

Fairtrade Living Income

Reference Price for Coffee

from Aceh, Indonesia

EXPLANATORY NOTE



**FAIRTRADE
INTERNATIONAL**



Introduction

This document explains the figures and validation process behind the Fairtrade Living Income Reference Price for organic Gayo coffee from Indonesia. Living Income Reference Prices play a pivotal role within Fairtrade's holistic **Living Income Strategy**. They are instrumental for raising awareness around the fundamental need for sustainable pricing as part of a smart mix of interventions to enable living incomes, and they inform price setting mechanisms for Fairtrade and other actors committed to sustainable trade.

Fairtrade began to develop the first Living Income Reference Prices for coffee in a context of historically low futures market prices. In March 2019, the World Coffee Producers Forum condemned these and called for immediate action to avoid a humanitarian crisis for some 25 million smallholder families around the world. They warned that by allowing the impoverishment of producers, the coffee industry was compromising its own future.¹ Later that year, the International Coffee Organization (ICO) committed to fostering responsible sourcing of sustainably grown and traded coffee, enabling a living income for coffee producers.²

By establishing Living Income Reference Prices, Fairtrade addresses the economic conditions for a sustainable coffee sector and brings the true cost of socially just and environmentally sound production practices into the equation.

Following the completion of the first multi-stakeholder price discovery process in Colombia in June 2021, a Fairtrade Living Income Reference Price for organic Gayo coffee from Aceh, Indonesia, was established in collaboration with the Sustainable Coffee Platform of Indonesia (SCOPI) in November 2021. The full report of the analysis is available on the Fairtrade International website.

Cover image: Mardiana from the Koptan Gayo Megah Berseri cooperative supplements her income by selling vegetables. Diversification is an important part of Fairtrade's Living Income Strategy.

The Price Model

A Living Income Reference Price indicates the price needed for a typical farmer household with a viable farm size and a sustainable productivity level to make a living income from the sales of their crop.

The model is derived from the universal human right for everyone who works to a just and favourable remuneration, ensuring an existence worthy of human dignity. Hence, a full-time farmer should be able to make a living income from their farm revenues.

A Living Income Reference Price is based on the following key parameters:

1. Cost of a decent standard of living (living income benchmark)
2. Sustainable yields (productivity benchmark)
3. Viable farm size (to fully employ the available household labour)
4. Cost of sustainable production (in order to achieve above mentioned yields)

A price that allows an average farmer household with a viable farm size and a sustainable productivity level to earn a living income can be calculated with the following equation:

$$\text{living income reference price} = \frac{\text{cost of decent living} + \text{cost of sustainable production}}{\text{viable land area} \times \text{sustainable yields}}$$

Establishing Living Income Reference Prices

In order to assess the farm economic metrics, Fairtrade introduced farm record-keeping among coffee farmers, initially in Colombia, Uganda and Indonesia. Their farm investments and outputs were tracked throughout a year during 2019-2020 in record-keeping books. These baseline data served as a primary source for subsequent analysis and establishment of Living Income Reference Prices.

In Indonesia, the baseline data were collected by farmers in the Aceh Tengah and Bener Meriah districts of Aceh. These are the largest Arabica-producing districts in Indonesia with nearly 100,000 hectares of coffee plantations, producing approximately 63,700 metric tonnes of green bean. There are 21 Fairtrade certified producer organizations in Aceh, reaching 28,236 individual farmer households and covering about 30,800 hectares of coffee farm with an estimated total annual production of 25,760 metric tonnes. Fairtrade certified farmer organizations represent 40% of the total Arabica coffee production in Aceh. Nearly all this coffee is also organic certified.

A technical roundtable was set up in Indonesia in late 2021, composed of coffee experts representing producers, the government of Indonesia, industry, and research institutions. In collaboration with the Sustainable Coffee Platform of Indonesia (SCOPI), a series of virtual workshops were conducted to analyse the baseline results and complementary datasets, pool local knowledge and expertise and agree on the values for each of the variables in the price model.

Based on these variables, a Fairtrade Living Income Reference Price was established for organic Arabica coffee from Aceh, Indonesia.

Variable 1: Living income benchmark

Living income is defined as **sufficient income generated by a household to afford a decent standard of living for the household members**. Elements of a decent standard of living include: a nutritious diet, decent housing, education, healthcare, transport, clothing and other essential needs, including a provision for unexpected events.

The Aceh baseline data showed a typical coffee farmer household to be composed of four members, with two working age adults and two children.

The living income for a typical household in Aceh was estimated based on previous calculations of the costs of decent living in other Sumatra provinces by Wage Indicator (2018)³ and the Roundtable for Sustainable Palm Oil (RSPO, 2017). The respective results were adjusted to a four-member household and updated to 2021, applying official inflation rates.

In order to determine the costs of decent living applicable in the Aceh province of Sumatra, the results were further adjusted in proportion to the regional differences in the cost of living, as per national statistics on minimum living needs⁴ and minimum wages⁵ published by province. Table 1 shows an overview of the comparison.

Encouragingly, similar results of around six million rupiah per month were found for the WageIndicator costs of decent living applicable to rural Aceh (first column) and those in the RSPO study (third column). This is roughly double the national and World Bank poverty lines of Rp 3,484,509 and 3,244,288 respectively when converted to Aceh 2021 rates.

A **preliminary living income benchmark of 75 million rupiah (US\$ 5,245⁶) per year** for a typical four-member household was proposed for Aceh and validated by the roundtable (see Figure 1).

Table 1: Comparative analysis of living income benchmark calculations for Sumatra, Indonesia

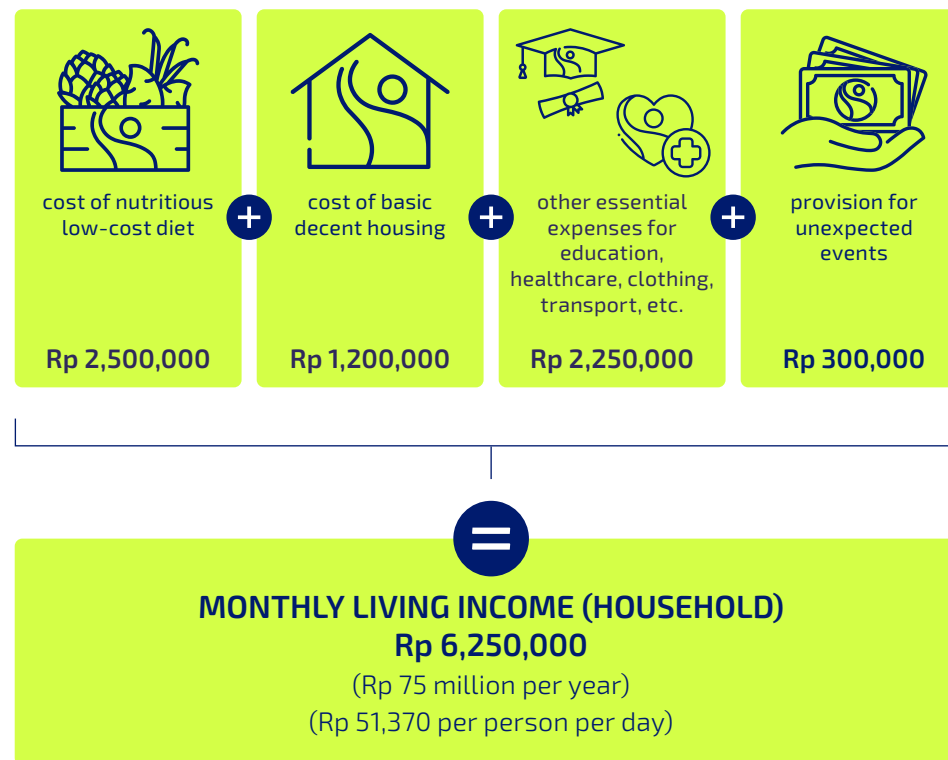
Monthly cost of decent living for a standard family (2 adults + 2 children)	WageIndicator		RSP0
	low-Aceh*	high-Aceh*	Aceh**
Food	2,955,530	3,736,909	2,084,575
Housing	1,523,581	2,176,545	863,700
Transport	522,371	870,618	
Healthcare	435,309	544,136	2,721,854
Education	652,963	1,088,272	
Other costs (~5%)	304,499	420,944	283,507
Monthly living income aceh	6,394,253	8,837,424	5,953,636
Yearly living income aceh	76,731,032	106,049,087	71,443,632
Estimated monthly living wage	4,262,835	5,891,616	3,969,091
Estimated living daily wage	207,943	287,396	193,614

*Source WageIndicator (2018): updated to 2021 for Aceh region, using inflation rates and proportional regional differences in published minimum wages. The low-end cost figures are typically applicable to rural areas, whereas the high-end costs are more relevant in urban areas.

**Source RSP0 (2017): study conducted in North Sumatra, updated to 2021 and converted for Aceh region using inflation rates and proportional regional differences from national statistics.

A complete living income benchmark study for coffee growing regions of Indonesia is envisaged for 2022, as part of the International Coffee Organization (ICO) Living Prosperous Income Technical Work Stream goals. Meanwhile, this preliminary benchmark for the cost of decent living is used for the Living Income Reference Price calculation.

Figure 1: Approximation of the monthly cost of decent living for a 4-member household in Aceh (2 adults + 2 children)



The **daily living wage to be factored into the cost of production for hired labour is** derived from the living income benchmark by dividing the yearly cost of decent living by the number of full-time equivalent workers in a rural family. Assuming a labour availability of 1.5 persons per family and 246 working days per year, the living wage is estimated at 75,000,000 / 369, rounded to **200,000 rupiah (US\$ 14.00) per day** of work. This translates into a monthly salary of Rp 4,100,000 required to earn a living income for the household. For comparison, the current monthly minimum wage in Aceh is Rp 3,165,031.

Variable 2: Sustainable yields

A sustainable productivity level is defined as a feasible target yield that can be attained when sustainable agricultural practices are implemented. Both economic and environmental aspects are considered. By balancing the economic benefits of high yields with the medium- and long-term effects on natural resources and climate resilience, an optimum productivity target is determined.

Baseline results show an average coffee yield of 4,019 kg of cherry / 1,364 kg of wet parchment (*gabah* in Indonesian) per hectare, and median of 3,515 and 1,170 kg, respectively. A quarter of all surveyed farmers produced over 5,770 kg of cherry / 1,900 kg of wet parchment per hectare. This yield level was suggested as a sustainable yield target and subjected to a reality check by the technical roundtable.

The roundtable experts highlighted that it is not possible to define one standard sustainable yield for Indonesia due to the different growing conditions and production systems in each region, and agreed to set a sustainable yield target specifically for Gayo Arabica coffee in Aceh. As Gayo Arabica coffee is well-known for its organic status and the market requires assurance for the continuation of this status, the analysis focuses on organic Gayo Arabica coffee.

Key factors affecting productivity are the coffee variety, tree density and shade management, applied rehabilitation practices (pruning and replanting) and fertilizer use. The roundtable agreed on an optimal tree density of 1,600–2,000 trees per hectare and recommended a maximum tree age of 15 years before replanting is needed in order to maintain adequate productivity levels.

Based on these practices, a sustainable yield range for organic Gayo arabica coffee between 6,000–7,200 kg of cherry, required for 1,000–1,200 kg of green bean equivalent (GBE), per hectare was considered feasible. However, a realistic target yield achievable in the medium-term was agreed to be 6,000kg of cherry per hectare (see Table 2).

The productivity benchmark was therefore set at 6,000 kg cherry / 2,000 kg wet parchment / 1,000 kg GBE per hectare for organic Gayo coffee.

Figure 2: Cherry yield distribution, Fairtrade Aceh baseline results 2019/20

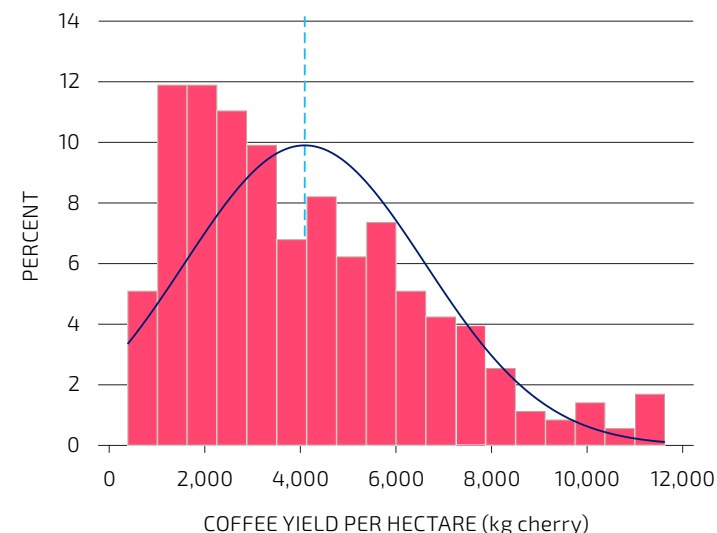


Table 2: Current and target yields for coffee cherry, wet parchment and green bean equivalent

Coffee yield x hectare	Cherry (<i>Gelondong merah</i>)	Wet parchment (<i>Gabah</i>)	Green bean equivalent (<i>Redy ekspor</i>)
Conversion factor	1	0.333	0.167
Median baseline	3,515	1,170	587
Average baseline	4,019	1,364	671
75 th percentile	5,770	1,921	964
Sustainable yield target: medium-term	6,000	2,000	1,000
Long-term yield target	7,200	2,400	1,200

Variable 3: Viable farm size

In accordance with the universal right to remuneration for work that provides a decent living⁷, a hired worker is entitled to a 'living wage'. Consistent with this logic, self-employed farmers should earn the equivalent of a living wage for their work on the farm. Hence, full-time farmers should be able to make a living income from their farm proceedings. Following this guiding principle, a farm that is big enough to fully absorb the available household labour should generate a living income. This is considered a viable farm size or a 'full-employment farm size'.

Likewise, producers with smaller plots of land would earn a share of a living income proportional to their time invested in farm work. In those cases, the household would have time available to supplement their income with other activities.

The viable or full-employment coffee area was calculated by dividing the available household labour force by the time household members spend working on a hectare of coffee. The equivalent of 1.5 working-age adults multiplied by 246 working days a year for a total of 369 labour days was taken as the available household labour force.

Based on previously identified sustainable agricultural practices needed to attain the productivity benchmark, the labour requirements for each activity were analyzed, as well as the proportion of the work carried out by family labour.

The baseline data show that household members spent on average 198 days in total per year on coffee production. A simulation of required sustainable agricultural practices conducted with the technical roundtable suggests that to achieve the annual target of 6,000 kg of cherry per hectare, a farmer household needs to deploy up to 285 days in coffee production (see Table 3).

Table 3: Overview of labour requirements per hectare to produce target sustainable yield of 6,000 kg/ha

Labour requirements x hectare	Family labour (maximizing hh labour utilization)	#days/ha	Hired labour (@daily living wage Rp 200k)	Rp/ha
Fertilization [2 applications x year, combination of 20% cherry pulp + 80% compost, applied in rorak hole]	application cherry pulp: 500kg/day > 10 days for 5ton	10		
	application ready-made compost: 500 kg/day > 6 days for 2.8 ton	6	n/a	
	digging rorak hole: 65 holes/day > 25 days for 1600 trees	25		
Pest management [4 x per year]	installing traps with attractants: 2-5 days/ha	4	n/a	
Weed control [3 x manual weeding + 1 x hired mechanical service]	manual weeding: 3 x 25 days/ha	75	grass-cutter service @Rp 1.5m/ha	1,500,000
Rejuvenation [1 x post-harvest pruning + 3 x light pruning + rejuvenation pruning every 5 year]	post harvest pruning: 50 trees/day > 32 days	32		
	light pruning: 100 trees/day > 16 days x 3 times/year > 48 days	48	n/a	
	rejuvenation pruning [1/5th each year]: 25 trees/day > 13 days	13		
Harvest	50 days x 5-6 kaleng	50	remaining 250 kaleng harvested by hired labour @Rp 31,000/kaleng*	7,750,000
Replanting [100 trees x year]	replanting of 100 trees per year: 50 plants/day > 2 days for yearly replanting	2	hole preparation + fertilizer application > 4 days	800,000
Total labour requirements (ex post-harvest)		265		10,050,000

Throughout the year, except for the harvest, the family members can take care of most of the farming activities. Hired labour is only needed for mechanical weeding and crop renovation.

It is important to note that the number of working days also depends on the use of technology. For example, the use of grass cutter machines significantly decreases the time required for weed control. For this calculation, a combination of manual weeding by the household and hired motorized grass cutter service is factored in.

The highest labour intensity occurs during the coffee harvest, which is concentrated in a period of 4-5 months. With optimized household labour utilization, approximately 50 household labour days can be deployed during harvest, collecting an average of 60 kg of cherry per day for a total of 3,000 kg/year. The remaining cherry needs to be collected by hired workers. For one hectare producing 6,000 kg, this would be 50% of the total harvest labour requirement.

The humid climate makes post-harvest processing very difficult in the region, and therefore most coffee in Aceh is sold as cherry. In case the coffee is sold as wet parchment (*gabah*), the post-harvest processing is usually outsourced. A total of 8 working days are considered for any post-harvest logistics and handling.

To fully absorb the available household labour in coffee farming, a farm size of 1.3 hectares would be required. However, the baseline data show an average land ownership of 0.9 hectare per household. Therefore, the technical roundtable examined other scenarios with less than 100% absorption of household labour in coffee farming. In order to absorb 90% of the household labour, a crop area of 1.2 hectare is needed, 1 hectare could absorb 80%, and 0.9 hectare could absorb 70%, as shown in Table 4.

Table 4: **Coffee area needed to fully or partially absorb available household labour**

Total available household labour days per hectare (including admin)	Proportion of avg available household labour to absorb through coffee production	Coffee farm size needed to absorb proportion of household labour (in hectares)
285 days	100%	1.3
	90%	1.2
	80%	1.0
	70%	0.9

*Assuming average household of 1.5 full-time adult workers

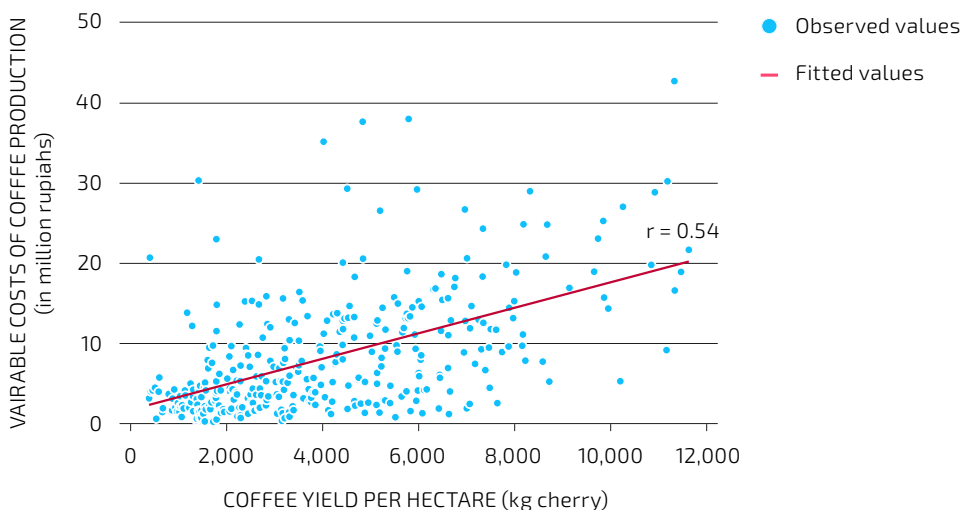
These scenarios are further assessed in the final reference price modelling, but considering the unlikelihood of increasing farm sizes, the roundtable experts agreed in principle to establish a minimum **viable farm size of 1 hectare, with the expectation that 80% of the living income should be generated from coffee sales** and 20% from other income sources.



Variable 4: Cost of sustainable production

The cost of sustainable production is calculated based on the crop investments needed to reach the targeted sustainable productivity level. Hired labour remuneration is factored in at a living wage, so that the Living Income Reference Price not only allows coffee farmers to earn a living income, but also to pay their workers a living wage.

Figure 3: Correlation between coffee productivity and cost of production



Fairtrade baseline results show a moderate to strong correlation between productivity and (variable) cost of production. Hence, the farm investments of the best performing quartile were examined by the roundtable experts, as a basis for determining the cost breakdown needed for a sustainable production of 6,000 kg/ha.

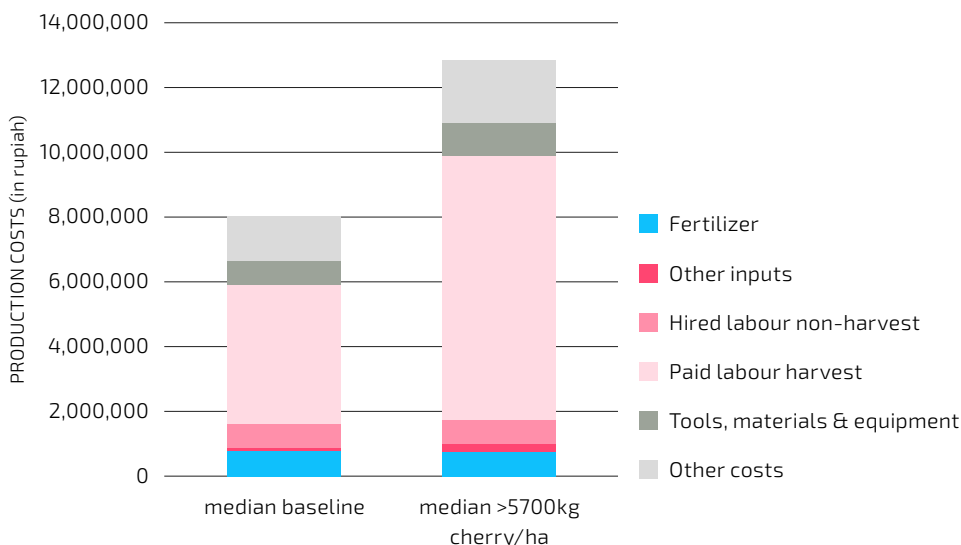
Table 5: Average expenditures in coffee production for entire sample and best performing quartile, Fairtrade Aceh baseline results 2019/20

Cost of production x hectare	Baseline average/median*	Average/median* >5,700 kg/ha
Fertilizer (purchased and produced)	777,000	786,000
Other inputs for coffee	125,000	220,000
Hired labour coffee non- harvest	742,000	750,000
Paid labour harvest (hired & household)	4,270,000	8,149,000
Tools, materials & equipment*	743,000	1,022,500
Other expenses*	1,400,000	1,940,000
Total costs for coffee production	8,057,000	12,867,500



53 year-old Suwarno picks the coffee cherries in their farm in Paya Dedep Village, Jagong Jeget District, Aceh, Indonesia.

Figure 4: **Actual cost break down per hectare for entire sample and best performing quartile, Fairtrade Aceh baseline results 2019/20**



*Median values are used for tools & equipment and other expenses to provide a more representative value, due to extreme outliers distorting the average result.

The cost items were further discussed in focus groups and adjusted to adequately reflect the required inputs, labour investment and other costs throughout the production cycle in order to reach the target yield at current prices.

The final calculation of the cost of sustainable production considers the cost of organic fertilizer (combination of cherry pulp and compost) and other inputs (attractants for pest control, seedlings for yearly replanting of 100 trees), hired labour costs (for harvesting, weeding and replanting), transportation, materials and depreciated costs of tools and equipment.

By far the highest cost is for hiring labour, especially for harvesting. The cost of hired labour was calculated based on the previous analysis of labour requirements (see variable 3). The number of hired labour days required, besides the harvest and if not paid per task, was multiplied by a daily living wage of Rp 200,000. This living wage is derived from the cost of decent living in Variable 1.

During the harvest, collectors are hired to pick around 50-70% of the total coffee volumes and are paid per *kaleng* (12 kg of cherry) collected. An average worker can pick around 6.5 *kaleng* (78 kg) per day, which at a piece rate of Rp 31,000 per *kaleng* would allow farm workers to earn a decent wage. This was considered feasible.

On-farm post-harvest processing is not common practice in Aceh, due to the humid weather conditions, which cause delays in drying and potential quality deterioration. However, some farmers process the cherry into wet parchment (*gabah*). This service is usually outsourced at a cost of Rp 2,000 per *kaleng* or Rp 1 million to process 6,000 kg of cherry.

A fixed sum of Rp 400,000 was added for administrative expenses, such as the payment of services, taxes and cooperative membership fees.

Table 6 provides a detailed overview of the cost of sustainable production breakdown.

Table 6: Cost of sustainable production breakdown per hectare

required investment x hectare	agri inputs	Rp/ha	hired labour (@daily living wage Rp 200k)	Rp/ha
Fertilization [2 applications x year, combination of 20% cherry pulp + 80% compost, applied in rorak hole]	cherry pulp + organic waste: required: 25 kg/tree = 40ton available: 5ton (=12.5% or 200 trees)	–	n/a	
	ready-mixed compost: required: 2kg/tree x 1400 trees = 2.8 ton @Rp 3m/ton	8,400,000		
Pest management [4 x per year]	attractants: 24 bottles x 3 sachets x 4 times/year = 288 sachets @Rp 5000	1,440,000	n/a	
Weed control [3 x manual weeding + 1 x hired mechanical service]	n/a		grass-cutter service @Rp 1.5m/ha	1,500,000
Rejuvenation [1 x post-harvest pruning + 3 x light pruning + rejuvenation pruning every 5 year]	n/a		n/a	
Harvest	n/a		remaining 250 kaleng harvested by hired labour @ Rp 31,000/kaleng*	7,750,000
Replanting [100 trees x year]	coffee seedlings: 100 @Rp 2500	250,000	hole preparation + fertilizer application + tapping > total 4 days	800,000
Total variable costs (ex post-harvest)		10,090,000		10,050,000
Post-harvest (pulping) [outsourced]	n/a		n/a	
Total variable cost (incl post harvest)		10,090,000		10,050,000
Admin & misc fixed costs	n/a		n/a	
Total cost x hectare (cherry)		10,090,000		10,050,000
Total cost x hectare (gabah)		10,090,000		10,050,000

The average annual investment required to produce 6,000 kg of cherry is **23,190,000 rupiah** (US\$ 1,622) **per hectare** when delivering coffee cherry.

In case the coffee is processed into wet parchment, the cost of production increases to **Rp 24,190,000** (US\$ 1,692) for an equivalent of **2,000 kg of wet parchment coffee (gabah)**.



Sunarno Karang Rejo from the Ara Cahayani Gayo cooperative fills out the farm records book, which allows farmers to track their expenses and make smart business choices.

Preliminary Living Income Reference Prices

With the variables defined in the previous chapters, Living Income Reference Prices at farm gate were modelled for organic Arabica coffee from Aceh, Indonesia.

Table 7 summarizes the agreed key parameter values of the price model and the respective Living Income Reference Prices with varying crop areas. Four scenarios were compared:

- actual average land area of 0.9 hectare generating 70% of a living income;
- viable land area of 1 hectare generating 80% of a living income from coffee;
- a full-employment farm size of 1.3 hectares generating a living income;
- as in ii) but with coffee processed and sold as wet parchment by the farmer.

Table 7: Living Income Reference Price modelling with varying crop areas and respective percentage of living income to be generated from coffee sales

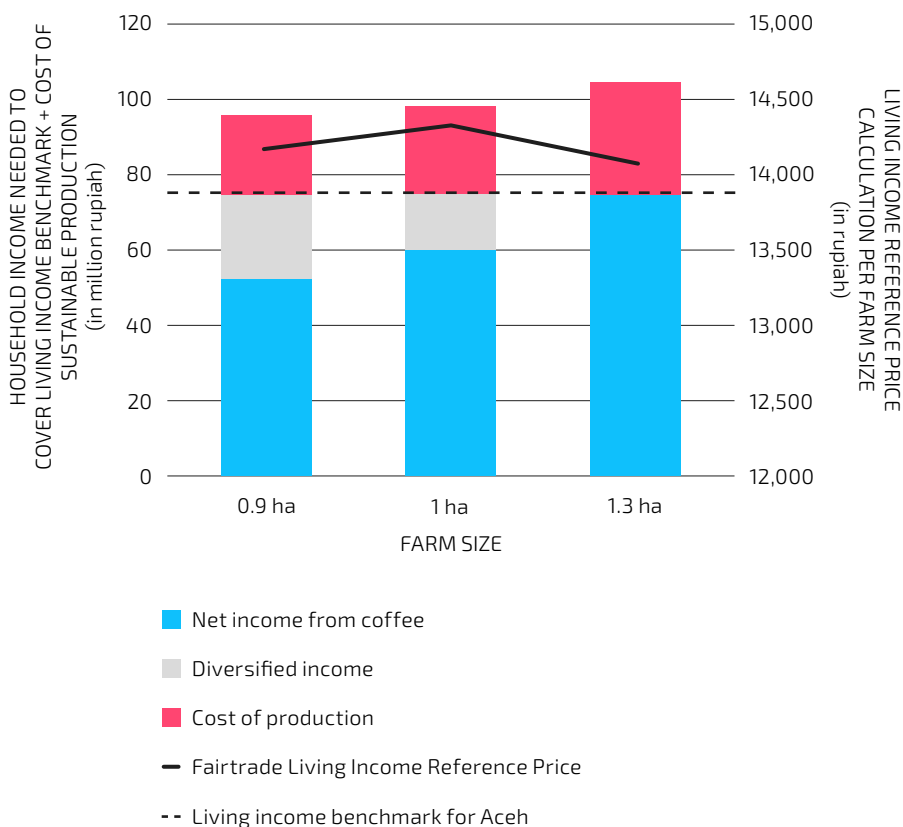
Scenario	% income from coffee	i	ii	iii	iv
		70%	80%	100%	80%
Variable	Unit	LIRP (cherry)	LIRP (cherry)	LIRP (cherry)	LIRP (wet parchment)
(A) viable land area	ha	0.9	1.0	1.3	1.0
(B) sustainable yields	kg/ha	6000	6000	6000	2000
Cost of agricultural inputs	IDR/ha	10,090,000	10,090,000	10,090,000	10,090,000
Hired labour cost non-harvest	IDR/ha	2,300,000	2,300,000	2,300,000	2,300,000
Hired labour cost – harvest	IDR/ha	7,750,000	7,750,000	7,750,000	7,750,000
Other costs (transport, materials, processing)	IDR/ha	2,050,000	2,050,000	2,050,000	3,050,000
Total variable costs x hectare	IDR/ha	22,190,000	22,190,000	22,190,000	23,190,000
Fixed costs	IDR	1,000,000	1,000,000	1,000,000	1,000,000
(C) cost of sustainable production	IDR	20,971,000	23,190,000	29,847,000	24,190,000
(D) living income	IDR	52,500,000	60,000,000	75,000,000	60,000,000
(C+d/axb) living income reference price	IDR/kg cherry	13,606	13,865	13,442	n/a
Equivalent price for wet parchment (conversion factor 3)	IDR/kg gabah	40,817	41,595	40,326	42,095

LIRP = Living Income Reference Price

Since the resulting reference prices for each scenario are very similar, it was agreed to take the rounded average and establish the **Fairtrade Living Income Reference Price for Aceh coffee at Rp 13,600 (US\$ 0.95) per kilogramme of cherry** at farmgate.

The reference price for coffee sold as **wet parchment (gabah)** would be **Rp 42,100 (US\$ 2.94) per kilogramme** at farmgate.

Figure 5: **Living Income Reference Price modelling with varying crop areas and respective percentage of living income to be generated from coffee sales**

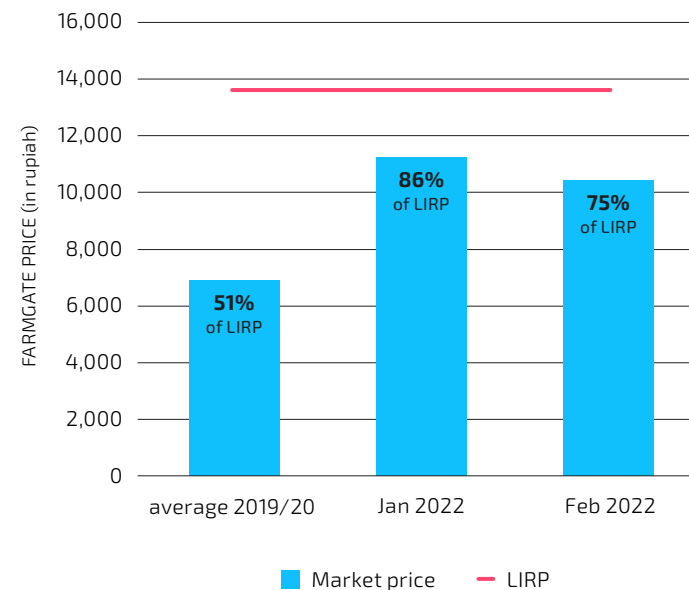


Implementing Living Income Reference Prices

By establishing Living Income Reference Prices, Fairtrade quantifies the gap between market and sustainable prices at farmgate level and emphasizes the need to address price as a crucial factor to attain sustainable supply chains that enable farmers to earn a living income.

Current international coffee market prices are exceptionally high compared to when baseline data were collected (see Figure 6). While in 2019/2020 a kilo of Gayo coffee was sold at Rp 6,900 on average, during the first months of 2022 the internal farmgate prices oscillated between Rp 10,000 and 11,700 per kg of cherry, approaching the Living Income Reference Price. It is therefore encouraging to realize that Living Income Reference Prices seem within reach for the coffee industry.

Figure 6: **Living Income Reference Price compared against actual farmgate prices in Aceh (per kg cherry)**



By applying average conversion factors⁸, estimated operational costs of the producer organization for processing and export handling in Aceh and an exchange rate of 14,300 rupiah to a dollar, an indicative FOB (free on board, or export) price of US\$ 2.82 per pound of green coffee (green bean equivalent or GBE) would apply, based on a Living Income Reference Price paid at farmgate, as summarized in Table 8.

However, the actual FOB prices will depend on the particular situation and cost structure of each producer organization and will have to be negotiated between seller and buyer, in order to factor in all relevant costs incurred by producer organizations, so they can pay their members a Living Income Reference Price at farmgate.

Table 8: **Approximate farmgate – FOB price conversion**

Farmgate – FOB conversion		IDR	USD
LIRP cherry at farmgate	/kg cherry	13,600	0.95
LIRP GBE at farmgate	/kg GBE	81,600	5.71
processing costs	/kg GBE	3,776	0.26
operational costs SPO	/kg GBE	2,860	0.20
export costs	/kg GBE	527	0.04
LIRP proxy GBE at FOB	/kg GBE	88,763	6.21
LIRP proxy GBE at FOB	/pound GBE	40,347	2.82

It must be stressed that the Living Income Reference Price is just one tool, which – in combination with other interventions – is needed to close the income gap and therefore there is no guarantee that by paying a LIRP all farmers will earn a living income. Nonetheless, payment of a LIRP, along with long-term sourcing agreements, are considered essential purchasing practices that buyers are responsible for to enable living incomes for farmers in their supply chains. On the other end, farmers are equally responsible for implementing the sustainable agricultural practices to meet the productivity target.



Iwan Ariatona (39, right) and Sukirno (43, second right) visit the farmer members of their cooperatives to check and report on their field.

Fairtrade integrates voluntary payment of the Living Income Reference Prices in living income pilot projects with committed buyers and their supply chain partners. By implementing the holistic living income strategy on a controlled scale, Fairtrade seeks to demonstrate its effectiveness and validate the price component as a critical driver to achieve living incomes.

Furthermore, for farmers who do not have the minimum viable farm size it is unlikely that living incomes will be generated from farm revenues only. Although these farmers can earn a proportional share of a living income from coffee sales, supplementary income generating opportunities will be needed to fully bridge the income gap. With an average coffee area in Aceh of 0.9 hectares, this means that 30% of a living income needs to come from additional income sources other than coffee.

Fairtrade recommends that the mandatory Fairtrade Premium is not counted towards the Living Income Reference Price, but is paid on top to the producer organization. The Fairtrade Premium is an important source of income for producer organizations to cover operational costs, including adequate service delivery to their members. Empowered producer organizations play a crucial role in supporting their members reach target yields, reduce costs, add value, diversify income sources and enhance farm resilience, all of which contribute to achieve living incomes.

Finally, most buyers do not purchase all the coffee produced by a producer organization and thus the Living Income Reference Price will only be received for part of the sales. This means that the price differential will get diluted over the total volumes, if not all buyers commit to paying the Living Income Reference Price. Hence, this is a call to the coffee industry to jointly commit to sustainable prices, so that living incomes can become a reality for coffee farmers.

The Living Income Reference Price model makes up an integral part of Fairtrade's Living Income Strategy. Fairtrade is constantly testing and improving its model in order to develop a standardized approach for establishing sustainable price levels for smallholder farmers, applicable to a wide range of commodities and regions. We welcome your feedback in this process.

**For more information or comments, please contact:
Carla Veldhuyzen van Zanten • Senior Advisor Sustainable Livelihoods
c.veldhuyzen@fairtrade.net**

Endnotes

- 1 <https://dailycoffeenews.com/2019/03/27/coffee-producers-demand-immediate-action-amidst-price-crisis>
- 2 <https://www.ico.org/documents/cy2018-19/wp-council-302e-london-declaration.pdf>
- 3 <https://wageindicator.org/salary/living-wage/archive-no-index/indonesia-living-wage-series-january-2018-country-overview>
- 4 <https://www.bps.go.id/dynamic/ptb/2016/06/30/1212/kebutuhan-hidup-minimum-layak-khm-khl-selama-sebulan-rupee-menurut-provinsi-2005-2015.html>
- 5 <https://wageindicator.org/salary/minimum-wage/indonesia>
- 6 Applied exchange rate 1USD = IDR14,300 (rupiah)
- 7 The Universal Declaration of Human Rights establishes: "Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity."
- 8 Approximately 6 kg of coffee cherry is needed to produce 2 kg of wet parchment or 1 kg of exportable green bean, and 1kg=2.2 pounds.



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Fairtrade International • Bonner Talweg 177, 53129 Bonn, Germany

Telephone: +49 (0)228 949230 • info@fairtrade.net • www.fairtrade.net