Revised Fairtrade Prices and Trade Standards for Coffee

MAIN CHANGES

March 15th, 2011.

The revised *Fairtrade Prices and Standards for Coffee* are the result of an expedited project mandated by the Board in November 2010 to quickly respond to the current challenges in the coffee sector. These include exceptionally high and volatile market prices, a shortage of high quality coffee supply, especially of organic coffee, difficult access to finance, lack of investments in renovation, quality and productivity, high costs of production, low yields and vulnerability to adverse climatic conditions and crop diseases.

The project involved all parties in the FT system (FLO, FLO-CERT, Producer Networks, Labelling Initiatives). The results are based on an analysis of external studies on costs of production, analysis of case studies, input from product experts being part of the Coffee Product Advisory Council and the outcome of a broad consultation with all operators in the Fairtrade system. The price review does not intend to solve all challenges. Over the next 2 years, FLO will further explore how to make its pricing model more relevant to the current coffee context.

The following decisions were taken by the Standards Committee on February 18th and ratified by the Board on March 2nd, 2011. These decisions are applicable to all contracts signed from April 1st, 2011 on.

Regarding **prices**, the main changes are:

- **Fairtrade Minimum Price for washed Arabica coffee increased to 140 USD cts/lb** (from current 125 USD cts/lb), and **for natural Arabica coffee to 135 USD cts /lb** (from current 120 USD cts/lb). The Fairtrade Minimum price needed to be adjusted to account for the increase in costs of production and the depreciation of its value in real terms. The revised Fairtrade Minimum Price will thus provide a better safety net in case market prices drop and give producers more security to invest in coffee production in the long-term. The Fairtrade Minimum Price is also used sometimes as a reference to determine the amount of pre-financing granted to producer organizations. The higher Fairtrade Minimum Price level will increase the amount available for pre-finance which is critical to enable producer organizations to buy coffee from their members.
  Please note that Fairtrade Minimum Prices for Robusta will be revised at a later stage.

- **Fairtrade Premium for all coffees (Arabica and Robusta) increased to 20 USD cts/lb (from current 10 USD cts/lb). Out of the 10 cents increase, at least 5 cents are to be invested in productivity and/or quality.** The increased premium will help strengthen producer organizations and enable them to offer more services and benefits to their members. Investment into productivity and/or quality is a high priority for a large majority of both producers and traders. Improving productivity and quality is key to increase producers' income and ensure the supply of high quality coffee in the long term. Fairtrade responds by earmarking a part of the increase in the Fairtrade Premium to these critical investments.

- **Organic differential for all coffees (Arabica and Robusta) increased to 30 USD cts/lb** (from current 20 USD cts/lb) to account for the higher costs of organic production and provide an incentive to farmers to convert to or maintain organic production. The measure shall contribute to satisfying the growing demand for organic coffee.

  Table of prices: Overview of changes:

	Existing prices in USD cts/lb	**New prices** in USD cts/lb
FTMP Arabica washed	125	140
Fairtrade Premium	10	20 out of which at least 5 cts to be invested in productivity and/or quality
Total Fairtrade Price	**135**	**160**
Organic Differential	20	30
Total FT Organic price	**155**	**190**
FTMP Arabica Natural	120	135

The main changes in the Coffee **Trade** Standards are meant to provide a framework to enable producers and buyers to better cope with the current unprecedented situation of high and volatile market prices. The Standard review also provided the opportunity to provide clarity on a few pending issues. The new Trade Standards include:

- **Price-to-be-fixed Contracts vs. outright priced contracts:**
  FLO recommends the use of price-to-be-fixed contracts. Outright priced contracts are allowed only in certain special cases (auction systems, or when the seller has the coffee in stock, or when it is mutually beneficial and there is a mutually agreed risk management strategy in place).

- **Buyer agreement for early price fixation:**
  To avoid speculation in the case of price-to-be-fixed contracts, price fixation before harvest can only be done with agreement of the buyer and requires a jointly agreed risk management strategy.

- **Limiting the period of validity of fixed prices:**
  To enable producers to benefit from market price increases and avoid the risk of defaulting in the case of outright priced contracts prices must not be fixed for a period longer than one crop period.

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- **Negative differentials:**
  To address the unclarity around negative differentials FLO reaffirms that negative differentials cannot be applied to the Fairtrade Minimum Price. The Fairtrade Minimum Price is the lowest threshold possible below which producers' business would not be sustainable.

- **Brokers:**
  The role, use, and payment of brokers needs to be clear, mutually agreed between the producer and the buyer, and made explicit in the contracts.

- **Notification of defaulting or late payment:**
  To minimize the business disruptions linked to defaulting producers have to promptly notify their buyer in case of default. This will enable search for solutions. Vice-versa, buyers have to promptly notify producers in case they foresee a late payment.

In complement to these new Standards, FLO is taking further actions such as facilitating producers training on contracting, pricing and risk management strategies, putting in place mediation services, and exploring opportunities for improving access to producer finance, and other measures, as included in the Coffee Action Plan.

The new coffee prices and trade standards come into force on April 1st, 2011. This means they will apply to contracts signed on or after April 1st, 2011. Contracts signed before April 1st, 2011 still have to be honoured under the prevailing conditions at the time of signing unless both parties agree to renegotiate their contract.

For more details, please refer to the Coffee Product specific Standards, available on the FLO website at www.fairtrade.net/product-standards.html, and to the Fairtrade Minimum Price and Premium database available at http://www.fairtrade.net/793.0.html.