Fairtrade Standard

for

Coffee

for

Small Producer Organizations and Traders

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

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Table of Contents

Introduction

How to use this Standard

Refer to the generic standard for Small Producer Organizations as a separate document 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 Amendments

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
01.04.2011_v1.0	01.04.2011	Inclusion of requirements related to: - Price to be fixed contracts - Price fixation - Brokers - Default and late payment - Earmarked premium
01.04.2011_v1.1	01.05.2011	New Standard Framework formatting
01.04.2011_v1.2	01.04.2012	Introduction of footnotes referring to guidance documents on price risk management and productivity and quality improvement
01.04.2011_v1.3	20.10.2012	Rewording of requirement related to market price reference, for better clarity. Introduction of requirement related to: - Price breakdown - Stop loss clauses Introduction of change history.

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 both Arabica and Robusta coffee in their primary form (green beans). 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 Standards.

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

1.1 Certification

1.1.1 Where a producer requires the assistance of an exporter in order to undertake Fairtrade exports, the producer must apply to the certification body confirming that the exporter is needed to export Fairtrade products on their behalf.

1.2 Labelling and Packaging

There are no additional requirements.

1.3 Product Description

1.3.1 The Fairtrade standard covers two species of green coffee:

Coffea arabica - Arabica coffee

Coffea canephora - Robusta coffee

Fairtrade Minimum Prices have been set for washed coffee and natural coffee. Pulped natural coffee is considered as washed coffee. The different types of processing systems are defined as follows:

Washed System – Coffee parchment is dried without pulp and without mucilage. The pulp is removed by machines called pulpers and the mucilage is removed by fermentation with or without water or by mechanical friction. These coffees are also known as mild.

Natural System – Coffee cherries are dried with pulp and with mucilage. Normally, drying of the whole cherries takes place in the form in which cherries are harvested. This coffee is sometimes called sun-dried or unwashed coffee.

Pulped Natural System – Coffee parchment is dried without pulp and with some or all mucilage adhering. This is an intermediate system, also known as semi-washed, semi-dried or cereja descascada (CD).

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

There are no additional requirements.

2.2 Product Composition

There are no additional requirements.

2.3 Contracts

2.3.1 A “price to be fixed” contract should be used between the seller[1] and the buyer. The price fixation must be made at the seller’s call.

An outright priced contract may be used only in the following cases:

a) auction systems that, would invalidate a price to be fixed contract, or

b) the seller has the coffee in stock at the time of making the contract, or

c) the seller and the buyer agree that it is mutually beneficial to have an outright price contract and jointly agree upon a risk management strategy[2]. The mutual agreement and the details of the risk management strategy must be confirmed in writing.

Guidance*:* In case (c), there should be a clear rationale as to why both parties decide to have such a contract, a clear description of the risk management measures, including clarity on who bears the costs and agreements in case those fail.

2.3.2 Use of a broker[3] (if needed), needs to be made explicit in the contract between the seller and the buyer.

Brokers can only act on behalf of one specified party. The party who wants to bring in a broker for a specified use and purpose needs written agreement of the other party and needs to pay for the broker's service. In case of the buyer bringing in the broker, the commission cannot be deducted from the FOB price.

2.3.3 If a Fairtrade payer requires the extension of the shipment schedule beyond the limits of sound commercial practice of the producer (three months after the harvest), the real costs of storage, interest and insurance must be covered by the Fairtrade payer in the terms of the contract. This rule is not applicable for those producers in whose respective countries specific export regulations exist which make the above unworkable.

[1] The seller is the producer organization (if the producer organization exports) or the exporter (if the producer organization sells through an exporter) in which case the producer organization gives fixing instructions to the exporter.

[2] Please refer to the guidance document on price risk management for more information on what it means. This document is available on the following website: http://www.fairtrade.net/coffee.html.

[3] A broker is defined as a non-certified operator, who does not gain ownership of the coffee at any point in time. A broker is someone who facilitates the contact and the trade between the seller and the buyer.

2.3.4 In case of a potential default against a contract, the seller is required to promptly notify the buyer, at a minimum 2 months before the shipment date[4].

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 up to 60% of the value of the contract available as pre-finance to the producer at any time after signing the contract. The pre-finance must be made available at least eight weeks prior to shipment.

Guidance: Where a producer organization is not exporting the coffee themself, the producer and exporter must agree upon the handling of the pre-financing money and the fulfilment of the contract.

Where several shipments are planned, the spread of the pre-finance must be fixed in the contracts. It is not always necessary to pre-finance the whole amount before the first shipment. Pre-finance must be adapted to the real needs of the producer.

4.3 Pricing

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

4.3.1 **Market price reference:** When market prices for coffee are higher than the Fairtrade Minimum Price, traders and producers must calculate the Fairtrade price as follows:

[4] Please note that contracts need to be honoured. This clause applies to cases when the seller is not able to honour the contract, due to exceptional unforeseen circumstances. In this instance, the producer and buyer must both demonstrate to FLO-CERT that they are actively seeking to reach contract resolution. Support for mediation is also available if required via the FLO Coffee Help Desk (coffeehelp@fairtrade.net). Where no solution can be reached, special requirements will apply to defaulters, to monitor the fulfilment of their contracts. These special requirements are outlined in the Guidance Document on Coffee Price Risk management strategies (http://www.fairtrade.net/coffee.html). FLO-CERT may also apply compensation exemption measures to help resolve supply issues caused by defaulted contracts within the prescribed limits set by FLO. Questions on these topics may be directed to the Global Product Management team, via Coffeehelp@fairtrade.net.

market price reference (*never below Fairtrade Minimum Price*)		**+ Organic differential** (*in case of organic coffee*)	+ **Fairtrade Premium**	**= Fairtrade Price**
NY C or LIFFE	**+ prevailing differential**			

For Arabica coffees the market price reference shall be based on the New York Board of Trade "C" contract (NYBOT/ICE), plus the prevailing differential (positive or negative) for the relevant quality, basis FOB origin, net shipped weight. The reference market price shall be established in US$-cents per pound,

For Robusta coffee, the market price reference shall be based on the London "EURONEXT LIFFE" contract, plus the prevailing differential (positive or negative) for the relevant quality and origin, basis FOB origin, net shipped weight. The market price reference shall be established in US-dollars per metric ton.

The 'prevailing differential' refers to the average differential or range valid in the mainstream market for non-Fairtrade coffee of that country and grade at that moment.

Guidance: Producers and buyers must agree upon a differential, using the differential that prevails in the mainstream market for non-Fairtrade coffee, as a baseline, and taking into account actual quality, shipment date, logistics, risk, availability, etc.… In case of any significant deviation from the non-Fairtrade market differential, traders and producers will be required to have a rationale/justification. The FT premium and organic differential (in case of organic coffee) are to be added to that, clearly separated from the prevailing differential, and are not subject to negotiation, but defined in the standards.

The reference market price can never be below the Fairtrade minimum price. A negative differential cannot be applied to the Fairtrade Minimum Price. The organic differential and Fairtrade premium can never be below the levels defined in the Fairtrade Minimum Price and Premium Table.

4.3.2 Price breakdown: All contracts need to include a breakdown of the differential, clearly mentioning the prevailing differential, the organic differential and the Fairtrade premium.

4.3.3 Price fixation: In the case of price–to-be-fixed contracts, if the seller wishes to fix the price before the harvest starts, the fixation requires the agreement of the buyer.

Both the seller and the buyer need to jointly agree upon a risk management strategy[5]. The mutual agreement and the details of the risk management strategy must be confirmed in writing.

4.3.4 Stop loss clauses: Stop loss clauses cannot be included in the contracts, triggering automatic price fixing at any moment after signing the contract, thus overruling the price to be fixed at seller's call clause. Price fixing through a stop loss order can only be applied during the harvest in consultation between producer and buyer as a means of managing the price risk for both sides.

Guidance: The seller's fix on futures contracts is an important price risk management tool for producers. A stop loss clause in the contract effectively eliminates this risk management tool and exposes producers to a price increase by the time they collect the coffee. It may cause serious losses and eventually make producers default on the contract. Producers and buyers need to define together how to manage the risk when the market price comes close to the minimum price during the harvest period. A careful application of a stop loss order can be part of such an arrangement. Producers are encouraged as best practice to fix the contracts when the coffee arrives at the warehouse. Traders are encouraged as good practice not to allow price fixing by roasters before producers fix, so there is no need to protect a hedged position with a stop loss clause for producers.

[5] Please refer to the Guidance document on price risk management for more information on what it means. This document is available on the following website: http://www.fairtrade.net/coffee.html.

4.3.5 Price fixation: In the case of outright priced contracts, prices must not be fixed for a period longer than one crop period.
4.3.6 When, by legislation, coffee has to be passed through the auction, importer and exporter will agree upon a reasonable margin for the exporter to cover their costs. Producers selling via an exporter should agree upon a reasonable margin for the exporter to cover his costs.
4.3.7 Payments: 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 will be in line with what is customary in the coffee trade.
4.3.8 Payments: For contracts involving Fairtrade payers and producers, payment must be made according to the international customary conditions, and no later than 15 days after the receipt of the documents transfering 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.
4.3.9 Payments: In case of potential late payment of a contract, the buyer is required to promptly notify the seller as soon as possible but at the latest one week before the payment date.
4.3.10 Fairtrade Premium: The Fairtrade Premium needs to be paid in addition to the price of the product Fairtrade Minimum Price or market price reference as explained in 4.3.1, whichever is higher). The Fairtrade Premium amount cannot be incorporated into the agreed upon differential.
4.3.11 Fairtrade Premium: At least 5cts of the Fairtrade premium must be invested in the improvement of productivity and/or quality of Fairtrade coffee[6]. Investment can be made at the level of individual members and/or the producer organization. The General Assembly decides on the activities to be carried out. The producer organization needs to keep records on the use of the monies and to explain in which way it contributes to the improvement of productivity and/or quality. ***Guidance:*** Productivity and/or quality investment refer to any measures that will increase the quantity and quality of coffee produced. It can include measures to improve yields such as, for example, training on agricultural practices, farm-level replanting and renewal projects, purchase of equipment or infrastructure investments. It can include measures for quality such as hiring cuppers, investing in cupping labs, trainings and similar activities.
4.3.12 For 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.

[6] Please refer to the Guidance document on productivity and/or quality improvement for more information on what is meant. This document is available on the following website: http://www.fairtrade.net/coffee.html.