

**Fair Trade USA**  
**Colombian Organic Palm Oil Premium Review**  
**January 2018**

Fair Trade USA regularly reviews Premium rates, as part of our standard-setting procedure, and also when we identify externalities that we believe will affect our producer and industry partners. Fair Trade USA is currently reviewing Premium rates as they apply to Colombian organic palm oil and its various derivatives, in order to solicit feedback from industry partners and ensure that we are best positioned to optimize impact and simplify operational implementation as we expand our palm oil certification program.

**Palm Oil Program - Background**

Fair Trade USA launched its palm oil program in 2015, with the certification of an exceptionally sustainable palm oil partner, the first to receive RSPO Next certification. The purchase of palm products on Fair Trade terms has already resulted in over \$30,000 in Fair Trade Premium (“Premium”) that has been allocated to a group of 450 workers for investment in their communities. Palm oil workers face significant challenges and given these Premium resources, they are making sophisticated decisions and designing solutions that address their greatest needs. So far, workers have made plans to make critical investments in housing improvements, disaster relief funds, educational scholarships, and after-school programs.

**Current Premium Review**

The current Colombian organic palm oil Premium rate established by Fair Trade USA is for crude palm oil (CPO), which is derived from the flesh of the fruit, at 50 USD per metric ton (available on our website here: <https://www.fairtradecertified.org/business/standards>). We have learned from partner feedback that the market is currently experiencing demand additionally for palm kernel oil (PKO), which is derived from the palm kernel. We have also learned that the calculation of Premium is complicated by the fact that derivative products of both CPO and PKO are typically sold at the FOB level, requiring processors to continually calculate back to the CPO level to determine appropriate Premium payments. A review of the Premium rate has been initiated to set additional Premiums covering a wider variety of palm oil derivatives, while achieving the following objectives:

- 1) **Maximize Impact** – In establishing Premium rates, it is the goal of Fair Trade USA to identify the per metric ton rate that will be viable in the market in order to maximize the total Premium that growers and workers are able to earn. If we maintain the current Premium, we have identified potential limitations to achieving these objectives based on the following factors:
  - a. *Current Premium rates restrict sales of all palm fruit derived products as Fair Trade Certified* – With current Premium restricted solely to CPO, the full range of products derived from palm fruit cannot be sold as Fair Trade Certified. This means that workers do not receive Premium on PKO derived products, which limits impact for their communities.
  
- 2) **Simplify Implementation** – Fair Trade USA seeks to establish Premium rates that are easy for industry partners to implement and that allow for transparency of Premium throughout the supply chain. If we maintain the current Premium, we have identified potential limitations to achieving these objectives based on the following factors:
  - a. *Supply chain complexity*- Due to the vast number of processes that palm fruit can be subjected to before its end state, setting a Premium at the CPO level leads to confusing calculations. Including set Premium rates for CPO and PKO derived products from average processing yield rates allows for simpler tracking and calculation of Premium payments.

**Organic Colombian Palm Oil Premium Proposal**

In order to achieve our objectives of maximizing impact and simplifying implementation, Fair Trade USA proposes to introduce new organic palm oil Premiums that encompass the various possible end states that palm oil can take. We have taken the approach of setting an internal Premium for palm fruit and subsequently calculating future palm oil Premiums based on the metric tons of palm fruit bunches (FFB’s) that goes into an end product. E.g. One metric ton of CPO takes roughly 6 metric tons of FFB to produce. This means that CPO Premium will be about 6 times

higher than the FFB Premium. This allows Fair Trade USA to more efficiently set future Premiums based off industry conversion rates rather than undergo a full investigation for every end product. In addition to including set Premium rates for PKO and CPO, it also includes stearin and olein derivatives as this is a common product form sold at the FOB level. This system is broken out more precisely in the table below.

Product	Product Form	Quality	Region	Incoterm level	Fair Trade Premium
Palm Oil	Fresh Fruit Bunch*	Organic	Colombia	EXW	USD 8 per metric ton (MT)
Palm Oil	Crude Palm Oil	Organic	Colombia	FOB	USD 50 per MT
Palm Oil	Palm Kernel Oil	Organic	Colombia	FOB	USD160 per MT
Palm Oil	RBD Palm Oil Stearin	Organic	Colombia	FOB	USD 260 per MT
Palm Oil	RBD Palm Kernel Oil Stearin	Organic	Colombia	FOB	USD 800 per MT
Palm Oil	RBD Palm Oil Olein	Organic	Colombia	FOB	USD 60 per MT
Palm Oil	RBD Palm Kernel Oil Olein	Organic	Colombia	FOB	USD 200 per MT

*\*Note: Fresh fruit bunches are not typically sold on the open market, as they need to be processed within 24 hours to ensure maximum oil extraction. FFB Premium will not be listed publicly but included in our Special Price and Premium Terms to explain the calculation of any future palm oil Premium.*

The Premium rate for CPO has not changed, but processors selling RBD Palm Oil Stearin or RBD Palm Oil Olein will now be able to use these set Premium rates, rather than performing processing yield conversion calculations to determine the equivalent volume of CPO.

### **Palm Oil Conversion Rates**

The average processing yields below were used to calculate the Fair Trade Premium per metric ton of CPO, PKO, and Stearin and Olein derived from each, from a rate set at the fresh fruit bunches level. This information on processing yield conversions will be added to the Special Price and Premium Terms (available on our website here: <https://www.fairtradecertified.org/business/standards>).

	Processing Yield from Fruit	Fair Trade Premium**
Fresh Fruit Bunches	-	USD 8/MT
CPO	0.15	USD 50/MT
PKO	0.05	USD 160/MT
RBD Palm Oil Stearin	0.02985	USD 260/MT
RBD Palm Kernel Oil Stearin	0.00995	USD 800/MT
RBD Palm Oil Olein	0.1194	USD 60/MT
RBD Palm Kernel Oil Olein	0.0398	USD 200/MT

*\*\*Note: Premium rates are rounded to the nearest whole number based on the processing yield conversion from FFB.*

### **Consultation**

**To participate in the consultation, please send your comments or questions to the Standards team at [standards@fairtradeusa.org](mailto:standards@fairtradeusa.org).** Please include Palm Oil Premium review in the subject line.

- 1. What are your thoughts on this approach? From your perspective, does it achieve the objectives of optimizing impact and simplifying implementation?**
- 2. Do you foresee any challenges with the proposed Premium methodology?**
- 3. Please provide any additional feedback you would like to share.**