



# FAIR FOR LIFE

## Guidance

### Pricing and the Fair Trade Development Fund For Fair Trade Partners and Producer Operations

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## FOREWARD

The Fair for Life (FFL) 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 surrounding communities.

Depending on the position in the supply-chain, FFL 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 the 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 **Producer Operation** or **Fair Trade Partner**.

*Note: This document was developed to support you in the understanding of certain topics. It does not replace the Fair for Life Standard, but rather complements it. Please make sure to read the FFL Standard in addition to this document.*

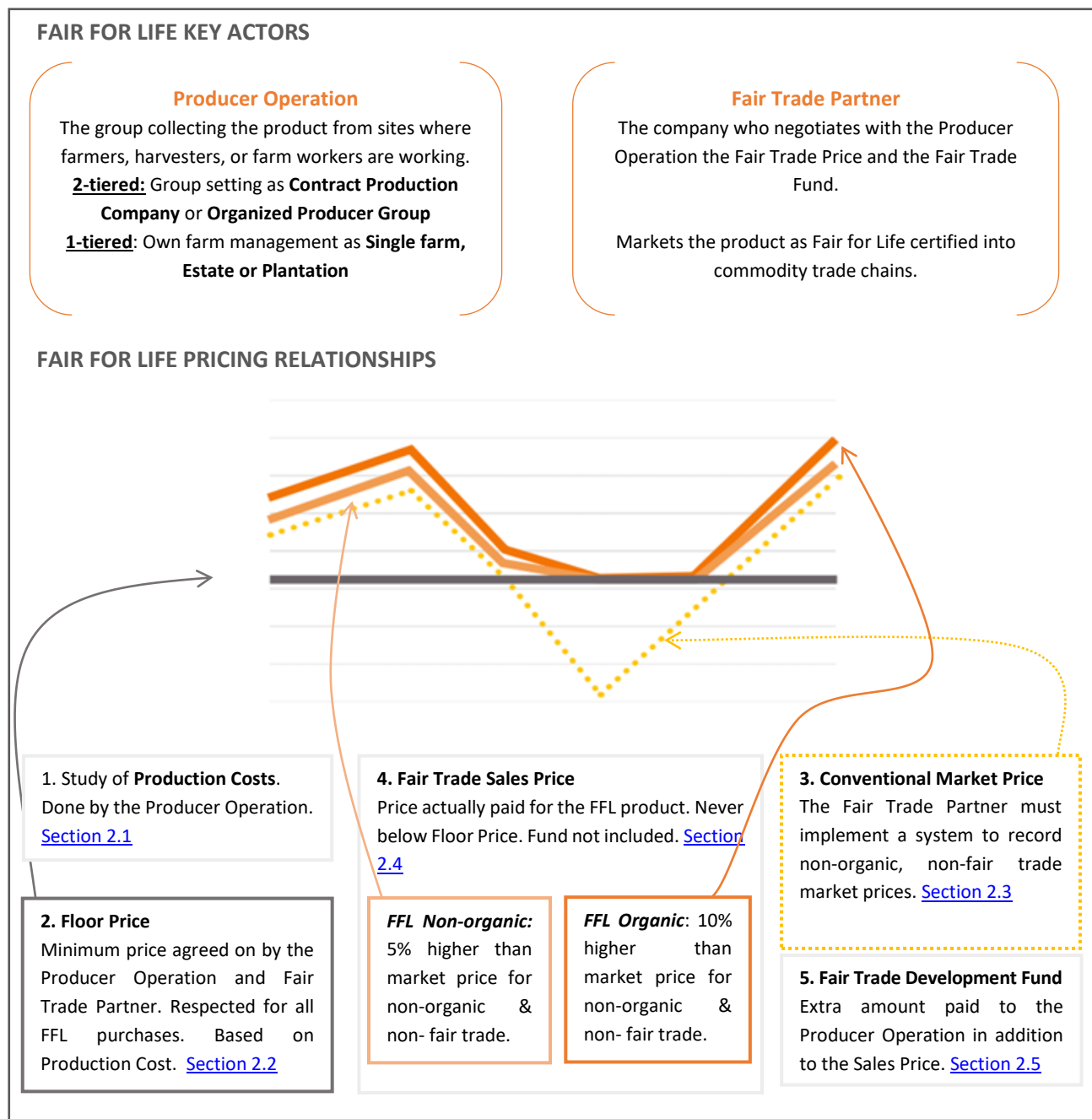
# 1 OVERVIEW OF TERMINOLOGY

There are five fundamental and interrelated financial concepts which connect the Producer Operation and the Fair Trade Partner:

1. **Production costs**
2. **Floor Price**
3. **Conventional Market Price**
4. **Fair Trade Sales Price (organic and non-organic)**
5. **Fair Trade Development Fund**

These terms and their relationship to each other are summarized in *Figure 1* and each subject is further detailed out in subsequent sections.

Figure 1: Overview of terminology and pricing relationships

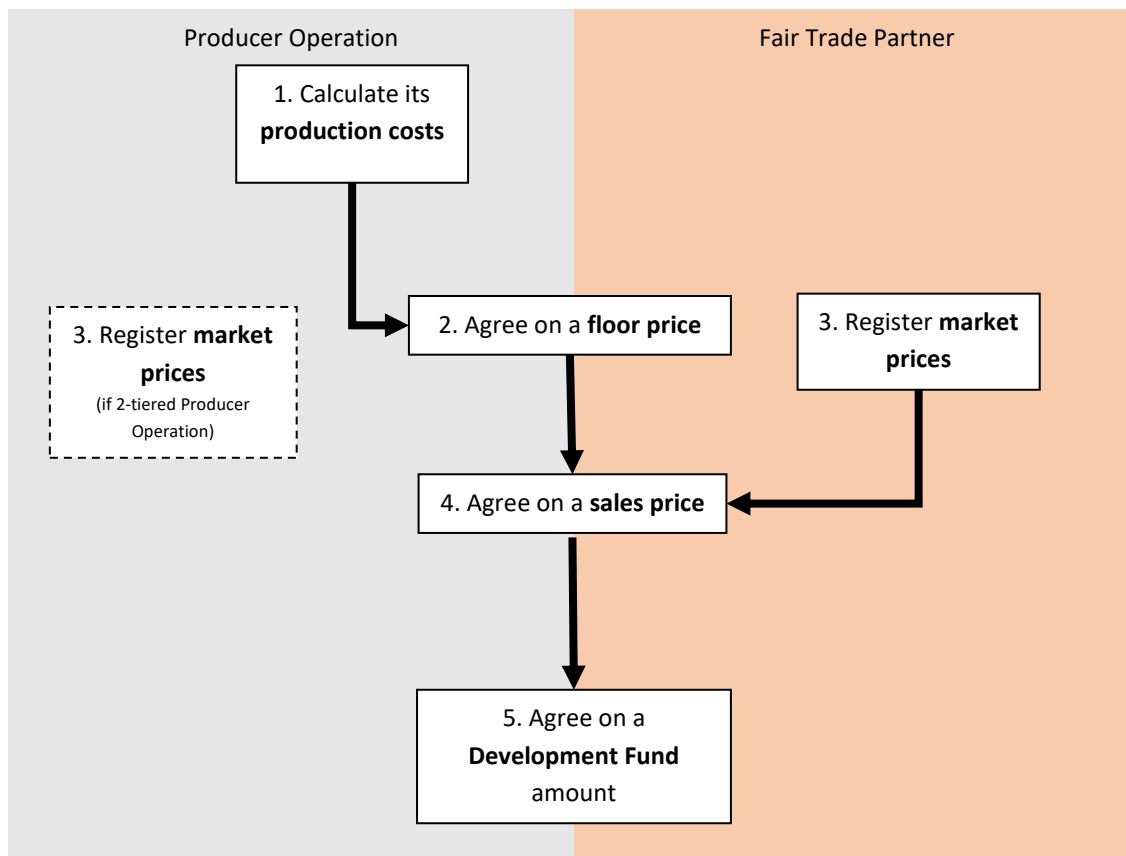


To summarize:

- The Producer Operation determines its Production Costs,
- The Fair Trade Partner maintains a registry of conventional market prices, and
- The Producer Operation and Fair Trade Partner together negotiate and agree on the Floor Price, Sales Price, and Fund amounts.

The natural progression to establish the pricing elements is illustrated in *Figure 2*.

*Figure 2: Price determination roadmap*



The relationship between a Producer Operation and a Fair Trade Partner is formalized by a multi-year Partnership Agreement. The agreement defines, among other points, the pricing agreements and Fair Trade Fund payment mechanism and calculation method.

In addition, all FFL certified operations are responsible for ensuring that margins applied on FFL products are adequate:

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

## 2 PRICE CONCEPTS IN FAIR FOR LIFE & THE FAIR TRADE FUND

Each key concept is defined and explained in detail in this section. At the end of this section, a calculation framework and examples are presented to illustrate the terms more concretely.

### 2.1 Production Costs

A Production Cost study enables the Producer Operation to set a relevant Floor Price, adapted to its specific context. This ensures that product is not sold at a loss, even during market slumps, thereby allowing more stability, predictability, and resiliency in the FFL relationship.

The Production Cost study can be done through:

- A study implemented and regularly updated by the Producer Operation itself, OR
- An external study performed by recognized governmental or non-governmental agencies.

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

The Producer Operation assesses the actual production costs of the raw material, considering all factors and variables that go into production or primary processing.



Find it in the Standard

→ TRAD-34: *Production Costs*

### 2.2 Floor Price

Floor Prices are minimum prices that must be respected when a Fair Trade Partner is purchasing from a Producer Operation, and, in the case of a 2-tiered Producer Operation, for their purchases from individual producers, too.

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 and Producers the necessary security to plan ahead and invest in their community and organization.

There are two levels where a Floor Price is defined:

- I. Between the Producer Operation and its Fair Trade Partner; and
- II. Within a 2-tiered Producer Operation (Contract Production Company or Organized Producer Group)

#### I. Floor price between the Producer Operation and Fair-Trade Partner

Floor Prices are agreed in a justifiable and transparent way between the Producer Operation and the Fair Trade Partner. They are defined inside the Partnership Framework Agreement, normally **for a minimum period of 3 years**, or until reviewed and renegotiated.



Find it in the Standard

→ TRAD-38: *FFL Producer Operation Floor prices agreed*

→ TRAD-39: *FFL Producer Operation Floor Prices level*

## II. Floor price within a Two-Tiered Producer Operation

Floor prices are required also within a Producer Operation, between the Group operator and the individual producers for Contract Production and Organized Producer Groups.



Find it in the Standard

→ TRAD-13: *Contracts with Producers*

→ TRAD-36: *FFL Producer Floor Price*

These internal floor prices with individual producers are based off a Production cost study and are agreed on with individual producers through clear agreements (either individually or collectively).

Sales prices paid to individual producers shall never be lower than the FFL Producer Floor Price.

## 2.3 Conventional Market Price

### I. Fair Trade Partner

**The Fair Trade Partner must set up a system for recording non-organic and non-fair trade market prices.** The recording of prices is based on relevant references and can be recorded in a spreadsheet which will be updated regularly (at least once a year). The spreadsheet and its sources of information must be presented during the audit.

Sources of the Market Prices to consider may vary, depending on the commodity and availability of data. It may be worldwide, national, or local databases.



Find it in the Standard

→ TRAD-41: *FFL Producer Operation Sales prices level – FT / Organic quality premiums*

Be sure to include the level of processing and any specifications regarding the incoterms, as necessary.

→ SEE THE [FAQ section](#) FOR POSSIBLE SOURCES TO FIND MARKET PRICE DATA

→ SEE THE [FAQ section](#) FOR INFORMATION ON HOW TO PROCEED IF THERE IS NO MARKET DATA FOR YOUR INGREDIENTS.

### II. Two-Tiered Producer Operation

In the case of organized or contracted production, **the Producer Operation must also set up a system for recording non-organic and non-fair trade market prices.** This exercise ensures that the actual prices paid to producers are higher than these prices (see point 2.4 Sales price below).

The same information as above, for Fair Trade Partners, applies in this case.



Find it in the Standard

→ TRAD-37: *FFL Producer Sales Prices – FT/Organic Quality Premium*

## 2.4 Sales Price

The Sales Price is the price that the Fair Trade Partner pays to the Producer Operation for each purchase. Sales prices are **mutually agreed** by the Fair Trade Partner and the Producer Operation in a justifiable and transparent way.

They must always be **superior or equal to the guaranteed floor prices** and generally superior to market prices, as detailed in section 2.4.1.

A Sales Price **also applicable to individual producers** within a 2-tiered Producer Operation. This responsibility is covered by the Producer Operation itself and the Fair Trade Partner is not involved.



Find it in the Standard

- TRAD-35: *Producer Operation Sales Price*
- TRAD-40: *FFL Producer Operation Sales prices agreed*

## I. Fair trade and Organic Quality Premium

The Quality Premium is applied potentially at two levels:

- I. Between the Producer Operation and its Fair Trade Partner; and
- II. Within a 2-tiered Producer Operation (Contract Production Company or Organized Producer Group) towards the individual Producers.

In both cases, the Quality Premium is calculated based off the Market Price that the Fair Trade Partner or 2-tiered Producer Operation is responsible for monitoring.

- For products that are purchased which are **both Organic and FFL certified**, the quality premium to apply is at least **10% higher than conventional market prices** (non-organic and non-fair trade).
- For products that are purchased which are **FFL certified but NOT organic certified**, the quality premium to apply is at least **5% higher than conventional market prices**.

Note: In case of fluctuating market prices, averaged market prices can be used instead.



**REMINDER: The Sales Price Quality Premium is different than the Fair Trade Fund** (for Fair Trade Fund – see point 2.5 below).



Find it in the Standard

- TRAD-37: *FFL Producer Sales Prices – FT/Organic Quality Premium*
- TRAD-41: *FFL Producer Operation Sales prices level – FT/ Organic Quality Premiums*



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:

- 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.

## 2.5 Fair Trade Fund

In addition to the sales price, the Fair Trade Partner pays a **Fair Trade Development Fund** to the Producer Operation to finance defined development / collective projects. It is deposited in a separately administered bank account and projects dedicated to collective social or environmental development are decided on by the beneficiaries.

### I. Calculation of the Fund amount

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

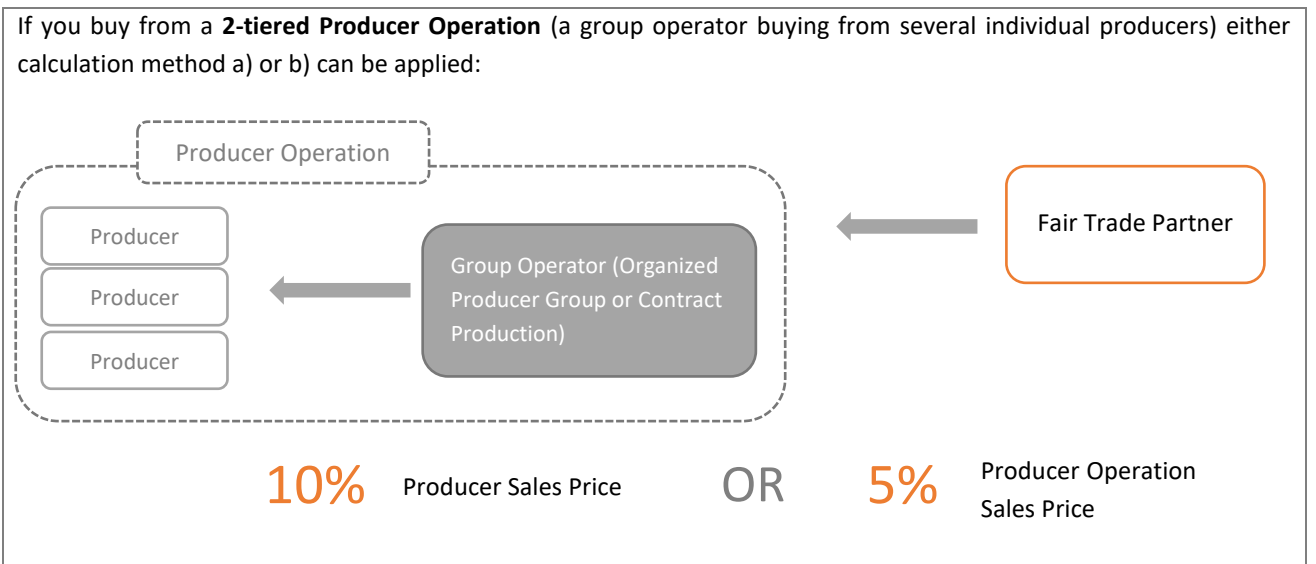
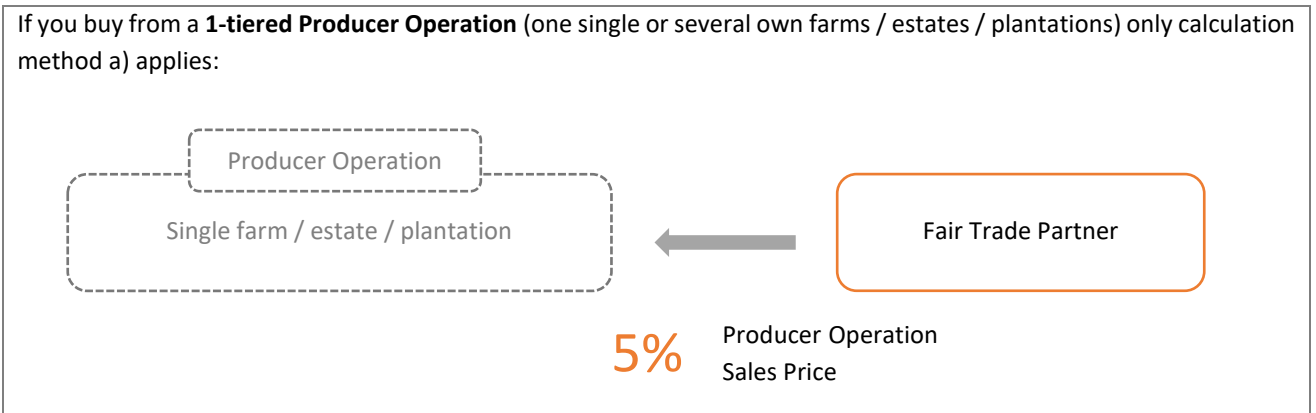
It should be **equal or superior** to:

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

Find it in the Standard

- TRAD-44: Fair Trade Fund Agreed
- TRAD-45: Fair Trade Fund Level

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





Note that 5% of Producer Operation sales price (or 10% of producer sales price) **is a minimum**, the percentage can be higher. A good practice is to have preliminary discussions with your supplier in order to identify Fair Trade projects that will need to be funded to calculate the percentage.

→ SEE Annex I FOR SPECIFIC CONSIDERATIONS IF USING THE 10% OF PRODUCER SALES PRICE APPROACH



In certain specific conditions, **lower percentages can be set**, as defined in Annex VI of the Fair for Life standard. In such cases, the certification body 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.

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

## II. Fund payment modalities

For all purchases of FFL certified products, the Fair Trade Partner pays the agreed Fair Trade Fund to the Producer Operation. The **payment** of the FT Fund is made at least once a year and should be **included as an added cost line on every sales invoice** issued by the Producer Operation.

**Find it in the Standard**

- TRAD-46: Fund invoicing
- TRAD-47: Fund payment
- TRAD-48: Fair Trade Fund payment

An overview of the responsibilities of the Producer Operation and Fair Trade Partner are outlined below in Figure 3.

Figure 3: Responsibilities for the Fair Trade Development Fund payment



A Producer Operation should normally not pay the Fund directly to individual producers as this would block the investment in projects that have the potential to create long-term benefits for the community that go beyond punctual financial benefits for participating farmers only.

## III. Specific case of conveyors

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

In some settings, an intermediate operator may act between the Fair Trade Partner and the Producer Operation (Figure 4). 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 Fair Trade Fund negotiations with the Producer Operation. The Fair Trade Partner remains responsible for the compliance with the FFL Fair Trade Partner requirements.

Figure 4: Supply-Chain key and Non-key operators

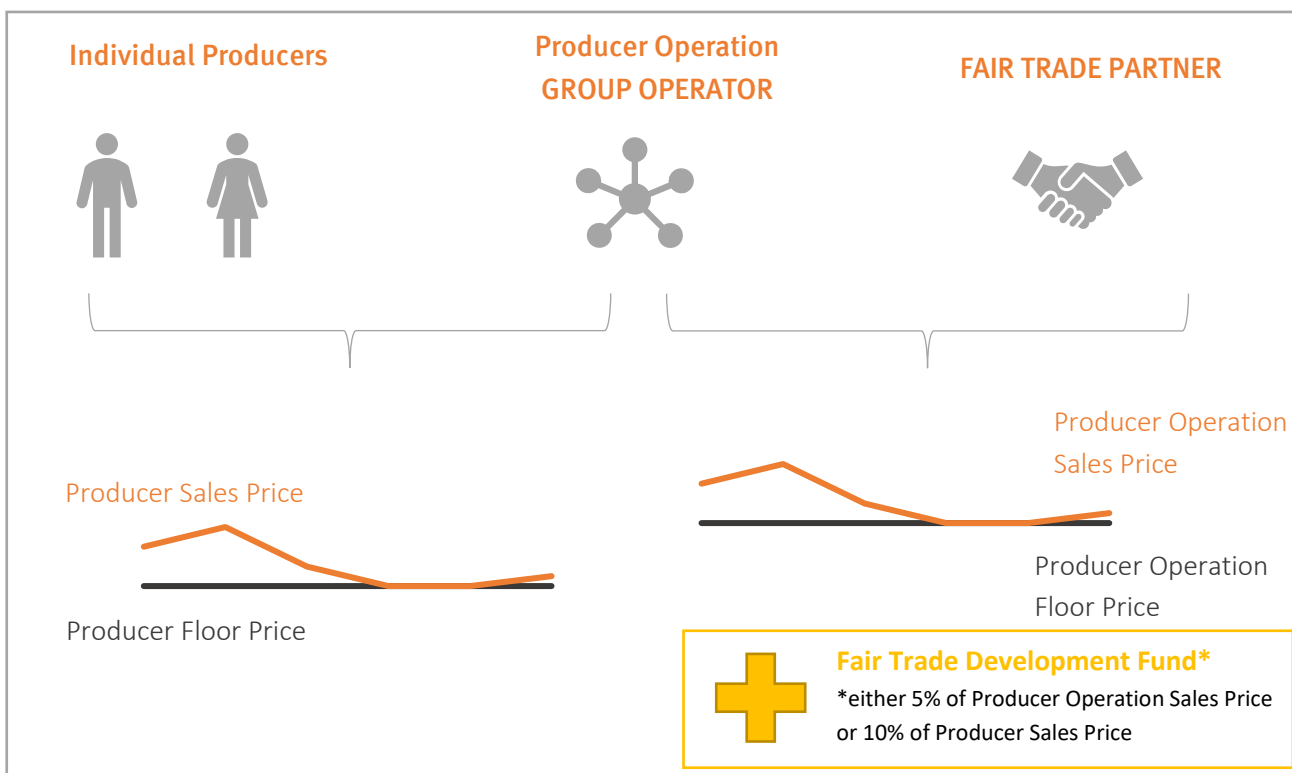


## 2.6 Calculation Framework and example

To bring the five above-mentioned price concepts together, *Figure 5* demonstrates how the pricing mechanisms would apply in the case of a 2-tiered Producer Operation.

Note: In the case of a 1-tiered Producer Operation, the left-portion related to Individual Producers does not apply

Figure 5: Pricing mechanisms between a Fair Trade Partner and 2-tiered Producer Operation



Finally, *Figure 6*, illustrates a calculation method and examples of how the pricing concepts are applied.

Figure 6: Calculation Method and Examples

Product	Floor price to Producer Operation	Conventional Market Price (source, date)	Fair Trade / Organic Quality Premium	Minimum Sales Price	Fair Trade Development Fund
	XX €/kg	YY €/kg	+5% (if non-organic) or +10% (if organic)	YY x 1.05 = AA €/kg or YY x 1.10 = BB €/kg  And ≥ XX €/kg	5% sales price
<b>Example A :</b> Non-Organic Product	12€/kg	17€/kg (Franceagrimer, June Year N)	+5%	17 x 1.05 = 17.85 €/kg	17.85 x 0.05 = 0.89€ / kg
<b>Example B :</b> Organic Product	17.53€/kg	26€/kg (Rungis market, S1 Year N)	+10%	26 x 1.10 = 28.60 €/kg	28.60 x 0.05 = 1.43€ / kg
<b>Example C :</b> Low Market Price non-organic	12€/kg	9€/kg	+5%	9 x 1.05 = 9.45 €/kg <b>Or, &lt; floor price</b> <b>Therefore, min sales price must be &gt;= 12€/kg</b>	12 x 0.05 = 0.60€ /kg

## 3 QUESTIONS & ANSWERS (FAQ)

### 3.1 Fair Trade Partner questions

- I. How do I calculate a sales price if there is no market price for my commodity or if it's a "niche" (ex: essential oils, etc)?

The standard (criterion TRAD-41) allows to **use the floor price** as reference if there is no market price for a specific commodity. You need to request for a derogation and justify it to the certification body.

- II. Which database can we use to follow up on market prices? (TRAD-37, TRAD-41)

Several websites exist to help you follow up on market prices (depending of course on the commodity you're buying), here are a few examples:

For France:

<https://www.franceagrimer.fr/> (vegetables, plants...)

International:

<https://comtrade.un.org/>

<https://www.nkalo.com/> (for commodities such as: cocoa, shea, sesame for example)

III. Concerning the criteria TRAD-49 on *Trade margins*, what do I need to show for the comparison?

The objective of the criterion is to ensure a better distribution of margins in the sector (no opportunism with fair trade compared to a consumer trend). Documents requested during the audit may vary (a FFL audit is not a financial audit).

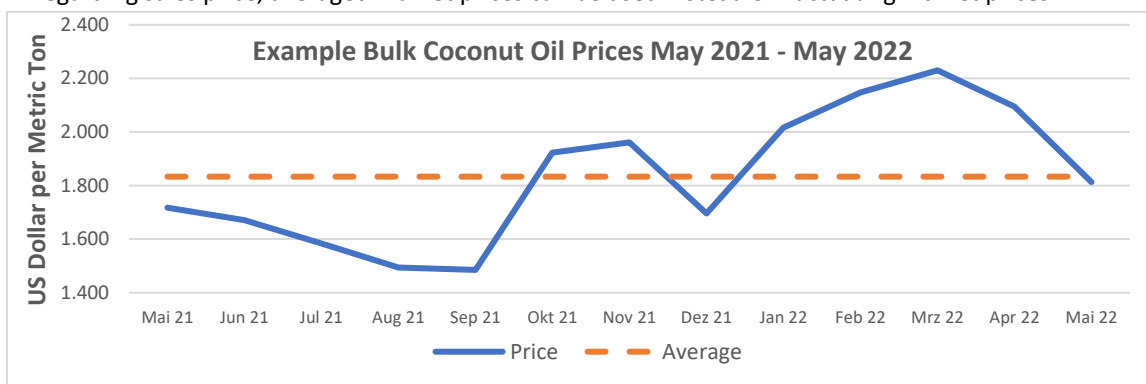
What could be requested is:

- Do you have a margin policy?
- What is your operating margin on finished products, specifically regarding the evolution before FFL certification/after? Variations of the operating margin?
- If you have the same or a similar product in FFL and non-FFL quality, what margin is applied to each?

IV. What to do in case of big market fluctuations (price increase or drop, etc)?

You always need to respect the floor price indicated in the Partnership Agreement.

Regarding sales price, averaged market prices can be used instead of fluctuating market prices.



## 3.2 Producer Operation questions

I. Do I need to integrate certification costs in production costs?

Yes. This cost should be integrated in your production costs calculation.

II. Do I need to integrate Internal Control System costs in production costs?

Yes. This cost should be integrated in your production costs calculation.

III. What is the difference between the percentage of the Fair Trade Fund and the Quality Premium percentage used to calculate the sales price?

The Fair Trade Fund is a specific amount paid **on top of** the sales price. It must not be part of the floor price or sales price calculation.

IV. Is the Fair Trade Fund paid directly to individual producer?

Not usually. The Fair Trade Fund should normally be paid to the Producer Operation (into a separate bank account for contract production companies) and should be traceable. A Fair Trade Fund committee decides on how to use the Fund to the benefit of the intended beneficiaries.

It can be paid directly to the individual producers **only under certain circumstances**:

1. **The Fair Trade diagnosis must confirm that individual payment is an effective way to answer specific needs**, (*e.g. payment to migrant seasonal workers who may not be present after harvest and would therefore not benefit from funded collective projects*), and
2. There are very scattered producers; or there are smallholder producers **with low income** (due to low volumes of sold certified products)

VI. As a plantation operator, do I need to pay a wage that is 5% or 10% higher to the workers?

No. As there are no individual producers, production costs are calculated differently. There is no « producer sales price » to workers. The Fair Trade and/or Organic Quality Premium is applied to prices with your Fair Trade partner only. The legal minimum wage in your country must be respected (criterion SOC-66). At the end of the first cycle of certification, **workers must reach a living wage** (criterion SOC-69).

## ANNEX I – SPECIFIC CALCULATION CONSIDERATIONS FOR FUND BASED OFF PRICE TO INDIVIDUAL PRODUCERS.

If, for purchases from 2-tiered Producer Operation, 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:

$$(\text{Producer Sales Price} \times 10\% \text{ FT Fund}) \times \text{processing factor}^1 = \text{Fair Trade Fund per kg of final product}$$

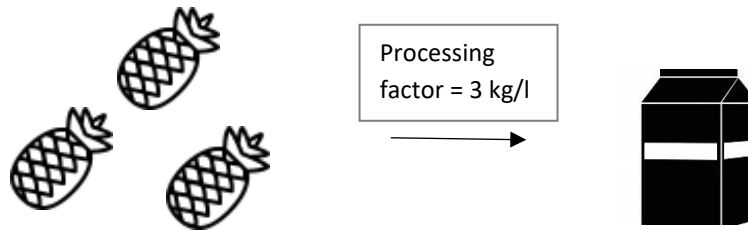
<sup>1</sup>Processing factor =  $\frac{\text{entities of raw material}}{\text{entity of final product}}$  (i.e., raw material used per entity of final product)

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

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

3 kg pineapple purchased at 1\$/kg

1 l pineapple juice



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