

**STANDARD OPERATING
PROCEDURE
DEVELOPMENT OF FAIRTRADE
MINIMUM PRICES AND PREMIUMS**



FAIRTRADE
INTERNATIONAL

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1. INTRODUCTION

The *Standards Unit (SU)* within Fairtrade International (FLO) is responsible for developing (i.e. preparing, amending, adapting) and revising Fairtrade standards. The term *Fairtrade standards (Standards)* refers to: (a) *generic standards*, (b) *product standards* and (c) *Fairtrade minimum prices (FTMP)* and *Fairtrade premiums (FTP)*. Producers and traders must meet applicable Standards for their products to be certified as Fairtrade.

Description of the SU: The SU includes the *Pricing Subunit (PSU)* and the *Standards Subunit (SSU)*. The head of the SU is the *Standards Unit Director (SU Director)*. The PSU is managed by the Head of Pricing. The PSU is responsible for the development of FTMP and FTP. The SSU is managed by the Head of Standards. The SSU develops and revises *generic standards* as well as *product standards* and works on new certification areas.

Decision makers: The Board of Directors of FLO has delegated decision-making authority on Standards to the *Standards Committee (SC)*. The SC is made up of representatives of key stakeholders of Fairtrade –e.g. producers, traders, *Labelling Initiatives (LI)* and external experts. The SC provides guidance in relation to and makes decisions with respect to Standards. The SC has delegated some decision-making, mainly the approval of minor projects, to the SU Director.

Purpose of the document: The purpose of this document is to describe the procedures by which FTMP and FTP are developed and implemented by the PSU. A chart illustrating the different steps of each procedure is found at the end of each section. Procedures for developing FTMP and FTP are based on the “*Standard Operating Procedure (SOP) Development of Fairtrade Standards*” which is available separately and should be consulted for more information. The “*Standard Operating Procedure (SOP) Development of Fairtrade Standards*” was designed in compliance with principles laid down in the “*ISEAL Code of Good Practice for Setting Social and Environmental Standards*”. However, the scope of this code does not apply to the development of FTMP and FTP. For this reason, some variations to the code’s requirements have been built into this procedure. Any comments concerning this procedure shall be addressed to the Standards Unit. Comments can be submitted at any time by sending the appropriately filled in “Standards SOPs Feedback Form” to standards@fairtrade.net. The “Standards SOPs feedback form” can be downloaded from the FLO website (www.fairtrade.net) or requested directly to the Standards Unit by writing to standards@fairtrade.net. The comments received will be evaluated and, if necessary, will lead to a revision of the current version of the SOPs. For more information, see the SOP complaints against Fairtrade Standard setting.

1.1 Overview of FTMP and FTP

FLO develops *generic standards* for different categories of *suppliers of Fairtrade products (FT producers)* and a *Generic Trade Standard*, as well as *product standards*, FTMP and FTP. These Standards are the collective requirements that producers and traders must meet for their products to be certified as Fairtrade.

The FTMP is based on the principle of covering average costs of sustainable production of FT producers of the product as well as the ability to deliver the following intended results:

- to enable the average producer to produce in a sustainable way without systematic economic losses;
- to contribute to a higher income of producers (which implies that the Price level needs to consider market acceptance).

The FTMP is thus designed as a floor price which covers the average costs of sustainable production (which can be calculated by use of the sheet in annex 1) of producers and at the same time allows these producers to have access to their product markets. This can imply that the FTMP is fixed below the average Costs of Sustainable Production (COSP). In practice the FTMP only comes into effect when the reference market price or the negotiated price would be below the FTMP which was set for the product. The FTMP must at least be paid to FT producers for their *Fairtrade products (FT products)*. If it is possible *global or regional* FTMP are set, otherwise *national* FTMP are set.

Besides FTMP, members or workers of a certified small producers' organization or company, respectively, also receive a FTP. Therefore, the development of a FTMP normally involves the determination of a FTP. For products for which there is a FTMP, the FTP is paid in addition to the FTMP. The FTP is intended for investment in the FT producers' community, upon certain criteria which are further developed in an explanatory document for FTP use (available via the FLO web-site: www.fairtrade.net).

1.2 Overview of FTMP and FTP setting procedures

The PSU disposes of four procedures to set FTMP and FTP, whereof three only apply in specific cases.

1. FTMP can be determined following a **Full Price Research**, which is the standard procedure. A Full Price Research includes the collection of COSP (see COSP sheet in annex 1). A Full Price Research can be used in all cases and for all types of products. The Full Price Research procedure is described in chapter 3 of this document.

2. The **Easy Entrance** procedure can only apply for new products in existing Fairtrade product standards. This procedure is limited to: (a) cases where the product description, trade characteristics and producer set-up fit into the scope of existing Fairtrade product standards, (b) minor products belonging to the Fresh Fruit and Fresh Vegetables Standards, c) other minor products in other standards categories, to be approved by SU Director and (d) cases where the risks associated with the easy entrance of a product are limited. In case the Easy Entrance procedure applies, only a FTP will be set initially, for one full annual

production and trading season. For more details on the Easy Entrance procedure, please see chapter 4 of this document.

3. The **Price Extension** procedure makes it possible to fill pricing gaps in existing Fairtrade product standards in a time-efficient manner. This procedure involves deriving new FTMP and FTP from Prices and Premiums already existing within the Standards. There are the following types of extensions:

- Extension made between different geographical locations;
- Extension from organic to conventional Prices or vice versa, based on the application of an organic differential;
- Extension from Ex Works (EXW) to FOB or vice versa;
- Price for processing extension, for example from a fruit 'for processing' (in the fresh fruits Standard) to the same product 'for drying' (in the dried fruits Standard) or visa versa.

Extensions are limited to cases where there is a relevant and reliable comparison point and where the risk of extending is low. For more details on the Price Extension procedure, please see chapter 5 of this document.

4. The **Regular Fairtrade Price Review using the Exchange rate and Consumer price index Methodology** is adopted only in cases where stakeholders involved in the production of a specific FT product agree to applying it. In these cases, FTMP reviews are undertaken on a regular basis – e.g. every two years - based on the average evolution of real prices – i.e. *Exchange rate (ER)* and *Consumer price index (CPI)* - of all countries producing the FT product. A Price proposal based on the results obtained from the calculation is submitted to stakeholders' approval, comments and suggestions. A final report and proposal, based on the results of the consultation(s), is prepared and submitted to the SC or the SU Director for decision making. A Full Price Research, including COSP research and a full process of consultation, will still be compulsory at an interval of 8 years or when a consistent justification is provided to anticipate the Full Price Research. For more details, please see chapter 6 of this document.

5. The **Price Suspension** procedure is a quick, interim measure, which can be taken if a Price does not serve its intended purpose. As such it is not a Price setting procedure and cannot replace a review of the Price. The procedure is only applied in urgent cases as an interim measure until a review of the Price can be carried out and / or completed.

2. PROCEDURE FOR DEVELOPING FAIRTRADE MINIMUM PRICES AND PREMIUMS

The common steps in price setting

Irrespective of the procedure which applies, *Fairtrade pricing projects (FT pricing projects)* always follow 6 steps:

1. Submission and assessment of a Price Request
2. Definition of project scope and planning
3. Research
4. Consultation
5. Approval
6. Implementation of an approved Price

Those 6 steps, which FT pricing projects have in common, are explained here. Single steps may vary, depending on the procedure. This is described in greater detail in chapters 3 to 6.

Only the Price Suspension Procedure, which is an interim measure, follows slightly different steps. The Price Suspension procedure is laid out in chapter 7.

2.1 Submission and assessment of Price Request

A FT pricing project may be proposed to the PSU by FLO's *Producers Services and Relations Unit (PSR)*, by the *Fairtrade Producer Networks (PN)* and other FLO units, by LI or also by other Fairtrade stakeholders accepted by the PSU. FT pricing projects can only be requested through the submission of a *Price Request Form* addressed to standards@fairtrade.net. This is also the case for projects which do not require the setting of a FTMP – e.g. a project using the Easy Entrance procedure – and for new products in the system for which no Standards exist yet.

The Price request contains a justification of the need for the project and assessment of whether the need will be addressed. It also outlines clear objectives of the project and includes an assessment of the risks associated with the project and how to mitigate those.

The Head of Pricing will consider the Price Request, taking into account organizational and SU objectives, as well as an assessment of the risks involved in revising a Standard. The Head of Pricing will inform the proposing party on which procedure applies and whether the PSU has the capacity to carry out or to coordinate the research in the requested time frame. The availability of capacity depends on the SU workplan, which is developed on a yearly basis and regularly updated (at least every six months). The most recent version of the SU workplan is made publicly available through the FLO website. The workplan provides any interested party with information on ongoing or recently closed projects, in particular on their

scope, objectives and time plan, as well as FLO and SU contact information such as address and email contact.

In case a Price Request is not approved due to lacking capacities or its approval is delayed, the proposing party is informed and may decide to re-submit the Price Request to PSU at a later date.

2.2 Definition of project scope and planning

Once a Price Request has been approved, the Project Manager (which could be PSU, PSR, LI or PN) starts with stakeholder mapping. This includes the identification of the relevant parties to the project, definition how they are going to be engaged, the way of communication and the setting of stakeholder participation targets. The project manager also consults relevant stakeholders to define precisely the *project scope* – *i.e.* which countries, which price levels, what issues to take into account, etc. –, and sets a time frame for the project. Once the project scope, the list of stakeholders and the time frame have been clearly defined, a Project Assignment is drawn. This document contains a summary of the rationale and justification of the project and clarifies its scope, objectives and expected impact. It also informs about the process, including timelines and opportunities to contribute (including contact information) and lays out how decisions are made and who makes them.

For minor projects the Project Assignment is shared for comments within the project team. The Project Assignment of major projects is published on the FLO website (www.fairtrade.net). Interested parties can submit their feedback on the Project Assignment for major projects within two weeks from its publication by filling in the *Project Assignment Feedback Form* and emailing it to standards@fairtrade.net. The *Project Assignment Feedback Form* can also be found on the website. Based on the consultation feedback a Project Assignment can be amended if there is a need to do so, before submitting a final version for approval. Finally the Project Assignment has to be approved by the project owner (SU Director or Head of Pricing), before the research phase can start. For projects that are not lead by PSU, the Head of Pricing will still appoint a PSU staff member as member of the project team for the Price research. The approved Project Assignment is also placed on the website for information to stakeholders.

2.3 Research

The research can be undertaken internally by PSU or externally by PSR, LI or PN under PSU supervision and guidance. In either case, an external consultant may support the body undertaking the principal research. The project manager has the freedom to collect information, including information on the Costs of Sustainable Production (COSP, e.g. by use of the sheet in annex 1) from producers and background information from different internal and external sources. For instance, the project manager might contact each producer involved in the research as many times as it is necessary to review the collected data and to check the consistency and accuracy of the information received.

The outcome of the research phase is the preparation of a *Research Internal Report* where all the relevant information collected during the research phase is compiled and summarized. The Research Internal Report serves as a base to develop the *Consultation Document* and builds institutional memory for future projects.

2.4 Consultation

The consultation phase can be undertaken directly by PSU or by PSR, LI, or PN under PSU supervision and guidance. A *Consultation Document* is elaborated and sent for stakeholders' feedback. The Labelling Initiatives and Producer Networks should receive the Consultation Document and other relevant material at least two days before distribution among other public stakeholders; for major prices if possible a week before. The Consultation Document includes, among other things, one or more options for *Fairtrade prices (FT prices, i.e. FTMP and FTP)*, relevant questions on topics where feedback from stakeholders is required and a summary of the findings from the Research Internal Report. All stakeholders are asked to comment on the anticipated impacts for producers and the consequences for markets. A consultation period of 30 days normally applies. However, when necessary the consultation period may be reduced to less than 30 days. This might be the case when market opportunities are at stake or production or trade conditions require a quick adaption of prices. The duration of the consultation period is always specified in the Project Assignment. Any reduction of consultation periods and the rationale for it are also explicitly mentioned in this document.

During the consultation, the project manager is obliged to take all feedback into consideration. Ideally all feedback is filed in the Consultation Document provided by the PSU. This makes it possible to compare the feedback from different stakeholders and analyse it most objectively. However, all stakeholders are allowed to submit additional information. This will be taken into consideration by the project manager, as long as it is relevant, submitted within the consultation period and its amount is proportional to the project.

The Project Manager summarizes the consultation feedback by compiling a *Consultation Results Synopsis*, which provides an overview of received comments. The Consultation Results Synopsis is published on FLO website to give the stakeholders the opportunity to submit their comments in writing to standards@fairtrade.net. SU will make sure that no confidential information is disclosed through the Consultation Results Synopsis.

If after one round of consultations the necessity exists to resolve further issues, the project manager will engage in a second round of consultation with stakeholders, as described in more detail in the "*Standard Operating Procedure (SOP) Development of Fairtrade Standards*".

At the end of the consultation phase, the project manager reviews and analyses all comments from stakeholders and prepares the *Final Price and Premium Proposal*. The *Final Price and Premium Proposal* summarizes and conveys the opinions expressed by the stakeholders during the consultation phase. The

Final Price and Premium Proposal also includes the consulted Price options, the final Price proposal and its rationale.

2.5 Approval

The *Final Price and Premium Proposal* is submitted to either the SU Director or to the SC. In case the project manager is not from the PSU, the Final Price and Premium Proposal is evaluated by the PSU before being submitted for a final decision.

The Final Price and Premium Proposal must be formally approved in order to be introduced as a Standard. Proposals resulting from minor projects are decided by the SU Director within 30 days counted from the day the proposal was submitted, while proposals from major projects are referred to the SC. The SC strives to decide by consensus. However, in case this is not possible, it resumes to alternative procedures defined in the Standards Committee TORs. If a price is not approved, the decision making body will provide guidance on needed amendments or on further research required, in order for FT prices to be approved.

The Minutes of the SC meetings are published on the FLO website. The minutes contain a summary of the discussion, the final outcome and decisions taken as well as an explanation of the rationale. Decisions taken by the SU Director and their rationale are summarized when the Standard is announced.

To become effective strategically important Standards decisions of the SC also require ratification by the Board. In case of non-ratification, the decision is referred back to the SU and SC for re-consideration.

2.6 Implementation of an approved Price

Once new FT prices are approved, they are communicated to affected stakeholders and published on the FLO website. When appropriate, considerations and background papers are also shared with stakeholders. All documents produced during the project – *i.e. Price Request Form, Research Internal Report, Consultation Document, Consultation Synopsis and Final Price and Premium Proposal* as well as other relevant documents - are filed. Following publication, an interim period may be allowed before a FT price becomes effective to give stakeholders the opportunity to prepare for the Price implementation.

3. THE FULL PRICE RESEARCH PROCEDURE

Introduction

As mentioned in chapter 1, a Full Price Research is the standard operating procedure and can apply for all types of price researches and reviews. A Full Price Research is characterised by the collection of COSP data.

3.1 Submission and assessment of a Price Request

In addition to the procedure described before, a Full Price Research is defined either as minor or major. The SU Director, if necessary together with the Chair of the SC, assesses the impact of the developed or reviewed FT price. On the basis of this assessment a Full Price Research is described as minor or major. For minor projects, approval, prioritization and final decision making is taken by the Head of Pricing. For major projects, these decisions are taken by the SU Director.

3.2 Definition of Pricing project scope and planning

The same procedures as described in chapter 2, section 2.

3.3 Research

The same procedures as described in chapter 2, section 3.

In addition:

This phase involves compiling a package of tailored documents – *i.e. Research Package* – that will be used to gather input from producers and internal/external stakeholders. The Research Package includes the Costs of Sustainable Production (COSP) sheet (see annex 1), to report COSP data, and a guidance document about the COSP sheet.

At the *Ex Works (EXW)* price level, the COSP include labour, inputs/services and capital/investments costs of: Establishment costs - *i.e.* costs amortised for infrastructure and land preparation; Field operation costs; Harvesting and post-harvest costs; Transformation and/or processing costs; Product preparation and/or packaging costs; Central structure costs. At the *Free On Board (FOB)* price level, Export costs – *i.e.* Transport to harbour, Costs at harbour and other costs – are taken into account in addition to all EXW costs. Depending on the Price level to be developed other costs may be added.

The project manager sends the Research Package to all FT producers and applicants. PSR's *liaison officers (LO)* and/or regional coordinators as well as *producer networks (PN)* may be asked to support the project manager in collecting completed data, to convey data to the project manager and to facilitate communication between the project manager and producers. If this is the case, the Research Package is also sent to LO and PN.



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The project manager reviews the data received from producers and, if applicable, from other stakeholders, for consistency and accuracy. It is important that all information required for the development of a Final Price and Premium Proposal is collected in the research.

The outcome of the research phase is a Research Internal Report where all the relevant information collected during the research phase are compiled and summarized. The Research Internal Report is only for internal distribution (within SU and the project team), because it contains confidential information from producers. It serves as a base to develop the Consultation Document and builds institutional memory for future consultations.

3.4 Consultation

The same procedures as described in chapter 2, section 4.

3.5 Approval

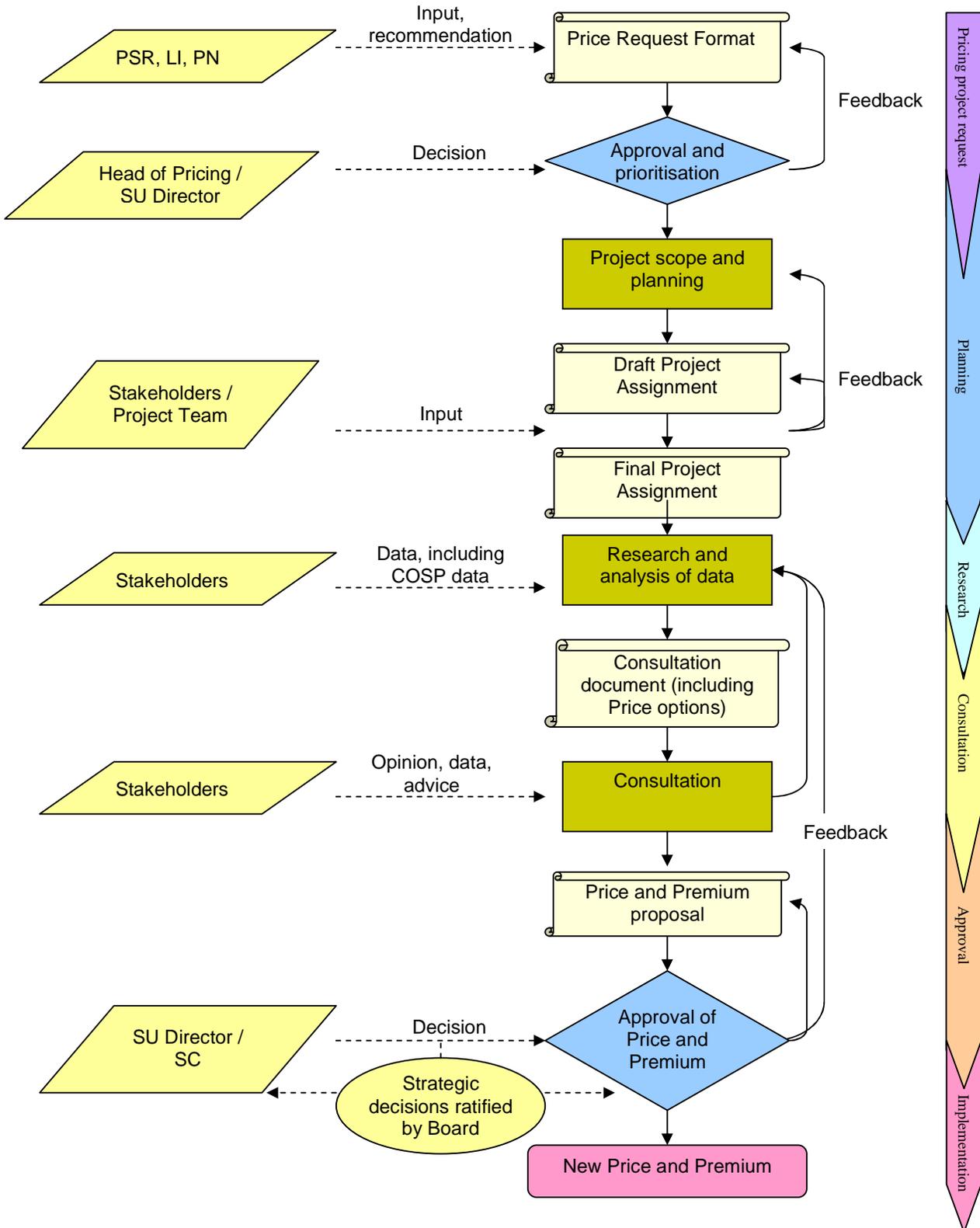
The same procedures as described in chapter 2, section 5.

3.6 Implementation of an approved Price

The same procedures as described in chapter 2, section 6.



Steps of a Full Price Research





4. THE EASY ENTRANCE PROCEDURE

Introduction

The Easy Entrance procedure applies for new products in existing Fairtrade *product standards*. This procedure is limited to cases where: (a) the product description, trade characteristics and producer set-up fit into the scope of the existing Fairtrade *product standard*, (b) the product is a minor product belonging to the Fresh Fruit, Fresh Vegetables or Herbs and Spices Standards or (c) another minor product in other Standard is concerned, provided it is approved by the SU Director and (c) the risks associated with easy entrance of the product are limited. If the Easy Entrance procedure is implemented, a FTP only will apply for one full annual production and trading season. After that a FTMP may be set, depending of the outcome of a producer consultation in which PSU will ask producers whether they want a FTMP to be set.

4.1 Submission and assessment of a Price Request

The same procedures as described in chapter 2, section 1.

In addition:

For a Price Request to qualify for an Easy Entrance procedure, *Annex 1* (of the Price Request Form) has to be completed.

To assess the feasibility of applying the Easy Entrance procedure, the Head of Pricing takes the following criteria into account:

1. Whether the product is a minor product belonging to the Fresh Fruit, Fresh Vegetables or Herbs and Spices Standards or
2. Whether it is a minor product in any other Standard, provided Easy Entrance for this product is approved by the SU Director
3. If the reputation risk associated with the product is low
4. If there is a benefit to producers, even without FTMP
5. If PSU has the capacity to do the research and consultation after one full annual production and trading season

In cases where the Easy Entrance procedure cannot be applied, the Price Extension procedure may be considered (see chapter 5), otherwise a Full Price Research has to be applied for (see chapter 3). In case a Price Request is not approved due to lacking capacities or its approval is delayed, the proposing party is informed and may decide to re-submit the Price Request to PSU at a later date.

4.2 Definition of the project scope and planning

The same procedures as described in chapter 2, section 2.



In addition:

The final document of an Easy Entrance procedure is a *Category Extension Paper (CEP)* prepared by the project manager. This has to be remembered while developing project scope and planning of the procedure.

4.3 Research

The same procedures as described in chapter 2, section 3.

In addition:

The CEP has to be written and submitted for approval to the SU Director. The CEP needs to be elaborated following the “*Guidelines for the development of a CEP for Easy Entrance*”.

The CEP presents the main arguments for the introduction of a new product in a Fairtrade *product standard* and a rationale for the FTP proposal. A CEP should also describe in detail the product, its supply chain, its market perspectives and a risk assessment of applying the Easy Entrance procedure.

The CEP for the Easy Entrance procedure includes a FTP proposal. The FTP proposal is calculated as a default percentage of 15% of the average price obtained in the last year by all the identified interested producers (who intend to apply for certification). The FTP will be fixed as an absolute amount per unit – e.g. per kg or per tonne – and will have global validity.

4.4 Consultation

There is no need for formal (30 days) consultation, but opinions and comments from potential Fairtrade producers should be incorporated into the CEP.

4.5 Approval

The same procedures as described in chapter 2, section 5 apply. However instead of a Final Price and Premium Proposal a CEP is submitted. If the project manager is not from the PSU, the quality of the CEP has to be evaluated by PSU. Once quality requirements are fulfilled the CEP is submitted to the SU Director for approval. A CEP can only be submitted to the SU Director via the PSU. The SU Director has the mandate to approve or reject the CEP.

In case a CEP is not approved or its approval is delayed, the requesting party is informed about the reasons and may decide to re-submit the Price Request to PSU at a later date.

4.6 Implementation of an approved CEP and FTP for Easy Entrance procedure

The same procedures as described in chapter 2, section 6.

In addition:

Application



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As soon as a CEP is approved, producers and traders worldwide can apply for certification. Immediately upon certification, FLO-CERT notifies the PSU, so that PSU always holds an up to-date list of certified producers, which are to be monitored. Upon certification, trade starts and the new FTP is applied for a full annual production and trading season.

Reporting requirements

The Easy Entrance procedure implies an initial period of one full annual production and trading season, during which a FTMP does not exist, but only a FTP.

To allow PSU monitoring, all producers who are certified for products under the Easy Entrance procedure are obliged to submit COSP data to PSU. Furthermore, if producer sales prices for products which entered through Easy Entrance can not be provided by FLO-CERT, the producers might also be requested to inform PSU about these figures.

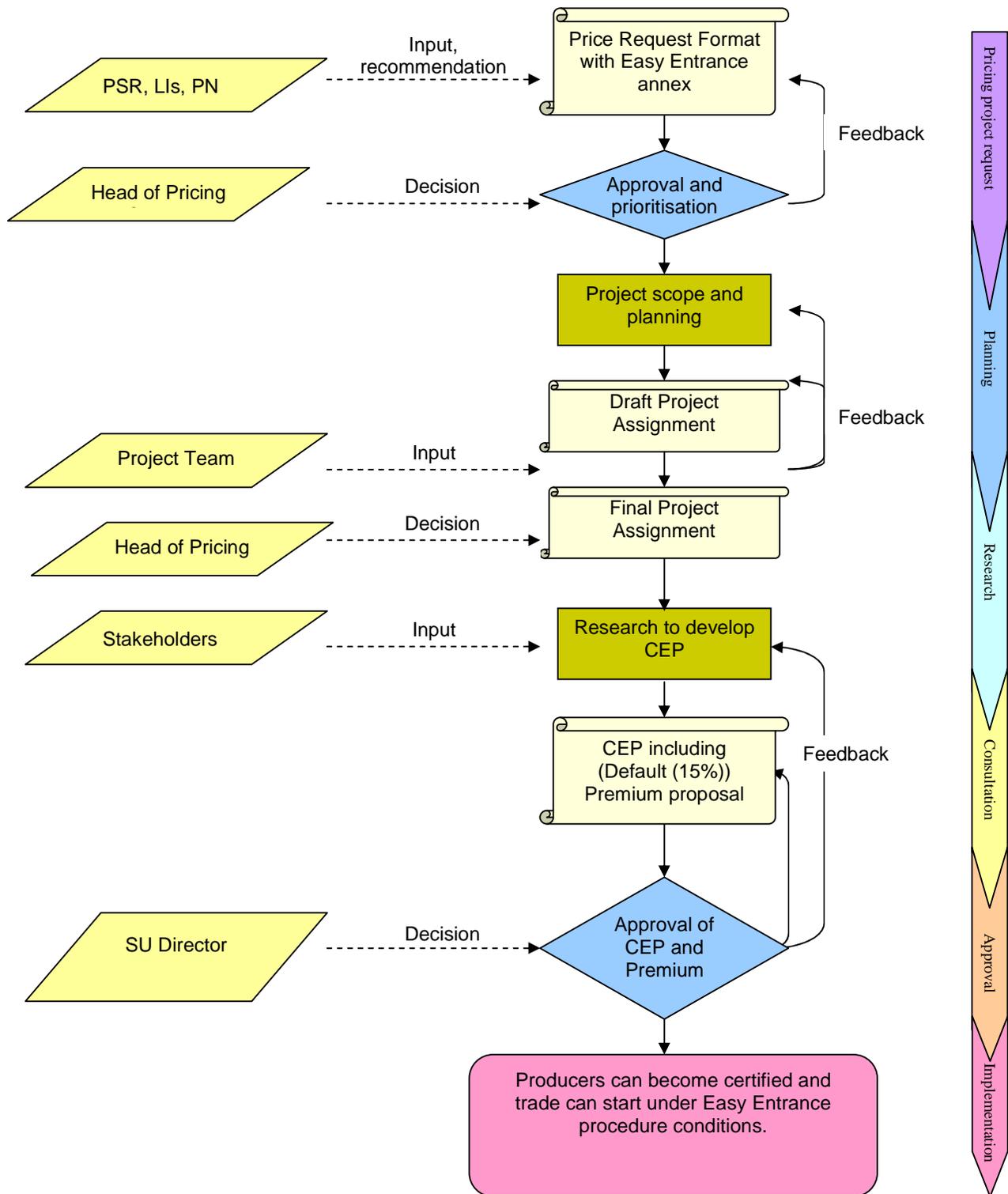
These two pieces of information – *i.e.* COSP and producer sales price data, if required – have to be sent to PSU once a full calendar year (from January to December) has passed after the first producer has been certified. The deadline for sending the information is March 31st of the following year.

In practice, it means that if the first producer is certified in July 2009, all certified producers of this product must inform their COSP and sales prices (if required) for the calendar year 2010. The required information has to be sent to PSU by March 2011 at the latest.

Once COSP and sales prices are collected and analysed by PSU, FT producers will be consulted if there is a need for a FTMP and/or for reviewing the FTP. In case there is a need, PSU prepares Price options based on the information provided, consults all stakeholders (including traders and LI) and follows the regular procedures for consultation, approval and implementation of Prices.



Steps of the Easy Entrance procedure





5. THE PRICE EXTENSION PROCEDURE

Introduction

This chapter describes the Price Extension procedure by which gaps in pricing can be filled in a time-efficient manner. There are the following types of Price Extensions:

1. Geographical Price Extensions
2. Organic Differential Price Extensions
3. EXW/FOB Price Extension
4. Fruit for processing extension (for fruits and vegetables only)

In the case of *Geographical Price Extensions*, a price is developed, by extending the existing FTMP and FTP from one or more countries to a new country. The research phase of a Price Extension procedure does not involve the collection of Costs of Sustainable Production(COSP). Instead reliable existing Prices and Premiums are used to determine the Price for the new origin.

In the case of *Organic Differential Price Extensions*, a reliable organic differential is calculated. This is then used to extend the Price from the organic version of a product to the conventional version of the same product from the same origin. Of course this procedure can also be applied for the extension of conventional Prices to organic Prices.

In the case of *the EXW/FOB Price Extensions*, the missing EXW/FOB Price for a minor product can be derived from the existing EXW/FOB Price set for the same/similar product and/or region, without further COSP research. For major products, the EXW/FOB Price Extension can be used only as an auxiliary tool to complement a Full Price Research in order to fill small gaps in the information collected through the COSP research.

A fruit for processing extension involves extending a Price 'for processing', in the Fresh Fruit and Vegetables Standard to a Price 'for drying' or to a Price 'for juice' for the same product in the Dried fruit Standard or the Fruit Juice Standard respectively. It can also be applied *visa versa*, from the 'Price for drying' or from the 'for Juice Price' to a 'Price for processing'. It can also be from a 'Price for drying' to a 'Price for juice' for the same product (or *visa versa*).

Price Extensions are applied on a case by case basis. The decision whether to apply a Price Extension procedure or to carry out a Full Price Research is taken by the Head of Pricing. In any case, Price Extensions are meant as interim measures to enable producers to enter the system. They are not intended to substitute a Full Price Research. Before a proposal for a Price extension is submitted for decision making, affected stakeholders will be consulted on the proposal.

All Price Extension types (Geographical, Organic Differential, EXW/FOB and Fruit for processing extension) may be combined in a Price Extension procedure. Price Extensions are limited to existing products in existing Fairtrade product standards.

5.1 Submission and assessment of a Price Request

The same procedures as described in chapter 2, section 1.

In addition:

For a Price Request to qualify for the Price Extension procedure, *Annex 2* from the Price Request Form has to be completed.

To assess the feasibility of applying the Price Extension procedure, the Head of Pricing takes into account the following criteria:

1. Relevant comparison point: same product, similar production system, similar country, same target group
2. For Organic Differential Price Extension only: existing and reliable organic differential
3. Existence of reliable comparison point: price level, producer set-up and region
4. Low risk of extending Price without collecting COSP
5. Potential (positive) impact on producers

In cases where there are no relevant or reliable comparison points, the Price should be set on the basis of costs of sustainable production provided by the producers. A small project can be undertaken to develop a Price proposal based on costs of sustainable production.

In cases where the Price Extension procedure cannot be applied, the Easy Entrance procedure may be considered (see chapter 4), otherwise a Full Price Research has to be applied for (see chapter 3). In case a Price Request is not approved due to lacking capacities or its approval is delayed, the proposing party is informed and may decide to re-submit the Price Request to PSU at a later date.

5.2 Definition of the project scope and planning

The same procedures as described in chapter 2, section 2.

5.3 Research

The same procedures as described in chapter 2, section 3.

In addition:



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Under the Price Extension procedure, the project manager identifies reliable comparison points and collects background information on the Price setting of the original Price. Furthermore the project manager analyzes the requested Price Extension. Based on the assessment of both the original Price and the requested Price Extension a Price proposal is developed.

In case of Geographical Extensions, the extended Price is calculated as the average of existing reliable comparison Prices. For an Organic Differential Price Extension procedure the organic differential is applied to the existing conventional or organic Price. For the EXW/FOB Price Extension, the price at the missing EXW/FOB level is calculated on the basis of the existing EXW/FOB Price for the same/similar product and/or region. In a Fruit for processing extension an existing 'for processing Price' is extended to products processed into a different end-product form (e.g. for dried or for juice). Although COSP data (see annex 1) do not need to be collected in a Price Extension procedure, if they are available, they may be taken into consideration in the development of Price options.

5.4 Consultation

The same procedures as described in chapter 2, section 4, nevertheless a shorter consultation period may apply due to the small number of stakeholders involved in a Price Extension project (often one supply chain).

5.5 Approval

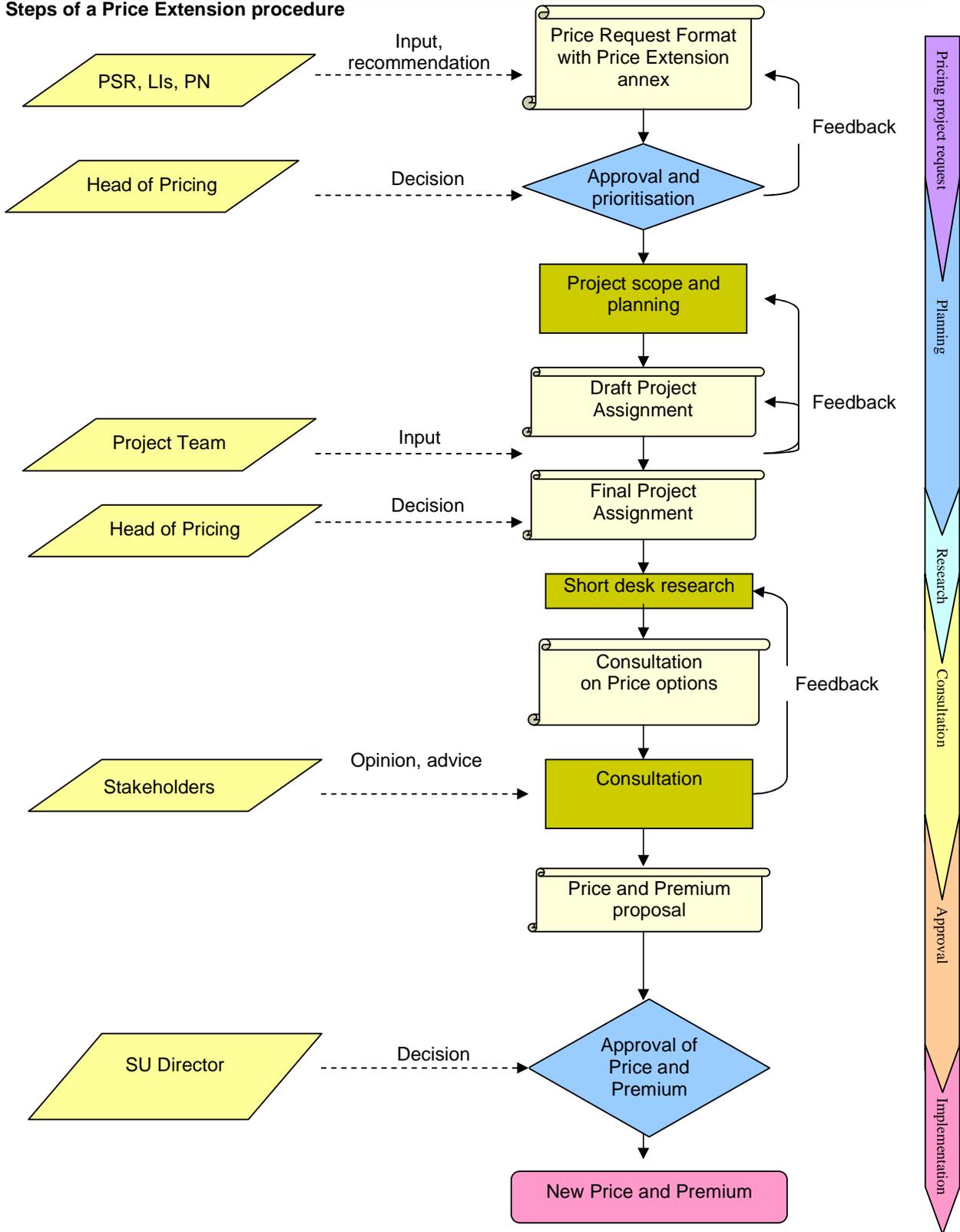
The same procedures as described in chapter 2, section 5.

5.6 Implementation of an approved Price

The same procedures as described in chapter 2, section 6.



Steps of a Price Extension procedure



6. REGULAR FAIRTRADE PRICE REVIEW USING THE EXCHANGE RATE AND CONSUMER PRICE INDEX METHODOLOGY

Introduction

The *Exchange rate and Consumer price index Methodology* is used to verify the stability of the real value (purchasing power) of FT prices in order to mitigate the negative impact of currency and price fluctuations. It might be applied in two situations:

- 1) As an **auxiliary tool** in a Full Price Research or a Price Extension procedure to assess the real value of FT prices taking into account currency and consumer price fluctuations. The E & C methodology does not replace Costs of Sustainable Production(COSP), but should be used as additional information for decision making.
- 2) As a **main tool** for *Regular Price Reviews*. It applies on a case-by-case basis on a 2-year cycle after Prices have been set through a Full Price Research and stakeholders have agreed on having Regular Price Reviews using *Exchange rate (ER)* and *Consumer price index (CPI)*. A Full Price Research (with COSP data collection) is still applied every 8 years or earlier if required.

A detailed explanation on how to implement the calculation is provided by the guidance document "*Exchange rate and Consumer price index Methodology*".

The following procedures are only used when the E&C methodology is used as a main tool in a Regular Price Review.

6.1 Submission and assessment of a Price Request

Not required to submit the *Price Request Form*. Regular Price Reviews are conducted according to terms agreed on in the Full Price Research and in accordance with the PSU work plan.

6.2 Definition of the project scope and planning

The same procedures as described in chapter 2, section 2.

6.3 Research

PSU undertakes the research. Information on currency and consumer index developments in countries producing the concerned FT product is used.

The outcome of the research phase is the preparation of a Research Internal Report where the relevant calculations are compiled and summarized. This report serves as a base for developing the Consultation Document and builds institutional memory for future consultations.



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6.4 Consultation

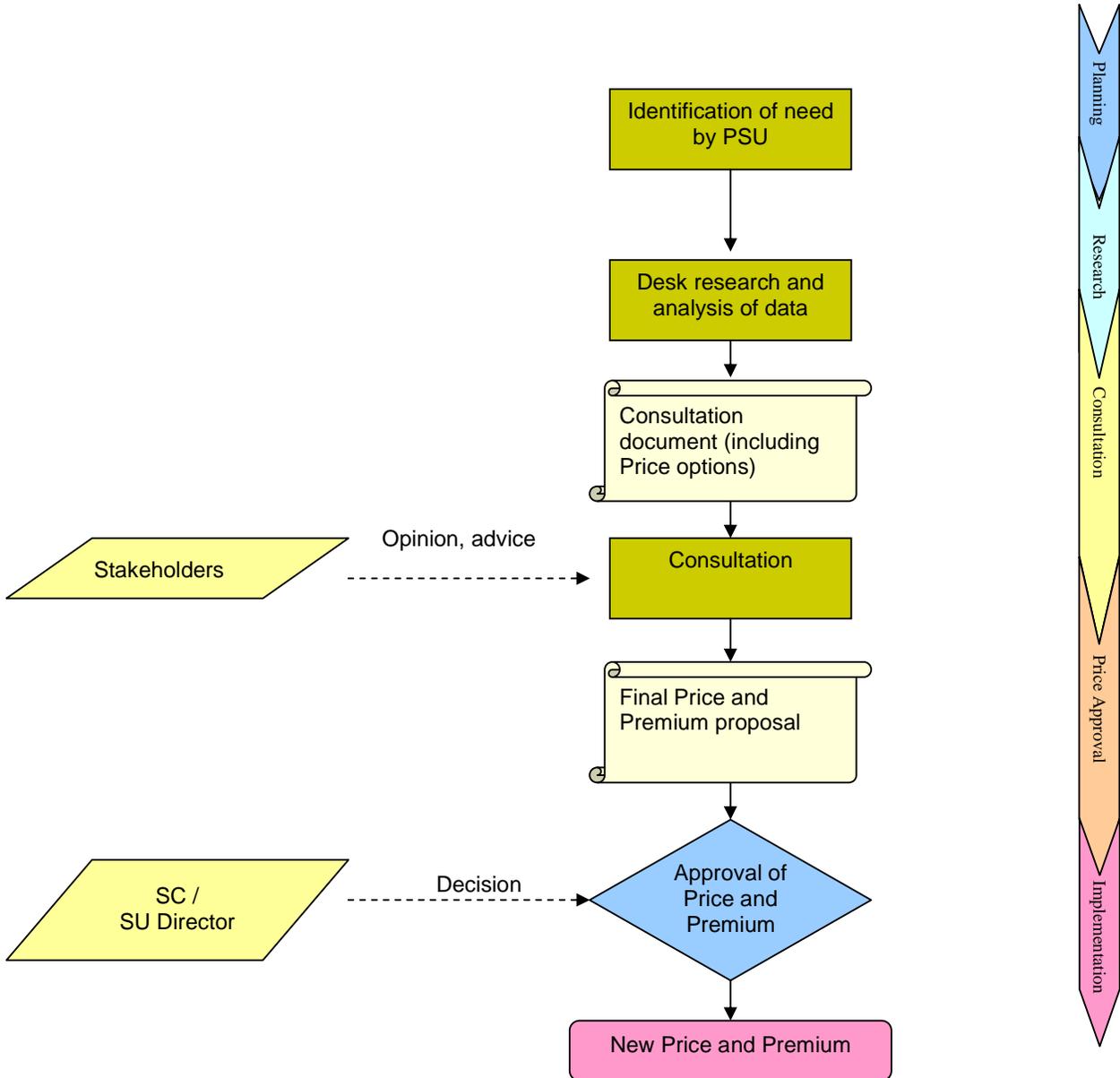
The same procedures as described in chapter 2, section 4.

6.5 Approval

The same procedures as described in chapter 2, section 5.

6.6 Implementation of an approved Price

The same procedures as described in chapter 2, section 6.



7. PRICE SUSPENSION PROCEDURE

Introduction

The SU Director and the SC can suspend an existing Price if the existence of the Price does not serve its intended purpose. This is the case when the existence of the Price has a demonstrated negative impact on producers, e.g. when a Price impedes producers' ability to trade. A Price Suspension can be considered a interim measure that shall trigger a subsequent Price review with the aim to establish a Price that serves its purpose. The following procedures apply for a Price suspension:

7.1 Submission and assessment of a Price Suspension request

A Price Suspension may be proposed to the PSU by FLO's *Producers Services and Relations Unit (PSR)*, by the *Fairtrade Producer Networks (PN)*, by LI or also by other Fairtrade stakeholders accepted by the PSU. A Price Suspension can only be requested through the submission of a *Price Suspension Request Form* addressed to standards@fairtrade.net.

The *Price Suspension Request Form* contains a justification of the need for the Price suspension and assessment of whether the need will be addressed with the Price suspension. It also outlines clear objectives of the Price suspension and includes an assessment of the risks associated with the Price suspension and how to mitigate those. A *Price Suspension Request* moreover includes a risk assessment of leaving the Price in place and a justification for the proposed date and duration of the suspension as well as a plan on how to develop a suitable Price.

The Head of Pricing – together with the SU Director if necessary – will consider the Price Suspension Request, taking into account all information provided on the *Price Suspension Request Form* as well as organizational and SU objectives. The Head of Pricing will inform the proposing party on whether the Price Suspension Request has been approved. In case a Price Suspension Request is not approved or its approval is delayed, the proposing party is informed and may decide to re-submit the Price Suspension Request to PSU at a later date.

7.2 Definition of project scope and planning

Once a *Price Suspension Request* has been approved, PSU starts with stakeholder mapping. This includes the identification of the relevant parties to the project, definition how they are going to be engaged, the way of communication and the setting of stakeholder participation targets. The project manager also checks the information provided on the *Price Suspension Request Form* and sets a time frame for the project. The outcome of this is a *Draft Proposal for Price Suspension*. This document includes the same types of information as the Price Suspension Request, but in addition informs about the process, including timelines and opportunities to contribute (including contact information) and lays out how decisions are made and who makes them.

The *Draft Proposal for Price Suspension* is published on the FLO website (www.fairtrade.net) and shared with identified stakeholders for at least 2 weeks. Interested parties can submit their feedback within two weeks from its publication by filling in the *Price Suspension Feedback Form* and emailing it to standards@fairtrade.net. The *Price Suspension Feedback Form* can be found on the website.

Based on the consultation feedback a *Draft Price Suspension Proposal* can be amended if there is a need to do so, before submitting a Final Proposal for Price Suspension for approval.

7.3 Research

This stage is not included in the Price Suspension procedure, which is considered an interim measure only.

7.4 Consultation

Apart from a consultation on the *PSU Proposal for Price Suspension* (see section 2 above), no further consultation takes place.

7.5 Approval

The *Final Proposal for Price Suspension* is submitted to the SU Director. For minor projects, the SU Director will take a decision on it, whereas for major projects the SU Director decides together with the chair of the SC who may consult the entire SC if deemed necessary.

Decisions are summarized when the Price Suspension is announced. If the *Final Proposal for Price Suspension* is approved, this implies that the Price will be suspended per the date indicated on the *Final Proposal for Price Suspension*.

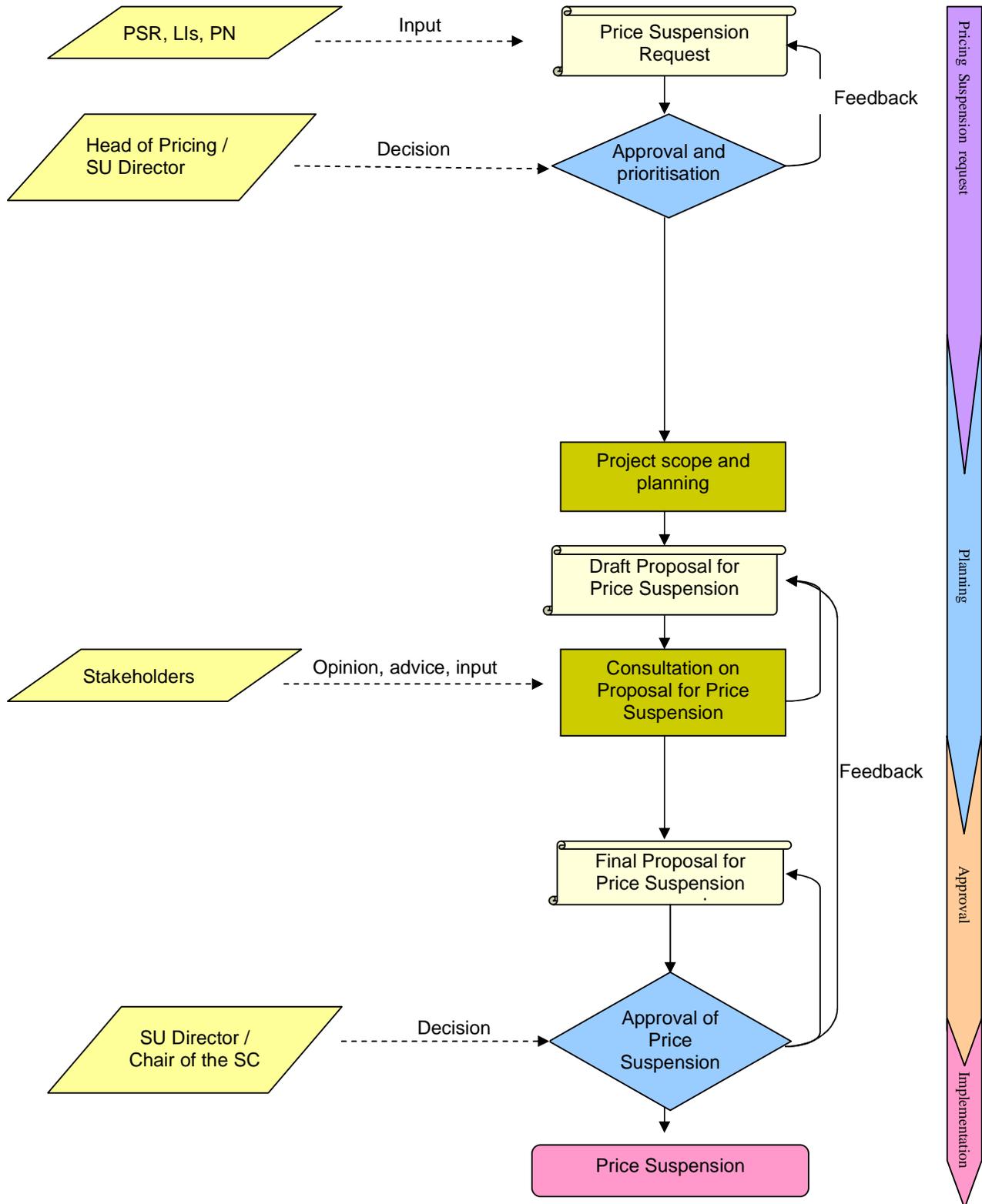
If a *Final Proposal for Price Suspension* is not approved, the SU Director will provide guidance on needed amendments or on further research required, in order for the Price Suspension to be approved.

7.6 Implementation of a Price suspension

If a Price Suspension is approved, this will be communicated to affected stakeholders and published on the FLO website. When appropriate, considerations and background papers are also shared with stakeholders. All documents produced during the project – *i.e. the Price Suspension Request Form or the Final Proposal for Price Suspension* as well as other relevant documents - are filed.



Steps of a Price Suspension procedure



8. OTHERS ISSUES

Training, Evaluation, Monitoring, Review cycle, Complaints and further information

See “*Standard Operating Procedure (SOP) Development of Fairtrade Standards*”.

Documentation

For minor FT Pricing projects documents are usually not made available publicly due to the limited relevance of those projects.

9. REFERENCES AND TEMPLATES

General reference:

- SOP Development of Fairtrade Standards

General public templates:

- SOP complaints form
- Herbs and Spices request form

Public templates used in price researches:

- Pricing project Request Form
- Project assignment
- Project assignment feedback form
- Research Package: COSP sheet, guidance document
- Consultation document
- Consultation results synopsis
- Price announcement

Additional templates specific for Easy Entrance procedures:

- Guidelines for the development of a CEP for Easy Entrance

Additional templates specific for the Exchange rate and Consumer price index methodology

- Guidance document exchange rate and consumer price index methodology

Additional templates specific for the Price Suspension Procedure:

- Price suspension request form
- Proposal for price suspension (Draft and Final version)
- Form for feedback on the draft proposal for price suspension



Abbreviations

CEP	Category Extension Paper
COSP	Costs of Sustainable Production
CPI	Consumer Price Index
ER	Exchange Rate
EXW	Ex works
FTMP	Fairtrade Minimum Price
FTP	Fairtrade Premium
FT prices	Fairtrade Prices, this term includes both prices: FTMP and FTP
FT pricing projects	Fairtrade Pricing Projects
FT producers	Suppliers of Fairtrade Products
FT products	Fairtrade Products
LI	Labelling Initiatives
PN	Fairtrade Producer Networks
PSR	Producers Services and Relations Unit
PSU	Pricing Subunit
SC	Standards Committee
SOP	Standard Operating Procedure
SSU	Standards Subunit
SU	Standards Unit
SU Director	Standards Unit Director
Standards	Fairtrade Standards



Annex 1: Costs of Sustainable Production sheet

 Cost of Sustainable Production Sheet			
Date:		Production cycle in years:	
Agricultural period reported:			
Name of Fairtrade certified producer:			
Last step as undertaken in the marketing chain:			
Country:			
Product:			
For exportation or transformation/processing:		Conventional or Organic:	
Yield in metric ton per hectare:		Exchange rate from \$ to Local currency:	
	Cost per hectare	Cost per metric ton	Additional information
1. Establishment costs (initial investment)			
1.1 Labor			<small>Note: Indicate the number of man-days and the wage per man-day for each category of salary. In the case of permanent hired labor, report the salary, period paid and additional government benefits.</small>
1.2 Inputs and services			
1.3 Capital and investments			
2. Field operation costs			
2.1 Labor			<small>Note: Indicate the number of man-days and the wage per man-day for each category of salary. In the case of permanent hired labor, report the salary, period paid and additional government benefits.</small>
2.2 Inputs and services			
2.3 Capital and investments			
3. Harvest and post harvest costs			
3.1 Labor			<small>Note: Indicate the number of man-days and the wage per man-day for each category of salary. In the case of permanent hired labor, report the salary, period paid and additional government benefits.</small>
3.2 Inputs and services			
3.3 Capital and investments			
4. Transformation and/or processing costs (if applicable)			
4.1 Labor			<small>Note 1: Indicate the number of man-days and the wage per man-day for each category of salary. In the case of permanent hired labor, report the salary, period paid and additional government benefits.</small>
4.2 Inputs and services			<small>Note 2: Indicate if the transformation and/or processing costs are incurred at the central structure (umbrella organization) level or at the individual producer level (which applies only to small producers' organizations or contract production cases). In the case of companies, the central structure should report these costs.</small>
4.3 Capital and investments			
5. Product preparation and/or packaging costs (if applicable)			
5.1 Labor			<small>Note: Indicate the number of man-days and the wage per man-day for each category of salary. In the case of permanent hired labor, report the salary, period paid and additional government benefits.</small>
5.2 Inputs and services			
5.3 Capital and investments			
6. Central structure costs (costs of umbrella organization)			
6.1 Labor			<small>Note: Indicate the number of man-days and the wage per man-day for each category of salary. In the case of permanent hired labor, report the salary, period paid and additional government benefits.</small>
6.2 Inputs and services			
6.3 Capital and investments			
6.4 Certification costs			
6.5 Business Margin			
Total 1 + 2 + 3 + 4 + 5 + 6 = Value at "EX WORKS"	0.00	0.00	
7. Export costs			
7.1 Transport			
7.2 Insurance			
7.3 Taxes, terminal fees and commissions			
7.4. Other costs			
TOTAL 1 + 2 + 3 + 4 + 5 + 6 + 7 = Value at "FOB"	0.00	0.00	