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| **Consultation document for Fairtrade Stakeholders:**  Review of Minimum Prices and Premiums  for semi-processed cocoa products **purchased directly from certified producers** | |
| **Consultation Period** | 01.10.2014 - 01.11.2014 |
| **Project Manager Contact Details** | Malaika Neri, Project Manager Pricing m.neri@fairtrade.net | +49 228 949 23 264 |

**PART 1: INTRODUCTION**

1. General Introduction

Fairtrade International’s Pricing team is currently reviewing the Fairtrade Standards sections on Prices and Premiums for **semi-processed cocoa products purchased directly from certified producers** (4.3.2 and 4.3.3 of the Cocoa Product Standard) to obtain stakeholder views on proposals for the Fairtrade Minimum Prices and Fairtrade Premiums for semi-processed cocoa products (liquor, powder and butter) **purchased directly from certified producers**.

These proposals are not definitive; your feedback is important in helping us to develop final recommendations, balancing the interest of all stakeholders. In November 2014, the Standards Committee (SC) will review the recommendations and decide on changes to be valid as of 1 January 2015.

Your contribution is crucial and this questionnaire is the best way to communicate your individual response and helps us better understand common issues and challenges. Please include a rationale or analysis with your answer, so that we can understand your arguments.

**Please complete and send this questionnaire (along with any questions you may have) by 1 NOVEMBER, 2014 to Malaika Neri, Project Manager at Fairtrade International,** m.neri@fairtrade.net.

1. Background

This project concerns prices of semi-processed products (cocoa liquor, butter and powder) sold by those Fairtrade-certified small producer organizations who have the capacity to grind and process cocoa beans and to sell cocoa products.

These Prices and Premiums do not apply to producers who sell only beans for processing nor to other Fairtrade certified operators (other than Fairtrade certified small producer organizations) selling semi-processed cocoa products. In case Fairtrade producers sell beans which are subsequently processed by other certified operators, only Fairtrade Minimum Prices and Premiums for cocoa beans apply.

Stakeholders and FLO-CERT have reported that the current Fairtrade Pricing and payment requirements for semi-processed cocoa products (sections 4.3.2 and 4.3.3 of the Cocoa Product Standard) are difficult to understand. The wording and rules should therefore be simplified.

1. Objectives

This price review for semi-processed products aims to:

* Simplify the pricing model for semi-processed cocoa products
* Set realistic and viable prices for semi-processed products
* Offer fair remuneration to producers for their semi-processed products
* Encourage producers to process, to benefit from adding value to their cocoa beans.

**(The Fairtrade Prices, Premiums and payment terms for cocoa beans are currently not under review**).

1. Project and Process Information

The public project assignment for this review can be found on the Fairtrade International website.

Progress to date and next steps

|  |  |
| --- | --- |
| **JANUARY**  **FEBRUARY** | * Define scope and project planning * Contact key stakeholders (NFOs, PN) to define the objectives of the project |
| **MARCH**  **APRIL**  **MAY**  **JUNE**  **JULY**  **AUGUST**  **SEPTEMBER** | * Contact producers and collect data on cocoa butter, powder and liquor costs of sustainable production * Research production system * Compile and analyse information * Prepare proposal for consultation |
| **OCTOBER** | * Consult stakeholders   In the consultation phase, stakeholder feedback (including agreement or disagreement with the proposal, and arguments for or against) is requested on the different identified options, from all concerned stakeholders (including, but not limited to producers, traders, NFOs). Based on the stakeholder feedback, we will select the most accessible and appropriate option for recommendation to the Standards Committee for decision-making. |
| **NOVEMBER** | * Compile responses from the consultation process * Prepare final price proposal for Standards Committee decision * **10 November**: Submit final proposal for review to Standards Committee members * **26 November**: Standards Committee takes final decision on price proposal |
| **DECEMBER** | * Publish new/revised Standards, including the new requirements concerning Fairtrade Minimum Prices and Premiums for semi-processed cocoa products |
| **JANUARY 2015** | * Proposed date of validity of the new requirements concerning Fairtrade Minimum Prices and Premiums for semi-processed cocoa products purchased from certified producers |

1. Confidentiality

All information from respondents will be kept confidential. Results of this consultation will only be communicated in aggregated form. All feedback will be analysed and used to draw up the final proposal. However, when analysing the data and in case we have questions (for clarification), we need to know which responses are from which producers, traders, licensees, etc. so we kindly ask you to identify yourself below.

1. Acronyms and definitions

**COSP:** Cost of Sustainable Production includes the costs of sustainably producing a product, based on social, economic and environmental compliance with Fairtrade Standards.

**FMP:** Fairtrade Minimum Price is the lowest possible price that may be paid by buyers to producers for a product to become certified against the Fairtrade standards.

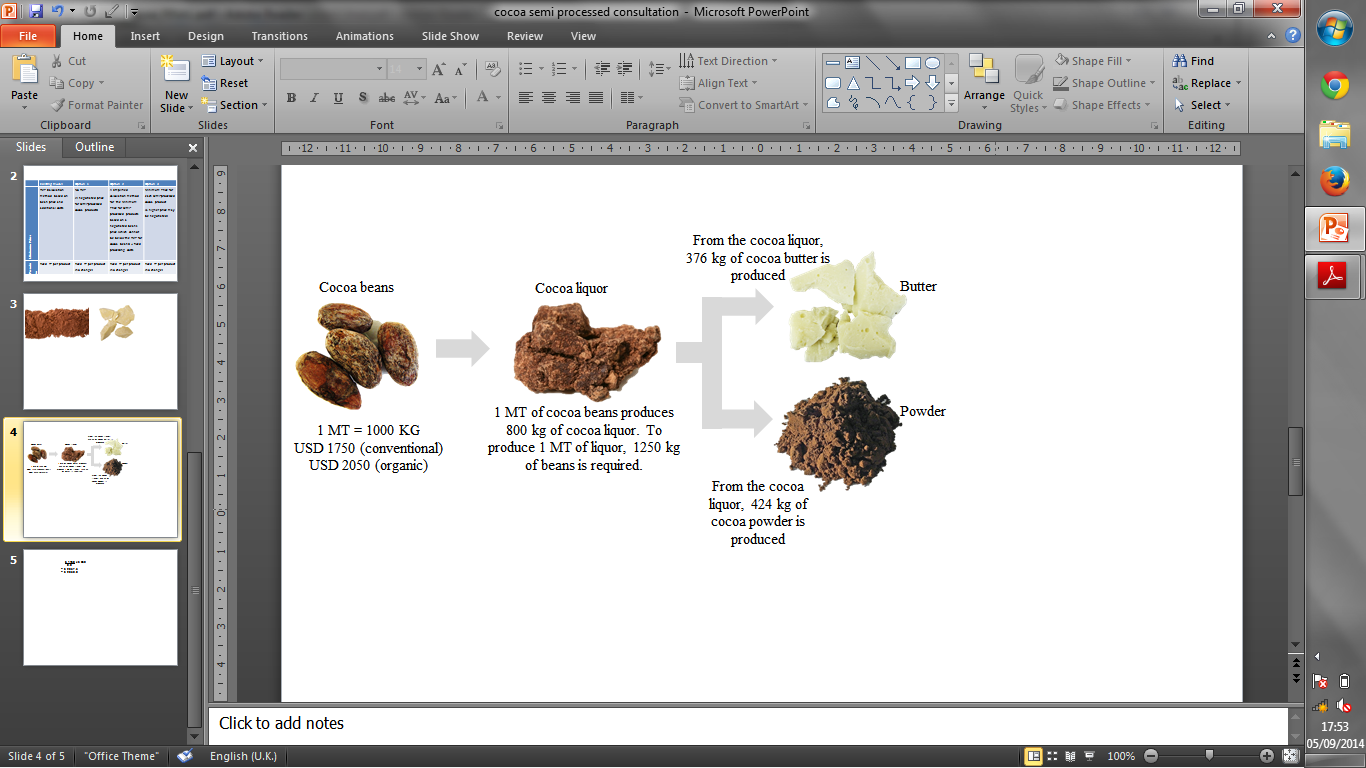
**FP:** Fairtrade Premium is an amount paid to producers in addition to the payment for their products. The Fairtrade Premium is intended for investment in the producers’ business and community (for a small farmers’ organization or contract production set-up) or for the socioeconomic development of the workers and their community (for a hired labour situation).

**SPO:** Small Producer Organization

**LO/RC:** Liaison Officer/Regional Coordinator, Fairtrade International: staff working to assist producers in the producing countries

**NFO:** National Fairtrade Organization, Fairtrade country organizations in the consumer markets

**PN:** Producer networks, regional Fairtrade organizations in the producer markets



**Image 1: Simplified cocoa processing chain**

**PART 2: CONSULTATION**

1. Information about you and your organization

|  |  |  |  |
| --- | --- | --- | --- |
| NAME | *Your first name and surname here.* | | |
| TELEPHONE NUMBER | | | *Your telephone number* |
| EMAIL ADDRESS | | *Your email address* | |

|  |  |  |  |
| --- | --- | --- | --- |
| ORGANISATION NAME | | | *Enter the name of your organisation* |
| ROLE | *Choose a role* | | |
| FLO-ID | *Your FLO-ID here.* | | |
| COUNTRY | *In which country is your organisation located?* | | |
| CONSULTATION DESCRIPTION | | *Please describe the consultation you carried out with members of your organisation, with partners or with external sources of information in order to complete this document.* | |

1. Questions for stakeholder feedback.

Below we explain the four options for calculating an FMP for semi-processed cocoa products, and provide questions for your feedback and inputs. We very much appreciate your feedback and detailed arguments for the answers. Answer boxes expand to fit your response; long answers are most welcome.

###### Semi-processed products FMP calculation options

In the table below, three different Fairtrade Minimum Price options for cocoa semi-processed products are presented for your consideration, next to the current model (for your reference). We are looking forward to knowing your preference and why.

**Table 1: FMP calculation options**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YOUR CHOICE** | **CURRENT MODEL** | **OPTION 1** | **OPTION 2** | **OPTION 3** |
| **FAIRTRADE MINIMUM**  **PRICE** | FMP = Bean price + additional costs | No FMP; a negotiated price for semi-processed products | Raw material input price (for the amount of beans used) + fixed processing costs | Individual FMP for each semi-processed product (see below for examples) [[1]](#footnote-1) |
| **FAIRTRADE**  **PREMIUM** | **YES** | **YES** | **YES** | **YES** |
| **BENEFIT** |  | Producers have great flexibility in negotiating prices in line with changing market ratios for semi-processed products | Fixed set and transparent processing costs that must be paid and simplified calculation | Guarantees producers a floor price |
| **RISK** | Complicated calculation process | Expectation that Fairtrade is moving away from minimum prices which is not the case for raw materials | Using bean FMP as basis for semi-processed product FMP may not be appropriate to market fluxes and/or potentially disadvantage producer negotiations by starting with a lower floor price | Established but higher floor price may disadvantage negotiations and be inappropriate to market fluxes |

###### Detailed explanations of FMP calculation options.

Below, we explain the four models in detail. For the current Standards, please see [section 4.3.2 and 4.3.3 (in Appendix 1) of the cocoa product Standard](http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/2013-12-19_EN_SPO_Cocoa_final.pdf).

1. Current model: FMP = Bean Price + additional costs

The current model proposes an FMP for semi-processed cocoa products based on the cost of the amount of beans required to produce one metric ton of the semi-processed product, plus the processing costs. This model is described in Appendix 1.

This model has been reported to have a complicated calculation process.

**Q1.A. Should we retain this model ?** *Agree or disagree*

**Q1.B.** Do you have questions or comments on this model?

**Q.1.C. Do you propose an alternative different from the options listed below?** Click here to enter text.

1. Option 1: No FMP, and a negotiated price for semi-processed products

This option enables producers to negotiate a price they feel is appropriate to market fluxes, but risks leaving them vulnerable to sharp drops in the market price or to preying buyers.

**Q2.A. Should we retain this model?** *Agree or disagree*

**Q2.B.** Do you have questions or comments on this model?

**Q.2.C. Do you propose an alternative?** Click here to enter text.

1. Option 2: Fixed processing costs

This option is based on an FMP calculated by adding the price of the amount of cocoa beans used to create one metric ton of the semi-processed product to a fixed processing price.

1 MT of conventional cocoa beans before estimated export costs = USD 1750 and

1 MT of conventional cocoa butter requires 2.66 MT of cocoa beans

1 MT butter = 2.66 x 1750 = USD 4655 🡨 raw material costs from beans.

Raw material costs/price of the beans is negotiated by the producer based on the volume of beans needed to produce the semi-processed product, starting with the FMP as a floor price.

Add processing costs for butter at USD 1000 per metric ton.

Total butter costs for 1MT = 4655 + 1000 = USD 5655.

Below, we propose the various processing costs, directly gleaned from a rounded estimate of the Cost of Sustainable Production (COSP) of liquor, powder, and butter for SPO’s producing these products.

Under this scheme, were a buyer to purchase liquor and butter at the same time, for example, he would simply pay the processing costs proportional to the amount of the semi-processed product he has purchased.

E.g., A buyer purchases 1MT of liquor and 0.5 MT of butter. He therefore pays the producer USD 650 for the liquor and USD 400 for the butter in processing costs, in addition to the negotiated price for the products themselves.

Please state your opinion following the tables.

**Table 3: Fairtrade processing costs proposal for feedback**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **U.S. DOLLARS per METRIC TON** | **LIQUOR** | **POWDER** | **BUTTER** | **QUESTIONS/ COMMENTS/ SUGGESTIONS** |
| **PROCESSING COSTS** | **650***Agree or disagree* | **1000** *Agree or disagree* | **800**  *Agree or disagree* | *Click here to enter text.* |

|  |  |  |  |
| --- | --- | --- | --- |
| **U.S. DOLLARS per METRIC TON** | **LIQUOR** | **POWDER** | **BUTTER** |
| **AVERAGE PROCESSING COSTS** | **625** | **642** | **933** |
| **AVERAGE COSTS ROUNDED** | **650** | **800** | **1000** |

These processing costs were calculated after surveying SPOs processing cocoa beans for their average costs of sustainable production (COSP) and adjusting for reporting errors, as follows:

**Q3.A. Should we retain this model?** *Agree or disagree*

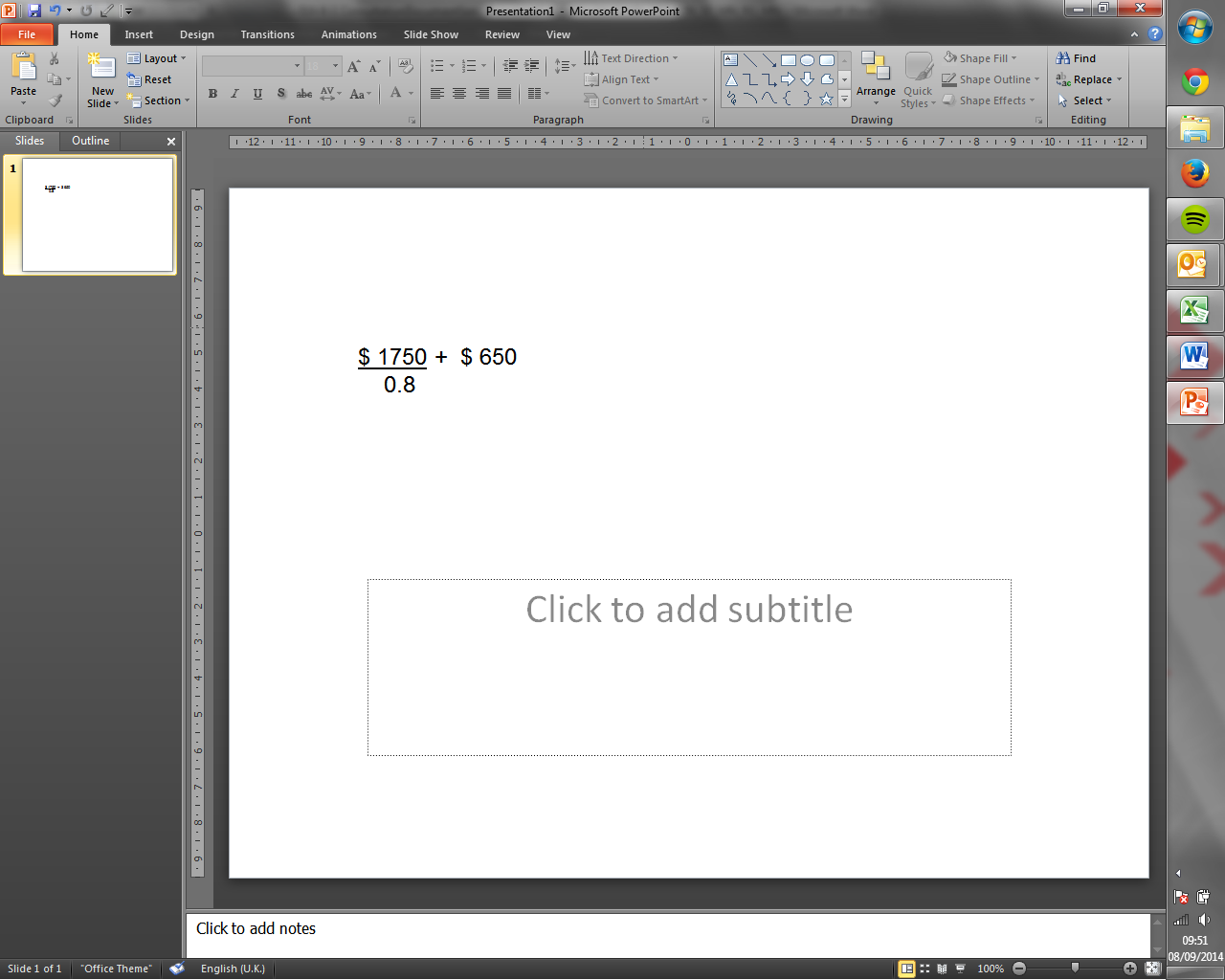
**Q3.B.** Do you have questions or comments on this model?

**Q.3.C. Do you propose an alternative?** Click here to enter text.

1. **Option 3:** Individual FMP for each semi-processed product

This option consists of a Fairtrade Minimum Price for each semi-processed product using the processing rations of 0.8 for liquor, 0.376 for butter and 0.424 for powder, calculated as follows:

To calculate the FMP for cocoa liquor, we used the price of cocoa beans minus estimated export costs averaged at USD 250 per MT (USD 1750 per MT of beans), a processing ratio of 0.8 (the ratio of liquor produced from 1 MT of beans), add the processing costs mentioned above, and then round up.



= $ 2187.5 + $ 650

= $ 2837.5

= $ 2850 (USD)

**Table 4: CONVENTIONAL BEANS: Fairtrade Minimum Price proposals for semi-processed products**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **U.S. DOLLARS per METRIC TON** | **LIQUOR** | **POWDER** | **BUTTER** | **BUTTER (0.38 MT) + POWDER (0.42 MT)** | **QUESTIONS/ COMMENTS/ SUGGESTIONS** |
| **FMP CONVENTIONAL** | **2850**  Agree/disagree | **4950** Agree/disagree | **5650**  Agree/disagree | **3100**  Agree/disagree | Click here to enter text. |
| **PREMIUM** | **250** Agree/disagree | **470** Agree/disagree | **530** Agree/disagree | **250**  Agree/disagree | Click here to enter text. |
| **NET MINUMUM PAYMENT (price plus premium) TO PRODUCER** | **3100** | **5420** | **6180** | **3350** | Click here to enter text. |

**Table 5: ORGANIC BEANS: Fairtrade Minimum Price proposals for semi-processed products**

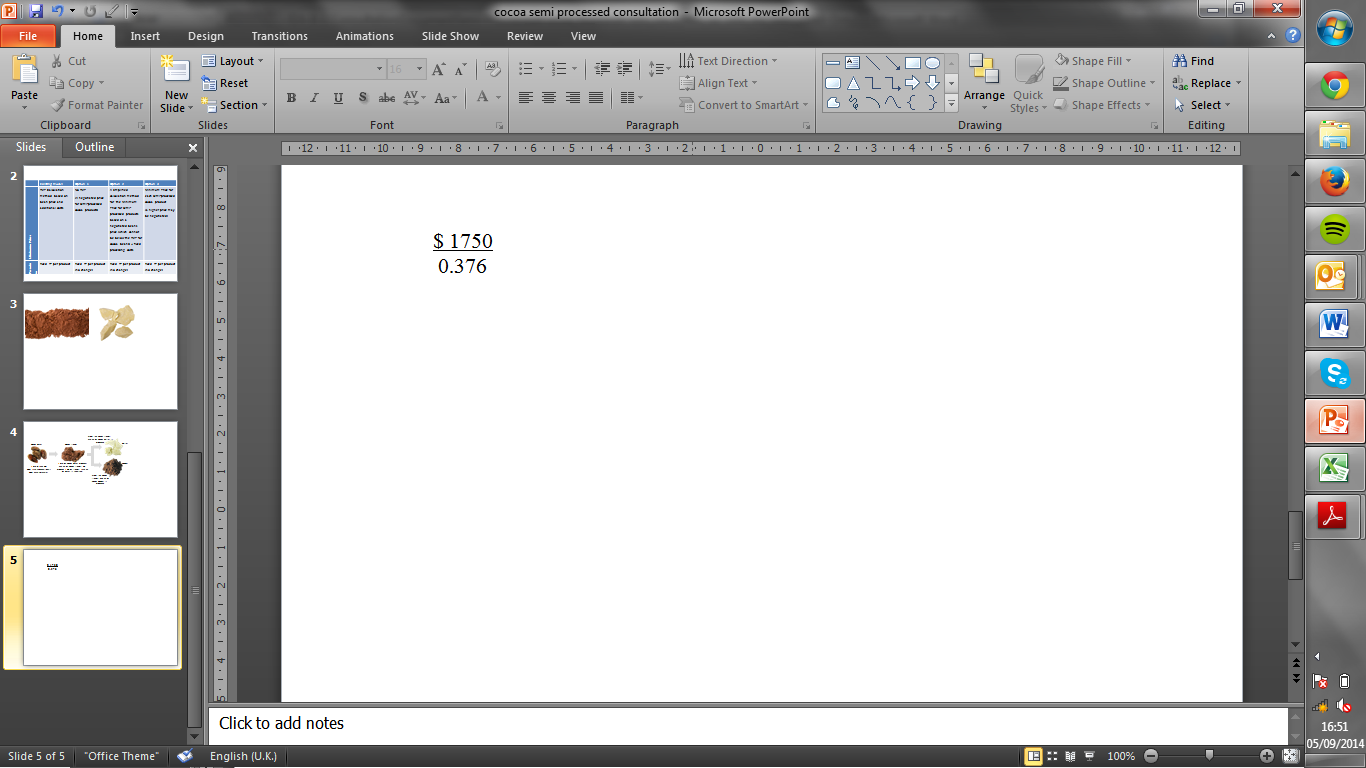
|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **U.S. DOLLARS per METRIC TON** | **LIQUOR** | **POWDER** | **BUTTER** | **BUTTER + POWDER** | **QUESTIONS/ COMMENTS/ SUGGESTIONS** |
| **FMP ORGANIC** | **3200** Agree/disagree | **5650** Agree/disagree | **6450** Agree/disagree | **3450** Agree/disagree | Click here to enter text. |
| **PREMIUM** | **250** Agree/disagree | **470** Agree/disagree | **530** Agree/disagree | **250** Agree/disagree | Click here to enter text. |
| **NET MINUMUM PRICE TO PRODUCER** | **3450** | **6120** | **6980** | **3700** | Click here to enter text. |

These prices were calculated using processed costs rounded up based on a producer survey as described in Option 2.

**TWO PRODUCTS PURCHASED UNDER THE SAME CONTRACT**

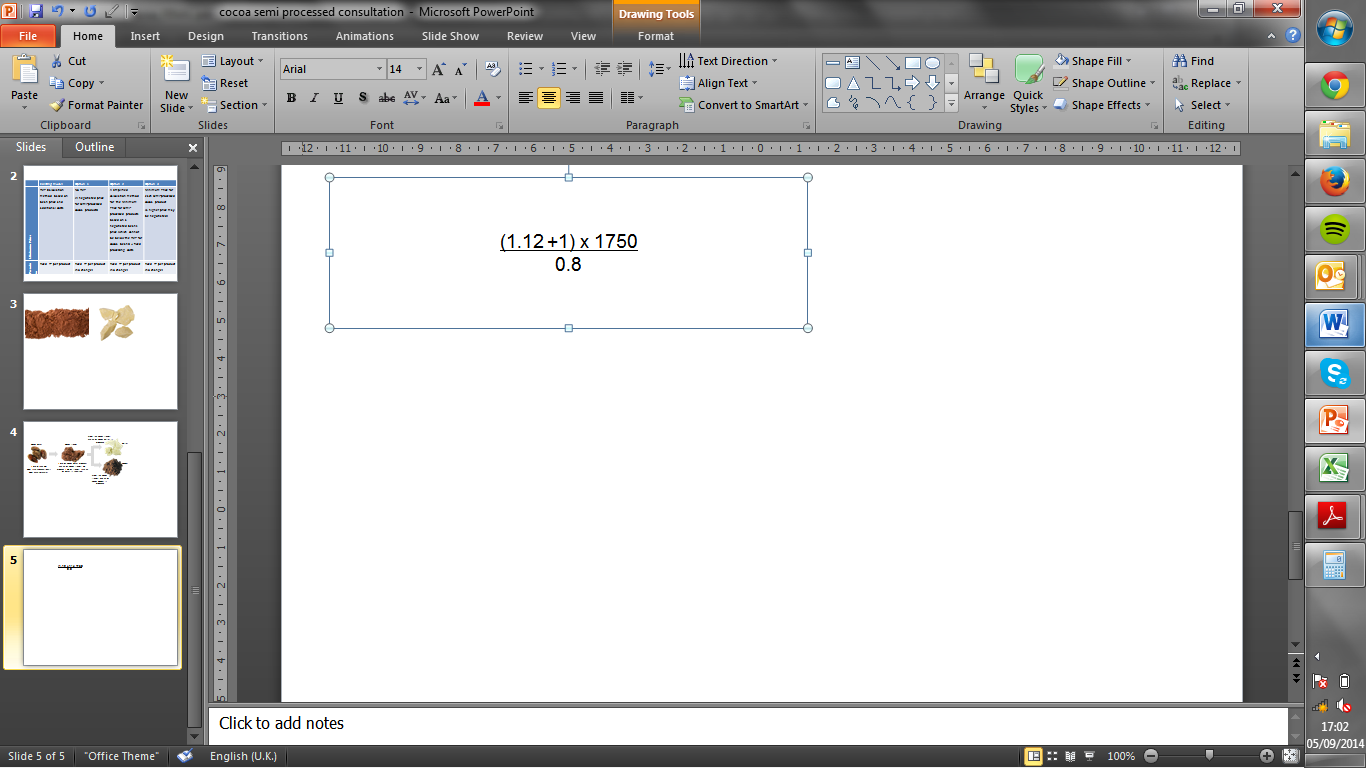
When two products are purchased under the same contract, the processing costs are applied only once.

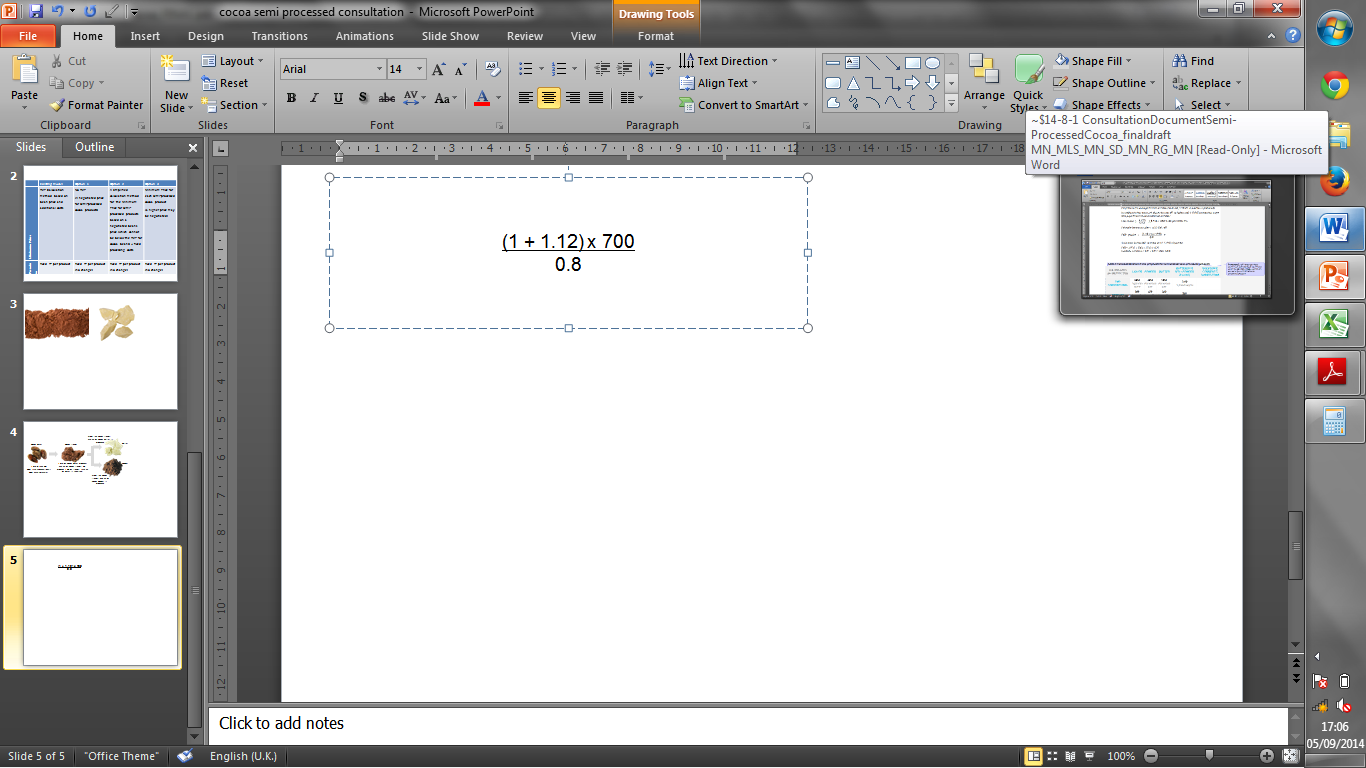
E.g. A buyer purchases 2 MT of butter and 1.12 MT of powder. Each metric tonne of butter is produced alongside approximately 1.12 MT of powder. Therefore, the buyer pays for the products in processing proportions as follows:



FMP butter = + $ 700 = USD 5354 per metric ton.

1. Where, 1750 is the price of one metric tonne of conventional cocoa beans
   1. 0.376 is the processing ratio for the amount of cocoa butter derived from 1 MT of cocoa beans
2. $ 700 is the amount assigned as processing costs for 2 MT of butter, measured in USD.
3. The FMP for butter is then USD 5354.
4. Fairtrade Premium for butter = USD 530 / MT



FMP powder = + **= USD 6122**

In total, for 2MT of butter and 1.12 MT of powder, the buyer pays:

1. FMP = 6122 (powder) + 5354 (butter) = USD 11476
2. Fairtrade Premium = 530 + 530 = USD 1060

**Q4.A. Should we retain this model?** *Agree or disagree*

**Q4.B.** Do you have questions or comments on this model?

**Q.4.C. Do you propose an alternative?** Click here to enter text.

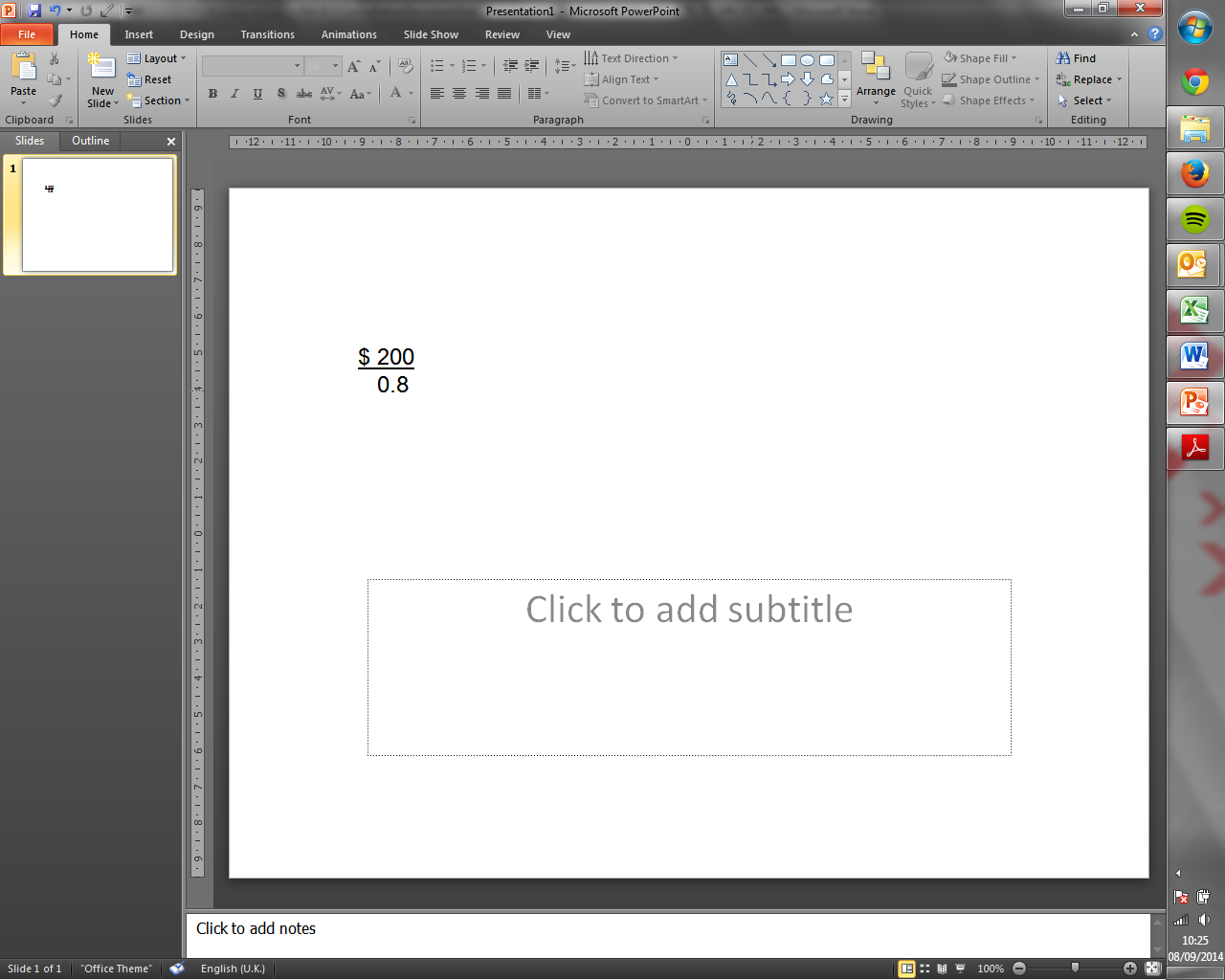
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**Q4.D. Prices for semi-processed products must be reviewed/ updated when cocoa bean FMP is reviewed.** *Agree or disagree*

1. **Fairtrade Premium**

While we are offering different Fairtrade Minimum Price options for your consideration and feedback above, all options will maintain the existing Fairtrade Premium level, because:

* Current Premium for semi-processed products is relatively high
* We foresee limited scope for further increase, especially when combined with existant high market price for beans, which also impacts sales of semi-processed products.

The Fairtrade Premium is calculated by dividing the FP for conventional cocoa beans by the processing yield of beans:

1. Fairtrade Premium liquor = = USD 250/MT

Fairtrade Premium butter = $ 200 = USD 530/MT

0.376

Fairtrade Premium powder = $ 200 = USD 470/MT

0.424

Fairtrade Premium butter = $ 200 = USD 250/MT

and powder together 0.8

**Table 6: Current Fairtrade Premium**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **U.S. DOLLARS per METRIC TON** | **LIQUOR** | **POWDER** | **BUTTER** | **BUTTER + POWDER** | **QUESTIONS/ COMMENTS/ SUGGESTIONS** |
| **RETAIN EXISTING PREMIUM?** | **250** Agree/disagree | **470** Agree/disagree | **530** Agree/disagree | **250** Agree/disagree |  |

**F. General questions**

|  |  |  |  |
| --- | --- | --- | --- |
| Fairtrade bean prices are in U.S. dollars. Producer sales of semi-processed cocoa products currently only occur in Latin America, where contracts are normally based on the ICE futures market. This market is in U.S. dollars. For this reason we expect U.S. Dollars (USD) to be a logical and ideal choice for our prices for semi-processed products.  Cocoa Prices have global validity, which reduced the risks of arbitrage opportunities influencing trade. Fairtrade proposes to continue this practise for semi-processed product prices.  Please submit your opinion on these topics below: | | | |
| **Do you agree that…?** | | **Why?** | **Comments** |
| 1. Prices are set in USD/MT | Choose an item. | Click here to enter text. |  |
| 1. Prices have global validity |  |  |  |
| 1. Prices are valid from January 2015 |  |  |  |
| 1. General questions, remarks, or suggestions |  | | |

**Thank you for your feedback!**

**APPENDIX 1: FAIRTRADE INTERNATIONAL COCOA STANDARDS**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **4.3.3** **Premium for cocoa semi-processed products purchased from certified producers**  The value of the Fairtrade Premium for semi-processed products is derived from the average processing yield calculated by the producer (see examples below). Only if this information is not available to the producer the following values apply:   |  |  |  | | --- | --- | --- | |  | **Processing yield from beans[[2]](#footnote-2)** | **Fairtrade Premium** | | **Beans** | *-* | *USD 200/MT* | | **Liquor** | *0.8* | *USD 250/MT* | | **Butter** | *0.376* | *USD 530/MT* | | **Powder** | *0.424* | *USD 470/MT* | | **Butter and Powder** | *(0.8)* | *USD 250/MT* |   The Fairtrade Premium for semi-processed products is subject to the same rules as any other Fairtrade Premium and follows section 4.3.2 of the Generic Trade Standard.  **Calculation examples of Fairtrade Minimum Price (FMP) and Fairtrade Premium for conventional cocoa liquor, butter and powder:**  The value of the FMP and Fairtrade Premium are calculated using the processing yield from beans presented in the table above.  1. Semi-processed products purchased under different contracts[[3]](#footnote-3):  According to the table above, one metric ton of cocoa beans is necessary to produce 0.8 metric ton of liquor. The costs of one metric ton of liquor correspond therefore to 1.25 metric ton of cocoa beans (cost of cocoa beans divided by 0.8) plus the processing costs for producing the liquor.  *Example: Assuming a cost of raw material of USD 1750/MT[[4]](#footnote-4) for conventional beans at producers level and assuming[[5]](#footnote-5) a cost of USD 550/MT for processing, the FMP can be calculated as shown below:*   * *FMP liquor =( 1750 / 0.8) + 550 = USD 2738/MT*   *The Fairtrade Premium is calculated by dividing the FP for conventional cocoa beans by the processing yield of beans:*   * *Fairtrade Premium liquor = 200 / 0.8 = USD 250/MT*   *The same calculation applies to butter and powder when purchased separately. Assuming a cost of USD 700 for producing one metric ton of powder and butter, values are as follows:*   * *FMP butter =( 1750 / 0.376) + 700 = USD 5354/MT* * *FMP powder =( 1750 / 0.424) + 700 = USD 4827/MT*   *The Fairtrade Premium is calculated by dividing the Fairtrade Premium for conventional cocoa beans by the processing yield of beans:*   * *Fairtrade Premium butter = 200 / 0.376 = USD 532/MT* * *Fairtrade Premium powder = 200 / 0.424 = USD 472/MT*   2. Semi-processed products purchased under the same contract[[6]](#footnote-6)  When two products are purchased under the same contract, the processing costs should be calculated only once. However, these products must be purchased using the processing proportions. See the second example for clarification.    *The two examples below show how the calculation to obtain FMP and Fairtrade Premium values should be done.*  ***First example****: The buyer buys 1 MT of butter and 1.12 MT of powder together which correspond to the same processing proportions. Assuming a cost of USD 700 for producing one metric ton of powder and butter, values are as follows:*   * *FMP powder and butter = {(1+1.12)\*1750}/0.8+{(1+ 1.12)\*700} = USD 6122*   *1+1.12 = total quantity of end product in the processing proportions*  *0.8 = Processing ratio when both butter and powder are bought together*  *(1+.1.12)/0.8 = Quantity of beans necessary to obtain 1 MT of butter and 1.12 MT of powder*  *1750 = Ex Works FMP for cocoa beans*  *(1+1.12)/0.8\*1750 = Money that producer should receive to cover the cost of their beans.*  *(1+1.12)\*700 = Processing cost*   * *Fairtrade Premium powder and butter =(1+1.12)\*250 = USD 530*   ***Second example****: The buyer buys 2 MT of butter and 1.12 MT of powder, i.e. not in the processing proportions (on average for 1MT of butter produced, 1.12 MT of powder is produced). In addition to the total cost above for one MT of butter and 1.12 MT powder the buyer will have to pay for the* ***1 extra metric ton of butter****:*   * *FMP butter = 1750/0.376+700 = USD 5354/MT* * *Fairtrade Premium butter = USD 530 / MT*   *So* ***in total*** *for the 2MT of butter and 1.12 MT of powder:*   * *FMP = 6122 + 5354 = USD 11476* * *Fairtrade Premium = 530 + 530 = USD 1060* |

1. Option 3: e.g., set FMP for liquor based on a fixed processing yield. Formula: [{FMP for beans - (estimated export costs of 250 USD/MT)}/ processing yield (i.e. 0.8 for liquor, 0.376 for butter and 0.424 for powder)] + processing costs [↑](#footnote-ref-1)
2. The processing yield gives the quantity of semi-processed product obtained from 1 unit of cocoa beans. [↑](#footnote-ref-2)
3. ‘Under different contracts’ in this case refers to different times when the two products are negotiated and agreed to be delivered, rather than one or two pieces of paper. [↑](#footnote-ref-3)
4. In the calculation example the reference values of 1750 USD/MT for conventional beans EXW was used. However, when the relevant market price for a product is higher than the reference values then at least the market price must be paid (and would have to be used in the calculations). [↑](#footnote-ref-4)
5. The processing costs are only assumed to be at a certain level for the example. In practice all relevant actual processing costs of the producer will have to be used in the calculations. [↑](#footnote-ref-5)
6. ‘Under the same contract’ refers to both products being part of one deal and agreed to be delivered at the same moment. The reasoning is that thereby the producer can deliver powder and butter from the same batch of processing. [↑](#footnote-ref-6)