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| **Consultation document for Fairtrade Stakeholders:**Review of the Fairtrade Pricing model for Cocoa  |
| Consultation Period | 23.10.2017 – 30.11.2017 |
| Project Manager | Yun-Chu Chiu, Project Manager, Pricing, y.chiu@fairtrade.net  |

# PART 1: Introduction

1. General Introduction

This 1st consultation reviews the current Fairtrade Cocoa Pricing Model for small producers and traders by inviting specific stakeholders[[1]](#footnote-1) to provide guidance on the principles to be adopted for Fairtrade Cocoa Pricing. The feedback received through this consultation will be the basis to shape proposals for Fairtrade Cocoa Pricing. The 2nd consultation, planned for next year, will be public and propose specific price value(s) with pricing model(s). You are kindly invited to participate in this consultation. For this purpose, we ask you to comment on the proposals suggested in this document and encourage you to give explanations, analysis and examples underlying your statements.

Confidentiality: Please note that **all information we receive from respondents will be treated with care and kept confidential.**

**Please submit your comments to your Fairtrade contact point or the Project Manager, Yun-Chu Chiu at: y.chiu@fairtrade.net by 30-11-2017.** If you have any questions regarding the consultation process, please contact the Project Manager by email.

1. Background of the project:

The Fairtrade Minimum Price (FMP) and the Fairtrade Premium (FP) for cocoa are due for review as part of the regular monitoring and review cycle. The last review took place in 2012, and since then:

* World market prices for cocoa have fluctuated significantly and been in dramatic decline since Q4 2016. At the same time, the costs of sustainable production (COSP) for Fairtrade farmers have increased since the last price review
* Côte d’Ivoire reformed its cocoa marketing and pricing system

Industry initiatives on cocoa sustainability are placing increasing importance on the need for the crop to provide a living income for farmers

Considering these developments, it is urgent that Fairtrade not only reviews its current FMP and FP, but also considers how the current pricing model can deepen the impact of Fairtrade and be adapted to the new cocoa sector reality.

1. Project goal and objectives

 The goal of this project is to review the Fairtrade Minimum Price (FMP) and the Fairtrade Premium (FP) for cocoa and improve the current pricing model to optimize household income for Fairtrade cocoa farmers, supporting Fairtrade’s living Income strategy.

The 1st consultation seeks to:

1. Evaluate the effectiveness of Fairtrade’s current pricing model in countries with government pricing systems (i.e. Ghana and Côte d’Ivoire)and in countries without

2. Consider alternatives to substitute or complement the current Fairtrade pricing setting

3. Re-think and develop Fairtrade’s cocoa pricing model in the context of sustainable pricing and farmers’ income improvement, supporting progression towards a living income

With a revised approach, the project aims to achieve the following:

* + Provide adequate benefits to producers in times of high and low market prices
	+ Minimize the barriers for producers to increase Fairtrade sales
	+ Optimize household income for cocoa farmers
1. Project and process information

The progress to date and next steps are described below:

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|  | **Timeline** | **Activity**  |
| **2017** | Apr-May  | * Planning and preparation of research
 |
| Apr-Jul  | * Desk research and complete COSP collection
 |
| Jul-Sept  | * Preparation of proposals
 |
| **Oct-Dec**  | * Stakeholder engagement and expert interviews on the potential pricing model options -1st consultation
 |
| **2018** | Jan- Feb | * Analysis of feedback and preparation of final proposal
* Preparation for the second consultation
 |
| Mar- Apr | * Launch 2nd consultation
 |
| Apr-May | * Analyse consultation results and define decision points for SC approval
 |
| Jun | * Decision making by Standards Committee
 |
| Jul- Aug  | * Publication of revised Pricing model
 |

1. Acronyms and definitions

**FMP**: Fairtrade Minimum Price

**FP**: Fairtrade Premium

**GAP**: Good Agricultural Practices

**GMB**: Group Mass Balance

**GPM**: Global Product Management

**NFO**: National Fairtrade Organisation

**PN**: Producer Network

**SC**: Standards Committee

**S&P**: Standards &Pricing

**COSP**: Cost of sustainable production

**SPO:** Small Producer Organisation

**Fairtrade Price Model / Price Setting**: refers to the Fairtrade’s pricing interventions (i.e. FMP and FP) and how these interventions are implemented for a particular product (e.g. globally vs. regionally, FOB/ExW/Farm gate, currency used, Standards regulating their use).

**Farm-gate price**: The price farmers receive for their cocoa.

**EXW ‘Ex Works’ price**: Term of sales under which the seller of goods is responsible for making the products readily available for pickup at the location where the seller conducts business for the buyer. However, the seller is not liable for the transportation costs and risks

**FoB ‘Free-on-Board’ price**: Term of sale under which the price invoiced or quoted by a seller includes all charges up to placing the goods on board of a ship at the port of departure specified by the buyer.

**CIF ‘Cost, Insurance, Freight’ price:** Trade term requiring the seller to arrange for the carriage of goods by sea to a port of destination and provide the buyer with the documents necessary to obtain the goods from the carrier.

**World market price**: The price for cocoa as established on the London and New York stock markets.

**ICCO**: International Cocoa Organization

**ICCO price**: The ICCO prices are defined as the averages of the quotations of the three nearest futures contracts on both ICE FUTURES US (New York) and ICE FUTURES EUROPE (London) at the London closing time. They can be used as a proxy for FoB prices.

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# Part 2: Background information and consultation questionnaire

Information about your organization

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| **Q 0.1** **Please provide us with information about your organization so that we can analyse the data precisely and contact you for clarifications if needed.** Name of your organisation      Click here to enter text.Name of contact person      Click here to enter text.Email/phone number of contact person      Click here to enter text.Country      Click here to enter text.FLO ID Click here to enter text. |
| **Q 0.2 What is your responsibility in the supply chain? Please tick all applicable boxes**[ ]  Producer only [ ]  Producer who also exports[ ]  Exporter[ ]  Importer[ ]  Processor[ ]  Licensee[ ]  Fairtrade system staff (Fairtrade International, NFO, PN or FLOCERT staff)[ ]  Other (please specify)Click here to enter text. |
| **Q 0.3 Information about the interviewer (for project team members only)****This consultation is conducted by:**Name of interviewer:      Click here to enter text. Date:      Click here to enter text. |

The following sections provide background information on the key issues this consultation seeks to address. It is important that you read the background information before answering the questions, so you can respond to the questionnaire in an informed and accurate way. Please take as much space as you need to respond to the questions and provide your rationale for your responses and/or suggest alternative proposals.

1. Define Fairtrade’s pricing model and tools

**The Fairtrade pricing model** refers to how Fairtrade’s pricing tools (FMP and FP) are implemented. **The FMP** calculation is based on the principle of covering average costs of sustainable production of cocoa, enabling the “average” producer to produce in an economic and financially sustainable way. The FMP does not only cover the average costs of sustainable production but also considers market acceptance to ensure that the FMP does not compromise the producers’ ability to sell their product.

**The FP** is intended to provide additional investment capacity for development. The Premium is paid to the producer organisation to improve their social, economic and environmental conditions. The use of this additional income is decided democratically by the members within the producer organization.

This first consultation paper of the Fairtrade Cocoa Price Review seeks feedback from stakeholders on this model.

**Table 1 Current price setting for Cocoa**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Product | Quality | Form | Country / Region | Price level | Unit | Currency | Fairtrade Minimum Price | Fairtrade Premium |
| Cocoa | Organic | beans | worldwide | FOB | MT | USD | 2300 | 200 |
| Cocoa | Conventional | beans | worldwide | FOB | MT | USD | 2000 | 200 |

1. General feedback on Fairtrade cocoa pricing

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| **Q1. Do you think the current Fairtrade price model for cocoa should be maintained or modified? See table 1 above**[ ]  The current price setting should be modified. A new price model and/or new pricing tools should be introduced[ ]  The current price setting should be maintained as it is, but the values for FMP and FP should be reviewed ☐ Other[ ]  I am unsure**Please explain your rationale**Click here to enter text. |

1. Consider global vs regional pricing

The current Fairtrade price setting for cocoa takes a global approach, meaning the price model applies to all Fairtrade cocoa producing countries. (See table 1 above)

By default, the market price reference is the international market price, either New York (ICE FUTURES US) or London (ICE FUTURES EUROPE). However, for countries where prices are regulated, the official price set by the national government is the market price reference[[2]](#footnote-2).

Considering establishing different FMP and/or FP in different origins could be relevant to:

a) go beyond covering only average global COSP in some origins

b) account for different farming variables, such as cocoa variety, yield levels and farm size, as well as different levels of living costs when considering living income goals

c) adapt to the diversity of market practices in different origins (government pricing, bulk vs specialized cocoa trading).

However, there are significant implications of a regional pricing approach vs a global pricing approach which must be considered, such as issues related to unfair competition. Fairtrade Cocoa has historically maintained a single worldwide price and premium. Replacing this approach with a number of regional/country specific pricing solutions means arbitrage[[3]](#footnote-3) and market distortion could occur. For example, when purchasing bulk cocoa under mass balance rules without origin claims, buyers may source cocoa from the cheapest countries, and negatively impact the competitiveness of producers from the more expensive countries. Latin America and the Caribbean is more specialized in quality cocoa (whether organic, flavour, or both) which does not compete directly with bulk cocoa from West Africa or Asia. However, the regional differences related to quality and varieties are not so clear cut and there are many exceptions.

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| **Q2. Do you think Fairtrade should maintain a global price level and global price values (as present) or should Fairtrade set different price values at different price levels per region/country?****Price level:** the level in the supply chain the FMP is set, e.g. FOB, Ex Works, Farm gate, etc.**Price values:** values forFMP and/or FP[ ]  1. Maintain a global price level and global price values [ ]  2. Maintain a global price level, but set different country/regional price values[ ]  3. Set a different price level per country/region and different country/regional price values [ ]  Other[ ]  I am unsure**Please explain your rationale:**Click here to enter text.**Q3. If Fairtrade adopts a regional pricing approach (option 2 or 3 above), what can Fairtrade do to mitigate or avoid unfair competition and arbitrage?** **Please explain your rationale:**Click here to enter text. |

1. Define the appropriate price level(s) in the value chain

An important element to consider is at which level in the value chain Fairtrade sets the price. The level in the value chain where the FMP is set includes costs of production and operations up to that point. The FOB price level at which the Fairtrade minimum price is currently set aligns with world market reference prices, either New York (ICE FUTURES US) or London (ICE FUTURES EUROPE). However, in Ghana and Côte d’Ivoire which combined accounts for over 70% of Fairtrade cocoa sales and over 75% of Fairtrade cocoa farmers, most producer organisations do not or cannot export. Setting the Fairtrade price at FOB level might therefore not be relevant where prices are set or negotiated by government actors from farm gate to export.

Setting prices at different levels in the value chain for different origins (regions and/or countries) ultimately results in different Fairtrade Minimum Prices and/or Fairtrade Premiums in different origins. As discussed this could lead to arbitrage and market distortion. Nevertheless, in this project we seek to define a price level that has the most positive impact for producers.

1. Price level: FOB vs EX works vs Farm gate

In support of Fairtrade empowerment principles, the share of the FMP paid out to individual farmer members is determined by the producer organisation itself, with guidance in the Cocoa Standard to adopt the same decision-making process as that of Fairtrade Premium. The intent of evaluating different price levels is to ensure that the farmer member receives a sustainable price to at least cover his/her production costs whilst also ensuring sufficient margin to sustain operations of the producer organizations.

When the SPO is not the exporter in Côte d’Ivoire, it can be reasoned they should only receive a proportional amount OR that the Fairtrade Minimum Price should be set at EXW level to reflect the trading scenario of most SPOs. It can also be considered that Fairtrade should set FMP at farm gate level in both Côte d’Ivoire and Ghana to best supplement the existing government pricing systems.

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| **Q4. Should the current Fairtrade minimum price (FMP) level be maintained or modified?** **Please select more than one option if you wish**[ ]  Maintain its current price setting at FOB level [ ]  Set FMP at EXW level[ ]  Set FMP at Farm gate level[ ]  I am unsure**Please explain your rationale**Click here to enter text.**Q5. If the FMP is set at producer organisation level (either FOB or EXW) should Fairtrade define the proportion of the FMP for distribution to farmer members? (To support increased transparency of famer income)**[ ]  Yes, I agree [ ]  No, I don't agree[ ]  I am unsure**Please explain your rationale**Click here to enter text. |

1. FMP and National Prices

**- Specifically for Côte d’Ivoire and Ghana-**

In Fairtrade’s current price clarification for Côte d’Ivoire and Ghana, the FOB based Fairtrade Minimum Price differential is paid in full to the SPO. (For more information, see [Cocoa standard](https://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/Cocoa_SPO_EN.pdf), requirement 4.2.1 (b), 4.2.2, 4.2.3, 4.6.3.)

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| **Q6. Should the current Fairtrade market price references in Côte d’Ivoire and Ghana be maintained or modified?** **- Market Price References (cocoa standard, requirement 4.2.1 (b))***Ghana = FOB value of contracted prices with the Cocoa Marketing Company for the relevant delivery period**Côte d’Ivoire = guaranteed FOB value (“valeur FOB garanti”) as published by the Conseil Café Cacao for the relevant delivery period***- Full price differential paid to SPO (cocoa standard, requirement 4.2.2)***The price differential is defined as the difference between the FMP and the market price reference.*[ ]  The current price setting should be maintained as it is (see above for market reference prices and price differential)[ ]  The current price setting should be modified, please provide alternative(s) [ ]  Other[ ]  I am unsure**Please explain your rationale**Click here to enter text. |

The original intent of the FMP was to provide a level of price protection in liberalised markets. The government pricing systems in both Ghana and Côte d’Ivoire provide farm-gate price protection for farmers during a given season. However, the setting of the farm-gate price by the government is also influenced by the movements of the international market price during the periods that the internal price is being set. This means that farm-gate prices can move (annually) with the market. Considering this, we would like to explore whether Fairtrade should:

* Continue to provide additional price protection via the FMP, complementary to the government price system; (to protect Fairtrade producers when government prices are set at a low level, due to low market prices.)
* Or just focus on increasing prices for Fairtrade cocoa producers by only providing a “premium” or “top-up” regardless of the evolution of farm gate prices in Ghana and Côte d’Ivoire.

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| **Q7. In order to optimize the income for cocoa farmers, do you agree Fairtrade continues to provide price protection in the countries where government pricing system exists?**[ ]  Yes, Fairtrade Prices (FMP and FP) should still be maintained, in accordance with the local regulations, as government prices are still impacted by downward market movements [ ]  Fairtrade should just provide a Premium regardless of the evolution of the government prices[ ]  I have other proposal(s)[ ]  I am unsure**Please explain your rationale**Click here to enter text. |

1. Fairtrade Premium

This Cocoa Price Review requests feedback from stakeholders on how FP values should be set and how to maximize its benefits to producers in times of low and high market prices. In addition section 5 explores the possible contribution the Fairtrade premium could make in reaching a Living Income goal for farmers.

* 1. Fairtrade Premium Use

Currently a relatively high proportion of Fairtrade Premium is distributed to SPO farmer members as direct cash payments reflecting the ongoing poverty levels amongst cocoa farmers. However, direct cash payment was not necessarily the original intent of the Fairtrade Premium but this has become inevitable considering low prices and productivity levels. It was also clear via the consultation feedback of the Cocoa Standard Review in 2016 that producers can and will only prioritize premium use for priority areas such as combatting child labour and deforestation, and invest in strategic areas such as productivity and diversification if they have prospects for sustained premium income via long-term partnerships with buyers. Hence the productivity and quality premium investment requirement (4.6.1) was updated to further encourage strategic investment of the Fairtrade Premium based on mutual commitment and long-term partnerships with buyers. The SPO standard review addresses Fairtrade Premium use in section 1.9 of its current consultation document and builds upon questions in the Cocoa Standard Review of 2016. We would therefore like to encourage Fairtrade Cocoa Stakeholders to respond to the [SPO consultation](https://www.fairtrade.net/standards/standards-work-in-progress.html). The results of the SPO review will be evaluated in combination with the results of this cocoa price review.

* 1. Setting Fairtrade Premium

The Fairtrade premium should provide adequate benefits to producers in times of high and low market prices. Some stakeholders maintain that the current approach of applying a fixed Fairtrade Premium on top of the market price/FMP (when higher than the market price) may:

* Not provide adequate benefits for producers in times of low prices
* Make Fairtrade non-competitive in times of high prices, risking reduced sales and Fairtrade premium for producers

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| **Q8. Which of the following options are you in favour of in terms of defining the Fairtrade premium (FP) values?**[ ]  1.FP should be a fixed value (current approach)[ ]  2.FP should be a % of market price [ ]  3.FP should be relatively higher when market prices are low but decrease when market prices are high*[[4]](#footnote-4)* [ ]  I have other proposal(s), please specify below[ ]  I am not sure**Please explain your rationale**Click here to enter text.*Below are the explanations of the proposals:**1. FP equals a fixed amount, as present.**2. FP equals a % of market price, this results in a flexible amount. When the market price increases so does the premium amount, when the market price decreases so does the premium amount.* *3. FP equals a flexible amount or flexible % of market price with min or max thresholds. If the market price goes below a certain amount, the premium amount or % increases; if the market price goes above a certain amount the premium decreases.*  |
| **Q9. How can the impact and lasting benefits from Premium investment be optimized in cocoa?**Click here to enter text. |

1. Alignment with Fairtrade’s living income strategy

A living Income is defined as sufficient income generated by a rural household to afford a decent standard of living for the household members. The Fairtrade Living Income strategy aims to create an enabling environment and develop tools that support Fairtrade certified smallholders in progressing towards earning a living income. This strategy is framed in a holistic roadmap to bridge the gap between the current income of a farmer household and a living income, and includes pathways to improve farm yields and income resilience, while optimizing efficiencies at farm and organizational level. However, even with adequate farm yields, it is unlikely that the average smallholder cocoa farmer will achieve a living income if cocoa prices remain at present levels.

As a foundation for sustainable price setting, Fairtrade intends to set Fairtrade Living Income Reference Prices (FLIRP) for key commodities. The reference price should allow an average farmer household with a full-employment farm size and an adequate productivity level to earn a living income when selling its produce at this price level. For more information on these baseline parameters, please see Fairtrade’s Living Income Strategy : <https://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/2017-10-23_Fairtrade_Living_Income_strategy_EN.pdf>. In addition, the Living Income Reference Price will serve for advocacy purposes, to influence policy makers, industry and world market prices at a wider level.

Fairtrade will establish a Fairtrade Living Income reference price for cocoa in Côte d’Ivoire and Ghana, to serve as a reference for this Cocoa Price Review.

With the overarching objective of achieving a Living Incomes in mind, Fairtrade intends to test the implementation of a reference price initially for cocoa farmers in Côte d’Ivoire and Ghana.

* 1. Living Income Reference Prices in Ghana and Côte d’Ivoire

The Living Income Reference Price will be indicative for the Fairtrade Minimum Price and Premium setting. However, rough estimates of the living income gap in Côte d’Ivoire already predict Living Income Reference Prices to be significantly higher than the current FMP or market prices. Therefore, it is important to assess feasible ways to enable progression towards the Living Income Reference Price in combination with different pricing mechanisms (e.g. FMP, FP, alternative pricing tools or separate income funds) and how these should be implemented.

***Figure 1: How the current Fairtrade pricing model could compare to the Fairtrade Living Income Reference Price (FLIRP) for Côte d’Ivoire***

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***Figure 2: Highlights the potential gap between the current Fairtrade pricing model and the Fairtrade Living Income Reference Price (FLIRP)***



* 1. Options for Bridging the Gap

The following options for bridging the gap between actual market prices and the living income reference price are envisaged:

* **Compulsory** versus **voluntary** payments of the Living Income differential
* **Immediate** versus **gradual** increases towards payment of the FLIRP
* Implementation **with** or **without** the **Fairtrade minimum Price**
* **Inclusion** or **exclusion** of the **Fairtrade Premium** towards the Living Income differential

These variables offer a number of possible combinations:

1. Payment of the FLIRP becomes mandatory in one step which would mean replacing the Fairtrade Minimum Price with the FLIRP.
2. A compulsory but gradual increase would maintain the FMP next to the FLIRP and involve a stepwise increase of the FMP until the FLIRP is reached.
3. In a voluntary approach, FMP and FLIRP would coexist, but only the payment of the FMP would be mandatory. The gap between the FMP and FLIRP could be filled partially or fully via additional voluntary “top up” payments, to be channelled via the SPO to farmer members. These “top-ups” can be fixed or flexible amounts.
4. An alternative voluntary approach would be without a fixed FMP. In the absence of a FMP, the gap between the market price (or national farm gate price where it exists) and FLIRP could be filled partially or fully via additional voluntary “top up” payments.

In each of the above options, the Fairtrade Premium can still be required on top of the FLIRP, or alternatively would be absorbed by the FLIRP. Excluding the Fairtrade Premium would enable the SPO to invest in productivity improvement or other strategic interventions needed to become sustainable businesses. The consequence of including the Premium is that a large % will likely continue to be used for cash payments to members to supplement the price they receive for their cocoa.

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| **Q10. Living income Strategy and Fairtrade Price model**1. **Do you have any comments on Fairtrade’s Living Income Strategy and/or Fairtrade’s intent to set Living Income Reference Prices? (Initially only proposed to be applied to Côte d’Ivoire and Ghana)**

Click here to enter text.1. **Do you think the payment of a Fairtrade Living Income Reference Price for Fairtrade cocoa should be made compulsory or voluntary?**

Click here to enter text.1. **Do you think the payment of a Fairtrade Living Income Reference Price should be required in one step or through a step-wise approach?**

Click here to enter text.1. **Do you think the Fairtrade Premium should contribute towards the FLIRP or be paid on top?**

Click here to enter text. |

The table below presents eight options for implementing the Fairtrade Living Income reference price, combining mandatory versus voluntary, and immediate versus gradual approaches. In each quadrant, the first option excludes the Fairtrade Premium from the Living Income Reference Price, whilst the second option absorbs it.

**Figure 3: Options to fill the gap to the FLIRP**

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| **COMPULSORY** | **VOLUNTARY** |
| **A: FLIRP substitutes FMP**Payment of the FLIRP becomes mandatory in one step as a minimum price level. The FP either continues to be paid in addition to the FLIRP **(A1)** or is absorbed by the FLIRP (in this case the FLIRP replaces both FMP and FP) **(A2)** | **C: FMP + voluntary payments = FLIRP** The gap between the FMP and FLIRP can be filled partially or fully via additional voluntary “top up” payments.“Top up” payments could be fixed or flexible amounts[[5]](#footnote-5).The FP either continues to be added to the FLIRP **(C1)** or is absorbed by the FLIRP **(C2)** |
| **B: FMP increases towards FLIRP in a phased approach**FMP is gradually increased until FLIRP is reachedThe FP either continues to be added to the FLIRP **(B1)** or is absorbed by the FLIRP **(B2)** | **D: No FMP, Farm Gate price + voluntary payments = FLIRP**In the absence of a FMP, the gap between the national farm gate price and FLIRP can be filled partially or fully via additional voluntary “top up” payments.“Top up” payments could be fixed or flexible amounts.The FP either continues to be paid on top of the national farm gate price and in addition to the voluntary “top-up” payment **(D1)** or is absorbed by the voluntary payment **(D2)** |
| **Q11. Which three options in figure 3 do you prefer for progression towards a Fairtrade Living Income Reference Price?** **Preferred option 1: ………………………….****Preferred option 2: ………………………….****Preferred option 3: ………………………….****Please explain your rationale and share any particular concerns you have regarding the option(s) selected**Click here to enter text.**Which of the options do you consider unviable?**[ ]  A1 [ ]  A2 [ ]  B1 [ ]  B2 [ ]  C1 [ ]  C2 [ ]  D1 [ ]  D2 **Please explain your reasons for rejecting these option(s)** Click here to enter text.**Please suggest any additional options if you feel something is missing** Click here to enter text. |

1. Organic Cocoa

The majority of the world’s fine or flavour and organic cocoa is produced in Latin America and the Caribbean. The cost of sustainable production for farmers of bulk cocoa Vs organic cocoa Vs fine or flavour cocoa varies significantly, with fine flavour cocoa (FFC) requiring most investment. However, Fairtrade is not proposing to define FMPs per cocoa variety due to the complexity of defining precise status of FFC cocoa which in many cases can be subjective.

In these more specialized markets, the price received is determined by the supply-demand balance for a particular origin and the type of cocoa, with the quality and flavour requirements of the buyer being the primary considerations. Prices are highly variable but typically greater than those of bulk cocoa. Fine or flavour and organic cocoa are still influenced by the London and New York cocoa futures markets and normally command a premium over the futures price, but unlike bulk cocoa, the future market is not the single most defining factor.

The question to consider is if this market premium already covers the additional costs or production organic producers carry. Currently Fairtrade treats organic differently to conventional. The current price setting for Fairtrade organic cocoa is calculated by adding a fixed cost on top of the price of Fairtrade conventional cocoa, whilst the Fairtrade premium is the same as conventional. The rationale for this is that organic cocoa often has a higher cost of production. (E.g. more labour intensive, lower yields). This means that when market prices are higher than the FMP, there are no additional Fairtrade pricing benefits for producers of Fairtrade organic cocoa compared to producers of Fairtrade conventional cocoa.

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| **Q12. Do you think the current Fairtrade price setting for organic cocoa should be maintained or modified?***Guidance: currently, FMP for organic cocoa is 300 USD/MT (15%) higher than conventional and with the same amount of FP 200 USD/MT*[ ]  Maintain as it is, with a 15% higher FMP than conventional cocoa and with the same value for FP set for conventional[ ]  Revise the FMP differential (15%) to cover average costs of producing cocoa organically[ ]  Have the same FMP as conventional and set a higher FP to incentivize and reward producers for organic production[ ] There is no need for a different FMP or FP for organic cocoa as the organic market commands a higher market price anyway[ ]  Other**Please explain your rationale**Click here to enter text. |

1. Currency

If prices are set in a producer’s local currency, the FMP and FP remain constant for producers in nominal value, but vary for buyers who operate in foreign exchange. However, the real value does not remain constant for producers; If prices are set in Euros, USD or GBP, the value is fixed for buyers operating in that currency, but this will result in a variable price for producers. Nevertheless, it is of course advisable to set prices and premiums in the currency that is deemed the strongest and most stable.

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| **Q13. Do you agree Fairtrade continues to set cocoa prices in USD?** [ ]  Yes, Fairtrade should continue setting the prices in USD[ ]  No, the prices for cocoa should be set in a different currency: [ ]  GBP or [ ]  EURO or [ ]  Local currency of producing country (please specify which)[ ]  I am unsure **Please explain your rationale**Click here to enter text. |

1. Fairtrade Prices, further along the supply chain

Fairtrade aims to promote transparency and fairness in its price setting approaches. However, the payment of price differentials and Fairtrade Premiums to producers can escalate further along the supply chain, resulting in a much higher price for buyers of semi-finished Fairtrade cocoa products. While a higher price for Fairtrade semi-finished products is naturally expected, these higher prices can far exceed the fixed cost of the Fairtrade Premium and, if applicable, the Fairtrade Minimum Price differential.

As most contracts for Fairtrade cocoa are forward contracts, the “triggering” of the Fairtrade Minimum Price introduces an additional variable cost for most commercial stakeholders. Due to the time lag between contracting, purchasing beans and producing/delivering products, with potentially different pricing per crop, allocating a Fairtrade Minimum Price differential to a certain contract can be a complex exercise. This can lead to uncertainty around pricing for buyers further along the supply chain[[6]](#footnote-6), which can ultimately result in further and unexpected cost.

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| **Q14. How can Fairtrade limit the escalation of Fairtrade prices further along the supply chain?** **Please explain your rationale**Click here to enter text.**Q15. How can Fairtrade adapt its price setting approach to reduce the complexity of managing Fairtrade cocoa forward contracts?** **Please explain your rationale**Click here to enter text. |

Fairtrade would like to gather feedback from stakeholders on how best to tackle the challenges described above.

1. Other suggestions and general stakeholder feedback on the cocoa pricing

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| **Q16. Do you have any other suggestions to the mechanisms mentioned above or any other proposal?**Click here to enter text.**Q17. You are invited to comment on topics covered by this consultation document as well as on any other pricing related requirement.** Click here to enter text. |

ANNEX

Fairtrade Standards support the sustainable development of small-scale producers and workers in the Global South. Producers and traders must meet applicable Fairtrade Standards for their products to be certified as Fairtrade. Within Fairtrade International, Standard & Pricing (S&P) is responsible for developing Fairtrade Standards, Fairtrade Minimum Prices (FMP) and Fairtrade Premium (FP). The procedure followed, as outlined in the Standard Operating Procedure (SOP) for the Development of Fairtrade Standards is designed in compliance with all requirements of the ISEAL Code of Good Practice for Setting Social and Environmental Standards. This involves wide consultation with stakeholders to ensure that new and revised standards and pricing reflect Fairtrade International’s strategic objectives, are based on producers’ and traders’ realities and meet consumers’ expectations.

**Information on the Fairtrade standards**

The project commenced in April 2017. The [project assignment](https://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/2017-05-10_CocoaPriceReviewProjectAssignment.pdf) is available on the Fairtrade International website here:

<https://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/2017-05-10_CocoaPriceReviewProjectAssignment.pdf>

The current Fairtrade Standard for Cocoa is also available on the Fairtrade International website, under this link:

<http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/generic-standards/Cocoa_SPO_EN.pdf>.

The Fairtrade SPO Standard is available here:

<http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/SPO_EN.pdf>

The Fairtrade Trader Standard can be consulted here:

<http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/generic-standards/TS_EN.pdf>

1. The targeted groups of this consultation are trader and producer representatives, licensees, public sector, civil society, researchers, National Fairtrade Organisations, Producer Networks, Fairtrade international and FLOCERT. [↑](#footnote-ref-1)
2. For Ghana, the market price reference is the FOB value of contracted prices with the Cocoa Marketing Company for the relevant delivery period. For Côte d’Ivoire, the market price reference is the guaranteed FOB value (“valeur FOB garanti”) as published by the Conseil Café Cacao for the relevant delivery period. [↑](#footnote-ref-2)
3. Arbitrage is the simultaneous buying and selling of commodities in different markets in order to benefit from different prices for the same asset [↑](#footnote-ref-3)
4. This is a similar approach to that detailed by the Voice Network in their Cocoa Barometer Consultation Publication “Raising Farm Gate Prices” April 2017.

[http://www.cocoabarometer.org/Download\_files/Raising%20Farm%20Gate%20Prices%20Cocoa%20Barometer%20Consultation%20Paper%20170419.pdf](http://www.cocoabarometer.org/Download_files/Raising%20Farm%20Gate%20Prices%20Cocoa%20Barometer%20Consultation%20Paper%20170419.pdf%20) [↑](#footnote-ref-4)
5. A fixed “top up” could be set at “X” CFA/USD/EURO per kilo/ton whilst a flexible “top up” could be defined as a % of the gap. The fixed amount or flexible % could gradually increase overtime in steps until the FLIRP is met. [↑](#footnote-ref-5)
6. For example, in January a licensee might contract with a trader for a November delivery that might be fulfilled by product purchased in May. If the Fairtrade Minimum Price was in effect in May the differential cost can only be recovered upstream in November and it will remain a cost to be recovered regardless of the futures price in November. These costs will not be known in January [↑](#footnote-ref-6)