



# FAIR FOR LIFE

## Guidance Fair Prices and the Fair Trade Development Fund



Fair Trade Partners

Version January 2020

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## INTRODUCTION

The Fair for Life Standard promotes viable supply-chains that share value amongst all involved actors, based on fair and transparent price negotiations and support to the producer operations and the involved communities. Depending on the position in the supply-chain, Fair for Life certified operations must comply with a specific set of criteria.

In addition to general criteria related to pricing which must be complied with by **all certified operations**, there are requirements regarding Fair Trade Prices and Fair Trade Fund that apply specifically to **Producer Operations** and/or their direct buyers - the **Fair Trade Partners**.

This document further details what is expected from you as the **Fair Trade Partner**.

The FFL Standard incorporates three essential concepts to define the terms of fair trading:



### Guaranteed Floor Price

- ✓ Agreed based on a sustainable production cost calculation
- ✓ Safety net for the Producer Operation (and the individual producers)



### Fair purchase prices

- ✓ Based on fair and transparent negotiations
- ✓ Always equal to or higher than the guaranteed Floor Price
- ✓ Generally, higher than prevailing conventional market prices



### Fair Trade Fund

- ✓ Dedicated to collective social or environmental development projects
- ✓ Separately administered bank account
- ✓ Projects are decided democratically by the beneficiaries

All items are negotiated and agreed between you and the Producer Operation.

## » Specific case of conveyors



In some settings, an intermediate operator may act between you and the Producer Operation. These so-called “Conveyors” may take over logistical tasks and purchases on your behalf and/or take over additional responsibilities, e.g. quality development support. However, conveyors are not in charge of price and FT Fund negotiations with the Producer Operation and you remain responsible for the compliance with the FFL Fair Trade Partner requirements.

## 1 FAIR PRICES

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### 1.1 General requirements for all operations

All FFL certified operations shall ensure that margins applied on Fair Trade products are adequate:

- ✓ Sufficient in order to ensure viability of the supply-chain (no maximization of profit at the expense of the producers)
- ✓ Reflect ethical business practices (no dumping prices)

In addition, the obligations of the Fair Trade Partner towards Producer Operations (as described in the following section) shall be considered in price negotiations and in setting the terms of trade further down the chain, but no specific requirement regarding pricing applies at this level.

### 1.2 Specific requirements for Fair Trade Partners

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#### Producer Operation FLOOR Prices

Floor Prices are the **minimum prices** that a Fair Trade Partner must pay to a Producer Operation. Floor Prices act as a safety net, ensuring that prices do not fall below the costs of production even in times of low market prices. In addition, the Floor Price gives the Producer Operations the necessary security to plan ahead and invest.



Floor Prices are agreed in a justifiable and transparent fashion between you and the Producer Operation (and stipulated inside the Partnership Framework Agreement), normally for a **minimum period of 3 years**, or until reviewed and renegotiated.

#### » Determining the Producer Operation Floor Price

Floor Prices shall be defined based on a **production cost study**. This can be done through: [TRAD-34](#)

- study implemented and regularly updated by the Producer Operation itself; OR

- An external study performed by recognized governmental or non-governmental agencies.

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Ideally (and if seen as helpful by the trade partners), you support the Producer Operation in determining actual production costs and in adapting the pricing policy as much as possible to this understanding.

### Producer Operation SALES Prices

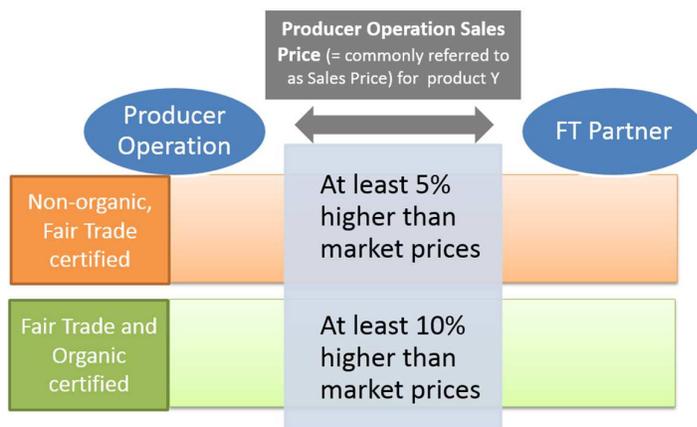
Producer Operation Sales Prices are the prices that you pay to the Producer Operation for each purchase. Producer Operation Sales Prices are **mutually agreed** by you and the Producer Operation in a justifiable and transparent fashion.

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They must always be **superior or equal to the guaranteed floor prices** and generally superior to market prices (as per the figure below).

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To have a **referential price to compare with**, it is your responsibility to implement a system to record the non-organic and non-fair trade market price development of the concerned products.

In two specific cases, **lower percentages** can be applied and/or the Floor Price can be used as a reference to establish the FFL price, based on detailed justification:

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- Market prices are very high (due to very high demand, effect of speculation) totally disconnected from production costs; OR
- There is no source available for establishing a reference price.

If, on the other hand, the Fair Trade Producer Operation Sales Prices are **more than 15% higher** than typical market prices, the Producer operation must provide to you an overview of additional income from Fair Trade and what it was used for.

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## 2 FAIR TRADE FUND

In addition to the purchase price, you pay a Fair Trade Fund to the Producer Operation that is intended to finance defined development / collective projects.

### 2.1 Calculation of the Fund amount

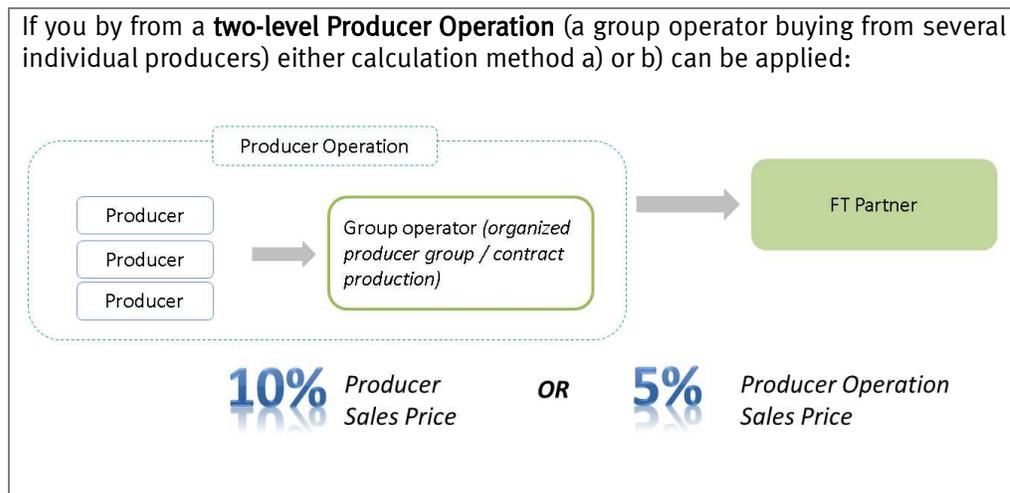
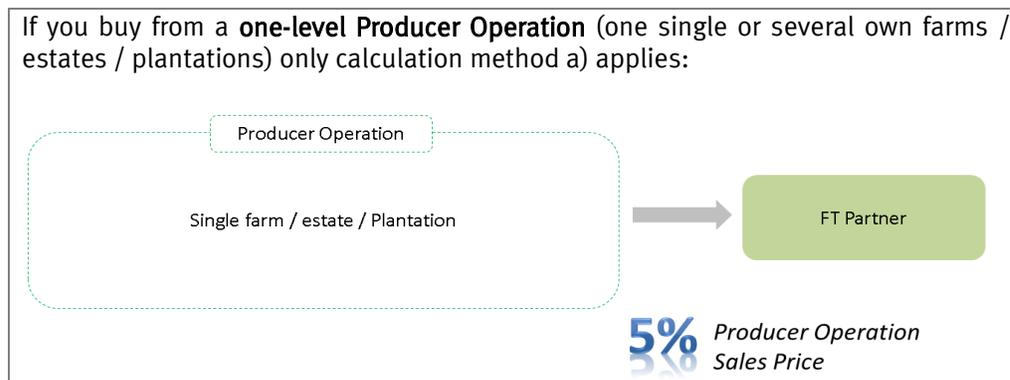
The amount of the Development Fund is agreed upon in open negotiations between you and the Producer Operation, normally for a minimum **period of 3 years** or until reviewed and renegotiated.

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It should be equal or superior to:

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- a) **5% of the Producer Operation Sales Price** (e.g. FOB prices); or
- b) **10% of the Producer Sales Price** (farmgate price)



In either case, the Fair Trade Fund can be defined either as a percentage on fluctuating market prices, or as a fixed amount based on averaged prices.



In certain specific conditions, lower percentages can be set, as defined in Annex VI. In such cases, the CB writes a letter of acceptance of the lower amount. Exemptions can be granted only provided that significant projects can still be implemented with the Fund money.

Annex VI

It is expected that Fair Trade Producer operations charge all their Fair Trade Partners with the same Fair Trade Fund.

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### Sample Calculation of Fair Trade Fund according to method (b)

If the Fair Trade Fund is calculated based on the prices paid to individual producers (Producer Sales Prices), the amount of raw material needed for the production of the product you purchase from the Producer Operation must be considered:

**(Producer Sales Price · 10% FT Fund) \* processing factor<sup>1</sup> = Fair Trade Fund per kg of final product**

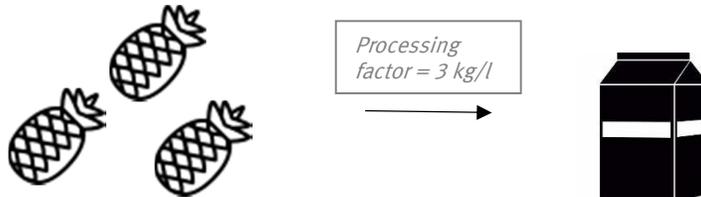
<sup>1</sup>Processing factor =  $\frac{\text{entities of raw material}}{\text{entity of final product}}$  (i.e., raw material used per entity of final product)

*Example for a producer group that buys pineapple from its producers and sells pineapple juice to the Fair Trade Partner:*

$$(1\$/\text{kg pineapple} \cdot 10\%) \cdot 3 \text{ kg/l} = 0.30 \$/\text{l juice}$$

*3 kg pineapple purchased at 1\$/kg*

*1 l pineapple juice*



$$0,10 \text{ \$ FT Fund per kg pineapple} = 0.30 \text{ \$ FT Fund per l juice}$$

## 2.2 Fund payment modalities

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For all purchases of FFL certified products, you pay the agreed Fair Trade Fund to the Producer Operation.

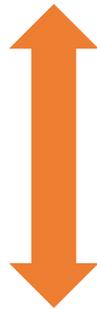
The payment of the FT Fund is made at least once a year. Alternatively, the FT Fund is included as added cost on every sales invoice issued by the Producer Operation.

If a Conveyor is involved in your supply-chain, the FT Fund can be paid to the Producer Operation either by the Conveyor on your behalf, or directly by you.



### Producer Operation

- ✓ Invoice: Fund is clearly separated from price
- ✓ If not paid directly to a separate Fund account: adequate deadlines between receipt and transfer of the full amount to the account



### Both Partners

- ✓ Negotiate a FT Fund for at least 3 years
- ✓ Respect minimum amounts
- ✓ Specify the agreed amount in the Partnership Framework Agreement and/or Sales Contract



### Fair Trade Partner

- ✓ Pays the agreed FT Fund
  - According to the mechanism defined in the Partnership Framework Agreement
  - At least once a year
  - Adequately documented through invoices and contracts
- ✓ If there is a conveyor: FT Partner pays the FT Fund directly to the Producer Operation or via the Conveyor

## 3 RELATED DOCUMENTS

The following documents are available with your CB upon request:

- Model for Partnership Framework Agreement
- Model for Sales Contract