



FAIRTRADE LABELLING ORGANIZATIONS INTERNATIONAL

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# FAIRTRADE STANDARDS

FOR  
**Cocoa**

FOR

**Small Producers' Organizations**

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**Period for stakeholders' comments and enquiries on this new version:**  
**Not applicable**

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**For further information and standards downloads:**  
**[www.fairtrade.net/standards.html](http://www.fairtrade.net/standards.html)**

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<b>PART A Generic Fairtrade Standards for Small Producers' Organizations</b>
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Refer to the generic standard for Small Producers' Organizations as a separate document as updated by FLO on its website. Note that the following parts B and C are only applicable in connection with the generic standard.

<b>PART B Product Specific Standards for Cocoa</b>	<b>3</b>
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The product specific standards for cocoa apply to all products and countries for which a Fairtrade price and/or premium is set in part C below.

<b>1</b>	<b>Social Development</b>	<b>3</b>
<b>2</b>	<b>Economic Development</b>	<b>3</b>
<b>3</b>	<b>Environmental Development</b>	<b>3</b>

<b>PART C Trade Standards for Cocoa</b>	<b>4</b>
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## **PART B Product Specific Standards for Cocoa**

### **1 Social Development**

There are no additional social standards specific to cocoa producers.

### **2 Economic Development**

There are no additional economic standards specific to cocoa producers.

### **3 Environmental Development**

There are no additional environmental standards specific to cocoa producers.

# **PART C Trade Standards for Cocoa**

## **1. Product Description**

Cocoa is the fermented and dried whole seed of the cocoa tree (*Theobroma cocoa*).

## **2. Scope**

These standards cover the purchase and sale of cocoa beans in their primary form (raw) as well as the purchase and sale of cocoa butter, cocoa liquor and cocoa powder when transformed in the country of origin. For the sections under certification and traceability (only), the standards also cover any processed products and derivatives.

## **3. Certification**

There are no additional requirements.

## **4. Traceability**

There are no additional requirements. All applicable requirements regarding traceability and mass balance are included in the Generic Trade Standards (GTS).

## **5. Contracts**

Producers and buyers must agree in the contract on the cocoa reference market price used ('Liffe' or 'ICE').

## **6. Sustaining Trade**

Sourcing plans must cover each harvest. Sourcing plans must be renewed a minimum of three months before they expire.

## **7. Pre-finance**

On request from the producer, the Fairtrade payer must make available up to 60% of the value of the contract as pre-finance to the producer at any time after signing the contract. The pre-finance must be made available at least six weeks prior to shipment, if requested.

## **8 Pricing**

### **8.1 Minimum Price and Premium for cocoa beans**

Fairtrade Minimum Prices and Fairtrade Premium levels for Fairtrade products are published separately to the product standards.

When the relevant market price for a product is higher than the Fairtrade Minimum Price, then at least the market price must be paid.

The cocoa reference market price shall be based on the Liffe Administration and Management ('Liffe') Cocoa Futures Contract or on the Intercontinental Exchange Futures US ('ICE') Cocoa Futures Contract<sup>1</sup>. If the producer is not responsible for certain costs included in the reference market price, such costs may be deducted from the price paid to the producer, according to the rules of section 6.5 of the GTS.

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<sup>1</sup> Links: for a quick reference: [www.icco.org](http://www.icco.org). More information can be obtained via: ICE: [www.theice.com](http://www.theice.com) or LIFFE: <http://www.euronext.com/landing/liffeLanding-12601-EN.html>

## 8.2 Minimum price for cocoa semi-processed products purchased from certified producers

The seller (i.e. producer) and buyer must negotiate the price of the semi-processed product. This negotiated price must be based on, at least, the cocoa beans **reference values** of USD 1750/MT (for conventional) and USD 2050/MT<sup>2</sup> (for organic) at producers' level **plus all relevant processing costs**.

When the relevant market price for a product is higher than the above mentioned reference values, then at least the market price must be paid.

The cocoa reference market price shall be based on the Liffe Administration and Management ('Liffe') Cocoa Futures Contract or on the Intercontinental Exchange Futures US ('ICE') Cocoa Futures Contract. If the producer is not responsible for certain costs included in the reference market price, such costs may be deducted from the price paid to the producer, according to the rules of section 6.5 of the GTS.

In all cases traders should demonstrate that they are paying a price that covers at least the costs of production and processing of the producer.

## 8.3 Premium for cocoa semi-processed products purchased from certified producers

The value of the Fairtrade Premium for semi-processed products is derived from the average processing yield calculated by the producer (see examples below). Only if this information is not available to the producer the following values apply:

	<i>Processing yield from beans<sup>3</sup></i>	<i>Fairtrade Premium</i>
<i>Beans</i>	-	<i>USD 200/MT</i>
<i>Liquor</i>	0.8	<i>USD 250/MT</i>
<i>Butter</i>	0.376	<i>USD 530/MT</i>
<i>Powder</i>	0.424	<i>USD 470/MT</i>
<i>Butter and Powder</i>	(0.8)	<i>USD 250/MT</i>

The Fairtrade Premium for semi-processed products is subject to the same rules as any other Fairtrade Premium and follows section 6.2 of the Generic Trade Standards.

### Calculation examples of FTMP and FTP for conventional cocoa liquor, butter and powder:

The value of the FTMP and FTP are calculated using the processing yield from beans presented in the table above.

#### 1. Semi-processed products purchased under different contracts<sup>4</sup>:

According to the table above, one metric ton of cocoa beans is necessary to produce 0.8 metric ton of liquor. The costs of one metric ton of liquor correspond therefore to 1.25 metric ton of cocoa beans (cost of cocoa beans divided by 0.8) plus the processing costs for producing the liquor.

<sup>2</sup> The reference prices of USD 1750/MT for conventional and USD 2050/MT for organic at EXW level are based on the Fairtrade Minimum Prices at FOB level minus USD 250 for average export costs.

<sup>3</sup> The processing yield gives the quantity of semi-processed product obtained from 1 unit of cocoa beans.

<sup>4</sup> 'Under different contracts' in this case refers to different times when the two products are negotiated and agreed to be delivered, rather than one or two pieces of paper.

Example: Assuming a cost of raw material of USD 1750/MT<sup>5</sup> for conventional beans at producers level and assuming<sup>6</sup> a cost of USD 550/MT for processing, the FTMP can be calculated as shown below:

- $FTMP \text{ liquor} = (1750 / 0.8) + 550 = \text{USD } 2738/\text{MT}$

The FTP is calculated by dividing the FTP for conventional cocoa beans by the processing yield of beans:

- $FTP \text{ liquor} = 200 / 0.8 = \text{USD } 250/\text{MT}$

The same calculation applies to butter and powder when purchased separately. Assuming a cost of USD 700 for producing one metric ton of powder and butter, values are as follows:

- $FTMP \text{ butter} = (1750 / 0.376) + 700 = \text{USD } 5354/\text{MT}$
- $FTMP \text{ powder} = (1750 / 0.424) + 700 = \text{USD } 4827/\text{MT}$

The FTP is calculated by dividing the FTP for conventional cocoa beans by the processing yield of beans:

- $FTP \text{ butter} = 200 / 0.376 = \text{USD } 532/\text{MT}$
- $FTP \text{ powder} = 200 / 0.424 = \text{USD } 472/\text{MT}$

## 2. Semi-processed products purchased under the same contract<sup>7</sup>

When two products are purchased under the same contract, the processing costs should be calculated only once. However, these products must be purchased using the processing proportions. See the second example for clarification.

The two examples below show how the calculation to obtain FTMP and FTP values should be done.

**First example:** The buyer buys 1 MT of butter and 1.12 MT of powder together which correspond to the same processing proportions. Assuming a cost of USD 700 for producing one metric ton of powder and butter, values are as follows:

- $FTMP \text{ powder and butter} = \{(1+1.12)*1750\}/0.8 + \{(1+ 1.12)*700\} = \text{USD } 6122$

$1+1.12 =$  total quantity of end product in the processing proportions

$0.8 =$  Processing ratio when both butter and powder are bought together

$(1+1.12)/0.8 =$  Quantity of beans necessary to obtain 1 MT of butter and 1.12 MT of powder

$1750 =$  Ex Works FTMP for cocoa beans

$(1+1.12)/0.8*1750 =$  Money that producer should receive to cover the cost of their beans.

$(1+1.12)*700 =$  Processing cost

- $FTP \text{ powder and butter} = (1+1.12)*250 = \text{USD } 530$

**Second example:** The buyer buys 2 MT of butter and 1.12 MT of powder, i.e. not in the processing proportions (on average for 1MT of butter produced, 1.12 MT of powder is produced). In addition to

<sup>5</sup> In the calculation example the reference values of 1750 USD/MT for conventional beans EXW was used. However, when the relevant market price for a product is higher than the reference values then at least the market price must be paid (and would have to be used in the calculations).

<sup>6</sup> The processing costs are only assumed to be at a certain level for the example. In practice all relevant actual processing costs of the producer will have to be used in the calculations.

<sup>7</sup> 'Under the same contract' refers to both products being part of one deal and agreed to be delivered at the same moment. The reasoning is that thereby the producer can deliver powder and butter from the same batch of processing.

*the total cost above for one MT of butter and 1.12 MT powder the buyer will have to pay for the 1 extra metric ton of butter:*

- $FTMP \text{ butter} = 1750/0.376 + 700 = \text{USD } 5354/\text{MT}$
- $FTP \text{ butter} = \text{USD } 530 / \text{MT}$

*So in total for the 2MT of butter and 1.12 MT of powder:*

- $FTMP = 6122 + 5354 = \text{USD } 11476$
- $FTP = 530 + 530 = \text{USD } 1060$

#### **8.4 Payment terms for all cocoa products <sup>8</sup>**

Payment shall be **net cash** against a full set of documents on first presentation. The documents to be presented will be those stipulated in the contract and customary in the cocoa trade.

Late payment

For contracts involving Fairtrade payers and producers, payment must be made according to international customary conditions, and no later than 15 days after the receipt of the documents transferring ownership.

For contracts involving Fairtrade payers, producers and conveyors, conveyors must pay producers no later than 15 days after receipt of the payment from the Fairtrade payer.

### **9. Other producer requirements**

There are no additional requirements.

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<sup>8</sup> This includes cocoa beans as well as cocoa semi-processed products