



# FAIRTRADE STANDARDS

## FOR Cocoa

## FOR Small Farmers' Organisations

<b>PART A Generic Fairtrade Standards for Small Farmers' Organisations</b>
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Refer to the generic standard for Small Farmers' Organisations as a separate document as updated by FLO on its website. Note that the following parts B and C are only applicable in connection with the generic standard.

<b>PART B Product Specific Standards for Cocoa</b>	<b>2</b>
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The product specific standards for cocoa apply to all products and countries for which a Fairtrade price and/or premium is set in part C below.

<b>1</b>	<b>Social Development</b>	<b>2</b>
<b>2</b>	<b>Economic Development</b>	<b>2</b>
<b>3</b>	<b>Environmental Development</b>	<b>2</b>

<b>PART C Trade Standards for Cocoa</b>	<b>3</b>
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## **PART B Product Specific Standards for Cocoa**

### **1 Social Development**

There are no additional social standards specific to cocoa producers.

### **2 Economic Development**

There are no additional economic standards specific to cocoa producers.

### **3 Environmental Development**

There are no additional environmental standards specific to cocoa producers.

# **PART C Trade Standards for Cocoa**

## **1. Product Description**

Commercially the term refers to the whole seed of the cocoa tree (*Theobroma cocoa*) which has been fermented and dried.

## **2. Qualities**

Quality requirements and procedure for quality control have to be agreed upon in the buying contract according to normal trade practice.

Fair Trade cocoa should fulfil the FCC (Federation of Cocoa Commerce) quality standards. For example in West Africa good fermented quality is, max. 5% (five per cent) slaty and max. 5% (five per cent) defective (infested, mould, shrivelled) beans, a bean size of basis 100 g/100 beans and a max. humidity of 7.5%.

## **3. International Customary Conditions**

All international customary conditions apply unless overruled by any of the special FLO conditions as specified in the FLO criteria.

## **4. Procure a Long Term and Stable Relationship**

In order to allow both sides a better planning and preparation of all business agreed upon buyers and sellers will procure to establish a long term and stable relationship in which the rights and interests of both are mutually respected. These long term agreements should be confirmed by the exchange of binding Letters of Intent not later than three months prior to harvesting time. Annual renewals should be confirmed at least three months prior to the expiry of the previous Letter of Intent.

## **5. Prefinancing / Credit**

On request of the seller, the buyer shall make available up to 60 % of the minimum value of the contract in credit facilities in favour of the seller upon the signing of a Letter of Intent, or at any date thereafter at the wishes of the seller, however at least six weeks prior to shipment. The corresponding interest charges shall be covered by the seller at current commercial interest rates (or better) in the country of destination.

Payment and reimbursement of the loan as well as the interest rates shall be according to the terms and conditions mutually agreed upon in the separate credit contract.

## **6. Pricing and Premium**

All Fair Trade cocoa prices are calculated on world market price quotation plus respective Fair Trade (FT) premiums.

The price fixed for any transaction of Cocoa under "FLO-International Conditions" can in no case be inferior to the following fixed minimum prices.

### **6.1 Premium and Minimum price for Standard Fair Trade cocoa beans**

- 6.1.1 Buyers shall pay producer organizations at least the Fairtrade Minimum price for Fairtrade standard quality cocoa beans as set by FLO at **US\$ 1,600 per MT FOB**.
- 6.1.2 In addition to the Fairtrade Minimum price the buyers shall pay a Fairtrade premium as set by FLO. The Fairtrade premium for all standard cocoa qualities is **US\$ 150 per MT FOB**.
- 6.1.3 If the world market price for the specific origin or type of cocoa beans is higher than the Fairtrade minimum price, the world market price, which includes the quality differential shall apply and is fixed as follows:

$$\text{World market price for the type of cocoa contracted} \\ + \text{ Fairtrade premium (US\$ 150.—per MT FOB)} = \text{Fairtrade price}$$

## 6.2 Premium and Minimum price for certified organic cocoa beans

The additional Fair Trade premium for certified organic cocoa beans, which is sold as such, is **US\$ 200.--/MT**. The minimum price for FT organic cocoa beans inclusive premiums is **US\$ 1'950.-- / MT FOB**.

If market price for the specific origin or type of cocoa beans rises above US\$ 1'600.-- the prices for organic cocoa beans are calculated using the price scheme for standard qualities (6.1.3) including the organic premium (US\$ 200).

## 6.3 Cocoa liquor, butter and powder produced in the country of origin

For the price of locally (in the country of origin) produced semi-processed FT cocoa products, butter, powder and liquor, the basis of calculation is the FT minimum bean price. The example is worked out for organic products, as in the actual practise (2002) this is what is traded. If non-organic semi-processed products are traded, the calculation has to be based on the price for FT non-organic beans. The Fair Trade price is based on real production yields in processing, and not on the butter ratio determined by the market. This is to avoid a hidden bean price reduction to producers, when not the complete output is purchased.

### 6.3.a. For Fair Trade organic cocoa liquor:

$$(\text{FT organic cocoa bean price}) / (\text{processing yield for liquor}/100) = \text{FT organic cocoa liquor price}$$

Example for Fair Trade organic cocoa liquor:

When processing yield for liquor is 75% of the beans, the minimum FT organic price is:  
 $1.950 / (75/100) = 2.600 \text{ US\$/MT}$ .

### 6.3.b. For Fair Trade organic cocoa butter and powder together:

$$(\text{FT org. liquor price as under 3.6.3.a}) / (\text{processing yield for butter}/100) = \text{FT organic price}$$

Example for Fair Trade organic cocoa products:

When processing yield for butter from liquor is 45 %, the minimum FT organic price for the two organic products together is:  $2.600 / (45/100) = 5.417 \text{ US\$/MT}$ .

If only the FT organic butter can be sold, the price will be 5.417 US\$/MT. If the outgoing powder is sold, the basic FT organic butter price per MT can be decreased with: (powder price per MT x 1.22 )<sup>1</sup>.

<sup>1</sup> Outcome of pressing liquor into butter and cake is 55% low-fat powder and 45 % butter= relation 1,22

Example:

If bulk powder can be sold at 1.200 US\$/MT, the FT organic butter price can decrease with  $1200 \times 1,22 = 1.464$  US\$, resulting in a basic FT organic butter price of 3.953 US\$/MT.

Companies purchasing the semi-processed organic cocoa products butter or powder in origin, are encouraged to take responsibility for the whole cocoa bean output, either by purchasing both products or by finding a matching order for the surplus product, resulting in advantageous price-setting for all parties. Producers are held to report yields, volume and sales price of the complete output of processing.

**6.3.b.1.** If the market price for the specific semi-processed product liquor, butter or powder from origin rises above the price calculated on the basis of processing yield and minimum FT bean price, the FT price for that type of product will be fixed as follows:

For Standard FT cocoa products:

$$\begin{array}{l} \text{market price for cocoa liquor, butter or powder} \\ + \text{ FT premium US\$ 150 / (yield/100)} \\ \hline = \text{ Fair Trade price} \end{array}$$

For FT organic cocoa products:

$$\begin{array}{l} \text{market price for cocoa liquor, butter or powder} \\ + (\text{FT + organic premium} = \text{US\$ 350}) / (\text{yield/100}) \\ \hline = \text{ Fair Trade organic price} \end{array}$$

## 7. Payment

Unless other mutual agreement payment shall be net cash against a full set of documents on first presentation (FOB), minus eventual advance payments