

Fairtrade Standard for Cocoa for Small Producer Organizations and Traders

**Also applicable to Contract Production in
Oceania**

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**For further information and standards downloads:
www.fairtrade.net/standards.html**

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Introduction

How to use this Standard

Refer to the Fairtrade Standard for Small Producer Organizations and to the Fairtrade Standard for Contract Production as separate documents as updated by Fairtrade International (FLO) on its website.

Please note that the Generic Fairtrade Trade Standard also applies. In cases where the product specific Standard below differs from the Generic Fairtrade Trade Standard, the requirements presented in this Standard apply.

Application

The Product Specific Fairtrade Standards for Small Producer Organizations have been revised according to the New Product Classification (based on the Central Product Classification). The new Standards apply from 1 July 2011.

Monitoring of Changes

Fairtrade International reserves the right to amend Fairtrade Standards in accordance with Fairtrade International's Standard Operating Procedures (http://www.fairtrade.net/setting_the_standards.html). Requirements of Fairtrade Standards may be added, deleted, or otherwise modified. Those who have to meet Fairtrade Standards are required to monitor pending and finalized revisions on Fairtrade International's website.

Fairtrade Certification ensures the compliance with Fairtrade Standards. Revision of Fairtrade Standards may lead to a change in the requirements of Fairtrade Certification. Those who wish to be certified or have already undergone certification are required to monitor pending and finalized certification policies and compliance criteria on the certification body's website <http://www.flo-cert.net>.

Change history

Version number	Date of publication	Changes
01.05.2011_v1.0	01.05.2011	- Reorganization of requirements based on New Standards Framework
01.05.2011_v1.1	01.10.2012	- Change in scope: Standard becomes also applicable to cocoa from Contract Production in Oceania - Premium planning and reporting requirements added
01.05.2011_v1.2	19.12.2013	- Mass balance conversion rates added

1. General Requirements

Intent and scope

All operators taking ownership of Fairtrade certified products and/or handling the Fairtrade Price and Premium are audited and certified.

This chapter applies to the certificate holder.

This Standard covers the purchase and sale of cocoa beans in their primary form (raw) as well as the purchase and sale of cocoa butter, cocoa liquor and cocoa powder when transformed in the country of origin and all mass balance conversions. For the sections under certification and traceability (only), the Standard also covers any processed products and derivatives.

The Standard also covers its secondary products and their derivatives. The definition of secondary products is included in Annex 1 of the Generic Trade Standard.

A non-exhaustive list of products fitting the secondary products definition is published on the Fairtrade International website.

1.1 Certification

There are no additional requirements.

1.2 Labelling and Packaging

There are no additional requirements.

1.3 Product Description

Cocoa is the fermented and dried whole seed of the cocoa tree (*Theobroma cocoa*).

1.4 Other product requirements

There are no additional requirements.

2. Trade

Intent and scope

This chapter outlines the requirements that you need to comply with when you sell Fairtrade products.

This chapter applies to the Fairtrade product.

2.1 Traceability

2.1.1 Mass balance conversion rates

The following conversion rates must be used by operators applying mass balance:

	Fairtrade conversion rates to bean equivalents
Liquor	1.25
Butter <u>only</u>	2.66
Powder <u>only</u>	2.36
Butter <u>and</u> powder to the ratio 100 : 113	1.25*

***Operators may only use the combined conversion rate of 1.25 for butter and powder sold/ or used in production to the ratio¹ of 100:113 over a period of up to 12 months². For butter and powder volumes sold/used in excess of this ratio, 2.66 for butter or 2.36 for powder must be applied.**

Guidance: Operators may apply the higher conversion rate for butter only (2.66) or for powder only (2.36) according to the major product sold/or used in production. Using this method, it is not required to count the minor product. For example, if operators know they will sell more butter than powder, they can apply the conversion rate of 2.66 to all butter volumes and not count their powder volumes.

Please note that powder can only be considered your major ingredient if powder volumes exceed butter volumes by at least 13 %. This is based on the production yields of butter and powder of 424 / 376 = 1.13.

A **transition period** applies for the implementation of the Fairtrade conversion rates for existing Fairtrade mass balance business until 30th September 2014.

Calculation example: You sold 1 MT of liquor, 1 MT of butter and 1.1 MT of powder in a period of 11 months. You may calculate your bean equivalent volumes as follows:

- $Liquor = 1 \text{ MT} * 1.25 = 1.25 \text{ MT of bean equivalents}$
- *Butter has to be considered your major product, because your powder volume is less than 13% larger than your butter volume. You thus do not have to count your powder volume. Butter and powder = 1 MT * 2.66 = 2.66 MT of bean equivalents.*
- $Total \text{ bean equivalents} = 1.25 + 2.66 = 3.91 \text{ MT.}$

In addition, mass balance conversions are **only** allowed in the direction that is physically possible:

- 1 MT of beans can be converted into 800 Kg of liquor OR into 376 Kg of butter and 424 Kg of powder
- 1 MT of liquor can be converted into 470 Kg of butter and 530 Kg of powder
- 1 MT of butter can only be counted as 1 MT of butter
- 1 MT of powder can only be counted as 1 MT of powder

Additional requirements regarding traceability and mass balance are included in the Generic Trade Standard (GTS).

¹ This ratio corresponds to the processing ratio of 376 Kg of butter and 424 Kg of powder from 1 MT of beans.

² Operators may determine the period in which they consider butter and powder sold or used in production together, but this period must not exceed 12 months.

2.2 Product Composition

There are no additional requirements.

2.3 Contracts

2.3.1 Producers and buyers must agree in the contract on the cocoa reference market price used ('Liffe' or 'ICE').

3. Production

Intent and scope

This chapter outlines the ethical and sustainable production practices that are behind every Fairtrade product.

This chapter applies to the Fairtrade product.

There are no additional requirements.

4. Business and Development

Intent and scope

This chapter outlines the requirements that are unique to Fairtrade and intends to lay the foundations for producer empowerment and development to take place.

This chapter applies to the certificate holder.

4.1 Sustaining Trade

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

4.2 Pre-finance

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

4.3 Pricing

Fairtrade Minimum Prices and Fairtrade Premium levels for Fairtrade products are published separately to the product Standards.

4.3.1 Minimum Price and Premium for cocoa beans: When the relevant market price for a product is higher than the Fairtrade Minimum Price, then at least the market price must be paid.

The cocoa reference market price shall be based on the Liffe Administration and Management ('Liffe') Cocoa Futures Contract or on the Intercontinental Exchange Futures US ('ICE') Cocoa Futures Contract³. If the producer is not responsible for certain costs included in the reference market price, such costs may be deducted from the price paid to the producer, according to the rules of section 4.3.4 of the GTS.

³ Links: for a quick reference: www.icco.org. More information can be obtained via: ICE: www.theice.com or LIFFE: <http://www.euronext.com/landing/liffeLanding-12601-EN.html>

4.3.2 Minimum price for cocoa semi-processed products purchased from certified producers: The seller (i.e. producer) and buyer must negotiate the price of the semi-processed product. This negotiated price must be based on, at least, the cocoa beans **reference values** of USD 1750/MT (for conventional) and USD 2050/MT⁴ (for organic) at producers' level **plus all relevant processing costs**. The Minimum Price is calculated using the average processing yield calculated by the producer. Only if this information is not available to the producer do the processing yields from beans in 4.3.3 apply. See details in the second column in the table and the calculation examples in 4.3.3.

When the relevant market price for a product is higher than the above mentioned reference values, then at least the market price must be paid.

The cocoa reference market price shall be based on the Liffe Administration and Management ('Liffe') Cocoa Futures Contract or on the Intercontinental Exchange Futures US ('ICE') Cocoa Futures Contract. If the producer is not responsible for certain costs included in the reference market price, such costs may be deducted from the price paid to the producer, according to the rules of section 4.3.4 of the GTS.

In all cases traders should demonstrate that they are paying a price that covers at least the costs of production and processing of the producer.

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 beans⁵	Fairtrade Premium
Beans	-	<i>USD 200/MT</i>
Liquor	<i>0.8</i>	<i>USD 250/MT</i>
Butter	<i>0.376</i>	<i>USD 530/MT</i>
Powder	<i>0.424</i>	<i>USD 470/MT</i>
Butter and Powder	<i>(0.8)</i>	<i>USD 250/MT</i>

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 contracts⁶:

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

⁴ The reference prices of USD 1750/MT for conventional and USD 2050/MT for organic at EXW level are based on the Fairtrade Minimum Prices at FOB level minus USD 250 for average export costs.

⁵ The processing yield gives the quantity of semi-processed product obtained from 1 unit of cocoa beans.

⁶ '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.

(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/MT⁷ for conventional beans at producers level and assuming⁸ a cost of USD 550/MT for processing, the FMP can be calculated as shown below:

- $$FMP \text{ liquor} = (1750 / 0.8) + 550 = \text{USD } 2738/\text{MT}$$

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

- $$\text{Fairtrade Premium liquor} = 200 / 0.8 = \text{USD } 250/\text{MT}$$

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:

- $$FMP \text{ butter} = (1750 / 0.376) + 700 = \text{USD } 5354/\text{MT}$$

- $$FMP \text{ powder} = (1750 / 0.424) + 700 = \text{USD } 4827/\text{MT}$$

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

- $$\text{Fairtrade Premium butter} = 200 / 0.376 = \text{USD } 532/\text{MT}$$

- $$\text{Fairtrade Premium powder} = 200 / 0.424 = \text{USD } 472/\text{MT}$$

2. Semi-processed products purchased under the same contract⁹

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:*

- $$FMP \text{ powder and butter} = \{(1+1.12)*1750\}/0.8+\{(1+ 1.12)*700\} = \text{USD } 6122$$

$1+1.12 =$ 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

⁷ 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).

⁸ 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.

⁹ '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.

$(1+1.12)/0.8*1750 = \text{Money that producer should receive to cover the cost of their beans.}$

$(1+1.12)*700 = \text{Processing cost}$

- $\text{Fairtrade Premium powder and butter} = (1+1.12)*250 = \text{USD } 530$

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:**

- $\text{FMP butter} = 1750/0.376+700 = \text{USD } 5354/\text{MT}$
- $\text{Fairtrade Premium butter} = \text{USD } 530 / \text{MT}$

So **in total** for the 2MT of butter and 1.12 MT of powder:

- $\text{FMP} = 6122 + 5354 = \text{USD } 11476$
- $\text{Fairtrade Premium} = 530 + 530 = \text{USD } 1060$

4.3. Secondary products: There are no Fairtrade Minimum Prices defined for secondary products and their derivatives. Sellers of the product and its next buyers must negotiate prices for secondary products and their derivatives. A default Fairtrade Premium of 15% of the negotiated price must be paid in addition.

Fairtrade International reserves the right to set a Fairtrade Minimum Prices for secondary products and its derivatives in the future.

4.3.5 Payment terms for all cocoa products¹⁰: Payment shall be **net cash** against a full set of documents on first presentation. The documents to be presented will be those stipulated in the contract and customary in the cocoa trade.

4.3.6 Late payment: For contracts involving Fairtrade payers and producers, payment must be made according to international customary conditions, and no later than 15 days after the receipt of the documents transferring ownership.

For contracts involving Fairtrade payers, producers and conveyors, conveyors must pay producers no later than 15 days after receipt of the payment from the Fairtrade payer.

4.3.7 Premium Planning: When planning for the Fairtrade Development Plan, you **must discuss** if investing the Fairtrade Premium in activities that increase quality and productivity would help your members to have more secure incomes. You **must present** the results of this discussion to the GA before approving the Fairtrade Development Plan.

Guidance: Fairtrade International recommends prioritizing productivity and quality initiatives when planning for the use of the Fairtrade Premium, but recognizes that producer organisations are totally free to choose. You are encouraged to use at least 25% of the value of the Fairtrade Premium for productivity and quality improvement activities. The use of other sources of funding for such activities is also welcome. The intention of this requirement is that you and your members are aware that programs to increase productivity and quality may be an important tool to increase income and that you are able to assess whether or not these investments respond to the needs of your organization, members, workers and communities. A guidance document providing more information on productivity and quality improvement is available on the Fairtrade International website at: <http://www.fairtrade.net/cocoa.html>; this document is only for guidance.

¹⁰ This includes cocoa beans as well as cocoa semi-processed products.

4.3.8 Premium Reporting: At least once a year and at latest one month after the General Assembly, a complete report on Fairtrade Premium use for all projects **must be sent** to Fairtrade International. The report is the Fairtrade Development Plan, and will include at least the following information for each Fairtrade Premium project.

a) Initial report for projects in planning phase

- Name and description of project (e.g. purpose and objectives; project partners)
- Target group(s) (e.g. men-women or all members of cooperative; migrant workers; family members; community)
- Project budget (total / annual)
- Project start and end date
- Date of approval of project

b) Follow up report for on-going projects, in addition to information under a)

- Premium invested up to date
- Project progress/status
- Major highlights and problems

c) Final report for finished projects, in addition to information under a) and b) above

- Total budget spent
- Evaluation to what degree and why the purpose and the objectives have been achieved, and lessons learned from the project
- Date of approval of final project report

Producers are also encouraged to report on any additional investment or program implemented with non-Premium funds that focuses on productivity and quality. All information should be sent to cocoa@fairtrade.net.