

Premium Announcement: Coconut Premium Review

Summary of Consultation

June 1, 2015

Background:

In 2013, Fair Trade USA launched our Fair Trade coconut program with the Fair Trade Premium rate established as 10% of the commercial price paid per whole coconut at farmgate (applied to coconuts for processing). Fair Trade USA regularly reviews premium rates, as part of our standard-setting procedure, and also when we identify externalities that we believe will affect our producer and industry partners.

One year from the program launch, Fair Trade USA initiated a review of this Premium rate. As a part of this review, Fair Trade USA proposed that updating the current Premium rate from a percentage of coconut price to a flat-rate per metric ton of coconut (and coconut palm) by-product¹ would serve to optimize impact for farmers, simplify operational implementation, and improve transparency as we expand our coconut certification program to reach more farmers.

Specifically, Fair Trade USA proposed the following Premium rate options per by-product category:

Proposed Premium/MT (by-product volume)			
By-product Category	Option 1	Option 2	Option 3
Water	\$ 40	\$ 60	\$ 80
All Other	\$ 90	\$ 140	\$ 180

Consultation:

In addition to publishing notice of this Premium Review on our website and inviting public commentary, Fair Trade USA held consultations with key stakeholders including current and prospective Fair Trade producers and current and prospective Fair Trade coconut buyers (importers, manufacturers, brands, and retailers) in order to incorporate their feedback on (1) this new model and (2) which rate option would be both impactful and viable in the market.

A summary of the feedback received is as follows:

- *Flat-rate per Metric Ton of By-Product Premium Model:*
 - Industry Stakeholders appreciated the transparency of this model, as it brings significant clarification to their costs and allows them to better plan their Fair Trade commitments
 - Producer Stakeholders appreciated the simplification of this model, which removes significant complexity from the operational implementation of Premium.
- *Premium Rate Options:*
 - Most industry stakeholders projected that Option 1 would allow them to:
 - Source and sell on Fair Trade terms, where previously non-viable, and/or

¹ This applies to producers that are organized under a certificate holder where processing takes place within the scope of the Fair Trade certificate. See Appendix A for more detail.

- Expand their current Fair Trade commitment to additional SKUs, and/or
- Expand sales of Fair Trade products to additional channels
- Current and prospective producer stakeholders also projected that Option 1 would make it most viable for them to:
 - Maintain and expand their current or projected Fair Trade sales

Results:

In light of this feedback, Fair Trade USA has decided to update the Fair Trade Premium within the coconut category to the flat-rate per metric ton of by-product model and has selected Rate Option 1².

By-product Category	Option 1
Water	\$ 40
All Other	\$ 90

Fair Trade USA has made this decision after analyzing all the stakeholder input and assessing which option was most likely to extend the benefits of Fair Trade to more coconut farmers while maintaining significant impact for currently certified farmers. However, Fair Trade USA will continue to monitor and review the impact of this Fair Trade Premium model and may revisit and potentially reset the rates if this change is not having the intended benefits. Fair Trade USA may also review individual by-products that currently fall within the “All Other” category in order to set specific rates, as necessary.

Implementation:

The effective date for all new contracts will begin on July 1³. Contracts already in effect between producers and buyers on July 1 should be fulfilled as previously negotiated.

² See Appendix 1 for detail on the Fair Trade Premium Rates by by-product.

³ See Appendix 2 for guidance on implementation.

Appendix 1 – Fair Trade USA Coconut Premium Terms

Product	Product Form	Product Characteristic	Quality	Country / Region	Inco Term Level	Special Price Terms	Unit	Quantity	Currency	Fair Trade Minimum Price	Fair Trade Premium	Relevant Market Price	Effective Date
Coconut	Processed By-products	All by-products of the coconut and coconut palm tree, unless otherwise noted	Conventional / Organic	World-wide	FOB		MT(or equivalent unit)	1	USD	Commercial price	90		7/1/2015
Coconut	Processed By-products	Coconut Water	Conventional / Organic	World-wide	FOB		MT (or equivalent unit)	1	USD	Commercial price	40		7/1/2015
Coconut	Processed By-products	Coconut Water Concentrate	Conventional / Organic	World-wide	FOB		MT (or equivalent unit)	1	USD	Commercial price	40*Conversion Rate from Coconut Water		7/1/2015
Coconut	Whole coconut for processing	Whole brown nut	Organic	World-wide (except Pacific)	EXW		Whole brown nut	1	USD	\$0.15	\$0.02		7/1/2015
Coconut	Whole coconut for processing	Whole brown nut	Conventional	World-wide (except Pacific)	EXW		Whole brown nut	1	USD	\$0.14	\$0.02		7/1/2015
Coconut	Whole coconut for processing	Whole brown nut	Organic	Pacific	EXW		Whole brown nut	1	USD	\$0.09	\$0.01		7/1/2015
Coconut	Whole coconut for processing	Whole brown nut	Conventional	Pacific	EXW		Whole brown nut	1	USD	\$0.08	\$0.01		7/1/2015

Appendix 2 – Implementation Guidance

By-Product Categories:

Coconut Water

The rate for coconut water concentrate is the ‘Water’ rate (\$40) per MT multiplied by the processor’s conversion factor of water to concentrate.

All Other

This category includes all by-products produced from the white meat of the coconut (including but not limited to all versions of coconut oil, desiccated, flour, milk, cream, etc.) as well as all by-products produced from the coconut palm (including but not limited to coconut sugar, sap, husk, shell, etc.). Fair Trade USA may, in the future, review individual by-products that currently fall within the “All Other” category in order to set specific Fair Trade Premium rates, as necessary.

Premium Calculation

Premium Conveyor

The certified producer is the “premium conveyor” and is responsible for calculating the Fair Trade Premium due on Fair Trade sales. The certified producer’s contracts with their Fair Trade buyers (“premium payers”) should clearly stipulate the terms of the Fair Trade Premium to ensure correct terms and payment.

Calculation

Premium should be calculated and charged on all by-products sold on Fair Trade terms, regardless of whether or not they were produced from the same processing batch as another Fair Trade by-product.

The premium rate per metric ton should be applied to product based on the total amount of coconut by-product in the product. For example, for 1 metric ton of a 50/50 coconut water and juice blend, the premium due would be equal to 50% of the ‘Water’ rate or \$20.

Units

By-products units should be converted to metric tons to calculate premium.

- For coconut water, Fair Trade USA recognizes 1 liter of coconut water as equal to 1 kilogram.
- For other liquid volumes, the “premium conveyor” should convert to metric tons using the corresponding density of the by-product.