and the results of the consultation.</p> <p>The price-related requirements of the Fairtrade standard for cocoa (current section 4.2 and any other section where the project proposal implies changes to the standard).</p>	<p>Out of scope:</p> <p>The currency of pricing tools will not be the subject of consultation.</p> <p>Options for closing the gap between FMP and LIRP.</p> <p>The voluntary or mandatory nature of the LIRP for Côte d'Ivoire and Ghana.</p>
<p>Timeline:</p> <p>Research phase</p> <p>2023 June - August: Revision of COSP template</p> <p>September: Preparation for COSP data gathering (trainings)</p> <p>October 2023 - Mid-February 2024: Data gathering (country workshops)</p> <p>December 2023 – February 2024: Stakeholder interviews and feedback analysis</p> <p>February - Mid-April: Cost calculations (analysis) & proposal shaping¹</p> <p>April: Drafting pricing proposals</p>	<p>Decision making process:</p> <p>The final decisions will be taken by the Standards Committee (SC)</p>

¹ Please note that the LIRP setting process for cocoa in Ghana and Cote d'Ivoire is a separate process, which is happening in alignment with the Global Price Model Review. For further details, please contact Carla Veldhuyzen at c.veldhuyzen@fairtrade.net



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<p>Consultation phase – delayed</p> <p>May: Public consultation</p> <p>Results & analysis - delayed</p> <p>June-August: Final proposals for approval September: Discussion before the SC</p> <p>Decision-making - delayed</p> <p>2024 October: Decision-making</p>	
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