



Project Assignment

Review of the Fairtrade Pricing for Cocoa

Phase 1

(Version 12.08.2024)

Update

Fairtrade and its members decided to launch the cocoa price review consultation and decision in two consecutive phases.

1st phase: Cocoa price review and consultation for all Fairtrade cocoa-producing countries except Côte d'Ivoire and Ghana, with subsequent decision-making and Fairtrade price announcement.

2nd phase¹: Cocoa price review and consultation for price-regulated markets, namely Côte d'Ivoire and Ghana, with subsequent decision-making and Fairtrade price announcement.

This decision followed broad internal discussions and agreements with Fairtrade members, which took place in the months of June and July 2024. The phased process allows to consider the different conditions in price-regulated versus non-regulated producing countries and to better tailor the consultation proposals to those conditions, while considering the current limited supply of cocoa beans on the market.

Background

Between 2016 and 2018, Fairtrade International (FI) undertook a review of the Fairtrade Minimum Price (FMP) and Fairtrade Premium (FP) for cocoa beans. The consultation process with stakeholders and the final decision made by the Fairtrade Standards Committee (SC) members resulted in an increase of the FMP, an organic differential and an increase of the FP.

In Côte d'Ivoire, the FMP was active between October 2019 and April 2023, and the FMP differential value (the FMP minus the government price) fluctuated widely, whereas in Ghana the FMP has rarely been active as reference price. In Latin America and the Caribbean, most producer organisations receive on average higher prices due to their specialisation in fine/flavour and/or organic cocoa. As such, the FMP is impacting the cocoa origins to a different extent. In contrast, the Fairtrade (FT) organic differential of 300 USD/MT as an additional price intervention has been working regardless of the market price or origin.

In June 2023, after a limited consultation process with small producer organisations (SPOs) and commercial partners, the SC approved the implementation of prices in EUR for Côte d'Ivoire only. The new FMP of 2,206 EUR/MT, an organic differential of +276 EUR/MT and a FP of 221 EUR/MT is applicable for all deliveries from Côte d'Ivoire as of 1 October 2023. Euro values were converted based on the USD/EUR exchange rate on 1 April 2023.

¹ Tentative timelines for Phase 2 will be officially communicated in due course



FI also sets a voluntary Living Income Reference Price (LIRP), which is currently 2,120 USD/MT and 2,200 EUR/MT at farm gate level for the major cocoa producing origins of Ghana and Côte d'Ivoire, respectively.

This project is part of Fairtrade’s regular cocoa price review cycle and in line with the 2021-2025 Fairtrade Global Strategy.

Rationale

1. Production and living costs for farmers have significantly risen over time. The long-term effects of Covid-19, combined with the war in Ukraine and the subsequent energy crisis, had a negative impact on both cocoa production at origin and the chocolate manufacturing industry in Europe, with significant increases in production costs, raw material transportation and operating costs over the period 2022-2023. Since the end of 2023, extreme climate events and crop diseases in both West Africa and Latin America & the Caribbean have negatively impacted yields, thereby increasing costs for farmers and leading to a significant drop in global supply. As a result, market prices have substantially increased, reaching levels around 8,000 - 10,000 USD/MT.
2. In line with the 2021-2025 Fairtrade Global Strategy and results from commissioned research on farmers’ household income in Côte d’Ivoire in 2020-2021, the cocoa pricing model is to consider impact on farmers’ income not only in terms of a safety net, but also progress toward a living income. In addition, Fairtrade’s monitoring and evaluation work has shown that Fairtrade can only positively impact farmer livelihoods when farmers are able to sell a significant part of their production under Fairtrade terms (as minimum 30%).
3. Fairtrade International has revised the Cocoa Standards and its COSP guidance document, including new elements such as compliance costs related to HREDD (Human Rights and Environmental Due Diligence).
4. Living Income Reference Prices have been first calculated for cocoa beans from Ghana and Côte d’Ivoire in 2018. FI updated these country LIRPs in October 2022 in view of high inflation levels. A full review of the LIRPs is being conducted in parallel with this project.
5. The 2021-2022 Evaluating the Fairtrade Cocoa Pricing Model study by SEO Amsterdam Economics and KIT Royal Tropical Institute, strongly recommends that Fairtrade should consider adaptations to its pricing tools to increase the impact on farmer incomes and commercial partners’ willingness to pay.

Project Start Event: Kick-off of the project activities	Project Start Date: 01.06.23
Project End Event: Decision-making by the Fairtrade Standard Committee	Project End Date: Phase 1: March 2025

Project Goal(s):

1. **Revision of COSP template**
 - To define Fairtrade standard compliance cost items and include them in the COSP template. This work involved the identification and inclusion of HREDD and other



environmental costs applicable to cocoa, following the COSP guidelines approved by the SC in March 2023.

2. Assess current pricing model

- With the intention to increase Fairtrade sales, farmers’ incomes and commercial partners’ willingness to pay.
- To incorporate HREDD and other environmental costs.
- To build regional-specific solutions or explore potential adaptations on the current pricing model for both regulated and non-regulated markets to address aforementioned topics.

3. Update the values

- To calculate the FMP, FP, the Fairtrade organic differential, or any other corresponding value(s).

Project scope:

Initially, the project included the revision of the cocoa COSP template, sampling strategy, data collection and calculation methodology. The effectiveness of the current Fairtrade pricing model, namely global FMP, FP and organic differential were reassessed.

As explained above, the project is divided into two consecutive phases from August 2024. The phased process allows to consider the different conditions in price-regulated versus non-regulated producing countries and to better tailor the consultation proposals to those conditions.

Consequently, under phase 1, price values for all countries except Côte d’Ivoire and Ghana are calculated based on COSP information collected from the cocoa origins that are within the new scope.

The price-related requirements of the Fairtrade standard for cocoa (current section 4.2 and any other section where the project proposal implies changes to the standard).

Out of scope:

Phase 2: Price values for the regulated producing countries, Côte d’Ivoire and Ghana, will be calculated based on COSP data collected in these origins once Phase 1 is concluded.

Timeline:

Research phase

2023 June - August:
Revision of COSP template

2023 September:
Preparation for COSP data gathering (trainings)

Decision making process:

The final decisions will be taken by the Standards Committee (SC)



<p>October 2023 - Mid-February 2024: Data gathering (country workshops)</p> <p>December 2023 – February 2024: Stakeholder interviews and feedback analysis</p> <p>2024 February - Mid-July: Cost calculations (analysis) & proposal shaping & drafting²</p> <p>Consultation phase</p> <p>2024 September - Mid-October: 1st phase: public consultation</p> <p>Results & analysis</p> <p>2024 November- 2025 February: 1st phase: final proposals for approval</p> <p>Decision-making</p> <p>2025 March: 1st phase: decision-making</p>	
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<p>Project Team: Fairtrade International Johanna Schmidt – Cocoa Manager Jon Walker – Senior Advisor, Cocoa Samantha Dormer – Global Product Manger Carla Veldhuyzen – Senior Advisor Sustainable Livelihoods NFOs Laura Pearce–Fairtrade Foundation Yanick Lhommel– Max Havelaar Switzerland (for DACH) Camille Gourtay– Max Havelaar France PNs Abubakar Afful– FTA Maria Trinidad – CLAC Akhil Nassim/ Manoj Kumar– NAPP</p>	<p>Extended Project Team - Fairtrade System Tytti Nahi- HREDD Centre of Excellence</p>

² Please note that the LIRP setting process for cocoa in Ghana and Cote d'Ivoire is a separate process, which is happening in alignment with the Cocoa Price Review. For further details, please contact Carla Veldhuyzen at c.veldhuyzen@fairtrade.net