

# STANDARD OPERATING PROCEDURE FOR THE DEVELOPMENT OF FAIRTRADE MINIMUM PRICES AND PREMIUMS

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Audience: Fairtrade stakeholders

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For further information: [www.fairtrade.net](http://www.fairtrade.net)



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## 1. Introduction

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The Standards and Pricing Team (S&P) within Fairtrade International is responsible for developing (i.e. preparing, reviewing, amending, adapting) and revising Fairtrade Standards. The term Fairtrade Standards (Standards) refers to:

- (a) Producer and Trader Standards
- (b) Product Standards an
- (c) Fairtrade Minimum Prices (FMP) and Fairtrade Premiums (FP).

Producers and traders must meet applicable Standards for their products to be certified as Fairtrade.

Description of the S&P: The S&P is managed by the Director of S&P and consists of the Pricing Team and the Standards Team. The Pricing Team, managed by the Head of Pricing, is responsible for the development of FMP and FP. The Standards Team, managed by the Head of Standards, develops and revises Producer and Trader Standards as well as Product Standards. The new product development processes – for products not included in existing categories only - and also the initial phases of selecting new products and external and internal feasibility studies (as necessary) fall under the new product development function.

Decision makers: The Board of Directors of Fairtrade International has delegated decision-making authority on Standards to the Standards Committee (SC), composed of representatives of key stakeholders of Fairtrade –e.g. producers, traders, national Fairtrade organizations (NFOs) and external experts. However, the Board may be involved in the development of a standard, typically in an advisory capacity on strategies and objectives. The SC provides guidance and makes decisions on Standards. S&P manages the process of developing or reviewing a standard and undertakes the research and coordination work necessary. The Director of Standards & Pricing is responsible for determining the work to be undertaken by S&P and has the authority to approve non-substantive changes to a standard as well as to delegate such decisions to the Head of Pricing and/or Head of Standards.

Purpose of the document: The purpose of this document is to describe the procedures by which FMP and FP are developed and implemented by the Pricing Team. A chart illustrating the different steps of each procedure is found at the end of each section. Procedures for developing FMP and FP are based on the “Standard Operating Procedure (SOP) Development of Fairtrade Standards” which is available separately and should be consulted for more information. The “Standard Operating Procedure (SOP)

Development of Fairtrade Standards” was designed in compliance with principles laid down in the “ISEAL Code of Good Practice for Setting Social and Environmental Standards”. However, the scope of this code does not apply to the development of FMP and FP. For this reason, some variations to the code’s requirements have been built into this procedure. Any complaints concerning this procedure shall be addressed to the S&P Team. Complaints can be submitted at any time by sending the appropriately filled in “Complaint Form” to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). The “[Complaint Form](#)” can be downloaded from the Fairtrade International website (<http://www.fairtrade.net>) or requested directly from the S&P Team by writing to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). The complaints received will be evaluated and, if necessary, will lead to a revision of the current version of the SOPs. A regular review is undertaken by S&P at least every 3 years to ensure that the SOP reflects the actual S&P practices. Material changes of the SOP are approved by the Standards Committee, while approval of non-substantive changes (small operational details, edits) is delegated to the Director of Standards & Pricing. The Director of Standards & Pricing consults with the Chair of the SC in case of doubt whether a change is material or not.

For more information, see the “[SOP Complaints against Fairtrade Standard Setting](#)”.

## 1.1. Overview of FMP and FP

Fairtrade International develops Standards for different categories of producers of Fairtrade products (Fairtrade producers) and a Trade Standard, as well as product Standards. These Standards are the collective requirements that producers and traders must meet as applicable to be certified as Fairtrade.

The FMP is based on the principle of covering average costs of sustainable production of the products, while enabling the average producer to produce in an economic and financial sustainable way without systematic economic losses. This requires not only covering the average costs of sustainable production but also considering market acceptance to ensure that the FMP does not compromise the ability to sell the product.

The FMP is thus designed as a floor price which covers the average costs of sustainable production (which can be calculated by use of the sheet in chapter 10 – References and Templates) of producers and at the same time allows these producers to have access to their product markets. This can imply that the FMP is fixed below the average costs of sustainable production (COSP). In practice the FMP only comes into effect when the reference market price or the negotiated price would be below the FMP which was set for the product. The Fairtrade producers must at least be paid the FMP for their Fairtrade products. When possible, global or regional FMP are set; otherwise national FMP are set.



Besides FMP, members or workers of a certified small producer organization or company, respectively, also receive a FP. Therefore, the development of a FMP normally involves the determination of a FP. For products for which there is a FMP, the FP is paid in addition to the FMP.

## 1.2. Overview of FMP and FP setting procedures

The Pricing Team has several procedures for setting and revising the FMP and FP:

1. **Full price research project**, includes COSP collection (see a generic COSP sheet in Figure 6Figure 7) and can be used in all cases and for all types of products. See Chapter 3 for a full description.
2. **Price extension** procedure makes it possible to fill pricing gaps in existing Fairtrade Product Standards quickly. Pre-existing Prices and Premiums are extended as follows:
  - i. Extension made between different geographical locations;
  - ii. Extension from organic to conventional FMP or vice versa, based on the application of an organic differential;
  - iii. Extension from ex-works (EXW) to free on board (FOB) or vice versa;
  - iv. Price for processing extension, for example from a 'fresh' fruit (in the fresh fruits Standard) to the same product 'for processing' or vice versa.
  - v. Producer scope extension from CP to SPO prices whenever there is a relevant price for SPOs and the Standards allow for this extension.

Extensions are limited to cases where there is a relevant and reliable comparison point and where the risk of extending is low. In cases where a price extension is not a feasible option<sup>1</sup>, a quick entrance (Chapter 5) procedure could be considered. For more details on this procedure, refer to Chapter 4.

3. **Quick entrance** allows minor products covered by existing Fairtrade Product Standards to enter without a FMP (only with FP), while the Pricing Team monitors the costs of production and market prices. This procedure significantly reduces the risk of having outdated prices in the price list and enables a quick response to pricing requests for minor products, as long as the entrance risks are considered minimal. This procedure is limited to:
  - a) New minor products where the product description, trade characteristics and producer set-up fit into the scope of the following Fairtrade Product Standards: Fresh Fruit and Fresh Vegetables, Nuts, Oilseeds & Oleaginous Fruit, and Prepared and Preserved Fruits & Vegetables;

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<sup>1</sup> When no comparison point can be used (e.g.: production system differs, countries are too different, different target group).

- b) Existing minor products that are in the product categories of Fruits and Vegetables, Fresh as well as Prepared & Preserved, and yield a global FP below 100,000 USD per year, and have fewer than five Producer organizations (POs)
- c) Other minor products covered by other standards not mentioned above, provided they are minor products and the request is approved by the Director of S&P
- d) New origins or new forms of existent minor products (e.g. “for processing” when there are prices for “fresh”) covered by Fresh Fruit and Vegetables and Prepared and Preserved Fruits & Vegetables, whenever a price extension is not possible.

When the quick entrance procedure is approved, a default Premium of 15% of the commercial price applies, preferably at the ex-works level. After that, pending feedback from producers and traders, the FP may be revised and an FMP set, which may trigger a consultation in which the Pricing Team asks producers, PNs, PSR and NFOs if they want to set a FMP.

For Fresh, Prepared, and Preserved Fruits and Vegetables, a FMP can only be considered if:

- The product has a global FP above 100,000 USD per year
- More than five certified POs produce the product

For more on the quick entrance, see Chapter 5.

4. The regular Fairtrade price review using the exchange rate and consumer price index methodology is carried out solely if stakeholders involved in the production of a specific Fairtrade product agree to it. In such cases, the following timeline applies:
  - i. FMP reviews are undertaken on a regular basis, e.g. every two years. Reviews are based on the average evolution of real prices – i.e. exchange rate (ER) and consumer price index (CPI) - in all countries producing the Fairtrade product.
  - ii. Based on the results of the review, the Pricing team submits a price proposal to all relevant stakeholders for approval, comments and suggestions. This is the consultation phase.
  - iii. Incorporating the results of the consultation(s), the Pricing team submits a final report and proposal to the SC or to the Director of S&P for decision-making.

A full price research, including COSP research and a full process of consultation, will still be compulsory at an interval of eight years or when reliable justification is provided. For more details, please see Chapter 6.



5. Most of the Herbs and spices do not have a Fairtrade Minimum Price. Premium (a percentage of the commercial price) is paid on top of the commercial price. Certification of new herbs or spices, described in Chapter 7, is possible as long as the SPO passes Fairtrade certification standards.
6. Price suspension is an interim measure taken when an FMP does not serve its intended purpose; it is not a price-setting procedure and cannot replace a review of the FMP. It is only applied in urgent cases as a temporary solution, until a review of the FMP can be carried out and/or completed. Chapter 8 further describes Price Suspension.



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## 2. Procedure for developing Fairtrade Minimum Prices and Premiums

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### 2.1. The common steps in price setting

Irrespective of the procedure which applies, Fairtrade pricing projects always follow 6 steps:

1. Submission and assessment of a price request
2. Definition of project scope and planning
3. Research
4. Consultation
5. Approval
6. Implementation of an approved FMP and FP

Those 6 steps, which are included in all Fairtrade pricing projects, are explained here. Some steps may vary, depending on the procedure. This is described in greater detail in chapters 3 to 6.

For herbs and spices a list of products which can be Fairtrade certified is maintained by S&P. Since maintaining this list does not involve price setting, this procedure is shorter. It is described in chapter 7.

The price suspension procedure, which is an interim measure, follows slightly different steps. The price suspension procedure is laid out in chapter 8.

### 2.2. Submission and assessment of a price request

A Fairtrade pricing project may be proposed to the Pricing Team by Fairtrade International's Units or by the Fairtrade producer networks (PN), NFOs, Flocert or by other Fairtrade stakeholders accepted by the Pricing Team. Fairtrade pricing projects can only be requested through the submission of a price request form addressed to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). This is also the case for projects which do not require the setting of a FMP – e.g. a project using the quick entrance procedure.

The price request contains a justification of the need for the project and assessment of whether the need will be addressed. It also outlines clear objectives of the project and includes an assessment of the risks associated with the project and how to mitigate those.

The Head of Pricing will consider the price request, taking into account organizational and S&P objectives, as well as an assessment of the risks involved in revising a Standard. The Head of Pricing will inform the proposing party of which procedure applies and whether the Pricing Team has the



capacity to carry out or to coordinate the research in the requested timeframe. The availability of capacity depends on the S&P work plan, which is developed on a yearly basis and regularly updated. Routine work planning of S&P may also lead to a project proposal. Projects are added to the S&P work plan, for example, as a result of adherence to normal review cycles, through the monitoring and analysis of standards or receipt of a complaint against how a standard was developed (see the separate document “Standard Operating Procedure Complaints Against Fairtrade Standards”). The most recent version of the S&P work plan is made publicly available on the Fairtrade International website. The work plan provides information on ongoing and recently closed projects, in particular regarding the scope, objectives and timelines, as well as Fairtrade International and S&P contact information.

In case a price request is not approved due to a lack of capacities or its approval is delayed, the proposing party is informed and may decide to re-submit the price request to Pricing Team at a later date.

### 2.3. Definition of project scope and planning

Once a price request has been approved, the project manager (which could be Pricing Team, a NFO or a PN staff) starts with stakeholder mapping. This includes the identification of the relevant parties to the project, the definition how they are going to be engaged, the way of communication and the setting of stakeholder participation targets. The project manager also consults relevant stakeholders to define precisely the project scope – i.e. which countries, which price levels, what issues to take into account, etc. – and sets a timeframe for the project. Once the project scope, the list of stakeholders and the timeframe have been clearly defined, a project assignment is drawn. The main categories of stakeholders are listed in the project environment of the project assignment. This document contains a summary of the rationale and justification of the project and clarifies its scope, objectives and expected impact. It also informs about the process, timelines and opportunities to contribute (including contact information) and lays out how decisions are made and who makes them.

For minor projects the project assignment is shared for comments within the project team. Very small projects can however be carried out based on the information in the pricing project request, without the development of a separate project assignment. Major projects always have a project assignment. Only the project assignment of major projects is published on the Fairtrade International website ([www.fairtrade.net](http://www.fairtrade.net)). Interested parties can submit their feedback on the project assignment for major projects within two weeks from its publication by filling in the ‘project assignment feedback form’ and emailing it to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). The project assignment feedback form can also be found on the website. Based on the consultation feedback a project assignment can be amended if

there is a need to do so, before submitting a final version for approval. Finally the project assignment has to be approved by the project owner (Director of S&P or Head of Pricing), before the research phase can start. For projects that are not lead by the Pricing Team, the Head of Pricing will still appoint a Pricing Team staff member to be part of the project team for the price research. The approved project assignment is also placed on the website as information for stakeholders.

## 2.4. Research

The research can be undertaken internally by Pricing Team or externally by NFOs or PNs under Pricing Team supervision and guidance. In either case, an external consultant may support the body undertaking the primary research. The project manager has the freedom to collect information, including information on the costs of sustainable production (e.g. by using the COSP sheet in chapter 10 – References and Templates or developing a product specific COSP sheet) from producers and background information from different internal and external sources. Pricing Team also considers to what extent to involve FloCERT during the research phase, whether for example to obtain feedback on the verifiability of the standard or whether compliance with the standard is feasible for operators. For instance, the project manager might contact each producer involved in the research as many times as it is necessary to review the collected data and to check the consistency and accuracy of the information received. The outcome of the research phase is compiled, summarized and added to the consultation document.

## 2.5. Consultation

The consultation phase can be undertaken directly by Pricing Team or by NFOs or PNs under Pricing Team supervision and guidance. A consultation document is elaborated and sent for stakeholders' feedback, translations may be offered upon request. For all except very minor projects, the NFOs and PNs should receive the consultation document and other relevant material at least two days before distribution among other public stakeholders; and for major projects if possible a week before. The consultation document includes, among other things, one or more options for Fairtrade prices (i.e. FMP and FP), relevant questions on topics where feedback from stakeholders is required and a summary of the findings from the research phase. All stakeholders are asked to comment on the anticipated impacts for producers and the consequences for markets. A consultation period of 30 days normally applies. However, when necessary the consultation period may be reduced to less than 30 days. This might be the case when market opportunities are at stake or production or trade conditions require a quick adaptation of prices. The duration of the consultation period is always specified in the project assignment. Any reduction of consultation periods and the rationale for it are also explicitly mentioned in this document.

During the consultation, the project manager is obliged to take all feedback into consideration. Ideally all feedback is filled in the consultation document provided by the Pricing Team. This makes possible to compare the feedback from different stakeholders and analyse it most objectively. However, all stakeholders are allowed to submit additional information. This will be taken into consideration by the project manager, as long as it is relevant, submitted within the consultation period and its content is relevant to the project.

For major projects, the project manager summarizes the consultation feedback by compiling a consultation results synopsis, which provides an overview of received comments. The consultation results synopsis is published on the Fairtrade International website and is sent to all stakeholders that submitted comments to give the stakeholders the opportunity to submit further comments in writing to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). S&P will make sure that no confidential information is disclosed through the consultation results synopsis.

If after one round of consultations there is a need to resolve further issues, the project manager will engage in a second round of consultation with stakeholders, as described in more detail in the "Standard Operating Procedure (SOP) for Development of Fairtrade Standards".

At the end of the consultation phase, the project manager reviews and analyses all comments from stakeholders and prepares the final Minimum Price and Premium proposal. The final proposal summarizes and conveys the opinions expressed by the stakeholders during the consultation phase. The final Minimum Price and Premium proposal also includes the consulted options, the final proposal and its rationale.

## 2.6. Approval

The final Price and Premium proposal is submitted to either the Head of Pricing (via delegation by the Director of S&P) or to the SC. In case the project manager is not from the Pricing Team, the final Price and Premium proposal is evaluated by the Pricing Team before being submitted for decision making.

The final Price and Premium proposal must be formally approved in order to be introduced as a standard. A Pricing Team Recommendation to the Director of S&P must be presented when the full price review, price extension or the regular Fairtrade price review using the exchange rate and consumer price index methodology is used and the Director of S&P takes the decision. The drafts resulting from minor projects are decided upon by the Director of S&P within 30 days after submission of the draft. The drafts of major projects are referred to the next meeting of SC for decision making.



The SC strives to decide by consensus. However, in case this is not possible, it resumes to alternative procedures defined in the Standards Committee Terms of Reference (TORs). If a price is not approved, the decision making body will provide guidance on needed amendments or on further research required, in order for Fairtrade prices to be approved.

Minutes of the SC meetings are published on the Fairtrade International website. The minutes contain a summary of the discussion, the final outcome and decisions taken as well as an explanation of the rationale. Decisions taken by the Director of S&P and their rationale are summarized when the Standard is announced.

In order to become effective, strategically important Standards decisions of the SC also require ratification by the board. In case of non-ratification, the decision is referred back to the S&P and SC for reconsideration.

## **2.7. Implementation of an approved price**

Once new FMPs and/or FP are approved, they are communicated to affected stakeholders and published on the Fairtrade International website. When appropriate, considerations and background papers are also shared with stakeholders. All documents produced during the project – i.e. price request form, consultation document, consultation synopsis and final Price and Premium proposal as well as other relevant documents - are filed. Following publication, an interim period may be allowed before a FMP becomes effective to give stakeholders the opportunity to prepare for the FMP implementation.

## 3. Full price research procedure

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### 3.1. Introduction

Full price research, characterised by the collection of Cost of Sustainable Production (COSP) data, is the standard operating procedure and can apply to all types of price researches and reviews. For the product categories Fruits and Vegetables, Fresh as well as Prepared & Preserved, a full price research will only be carried out if the product has a global yield FP above 100,000 USD per year and more than five producer organizations (POs) currently certified or, in exceptional cases, the project requires a calculation of cost of production. The products not meeting this threshold and the exceptionality criteria do not undergo a full price research. For those products for which a FMP is to be set, the FMP will preferably be at the ex-works level for the fresh product as well as for processing.

### 3.2. Submission and assessment of a price request

- In addition to the procedure described before, a full price research is categorized as either minor or major. The Director of S&P (if necessary, together with the Chair of the SC), assesses the impact of the developed or reviewed FMP. On the basis of this assessment a full Price research is described as minor or major. For minor projects, approval, prioritization and final decision making is taken by the Head of Pricing. For major projects, these decisions are taken by the SC.

### 3.3. Definition of pricing project scope and planning

The same procedures as described in Chapter 2, Section 2.3.

### 3.4. Research

The same procedures as described in Chapter 2, Section 2.4.

In addition:

This phase involves compiling a package of tailored documents – i.e. research package – that will be used to gather input from producers and internal/external stakeholders. The research package includes the COSP-sheet and a [guidance document](#) about the COSP sheet.

Ex-works (EXW) prices include labour, input and services and capital and investments costs for the following steps of production:

- Establishment of the crop



- Field operations
- Harvest and post-harvest
- Transformation and/or processing
- Product preparation and/or packaging
- Central structure

Free on board (FOB) prices include all EXW costs, and add:

- Export costs – i.e. transport to harbour, costs at harbour and other costs

The relevant project manager sends the COSP research package to all Fairtrade producers and applicants. Producer Networks (PN) may be asked to support the project manager in collecting data, conveying data to the project manager and in facilitating communication between the project manager and producers. If this is the case, the research package is also sent to PNs.

The project manager reviews the data received from producers and, if applicable, from other stakeholders, for consistency and accuracy. It is important that all information required for the development of a final Price and Premium proposal is collected in the research. The outcome of the research phase is compiled, summarized and added to the consultation document.

### **3.5. Consultation**

The same procedures as described in Chapter 2, section 2.5.

### **3.6. Approval**

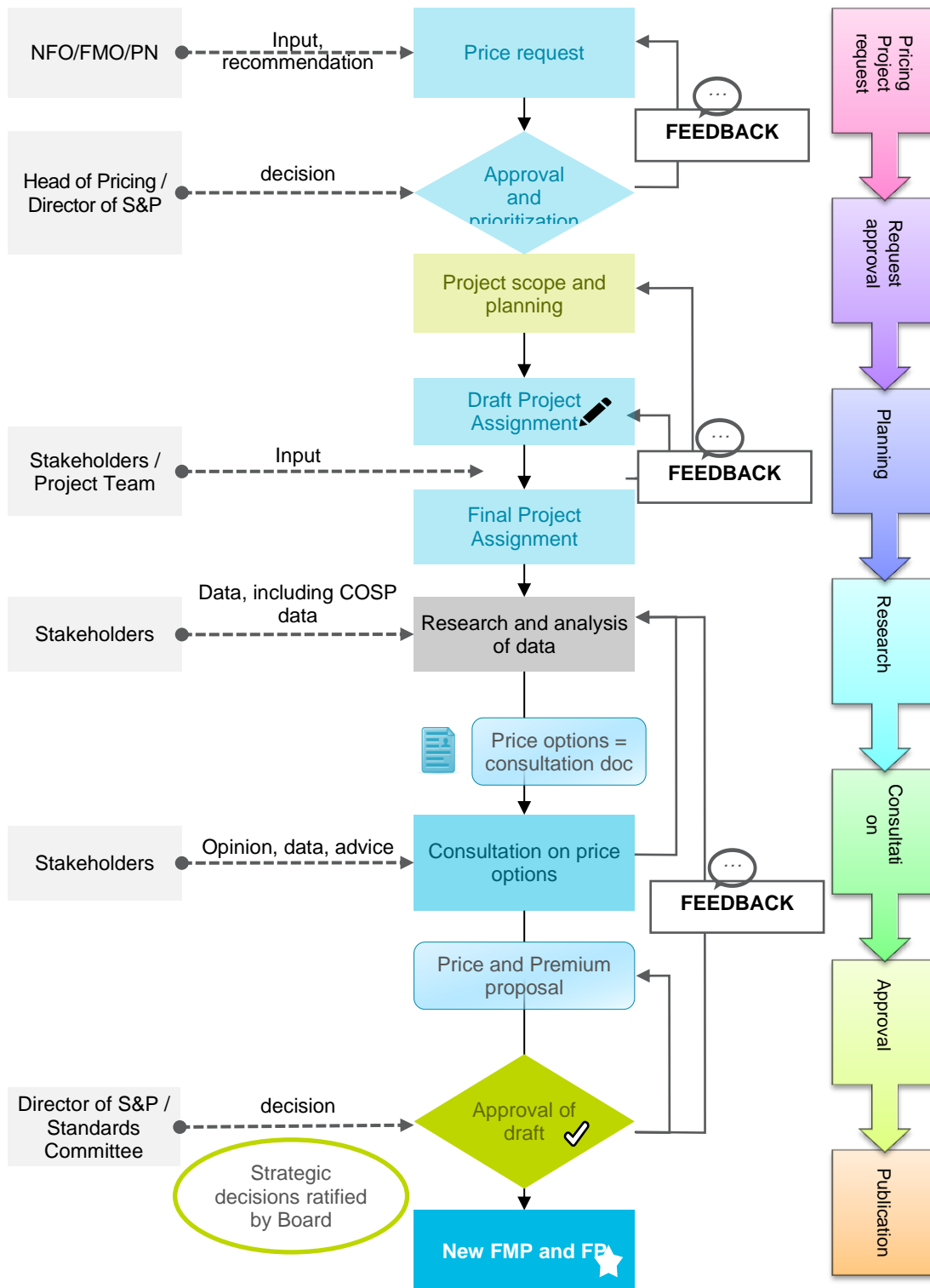
The same procedures as described in Chapter 2, section 2.6.

### **3.7. Implementation of an approved FMP**

The same procedures as described in Chapter 2, Section 2.7.



Figure 1 Steps of a Full Price research procedure





## 4. Price extension procedure

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### 4.1. Introduction

Price extensions are categorized as follows

1. Geographic price extensions
2. Organic differential price extensions
3. EXW/FOB price extension
4. Price for processing extension (for fruits and vegetables only)
5. Producer scope extension, CP to SPO, whenever there is a relevant price for SPOs and the Standards allow for this extension.

In the case of geographical price extensions, a price is developed, by extending the existing FMP and FP from one or more countries to a new country. The research phase does not involve COSP. Instead, existing FMP and FP are studied alongside with real market data and producer input to determine the FMP for the new origin. In cases where reliable FMP and FP do not exist,<sup>2</sup> quick entrance (Chapter 5) is considered.

In the case of organic differential price extensions, a reliable organic differential is calculated. This is then used to extend the FMP from the organic version of a product to the conventional version of the same product from the same origin. Of course this procedure can also be applied for the extension of conventional FMP to organic FMP.

In the case of the EXW/FOB price extensions, the missing EXW/FOB price for a minor product can be derived from the existing EXW/FOB price set for the same/similar product and/or region, without further COSP research. For major products, the EXW/FOB price extension can only be used as an auxiliary tool to complement a full price research in order to fill small gaps in the information collected through the COSP research.

For price extensions in the categories of Fruits and Vegetables, Fresh and Prepared & Preserved from an existing FMP the price extension will be carried out if the product meets the minimum threshold for a FMP to be set i.e. the global FP value is above 100,000 USD per year and more than five certified POs exist. Prices will only be extended to a 'fresh' or to a 'for processing' Fruit or Vegetable, cases

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<sup>2</sup> When no comparison point can be used (e.g. if production systems differ, countries are too different, target group is different).

such as prices “for pulp”, “for juice” will no longer be available. Whenever a price extension is not applicable<sup>3</sup>, a quick entrance procedure (chapter 5) is considered.

The producer scope price extensions from CP to SPO are possible if the Standards are open to SPO set ups to apply for certification for the particular product<sup>4</sup>.

Price extensions are applied on a case-by-case basis, and determined by the Head of Pricing. However, they serve only as interim measures to enable producers to enter the Fairtrade system and are not intended to substitute a full price research. All relevant stakeholders are consulted before a proposal for a price extension is submitted for decision-making.

All price extension types (geographical, organic differential, EXW/FOB and fruit for processing extension) may be combined in a price extension procedure. Price extensions are limited to existing products in existing Fairtrade Product Standards.

## 4.2. Submission and assessment of a price request

The same procedures as described in Chapter 2, Section 2.2.

In addition:

For a price request to qualify for the price extension procedure, the Price Request Form with annex must be included.

In assessing the feasibility of a price extension, the Head of Pricing takes into account the following criteria:

1. Relevant comparison point: same product, similar production system, similar country, same target group
2. For organic differential price extension only: existing and reliable organic differential
3. Existence of reliable comparison point: price level, producer set-up and region
4. Low risk of extending FMP without collecting COSP
5. Potential (positive) impact on producers

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<sup>3</sup> When no relevant comparison point can be used (e.g. if production systems differ, countries are too different, target group is different etc.), or when the product does not yield more than a 100,000 USD FP per year and more than five certified POs exist.

<sup>4</sup> Please refer to the Fairtrade International Standards information available online:  
[http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/standards/documents/2014-05-15\\_List\\_of\\_Fairtrade\\_Standards.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/2014-05-15_List_of_Fairtrade_Standards.pdf)

In cases where there are no relevant or reliable comparison points and a price extension procedure cannot be applied, the quick entrance procedure is considered (see Chapter 5), otherwise, a full price research has to be applied (that is COSP to be collected (see chapter 3). In case a price request is not approved due to a lack in team capacity its delayed approval, the proposing party is informed and may opt to re-submit the price request to Pricing Team at a later date.

### **4.3. Definition of the project scope and planning**

The same procedures as described in Chapter 2, Section 2.3.

### **4.4. Research**

The same procedures as described in Chapter 2, Section 2.4.

In addition:

Under the price extension procedure, the project manager identifies reliable comparison points and collects background information on the price setting of the original price. Furthermore the project manager analyses the requested price extension. Based on the assessment of both the original FMP and the requested price extension a price proposal is developed.

In case of geographical extensions, the extended price is calculated as the average of existing reliable comparison prices. For an organic differential price extension procedure the organic differential is applied to the existing conventional or organic FMP. For the EXW/FOB price extension, the price at the missing EXW/FOB level is calculated on the basis of the existing EXW/FOB price for the same/similar product and/or region. For price extensions in the categories of Fruits and Vegetables, Fresh and Prepared & Preserved from an existing FMP, a price extension from and to a 'fresh' or 'for processing' Fruit or Vegetable will be the only possible option. COSP data do not need to be collected in a price extension procedure but if available, may be considered during the development of price options.

### **4.5. Consultation**

The same procedures as described in Chapter 2, Section 2.5, nevertheless a shorter consultation period may apply due to the small number of stakeholders involved in a price extension project (often one supply chain).

### **4.6. Approval**

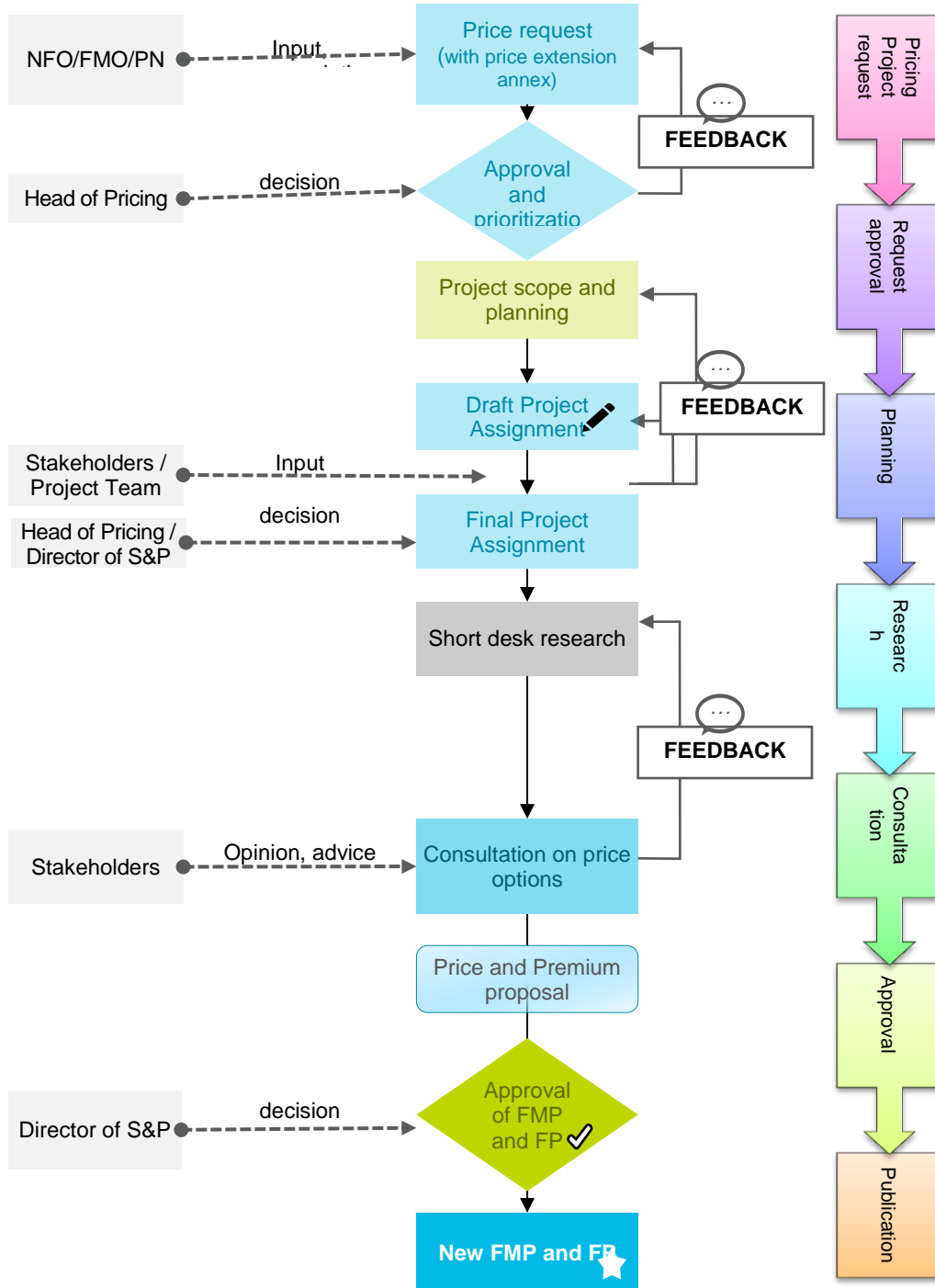
The same procedures as described in chapter 2, section 2.6.



### 4.7. Implementation of an approved price

The same procedures as described in chapter 2, section 2.7.

Figure 2 Steps of a Price Extension procedure



## 5. Quick entrance procedure

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### 5.1. Introduction

The quick entrance procedure allows **minor** products covered by existing Fairtrade Product Standards to enter without a FMP (only with FP), while the Pricing Team monitors the costs of production and market prices. The objective of the quick entrance is to significantly reduce the risk of having outdated prices in the price list and to enable a quick response to pricing requests of minor products. This procedure allows an expedited entrance to Fairtrade as long as the risks associated with its entrance are minimal. In case the quick entrance procedure is approved, only a default FP of 15% of the commercial price of the product will apply, preferably at the ex-works level. After that, the FP may be revised and a FMP set, depending on the feedback received by producers and traders, which may trigger a consultation in which Pricing Team will ask producers and NFOs whether they want a FMP to be set.

### 5.2. Submission and assessment of a price request

A quick entrance request may be submitted to the Pricing Team by Fairtrade International, NFOs, PN's, and FLOCERT or by other Fairtrade stakeholders accepted by the Pricing Team that may channel the request via one of the above mentioned parties.

This procedure is limited to:

- a) New minor products where the product description, trade characteristics and producer set-up fit into the scope of the following Fairtrade Product Standards: Fresh Fruit and Fresh Vegetables, Nuts, Oilseeds & Oleaginous Fruit, and Prepared and Preserved Fruits & Vegetables;
- b) Existing minor products that are in the product categories of Fruits and Vegetables, Fresh as well as Prepared & Preserved, and yield a global FP below 100,000 USD per year, and have fewer than five Producer organizations (POs)
- c) Other minor products covered by other standards not mentioned above, provided they are minor products and the request is approved by the Director of S&P
- d) New origins or new forms of existent minor products (e.g. "for processing" when there are prices for "fresh") covered by Fresh Fruit and Vegetables and Prepared and Preserved Fruits & Vegetables, whenever a price extension is not possible.

To request the addition of a new product a "[Quick entrance request form](#)" has to be completed. This template can be downloaded from the Fairtrade International website (<http://www.fairtrade.net/>) or

requested from the S&P Team, by writing to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). The completed form has to be returned to S&P.

The Head of Pricing will consider and approve or deny the request based on research and assessment of the product. The S&P will inform the proposing party on whether the request has been approved or not. In case the request is not approved or approval is delayed, the proposing party is informed and may decide to re-submit the request to S&P at a later date.

In cases where the quick entrance procedure cannot be applied, the price extension procedure may be considered (see chapter 4), otherwise a full price research must be requested (see chapter 3).

### **5.3. Definition of the project scope and planning**

This is only a procedure. There is no project planning involved.

### **5.4. Research**

A very small amount of research may take place regarding the definition of the product to be certified. No further research takes place.

### **5.5. Consultation**

Additional information about the product might be requested but stakeholder consultation is not compulsory. In case the Head of Pricing considers necessary, a consultation with NFOs on the particular price request may take place in cases where a new product may conflict with the “all that can be must be Fairtrade” rule. This is to be coordinated on a case by case basis with the Cross Border Sales (CBS) group and Exceptions Committee, coordinated by the Licensing team.

### **5.6. Approval**

The quick entrance procedure includes a default percentage for the FP of 15% of the commercial price, preferably at the ex-works level, other more suitable price levels (FOB, CIF, or other) will be evaluated on a case by case basis if needed. Once a request for quick entrance procedure has been approved, Pricing Team adds the product to the Price Table on the Fairtrade webpage.

### **5.7. Implementation of an approved quick entrance procedure**

The same procedures as described in chapter 2, section 2.7 with a formal price announcement to the stakeholders and FLOCERT who are informed of the addition of the new product and Fairtrade Premium in the Price Table.



In cases where the procedure is used to introduce a new product, then the FP applies worldwide. In cases where the procedure is used instead of a price extension, it applies worldwide except for the countries or regions that already have a FMP and FP. For this latter case, once the decision to open for the new region with a quick entrance scheme is taken, it will be announced demonstrating where it is valid, as follows: *worldwide (except country or region(s))*<sup>5</sup>. For instance, if there is a price only for South Africa and producers from another region want to become certified for this product, the FP only scheme will apply worldwide except for South Africa. After this is done, the following actions should be taken: the producers which currently have a FMP and FP can be consulted if they want to keep them; otherwise they can opt for no FMP and 15% of commercial price scheme as well<sup>6</sup>. Producers can agree to keep the FMP and FP, aware that the other new region(s) have none. It is important to note that the producers which abide by the quick entrance scheme can opt to request a FMP and FP if the quick entrance scheme is working against their interest (see below section 5.8). In the case of Fruits and Vegetables, Fresh as well as Prepared and Preserved, which yield a FP of less than 100,000 USD annually and have less than five POs currently certified, producers can opt to request a FMP and FP, as long as there is a justification that a fixed FMP is needed (disadvantaged producers and evidence that COSP are not met by the prices paid).

In addition:

### Application

As soon as a Pricing Team recommendation to Director of S&P is approved, producers and traders worldwide can apply for certification. Upon certification, trade starts and the new FP is applied.

## 5.8. Monitoring

The quick entrance procedure implies an initial period of one full annual production and trading season.

To allow for Pricing Team monitoring, all producers who are certified for products under the quick entrance procedure are requested to submit COSP data to the Pricing Team. Furthermore, the producers might also be requested to inform Pricing Team about sales prices.

Pricing Team can only monitor quick entrance cases if producers submit the above mentioned data. Once COSP and sales prices are collected and analysed by Pricing Team, Fairtrade producers and

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<sup>5</sup> The region which already has FMP and FP set.

<sup>6</sup> In which case, the FMP for that region would be replaced by the Premium model only, with worldwide validity (just by removing the “except country or region”).

PSR will be consulted if there is a need for a FMP and/or for reviewing the FP. Only if COSP have been submitted, Pricing Team is able to proceed with the development of a Fairtrade Minimum Price. In case there is a need, Pricing Team prepares price options based on the information provided, consults all stakeholders (including traders and NFOs) and follows the regular procedures for consultation, approval and implementation of FMPs. If producers do not request a FMP to be set and do not provide COSP data to base a FMP on, the quick entrance period (with a Fairtrade Premium only) will be extended automatically for 2 years.

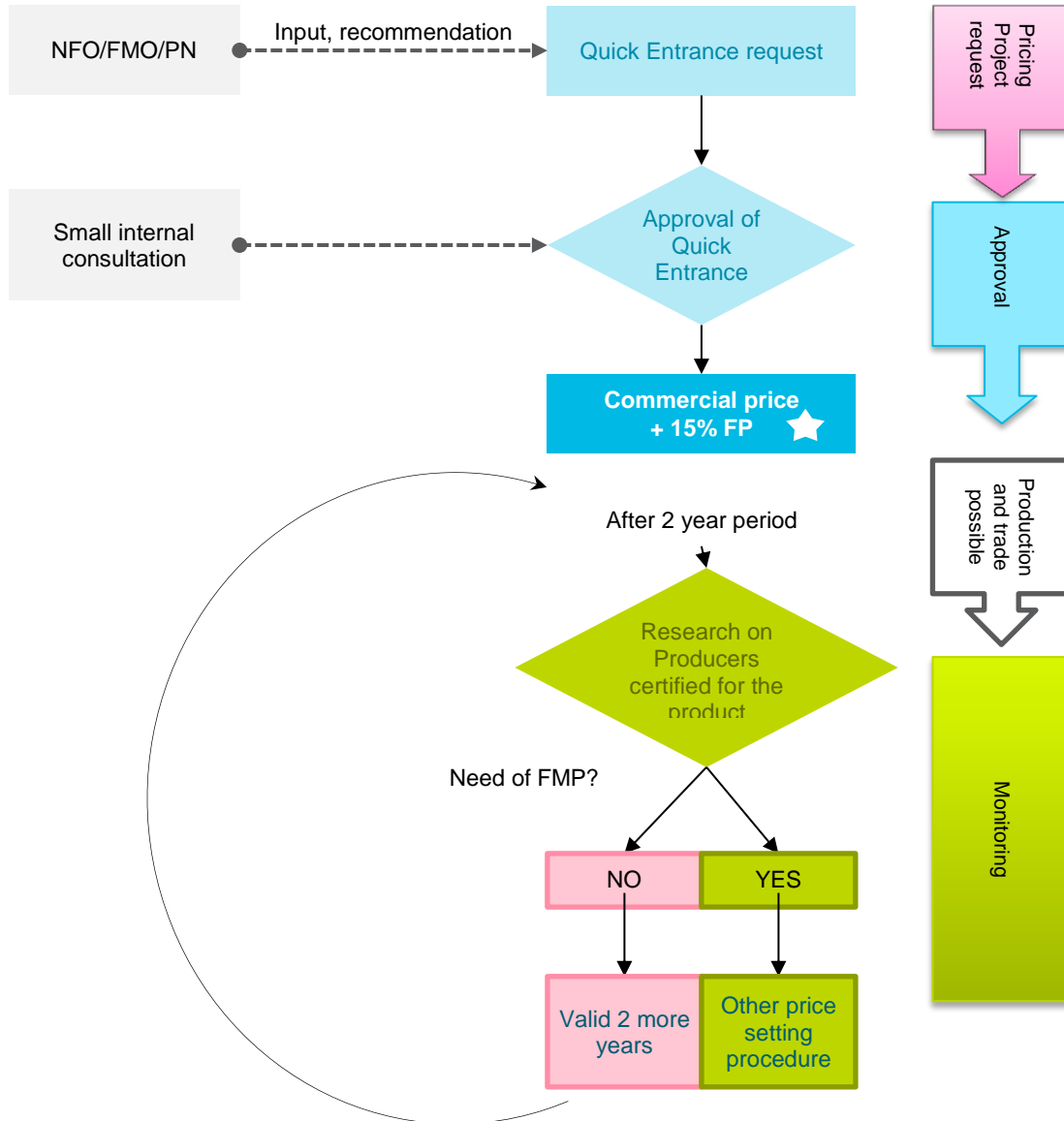
The same procedure applies in cases where the quick entrance procedure is used instead of price extension, i.e. if the producers that remain with the FMP and FP would like to abandon their fixed FMP and FP to adopt the quick entrance scheme, they can request to do so. The opposite also applies in cases where the producers that follow the quick entrance scheme may want to adopt a FMP and FP which may require a full price review, as mentioned before in section 5.7 for Fruits and Vegetables, Fresh and Prepared and Preserved, this applies only when there is a clear justification for the need of a fixed FMP.

If there is a request for another price setting project (going beyond setting a default FP for the quick entrance product), stakeholders are requested to submit a pricing project request form. A new project would then start, following the steps (of the selected price setting procedure) described in this SOP.





Figure 3 Steps of a Quick Entrance procedure





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## 6. Regular Fairtrade price review using the Exchange Rate and Consumer Price Index (ER&CPI) methodology

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### 6.1. Introduction

The exchange rate and consumer price index methodology (E&C) is used to verify the stability of the real value (purchasing power) of Fairtrade prices in order to mitigate the negative impact of currency and price fluctuations. It might be applied in two situations:

- a) As an auxiliary tool in a full price research or a price extension procedure to assess the real value of Fairtrade prices taking into account currency and consumer price fluctuations. The E&C methodology does not replace costs of sustainable production, but should be used as additional information for decision making.
- b) As a main tool for regular price reviews, it applies on a case-by-case basis on a 2-year cycle after FMPs have been set through a full price research and stakeholders have agreed on having regular price reviews using exchange rate and consumer price index. A full price research (with COSP data collection) is still applied every 8 years or earlier if required.

A detailed explanation on how to implement the calculation is provided by the guidance document '[Fairtrade International Exchange rate and Consumer price index methodology](#)'.

The following procedures are only used when the E&C methodology is used as a main tool in a regular price review.

### 6.2. Submission and assessment of a price request

It is not required to submit the price request form. Regular price reviews are conducted according to terms agreed on in the full price research and in accordance with the Pricing Team work plan.

### 6.3. Definition of the project scope and planning

The same procedures as described in chapter 2, section 2.3.

### 6.4. Research

Pricing Team undertakes the research. Information on currency and consumer index developments in countries producing the concerned Fairtrade product is used.



The outcome of the research phase is the preparation of an internal research report where the relevant calculations are compiled and summarized. This report serves as a base for developing the consultation document and builds institutional memory for future consultations.

### **6.5. Consultation**

The same procedures as described in chapter 2, section 2.5.

### **6.6. Approval**

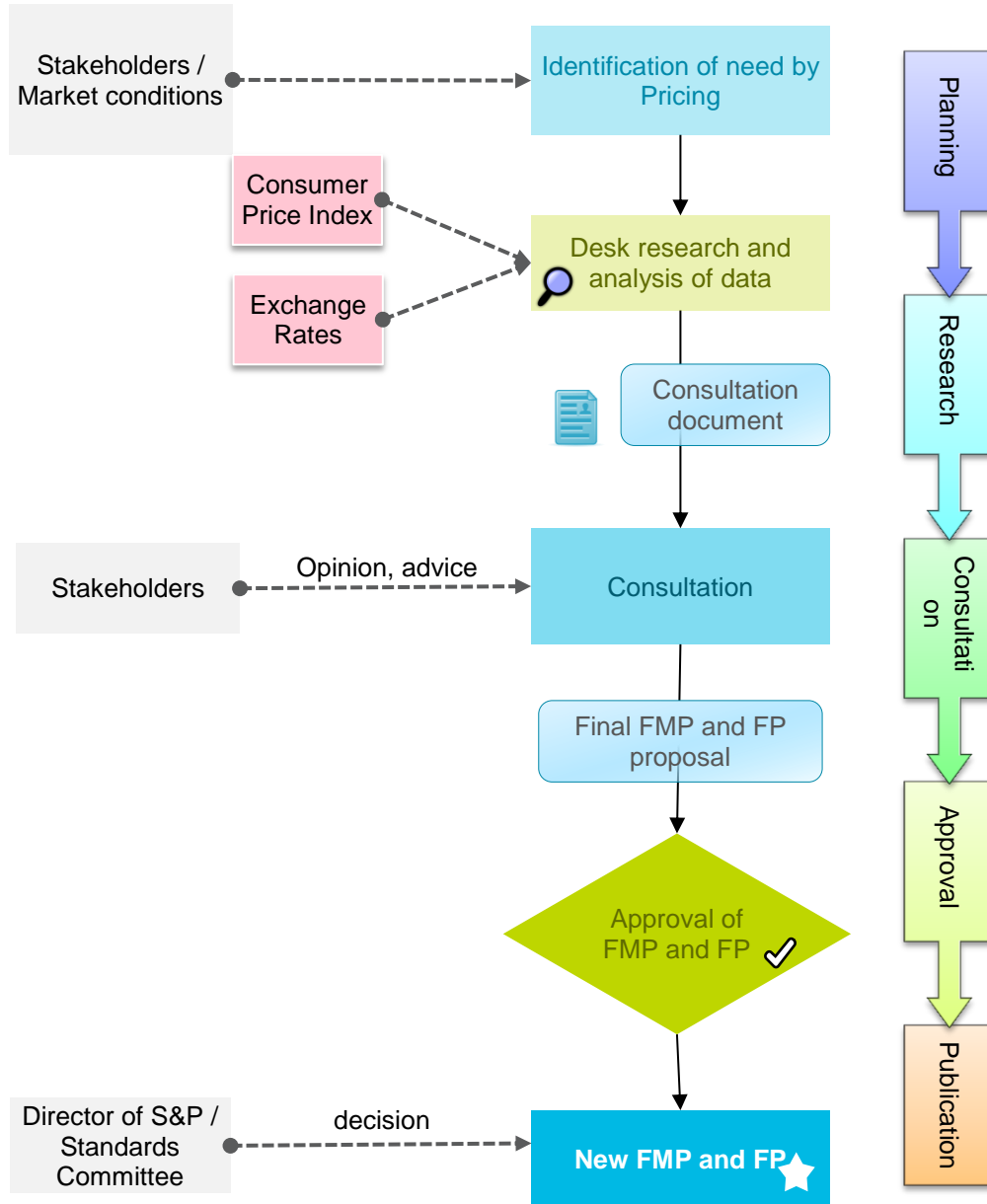
The same procedures as described in chapter 2, section 2.6.

### **6.7. Implementation of an approved price**

The same procedures as described in chapter 2, section 2.7.



Figure 4 Steps of a ER&CPI methodology used in a price review



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## 7. Procedure for herbs and spices

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### 7.1. Introduction

For most herbs and spices, Fairtrade does not have Fairtrade Minimum Prices, but only a Fairtrade Premium; a percentage of the commercial price at ex-works level. The list of products which are considered herbs and spices can be found on the Fairtrade International website<sup>7</sup>. It is possible to request S&P to add new products to this list.

### 7.2. Submission and assessment

Any stakeholder can propose a new product to be added to the list of herbs and spices. Only products which are mentioned on this list can be certified as Fairtrade herbs and spices. To request a new product to be added to the list, the herbs and spices request template has to be filled out. This template can be requested from the S&P Team, by writing to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). The completed form has to be returned to S&P.

A small team of S&P including Head of Pricing will consider the **H**erbs and **S**pice request. In addition S&P may do a small amount of research into the product to support the assessment. S&P will inform the proposing party of whether the herbs and spices request has been approved. In case a **H**erbs and **S**pice request is not approved or its approval is delayed, the proposing party may decide to re-submit the request to S&P at a later date.

### 7.3. Definition of project scope and planning

This is only a procedure. There is no project planning involved.

### 7.4. Research

A very small amount of research may take place in the assessment phase. No further research takes place.

### 7.5. Consultation

No stakeholder consultation takes place.

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<sup>7</sup> Link to herbs and spices list:  
[www.fairtrade.net/fileadmin/user\\_upload/content/2009/standards/documents/2011\\_08\\_10\\_FT\\_Herbs\\_Spices\\_List.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/2011_08_10_FT_Herbs_Spices_List.pdf)



## 7.6. Approval

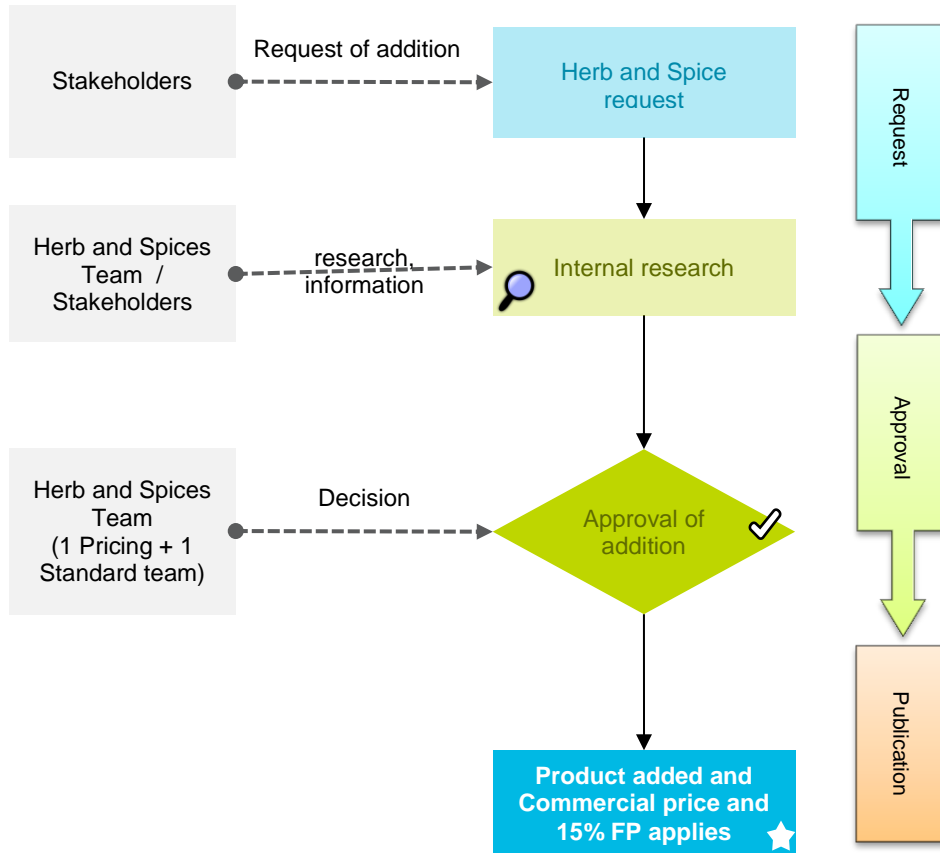
Once a herbs and spices request has been approved, Pricing Team adds the product to the list of eligible herbs and spices. There will not be a Fairtrade Minimum Price. The Fairtrade Premium is fixed at a percentage of the commercial price EXW for the product traded, excluding the costs of packaging.

## 7.7. Implementation of an addition to the herbs and spices list

When a new product has been added to the herbs and spices list, the updated list is uploaded to the website of Fairtrade International and Flocert is informed. From that moment on, operators can apply for certification for that product by contacting Flocert.



Figure 5 Steps of a Herbs and Spices addition procedure



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## 8. Price suspension procedure

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### 8.1. Introduction

The Director of S&P and the SC can suspend an existing FMP if the existence of the FMP does not serve its intended purpose. This is the case when the existence of the FMP has a demonstrated negative impact on producers, e.g. when a FMP impedes producers' ability to trade. A price suspension can be considered an interim measure that shall trigger a subsequent price review with the aim to establish a FMP that serves its purpose. The following procedures apply for a price suspension:

### 8.2. Submission and assessment of a price suspension

A price suspension may be proposed to the Pricing Team by Fairtrade International's Units, the Fairtrade producer networks, NFOs or by other Fairtrade stakeholders accepted by the Pricing Team. A price suspension can only be requested through the submission of a price suspension request form addressed to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net).

The price suspension request form contains a justification of the need for the price suspension and assessment of whether the need will be addressed with the price suspension. It also outlines clear objectives of the price suspension and includes an assessment of the risks associated with the price suspension and how to mitigate them. A price suspension request includes a risk assessment of leaving the FMP in place and a justification for the proposed date and duration of the suspension as well as a plan on how to develop a suitable FMP.

The Head of Pricing – together with the Director of S&P if necessary – will consider the price suspension request, taking into account all information provided on the price suspension request form as well as organizational and S&P objectives. The Head of Pricing will inform the proposing party of whether the price suspension request has been approved. In case a price suspension request is not approved or its approval is delayed, the proposing party may decide to re-submit the price suspension request to Pricing Team at a later date.

### 8.3. Definition of project scope and planning

Once a price suspension request has been approved, Pricing Team starts with stakeholder mapping. This includes the identification of the relevant parties to the project, definition how they are going to be engaged, the way of communication and the setting of stakeholder participation targets. The project manager also checks the information provided on the price suspension request form and sets a time frame for the project. The outcome of this is a draft proposal for price suspension. This document



includes the same types of information as the price suspension request, but in addition informs about the process, including timelines and opportunities to contribute (including contact information) and lays out how decisions are made and who makes them.

#### **8.4. Research**

This stage is not included in the price suspension procedure, which is considered an interim measure only.

#### **8.5. Consultation**

The draft proposal for price suspension is published on the Fairtrade International website ([www.fairtrade.net](http://www.fairtrade.net)) and shared with identified stakeholders for at least 2 weeks. Interested parties can submit their feedback within two weeks from its publication by filling in the price suspension feedback form and emailing it to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). The price suspension feedback form can be found on the website.

Based on the consultation feedback a draft price suspension proposal can be amended if there is a need to do so, before submitting a [Final Proposal for Price Suspension](#) for approval. This final proposal shall indicate the details of the suspension, for instance if there is a need to suspend the FP as well as the FMP and other details of the proposal.

#### **8.6. Approval**

The final proposal for price suspension is submitted to the Director of S&P. For minor projects, the Director of S&P will take a decision on it, whereas for major projects the Director of S&P decides together with the chair of the SC who may consult the entire SC if deemed necessary.

Decisions are summarized when the price suspension is announced. If the final proposal for price suspension is approved, the price will be suspended per the date indicated on the final proposal for price suspension. This date is indicated in the “Timeline” table in section 1 of the final proposal for price suspension, unless the feedback obtained during the consultation justifies another implementation date.

If a final proposal for price suspension is not approved, the Director of S&P will provide guidance on needed amendments or on further research required, for the price suspension to be approved.

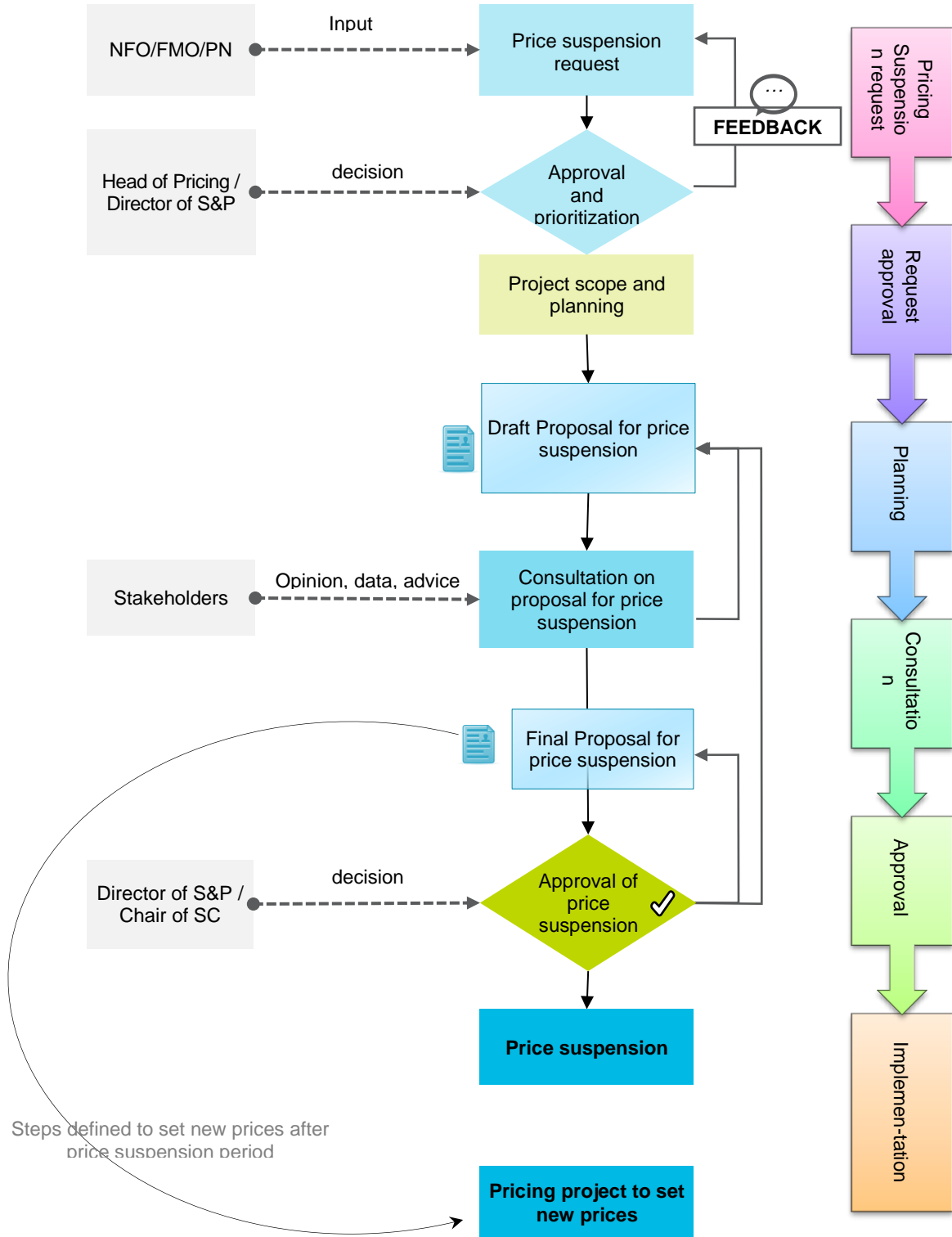
#### **8.7. Implementation of a price suspension**



If a price suspension is approved, this will be communicated to affected stakeholders and published on the Fairtrade International website. When appropriate, considerations and background papers are also shared with stakeholders. All documents produced during the project – i.e. the price suspension request form or the final proposal for price suspension as well as other relevant documents - are filed. The specific conditions of the price suspension (e.g. timelines, plan for the development of a suitable price, and next steps) are found in the approved final proposal for a price suspension.



Figure 6 Steps of a Price Suspension procedure





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## 9. Other issues

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### Training, evaluation, monitoring, review cycle, complaints and further information.

See “Standard Operating Procedure (SOP) Development of Fairtrade Standards”.

### Documentation

All records related to a project are kept for at least five years. Electronic copies are kept and backups are made as often as deemed necessary. The hard copies of project related documents are made available to the public upon request, taking into account confidentiality constraints. S&P will ensure that no confidential information is distributed.

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## 10. References and templates

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General reference:

- SOP Development of Fairtrade Standards

General public templates:

- SOP complaints form
- Herbs and spices request form

Public templates used in price researches:

- Pricing project request form
- Project assignment
- Project assignment feedback form
- Collection of COSP package: COSP sheet, guidance document
- Consultation document
- Consultation results synopsis
- Pricing Team Recommendation to Director of S&P
- Price announcement

Additional templates specific to the exchange rate and consumer price index methodology

- Guidance document “[Fairtrade International Exchange rate and Consumer price index methodology](#)”

Additional templates specific to the price suspension procedure:

- Price suspension request form
- Proposal for price suspension (draft and final version)
- Form for feedback on the draft proposal for price suspension

Abbreviations

CBS	Cross Border Sales
COSP	Costs of sustainable production
CP	Contract Production
CPI	Consumer price index
ER	Exchange rate
EXW	Ex-works



FMP	Fairtrade Minimum Price
FOB	Free on Board
FP	Fairtrade Premium
FT prices	Fairtrade prices, this term includes both prices: FMP and FP
FT pricing projects	Fairtrade pricing projects
FT producers	Suppliers of Fairtrade products
FT products	Fairtrade products
NFO	National Fairtrade Organization
PN	Fairtrade producer networks
POs	Producer Organizations
PSR	Producers Services and Relations Unit
SC	Standards Committee
SOP	Standard Operating Procedure
S&P	Standards and Pricing
Standards	Fairtrade Standards

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Figure 7 Stages of production included in a COSP sheet

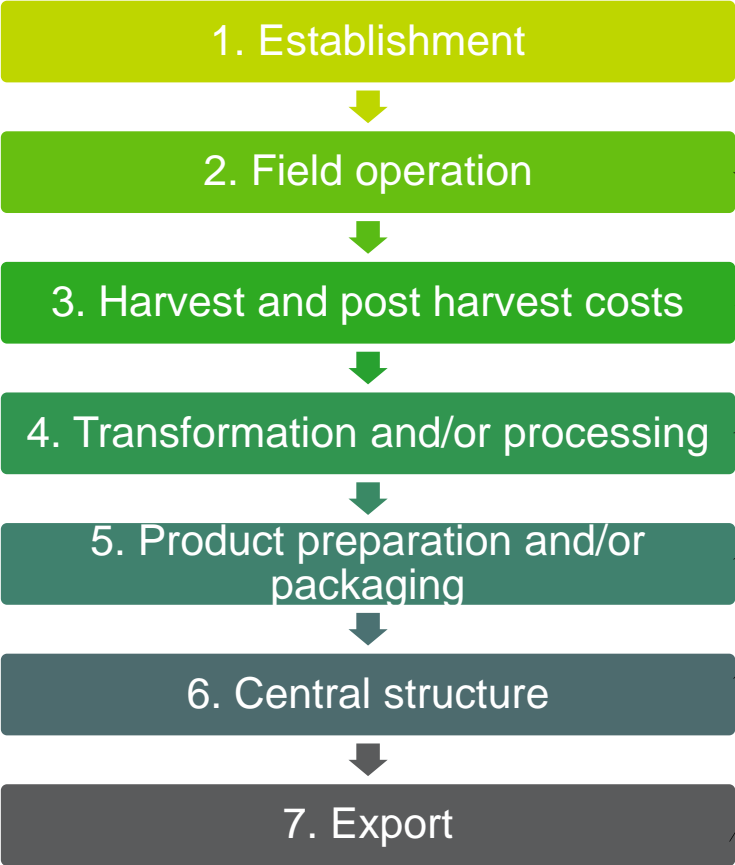
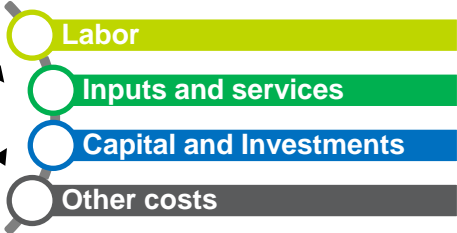


Figure 8 Items per stage of production in a COSP sheet





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