



# Fairtrade Standard for Cocoa

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**Applies to:** Small producer organizations and traders and contract production set-ups in the Pacific region

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Contact for comments: [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net)

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For further information and standards downloads: [www.fairtrade.net/standards.html](http://www.fairtrade.net/standards.html)



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## Introduction

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### How to use this Standard

The Fairtrade Standard for Cocoa covers the requirements which are specific to cocoa producers and traders.

Fairtrade cocoa producers must comply with either the Fairtrade Standard for Small Producer Organizations or the Fairtrade Standard for Contract Production (only for the Pacific region) and the Fairtrade Standard for Cocoa. For producers this standard complements, and should be read together with, the Fairtrade Standard for Small Producer Organizations or the Fairtrade Standard for Contract Production.

Fairtrade cocoa traders must comply with both the Fairtrade Trader Standard and Fairtrade Standard for Cocoa. For traders this standard complements, and should be read together with, the Fairtrade Trader Standard.

In cases where this standard differs from the Fairtrade Standard for Small Producer Organizations, the Fairtrade Standard for Contract Production or the Fairtrade Trader Standard on the same topic, the requirements presented in this standard apply.

### Product description

This standard covers the production, purchase and sale of cocoa beans and processed cocoa.

Cocoa beans are the fermented and dried whole seeds of the cocoa tree (*Theobroma cocoa*).

This standard also covers secondary products and their derivatives. A secondary product can be a by-product, a co-product or a residue produced in the country of origin.

The definition of secondary products is included in the [Fairtrade Trader Standard](#). An explanatory note for secondary products and a non-exhaustive list of products fitting in the secondary products definition is available on the [Fairtrade International website](#).

### Price and Fairtrade Premium

Fairtrade Minimum Prices and Premiums for cocoa are listed in [the pricing database](#), which is published on the Fairtrade website.

There are no Fairtrade Minimum Prices defined for secondary products and their derivatives. The prices of these products, from any origin, are negotiated between sellers and next buyers. A default Fairtrade Premium of 15% of the negotiated price must be paid in addition.

### Chapters

The Fairtrade Standard for Cocoa has four chapters: General Requirements, Trade, Production and Business and Development.



## Structure

In each chapter and section of the standard you will find:

- The **intent** which introduces and describes the objective and defines the scope of application of that chapter or section;
- The **requirements** which specify the rules that you must adhere to. You will be audited according to these requirements; and
- The **guidance** provided to help you to interpret the requirements. The guidance offers best practices, suggestions and examples of how to comply with the requirement. It also gives you further explanation on the requirement with the rationale and/or intention behind the requirement. You will not be audited against guidance.

## Requirements

In this standard you will find three types of requirements:

- **Core requirements** which reflect Fairtrade principles and must be complied with. These are indicated with the term 'Core' found in the column on the left throughout the standard.
- **Development requirements** which refer to the continuous improvements that you must make on average against a scoring system (also defining the minimum average thresholds) defined by the certification body. These are indicated with the term 'Dev' found in the column on the left throughout the Standard.
- **Voluntary Best Practices** which refer to the additional steps that all supply chain actors can take to foster even fairer trading conditions. They serve as your reference point for achieving best practice and contribute to greater sustainability in the entire supply chain. These practices are voluntary and not required in order for you to be in compliance. They will be however monitored on a regular basis in order to identify those actors that go beyond minimum compliance. These practices are indicated with the term 'VBP' found in the column on the left throughout the standard.

## Scope

**This standard applies to all Fairtrade cocoa producers and all companies that buy and sell Fairtrade cocoa.** All operators taking ownership of Fairtrade certified products and/or handling the Price and Fairtrade Premium are audited and certified.

Different requirements apply to different companies depending on their role in the supply chain. You can find if a requirement is applicable to you in the column "**Applies to**".



## Application

This version of the Fairtrade Standard for Cocoa was published on 1 April 2017. This version supersedes all previous versions and includes new and changed requirements. New requirements are identified in this standard by the word “**NEW**”. The following transition periods apply:

- Requirements marked **NEW APRIL 2017**: applicable from 1 April 2017
- Requirements marked **NEW OCTOBER 2017**: applicable from 1 October 2017
- Requirements marked **NEW 2018**: applicable from 1 January 2018
- Requirements marked **NEW 2019**: applicable from 1 January 2019
- Requirements marked **NEW 2020**: applicable from 1 January 2020

## Definitions

**Producer** means any entity that has been certified under the Fairtrade Standard for Small Producer Organizations or the Fairtrade Standard for Contract production. Individual producers are the members of those organizations.

**Small Producer Organisation (SPO)** refers to cooperatives of small farmers certified under the SPO Standard.

A **2nd-grade organisation** describes a small producer organization whose legal members are exclusively 1st-grade organization affiliates.

A **3rd-grade organisation** describes a small producer organization whose legal members are exclusively 2nd-grade organization affiliates.

For a comprehensive list of definitions see the Fairtrade Standard for [Small Producer Organisations](#) and the [Fairtrade Trader Standard](#).

## Monitoring of changes

Fairtrade International may change Fairtrade standards as explained in Fairtrade International’s Standard Operating Procedures, see [www.fairtrade.net/standards/setting-the-standards.html](http://www.fairtrade.net/standards/setting-the-standards.html). Fairtrade Standard requirements can be added, deleted, or changed. If you are Fairtrade certified, you are required to check the Fairtrade International website regularly for changes to the standards.

Fairtrade certification ensures that you comply with Fairtrade Standards. Changes to Fairtrade Standards may change the requirements of Fairtrade certification. If you wish to be or are already Fairtrade certified, you are required to check the compliance criteria and certification policies on the certification body’s website regularly at [www.flo-cert.net](http://www.flo-cert.net).



## Change history

Version number	Date of publication	Changes
01.05.2011_v1.0	01.05.2011	New Standards Framework (NSF) changes: (1) reorganization of the standard into 4 chapters
01.05.2011_v1.1	01.10.2012	<ul style="list-style-type: none"><li>- Change in scope: Standard becomes also applicable to cocoa from Contract Production in Oceania</li><li>- Premium planning and reporting requirements added</li></ul>
01.05.2011_v1.2	19.12.2013	<ul style="list-style-type: none"><li>- Mass balance conversion rates added</li></ul>
01.04.2017_v1.0	01.04.2017	<p>Full review of the standard, revision of the trade section including revised conversion ratios and new requirements related to mass balance.</p> <p>New Production section, including requirements related to internal management systems for SPOs.</p> <p>Alignment with the Trader Standard, new requirements on service provision and on long-term partnership, revision of the sourcing plans and deletion of pre-finance, revision of the premium planning requirement.</p> <p>Addition of definition section, simplification of wording, reorganization of requirements, deletion of redundancies, added or improved guidance, new standard design.</p> <p>Clarification of the market reference price, and how to implement the FMP in Cote d'Ivoire and Ghana as part of a separate clarification process of existing requirements.</p>
01.04.2017_v1.1	06.02.2018	Clarification in the guidance to requirement 2.1.4 (like for like rule related to origin) .



# 1. General Requirements

There are no additional requirements.

## 2. Trade

**Intent:** To provide maximum benefits to producers, while remaining credible to consumers.

### 2.1 Traceability

#### 2.1.1 NEW 2018 Mass balance conversion ratios

<b>Applies to:</b> traders and producers selling semi-processed cocoa, if applying mass balance	
<b>Core</b>	In order to demonstrate compliance with TS requirement 2.1.8 (equivalent amounts of inputs and outputs), you use the following processing yields / conversion ratios:
<b>Year 0</b>	<p>1 MT beans → 0.82 MT liquor</p> <p>1 MT liquor → 0.5 MT butter and 0.5 MT powder</p> <p>1 MT beans → 0.41 MT butter and 0.41 MT powder.</p> <p>Expressed in volumes of input this equals:          For 1MT liquor you need 1.22 MT of beans          For 1MT of butter, 1MT of powder, or both, you need 2 MT of liquor          For 1MT of butter, 1MT of powder, or both, you need 2.44 MT of beans.</p> <p>Mass balance conversions are only allowed in the direction that is physically possible: beans to liquor, liquor to butter and powder.</p>
<p><b>Guidance:</b> With 1MT Fairtrade beans, you can sell up to 0.41 MT Fairtrade butter and 0.41 MT Fairtrade powder. You cannot replace powder volumes with butter volumes and vice versa. In other words, if you want to sell 1MT butter, you need to buy at least 2.44 MT beans. With these 2.44 MT Fairtrade beans, you will be able to sell up to 1 MT Fairtrade butter and 1 MT Fairtrade powder.</p> <p>To find out how many beans you need to buy in order to sell x MT of butter and y MT of powder, you take the highest value of the two and multiply by the conversion ratio of 2.44.</p>	



Until end 2017, the conversion ratios of the previous version of the Cocoa Standard apply, as follows:

	Fairtrade conversion rates to bean equivalents
Liquor	1.25
Butter only	2.66
Powder only	2.36
Butter and 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 ratio of 100:113 over a period of up to 12 months. For butter and powder volumes sold/used in excess of this ratio, 2.66 for butter or 2.36 for powder must be applied.

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.

### 2.1.2 NEW 2018 Maximum period of validity for Fairtrade mass balance products

**Applies to:** traders and producers selling semi-processed cocoa, if applying mass balance

**Core** You sell the Fairtrade equivalent output within 3 years of purchasing the Fairtrade input.

**Year 0**

### 2.1.3 NEW 2018 Mass balance: like for like rule

**Applies to:** traders and producers selling semi-processed cocoa, if applying mass balance

**Core** If you sell cocoa outputs (beans, semi-processed or processed cocoa) as Fairtrade under mass balance with a claim such as:

- a specific category (standard or fine flavour) or
  - a specific status (conventional or organic)
- then you have purchased an equivalent Fairtrade cocoa volume input with the same or higher specifications as indicated in the purchase documentation.

**Guidance:** This requirement clarifies how to interpret the TS requirement 2.1.11 related to ensuring that the Fairtrade inputs are of the same kind and quality as the output sold as Fairtrade.

For example, if the sales documentation mentions “Fairtrade organic fine flavour cocoa”, then an equivalent volume of Fairtrade organic fine flavour cocoa beans is purchased, and this is reflected in the purchase documentation.



Downgrading is allowed: For example it is possible to buy Fairtrade fine flavour cocoa and sell an equivalent volume of standard/bulk cocoa as Fairtrade or buy Fairtrade organic cocoa and sell an equivalent volume of conventional cocoa as Fairtrade.

### 2.1.4 NEW 2018 Mass balance: like for like rule related to origin

**Applies to:** all traders along the supply chain applying mass balance

<b>Core</b>	If you sell a final cocoa product as Fairtrade under mass balance, with a claim regarding a specific origin, then you have purchased the equivalent Fairtrade cocoa volume input from the same origin (as indicated in the purchase documentation).
<b>Year 0</b>	If you sell cocoa beans or semi-finished cocoa product as Fairtrade under mass balance with a specific origin claim, then you have purchased the equivalent Fairtrade cocoa volume input from the same origin. If not possible, you indicate it clearly to your customer.

**Guidance:** This requirement clarifies how to interpret the TS requirement 2.1.11 related to ensuring that the Fairtrade inputs are of the same kind and quality as the output sold as Fairtrade.

**For traders selling final products as Fairtrade:**

If the final cocoa product is sold as Fairtrade under mass balance, with a claim on final packaging regarding a specific origin, then an equivalent Fairtrade cocoa volume input has been purchased from the same specific origin and this is reflected in the purchase documentation. In acknowledgement of industry norms at a minimum the cocoa liquor component of the final cocoa product is purchased from the specific origin. If you do not purchase the cocoa butter component of the final cocoa product from that same specific origin, you indicate this in the purchase documentation.

If the final cocoa product is sold as Fairtrade under mass balance without mentioning any country or region of origin, then the equivalent Fairtrade cocoa volume input can be purchased from any origin.

**For traders selling cocoa beans or semi-processed cocoa as Fairtrade:**

If you sell to a manufacturer beans or semi-processed cocoa as Fairtrade under mass balance, with a claim in the purchase documentation on a specific origin, then you need to have purchased a Fairtrade equivalent volume of cocoa input from that same origin. If you cannot purchase an equivalent Fairtrade volume of cocoa input from that same origin, you need to indicate to your business client that the Fairtrade equivalent cocoa volume has been purchased from another origin. Your business client is therefore not allowed to make an origin claim on the final Fairtrade product.

### 2.1.5 NEW 2018 B2B transparency on the traceability model used

**Applies to:** traders and producers selling semi-processed cocoa

<b>Core</b>	Whenever you sell cocoa products as Fairtrade, you indicate in your sales documentation whether the product was segregated (physically traceable) or traded under mass balance.
<b>Year 0</b>	

**Guidance:** Sales documentation in this context could be either the contract, the invoice, or delivery docket. Please note that the rules regarding Business to Consumer communication are not covered in this requirement, but are included in the Trademark Use Guidelines.



### 2.1.6 **NEW 2018** Sale of multi-certified cocoa

**Applies to:** producers and traders selling multi-certified cocoa

<b>Core</b>	If you purchase a certain volume of cocoa beans or semi-processed cocoa as “dual or multi-certified” under Fairtrade as well as under additional sustainability certification schemes, and sell it under a certification scheme other than Fairtrade, then you cannot sell the same volume as Fairtrade certified cocoa.
<b>Year 0</b>	

**Guidance:** Note that in this context, sustainability certification scheme does not include organic certification.



# 3. Production

**Intent:** to formalize the set-up and implementation of systems to ensure the small producer organizations and their members' compliance with the Fairtrade Standards, but also to go further into defining tools to deliver effective services to their members, by introducing needs assessment, training plans and farm improvement plans, as part of a wider Internal Management System (IMS).

The goal is to ensure that producer organizations have effective tools in place that support their common mission to deliver economic and social benefits to smallholder farmers, and also to make them attractive business partners to potential buyers and investors in order to maximise their Fairtrade sales.

Depending on their size, capacity, local context, producer organizations may have different tools and processes to manage their operations.

## 3.1 Management of production practices

### 3.1.1 NEW OCTOBER 2017 Member Information

<b>Applies to:</b> SPOs	
<b>Core</b>	You update records of your members on an annual basis. At a minimum member records should include: member name, contact information, gender, date of birth, registration date with SPO, farm location and farm size.
<b>Year 0</b>	
<b>Guidance:</b> This requirement complements the SPO Standard requirement 4.2.2 on keeping member records, as it provides more detail on what type of information is required.	

### 3.1.2 NEW 2018 Additional member data

<b>Applies to:</b> SPOs	
<b>Core</b>	Your member records include: up-to-date information related to training programs attended, Fairtrade-related inspections performed on the farm and their outcomes, cocoa sales of the previous season and estimated member production.
<b>Year 1</b>	
<b>Guidance:</b> This requirement complements the SPO Standard requirement 4.2.2, and builds upon requirement 3.1.1 above. In order to keep the member records up to date and for the SPO to use this information effectively for management decisions, the use of a computerized system is strongly recommended. "Up-to-date" means that at least a yearly update is carried out. Best practice is to record information on training and inspections as soon as they have taken place.	

### 3.1.3 NEW 2019 Compliance Management

<b>Applies to:</b> SPOs	
<b>Core</b>	You implement a system which enables you to manage compliance with Fairtrade requirements for all cocoa producers of the organization.
<b>Year 3</b>	



**Guidance:** This requirement replaces SPO standard requirement 3.1.5 which requires 2nd and 3rd grade SPOs to have an ICS as a development requirement year 3. The requirement is also built upon SPO Standard requirements 3.1.2 to 3.1.4 related to identifying and monitoring the members' compliance with the production chapter of the SPO Standard.

You need to understand how your members are performing in terms of compliance and be able to identify areas of risk for non-compliance. The general principles of a functioning IMS to support the aforementioned process are:

- A documented description of the IMS
- A documented management structure
- One person responsible for the IMS
- An internal regulation to ensure compliance
- Identified internal inspectors
- Training of the person responsible and the internal inspector
- Annual inspections and reports, and feedback to the members
- Use of internal sanctions
- Regularly updated members list
- Use of risk assessment to address risks and threats to the integrity of the IMS

Please refer to the guidance documents on IMS for more information.

### 3.1.4 **NEW 2019** Allocation of tasks and responsibilities between 2nd or 3rd grade SPOs and their member SPOs

**Applies to:** 2nd and 3rd grade organisations

<b>Core</b>	As a 2nd or 3rd grade organization, you define with your 1st grade or 2nd grade member organizations the appropriate allocation of tasks and responsibilities to effectively maintain an IMS.
<b>Year 3</b>	

**Guidance:** This requirement complements requirement 3.1.3 above. It is essential to clarify which organisation is responsible for collecting member information, updating member records and checking member compliance against Fairtrade standards.

### 3.1.5 **NEW OCTOBER 2017** Membership agreement

**Applies to:** SPOs

<b>Core</b>	You sign an agreement with each individual member which specifies the rights and obligations of each party in relation to Fairtrade certification.
<b>Year 0</b>	

**Guidance:** This requirement builds upon the existing SPO Standard requirement 4.2.3 related to following the SPO's own rules and regulations.

The agreement should include at a minimum, details which describe:

- commitment from both the member and SPO to comply with Fairtrade Standards, and
- permission from the member for the SPO to collect, store and share their data.

The agreement could additionally include :

- seasonal cocoa supply/purchasing targets (i.e. quantities the farmer will sell to the SPO - or another buyer who has an agreement with the SPO - and information on the SPO capacity to sell the cocoa under Fairtrade terms),
- SPO commitments regarding service delivery and member commitment regarding participation in training programs and other SPO activities.

This agreement does not need to be a separate document if you already have a formal arrangement in place between your SPO and members. The above mentioned elements can be added to an existing document.



### 3.1.6 NEW 2019 Farm assessment

<b>Applies to:</b> SPOs	
<b>Core</b>	You collect household and farm data to assess the needs of members regarding sustainable farm improvements.
<b>Year 3</b>	
<p><b>Guidance:</b> The intention of this requirement is to help SPOs ensure compliance with the Production chapter of the SPO standard. It will also provide the basis for SPOs to define effective training and support measures and adapt them around the current need of their members and hereby help improve the sustainability of their farms.</p> <p>Your organization can determine the additional farm data to be collected. For efficiency, this data can be collected during the internal inspection farm visits.</p> <p>Suggestions for additional data are:</p> <ul style="list-style-type: none"> <li>- Household information: number of household members (including persons living in or immediately around the housing unit in temporary or permanent arrangements related by blood, law, work arrangements, date of birth, gender).</li> <li>- Number of workers (permanent and temporary).</li> <li>- Farm production area: # of plots/total farm size and per plot the following: GPS coordinates or GPS polygon mapping, area cultivated with cocoa, land tenure (owner or sharecropper), and location in relation to protected and high conservation value areas.</li> </ul> <p>Best practice is to collect data on farm observations such as: planting density, tree age, presence/risk of any debilitating disease, access to/use of planting material, shade management, soil condition/fertility, levels of pruning and weeding practiced, integrated pest management adopted (including safety measures), access to/effective use of fertilizer, sustainable use of organic waste, adoption of agroforestry, etc.</p>	

### 3.1.7 NEW 2018 Plan of training and support activities

<b>Applies to:</b> SPOs	
<b>Core</b>	You develop, implement and regularly adapt a centralized plan for training and other support activities based on the needs of your members.
<b>Year 1</b>	
<p><b>Guidance:</b> The intention of this requirement is to enable SPOs to conduct more effective training and support by means of a single plan. This plan will enable better organization and coordination of training and support activity, avoid unnecessary duplication and repetition, ensuring more efficient use of scarce resources and supporting continuous improvement.</p> <p>The training and support plan includes all activities to be conducted for members, be they part of the Fairtrade Development Plan, or otherwise (e.g. government extension services, other schemes, other NGO projects).</p> <p>A training and support plan could be an annual calendar identifying when different training topics will be covered and with which target groups (e.g. which primary societies / village societies), and should also include when providers will be making inputs and trainings available. The plan should also be compared to the records of the activities actually carried out, so that you can discuss what changed from the plan and why. This helps identify areas to improve in the next year's plan. The records should include the list of training and support activities, dates and locations, who attended, the service provider, training and/or support materials used and the cost of the activity.</p> <p>Best practice is also to include information on training adoption by the participants and recommendations from service providers so you can improve on training and support outcomes over time by adapting future plans accordingly.</p>	



### 3.1.8 **NEW 2020** Farm Improvement Plan

**Applies to:** SPOs

<b>Dev</b>	You develop, agree and regularly review and update farm improvement plans with individual members to increase the economic viability of the member’s farm in a sustainable way and to support farmers in determining and achieving their optimal cocoa productivity. Findings and updates from farm assessment data (see requirement 3.1.6 above) and risk assessments (see Production section of the SPO Standard) are discussed with the member and the resulting agreed actions built into the Farm Improvement Plan.
<b>Year 3</b>	

**Guidance:** The Farm Improvement Plan includes farmer tailored recommendations and planned interventions over multiple years which could include areas such as increased adoption of Good Agricultural Practices and agroforestry techniques such as use of shade trees, soil fertility management including fertilizer application, integrated pest management (IPM), access to inputs and finance and income diversification strategies.

Please see guidance document on how to improve productivity in a sustainable way.



# 4. Business and Development

**Intent:** To ensure that Fairtrade transactions are carried out under transparent and fair conditions, in a way that lays the foundation for producer empowerment and development.

## 4.1 Contracts

### 4.1.1 NEW APRIL 2017 Contracts

<b>Applies to:</b> Fairtrade payers	
<b>Core</b>	You agree in the contract with the producer (or the conveyor if applicable) on the market price reference, either New York (ICE FUTURES US) or London (ICE FUTURES EUROPE), unless official prices set by the national government are the market price reference.
<b>Year 0</b>	

### 4.1.2 NEW OCTOBER 2017 Service provision

<b>Applies to:</b> all cocoa traders	
<b>Core</b>	If you provide any services such as training or other support activities to SPOs, you agree in advance and in writing with the SPO, on all terms and conditions, including fees. You do not put pressure on producers to accept the services and the fee, nor do you make it a condition of purchase.
<b>Year 0</b>	
<b>Guidance:</b> The intention of this requirement is to ensure that SPOs can decide for themselves on the services provided to their members and their staff, and on the use of the Fairtrade premium.	

## 4.2 Pricing

### 4.2.1 NEW APRIL 2017 Market price reference for cocoa beans

<b>Applies to:</b> Fairtrade payers	
<b>Core</b>	In order to determine whether the Fairtrade Minimum Price is higher than the market price, you will refer to the following reference prices:  a) By default, the market price reference is the international market price, either New
<b>Year 0</b>	



	<p>York (ICE FUTURES US) or London (ICE FUTURES EUROPE) market.</p> <p>b) In countries where prices are regulated by the government, the official price set by the national government is the market price reference. For instance:</p> <ul style="list-style-type: none"> <li>- In the case of Ghana, the market price reference is the FOB value of your contracted prices with the Cocoa Marketing Company for the relevant delivery period.</li> <li>- In the case of 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.</li> </ul>
<p><b>Guidance:</b> international market prices are inclusive of the origin differentials that are published on the relevant exchange. However, market prices are not inclusive of bilaterally negotiated differentials.</p>	

#### 4.2.2 NEW APRIL 2017 Payment of the FMP differential in Ghana and Cote d'Ivoire by payers

<b>Applies to:</b> Fairtrade payers purchasing from Ghana or Côte d'Ivoire	
<b>Core</b>	In the case that the reference price is below the Fairtrade Minimum Price, you purchase cocoa under the terms required by national regulation and you pay the SPO (or the conveyor if applicable) the price differential defined as the difference between the Fairtrade Minimum Price and the market price reference.
<b>Year 0</b>	
<p><b>Guidance:</b> The payment mechanism for this price differential is similar to the payment of Fairtrade premiums. However, this price differential does not affect the value of the Fairtrade premium. It is an additional payment intended to act as a safety net when market prices drop below the average costs of sustainable production.</p> <p>Given the above, requirements 4.1.3, 4.2.3 and 4.2.4 of the Trader Standard do not apply to traders when purchasing from Ghana and Côte d'Ivoire.</p>	

#### 4.2.3 NEW APRIL 2017 Payment of the FMP differential in Ghana and Cote d'Ivoire by conveyors

<b>Applies to:</b> Fairtrade conveyors purchasing from Ghana or Côte d'Ivoire	
<b>Core</b>	In the case that the reference price is below the Fairtrade Minimum Price, you purchase cocoa under the terms required by national regulation and you pay the SPO the price differential (defined as the difference between the Fairtrade Minimum Price and the market reference price) received from the Payer.
<b>Year 0</b>	
<p><b>Guidance:</b> The payment mechanism for this price differential is similar to the payment of Fairtrade premiums. However, this price differential does not affect the value of the Fairtrade premium; it is an additional payment intended to act as a safety net when market prices drop below the average costs of sustainable production.</p> <p>Given the above, requirements 4.1.3, 4.2.3 and 4.2.6 of the Trader Standard do not apply to traders when purchasing from Ghana and Côte d'Ivoire.</p>	



#### 4.2.4 Fairtrade Minimum Price for cocoa semi-processed products purchased from certified producers

<b>Applies to:</b> Fairtrade payers buying semi-processed cocoa from producers	
<b>Core</b>	<p>You negotiate the price of the semi-processed product with the producer. This negotiated price is based on, at least, the cocoa beans reference values of USD 1750/MT (for conventional) and USD 2050/MT<sup>1</sup> (for organic) at producers' level plus all relevant processing costs.</p> <p>The Fairtrade Minimum Price is calculated using the average processing yield calculated by the producer.</p> <p>It is only if this information is not available to the producer, that the processing yields from beans in 4.2.5 apply (see details in the second column in the table and the calculation examples in the guidance).</p>
<b>Year 0</b>	

#### 4.2.5 Fairtrade Premium for cocoa semi-processed products purchased from certified producers

<b>Applies to:</b> Fairtrade payers buying cocoa semi-processed products from certified producers																			
<b>Core</b>	<p>The value of the Fairtrade Premium for semi-processed products is derived from the average processing yield calculated by the producer (see examples below).</p> <p>Only if this information is not available to the producer the following values apply:</p> <table border="1" data-bbox="461 1122 1251 1525"> <thead> <tr> <th></th> <th>Processing yield from beans<sup>2</sup></th> <th>Fairtrade Premium</th> </tr> </thead> <tbody> <tr> <td><b>Beans</b></td> <td>-</td> <td>USD 200/MT</td> </tr> <tr> <td><b>Liquor</b></td> <td>0.8</td> <td>USD 250/MT</td> </tr> <tr> <td><b>Butter</b></td> <td>0.376</td> <td>USD 530/MT</td> </tr> <tr> <td><b>Powder</b></td> <td>0.424</td> <td>USD 470/MT</td> </tr> <tr> <td><b>Butter and Powder</b></td> <td>(0.8)</td> <td>USD 250/MT</td> </tr> </tbody> </table> <p>The Fairtrade Premium for semi-processed products is subject to the same rules as any other Fairtrade Premium and follows sections 4.2 and 4.3 of the Trader Standard.</p>		Processing yield from beans <sup>2</sup>	Fairtrade Premium	<b>Beans</b>	-	USD 200/MT	<b>Liquor</b>	0.8	USD 250/MT	<b>Butter</b>	0.376	USD 530/MT	<b>Powder</b>	0.424	USD 470/MT	<b>Butter and Powder</b>	(0.8)	USD 250/MT
		Processing yield from beans <sup>2</sup>	Fairtrade Premium																
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<b>Year 0</b>																			

**Guidance:**  
**Calculation examples of Fairtrade Minimum Price (FMP) and Fairtrade Premium for conventional cocoa liquor, butter and**

<sup>1</sup> 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.

<sup>2</sup> The processing yield gives the quantity of semi-processed product obtained from 1 unit of cocoa beans.



**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<sup>3</sup>:**

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<sup>4</sup> for conventional beans at producers level and assuming<sup>5</sup> 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<sup>6</sup>**

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*

<sup>3</sup> '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.

<sup>4</sup> 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).

<sup>5</sup> 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.

<sup>6</sup> '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.



powder the buyer will have to pay for the **1 extra metric ton of butter**:

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

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

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

### 4.3 Payment terms

#### 4.3.1 Timely payment of price and Premium

<b>Applies to:</b> Fairtrade payers	
<b>Core</b>	You pay the producer according to international customary conditions and no later than 15 days after the receipt of the documents transferring ownership.
<b>Year 0</b>	

#### 4.3.2 Timely transfer of premium and price differential

<b>Applies to:</b> Fairtrade Conveyors	
<b>Core</b>	You pay the producer no later than 15 days after receipt of the payment from the Fairtrade payer.
<b>Year 0</b>	

### 4.4 Pre-finance

There are no additional requirements.

### 4.5 Sourcing plans

#### 4.5.1 **NEW OCTOBER 2017** Sourcing plans:

<b>Applies to:</b> Fairtrade payers and conveyors	
<b>Core</b>	You provide to the producer a sourcing plan that covers each harvest, at a minimum of one month in advance of the cocoa trading season and renewed at least annually.
<b>Year 0</b>	
<b>Guidance:</b> The following requirement complements TS requirement 4.5.1 on sourcing plans.	



#### 4.5.2 NEW OCTOBER 2017 Long-term partnerships based on mutual commitments

<b>Applies to:</b> all cocoa traders	
<b>VBP</b>	You engage in long-term partnerships with producers based on commitments of cocoa volume purchases over multiple years and you communicate your sustainability priorities to allow producers to make informed decisions on premium investments.
<b>Year 0</b>	
<p><b>Guidance:</b> The intention of this requirement is to provide producers with secured sustainable income streams, which will enable them to invest in areas of strategic priority for the economic social and environmental sustainability of cocoa farmers.</p> <p>In this context “long-term” means at least 3 years.</p> <p>Voluntary Best Practices also applies to brands, who may want to engage on a long-term basis with specific producers. Best practice is to have tripartite partnerships involving producers, buyers and brands.</p>	

### 4.6 Premium planning and reporting

#### 4.6.1 NEW 2018 Premium planning

<b>Applies to:</b> SPOs	
<b>Core</b>	When planning for the Fairtrade Development Plan, you discuss if investing the Fairtrade Premium in activities that increase quality and productivity would help your members to have more secure incomes. You present the results of this discussion to the GA before approving the Fairtrade Development Plan.
<b>Year 1</b>	
<p>In case a trader has offered a long-term partnership based on mutual commitments, and has communicated to you their sustainability priorities, you discuss with your members whether such a partnership would be in the interest of your organisation and of your members, and inform your business partner about your decision.</p> <p><b>Guidance:</b> 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.</p> <p>The use of other sources of funding for such activities is also welcome. A guidance document providing more information on productivity and quality improvement is available on the Fairtrade International website at: <a href="http://www.fairtrade.net/cocoa.html">http://www.fairtrade.net/cocoa.html</a>; this document is only for guidance.</p> <p>Activities increasing quality and productivity should increase the economic viability of the farm and rely on socially and environmentally responsible agricultural practices, without compromising quality.</p>	

#### 4.6.2 Premium Reporting

<b>Applies to:</b> SPOs	
<b>Core</b>	At least once a year and at latest one month after the General Assembly, you send a complete report on Fairtrade Premium use for all projects to Fairtrade International.
<b>Year 0</b>	
<p><b>Guidance:</b> The report is the Fairtrade Development Plan, and will include at least the following information for each Fairtrade Premium project.</p> <p>a) Initial report for projects in planning phase</p> <ul style="list-style-type: none"> <li>• Name and description of project (e.g. purpose and objectives; project partners)</li> <li>• Target group(s) (e.g. men-women or all members of cooperative; migrant workers; family members; community)</li> <li>• Project budget (total / annual)</li> <li>• Project start and end date</li> <li>• Date of approval of project</li> </ul> <p>b) Follow up report for on-going projects, in addition to information under a)</p> <ul style="list-style-type: none"> <li>• Premium invested up to date</li> <li>• Project progress/status</li> <li>• Major highlights and problems</li> </ul> <p>c) Final report for finished projects, in addition to information under a) and b) above</p> <ul style="list-style-type: none"> <li>• Total budget spent</li> <li>• Evaluation to what degree and why the purpose and the objectives have been achieved, and lessons learned from the project</li> <li>• Date of approval of final project report</li> </ul> <p>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 <a href="mailto:cocoa@fairtrade.net">cocoa@fairtrade.net</a>.</p>	

#### 4.6.3 **NEW APRIL 2017** Accounting systems for the price differential

<b>Applies to:</b> SPOs in Ghana or Côte d'Ivoire	
<b>Core</b>	According to SPO requirement 4.1.4., you have an accounting system that accurately tracks the Fairtrade Development Plan expenses, and in particular identifies the Fairtrade Premium transparently. You are able to prove that the Fairtrade Premium is used in line with applicable rules.
<b>Year 1</b>	
<p><b>Guidance:</b> As the payment mechanism for the price differential defined as the difference between the Fairtrade Minimum Price and the reference price is similar to that used for the Fairtrade Premium, the price differentials should be managed in the same way as the Fairtrade premium, including having an accounting system that tracks and identifies these payments transparently. It is recommended to use the Fairtrade Premium rules to plan and report on the distribution of these differentials.</p>	

