Guidance for Traders in price-regulated markets for payment of the Fair Trade Minimum Price

Fair Trade USA

Version 1.1.0

A. Introduction

In all cocoa-producing countries where the government does not regulate prices, traders are required to pay the market (ICE or LIFFE) export price (FOB) or the Fair Trade Minimum Price, whichever is higher. In Ghana and Côte d’Ivoire, where the government regulates prices, the relevant market price is the government price references, defined by the Conseil du Café-Cacao in Côte d’Ivoire and the Cocoa Marketing Company in Ghana at the beginning of the season twice a year.

Cocoa prices plummeted by more than 30% in 2017/2018, and communities in West Africa have taken a hard hit. In response, Fair Trade USA® decided to increase the Fair Trade Minimum Price to $2,400/MT and the Premium to $240/MT, effective on October 1st, 2019. For organic cocoa, the Fair Trade Certified price will be $300 above the market price or the Fair Trade Minimum Price, whichever is higher at the time of sale.

B. Purpose

The purpose of this document is to define what trade Licensees in price regulated markets, including Ghana and Côte d’Ivoire, need to do to comply with Fair Trade Minimum Price payment requirements in the Trade Standard, including Objective 2.1.2 and Annex A, and implementation of the updated Fair Trade Minimum Price and Premium values effective October, 2019.

C. Scope

This guidance is applicable to Fair Trade USA Licensees acting as Fair Trade Price and Premium Payers or Conveyors, purchasing Fair Trade Certified™ cocoa from Certificate Holders located in Ghana or Côte d’Ivoire.

D. Terms and Definitions

**Fair Trade Adjustment** – The Fair Trade Adjustment is equal to the difference between the required FTMP and the initial price paid. It is only applicable when the Fair Trade Minimum Price is above the relevant market price.

**Fair Trade Minimum Price (FTMP)** – The minimum price that must be paid by buyers to producers for a Fair Trade Certified product, not including any additional Fair Trade Premium. Where applicable, the Fair Trade Minimum Price represents a formal safety net that protects the producers when the market price is
below the Fair Trade Minimum Price. The price paid to a producer cannot be less than the Fair Trade Minimum Price or the relevant market price, whichever is higher.

E. Related Documents

- Fair Trade USA Trade Standard
- Fair Trade USA Agricultural Production Standard (APS)

1. Value of the Fair Trade Adjustment

1.1. In the case of Ghana and Côte d’Ivoire, the Fair Trade Adjustment is equal to the difference between the government price\(^1\) and the FTMP. Licensees purchasing directly from producers will initially pay the defined government price and later a second payment of the Fair Trade Adjustment (2.1.2.a).

1.2. The price differential and required Fair Trade Adjustment, if any, will be calculated based on the FOB reference price (Valeur FOB Garanti in Le Bareme) and converted to USD at a determined exchange rate from EUR to USD (exchange rates from CFA to EUR are fixed). As the prices and exchanged rates are fixed, the Fair Trade Adjustment owed will be defined for each delivery period. The reference exchange rate for EUR to USD and required Fair Trade Adjustment will be provided twice a year at the beginning of the harvest seasons by Fair Trade USA.

1.3. The source and date of the exchange rate used in case the payment of the price is made in a currency other than U.S. dollars (USD) or west African francs (CFA) should be listed in the contract or other written agreement between the buyer and the seller. This requirement can be documented in an explicit way in the contract, an annex, or appendix to the contract (see 2.3.1.c of the Trade Standard).

2. Effective Date of Updated Fair Trade Minimum Price and Premium

2.1. For price regulated markets (Ghana, Côte d’Ivoire), the new FTMP and Premium is to be paid on deliveries from Certificate Holders as of 1 October 2019.

2.2. Delivery is defined as follows:

- **For Côte d’Ivoire**: When the Certificate Holder is selling to an exporter (typically a Fair Trade Conveyor) the delivery date is based on the factory entry bill of lading (connaissement entrée usine). When the Certificate Holder is exporting directly, the delivery date is based on the shipment bill of lading.
- **For Ghana**: the delivery is defined as the date indicated in the producers’ pass books of when the cocoa was delivered to the LBC (Licensing buying company).

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\(^1\) Market price reference includes any differential, premium, or other fee intended for farmers or SPO’s imposed by legislation or government policy.
3. Discounts to the Fair Trade Minimum Price

3.1. **Quality discounts** may never be deducted from the FTMP or the FTMP + the organic differential for organic cocoa (Annex B).

3.2. **For Fair Trade Certified cocoa from Côte d’Ivoire**, exporters are not permitted to deduct **export costs** from the FTMP differential at FOB level (Annex A). This is for a number of reasons:

- Due to relatively high export costs in Côte d’Ivoire (approx. 22% in 2018) allowing the deduction of export costs would significantly reduce the value of the Fair Trade Adjustment available and ultimately greatly impact the total price received by the farmer.
- The consequence of a quasi EXWs price for Fair Trade Certified cocoa from Côte d’Ivoire (whilst the same cannot be defined for Ghana) could result in unfair intra-regional competition in West Africa.
- Provision for export costs is already made in the national cocoa pricing system of Côte d’Ivoire (Le Barème).

3.3. **For Fair Trade cocoa from Ghana**, exporters may deduct export costs from the FTMP in accordance with the requirements in Objective 2.1.2 and Annex A of the Trade Standard.