

Pricing and Trading Models Panel

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Project
Manager,
Nespresso

Anti Trust Statement

As participants in this group, we need to be mindful of constraints of antitrust laws. During both the formal and informal parts of this meeting, participants shall not enter into discussions, agreements or concerted action that may have as their object or effect the restriction of competition. This prohibition covers the exchange of competitively sensitive information including, but not limited to, information concerning individual prices, production, sales, capacities, costs, rates, coverages, market practices, claims settlement practices, company level investments, or any other competitive aspect of an individual company's operation.

Each participant is obliged to speak up immediately for the purpose of preventing any discussion falling outside these bounds.

Thank you!

Pricing and Trading Models

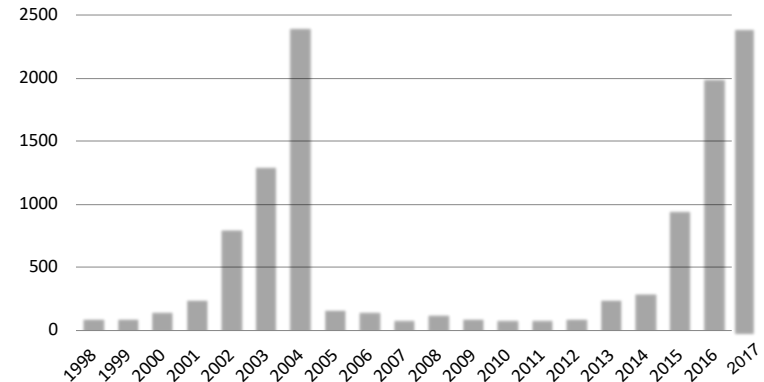
Volatility and long periods of **low price** impacts income and can deter investment.

Commodities differ. Cocoa and coffee are both facing a low price market, while vanilla is at a peak price moment.

Goals with pricing models can be very diverse – and have to work within business models, e.g

- greater **stability**
- **ROI** to incentive farmer investments
- price relative to **cost of production**
- returns relative to **cost of living**

Natural Vanilla is a highly volatile market with two major modes



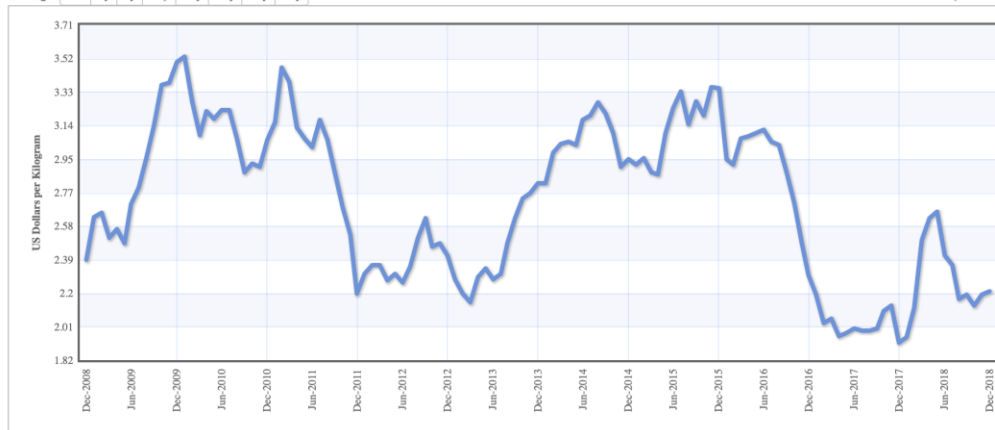
Madagascar cured vanilla price, indexed to 1998 = 100.

Driving sustainability in the vanilla supply chain

Cocoa beans Monthly Price - US Dollars per Kilogram

Range 6m 1y 5y 10y 15y 20y 25y 30y

Dec 2008 - Dec 2018: -0.180 (-7.53 %)



Description: Cocoa (ICCO), International Cocoa Organization daily price, average of the first three positions on the terminal markets of New York and London, nearest three future trading months.

A wide range of instruments exist

Objective	Producer led	Supply chain led	Sector led
Price stabilization	<ul style="list-style-type: none"> • Crop insurance • Risk based financing • Hedging 	<ul style="list-style-type: none"> • Long term contracting • Fixed pricing • Minimum prices • Cost plus pricing • Strategic buffer stock management • Insurance 	<ul style="list-style-type: none"> • Minimum prices • Fixed prices • Price stabilization funds • Strategic buffer stock management
Increased farmer value capture (net income)	<ul style="list-style-type: none"> • Stock management (e.g. warehouse receipt system) 	<ul style="list-style-type: none"> • Quality premiums • Sustainability premiums • Direct sourcing • Input subsidies / investment support • Guaranteed market uptake 	<ul style="list-style-type: none"> • Minimum prices • Fixed prices • Input subsidies / investment support • Guaranteed purchase systems • Production/export/import quota, taxes or subsidies • Exit incentives • Income subsidies / deficiency payments
Increased market efficiency			<ul style="list-style-type: none"> • Price discovery mechanisms • Market information systems



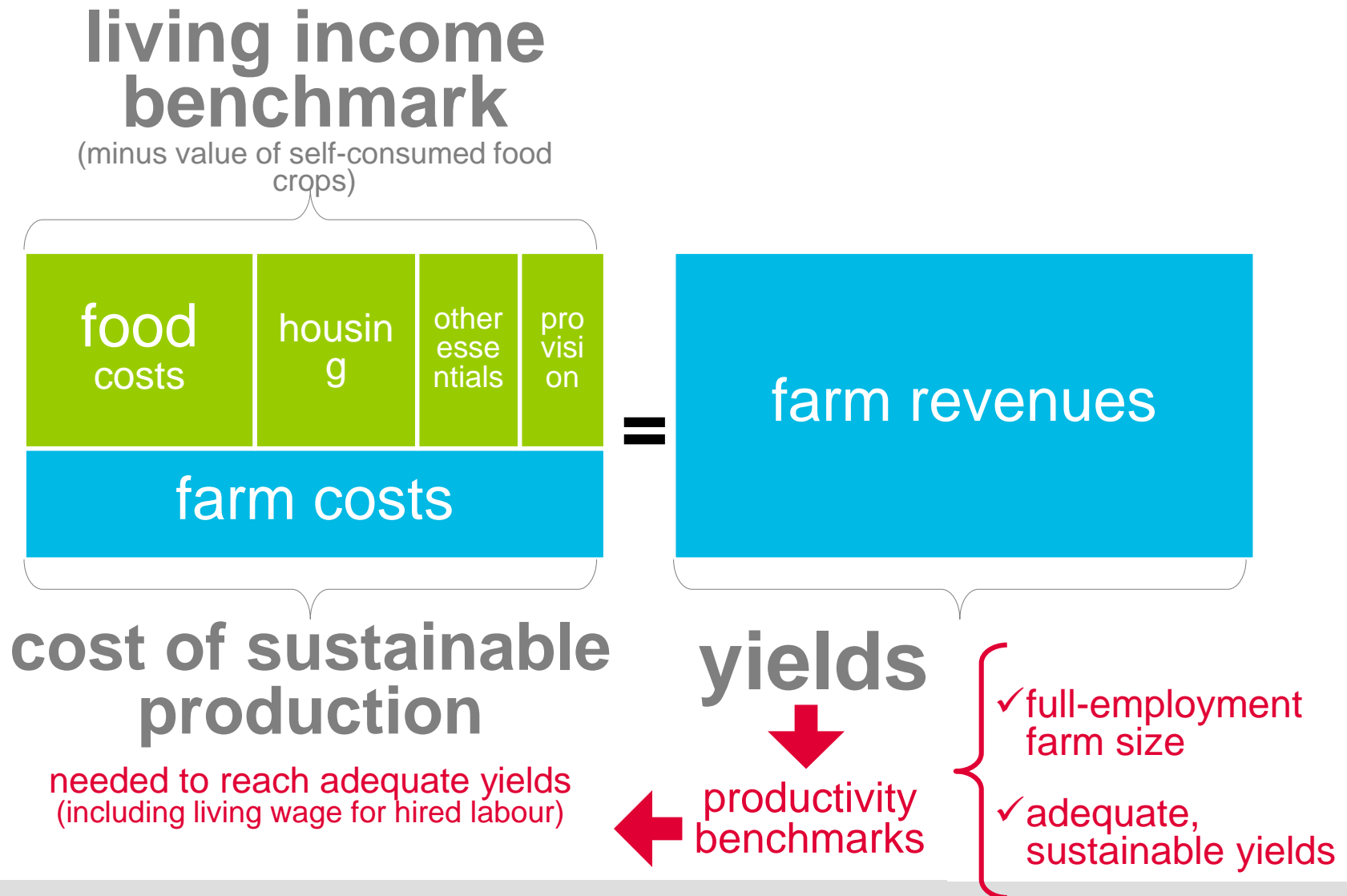
sustainable pricing

Sustainable pricing is a critical component of Fairtrade's holistic Living Income Strategy, based on the establishment of a **Living Income Reference Price** by which an average farmer household with a full-employment farm size and an adequate productivity level can earn a living income.

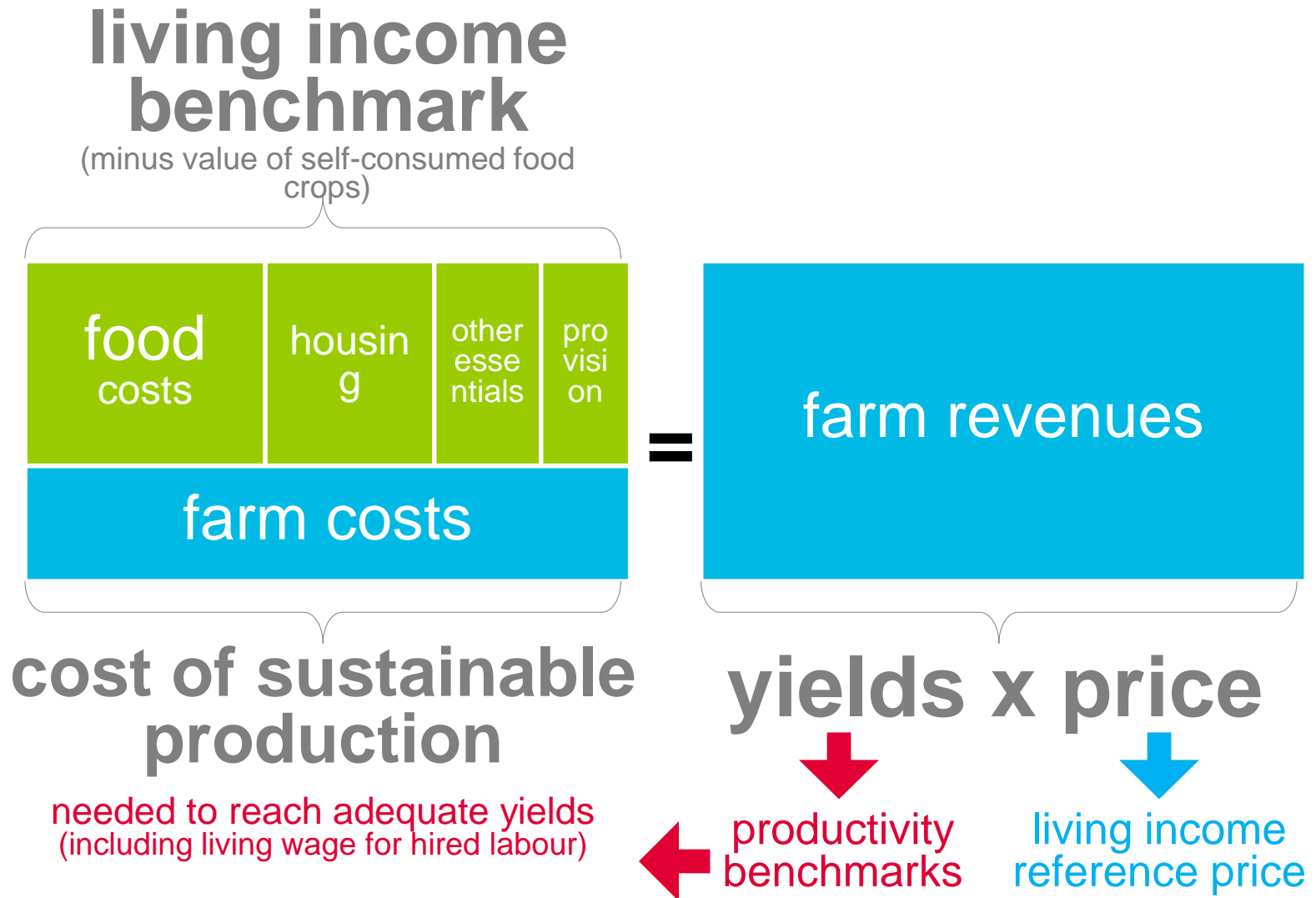
The reference price is a **multiple purpose tool** for:

- Awareness raising
- Informing pricing strategies
- Basis for industry discussions on sustainability
- Advocacy for enabling policy environment

the equation



the equation



preliminary LIRP Côte d'Ivoire

living income benchmark

(minus value of self-consumed food crops)

- living income CDI: US\$2.5 pppd
- household size: 8p
- in-kind income: US\$600/yr

sources: LCoP benchmark study, KIT and own research.

$\$7300 - \$600 =$
\$6700

\$2265

=

\$8965

cost of sustainable production

- COSP: US\$432/ha x 5.25ha
- hired labour at Living Wage: US\$9.25/day

sources: New Foresight, own research and consultation.

productivity benchmark

4,2ha x 800kg =
3360kg

- feasible sustainable yields: **800kg/ha**
- full-employment farm size: **5.25ha** with 2.7 FTE
- 1/5th under rehabilitation

sources: New Foresight, own research and consultation.

preliminary LIRP Côte d'Ivoire

living income benchmark

(minus value of self-consumed food crops)

$$\$7300 - \$600 = \$6700$$

\$2265

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cost of sustainable production

needed to reach adequate productivity

productivity benchmark × living income reference price

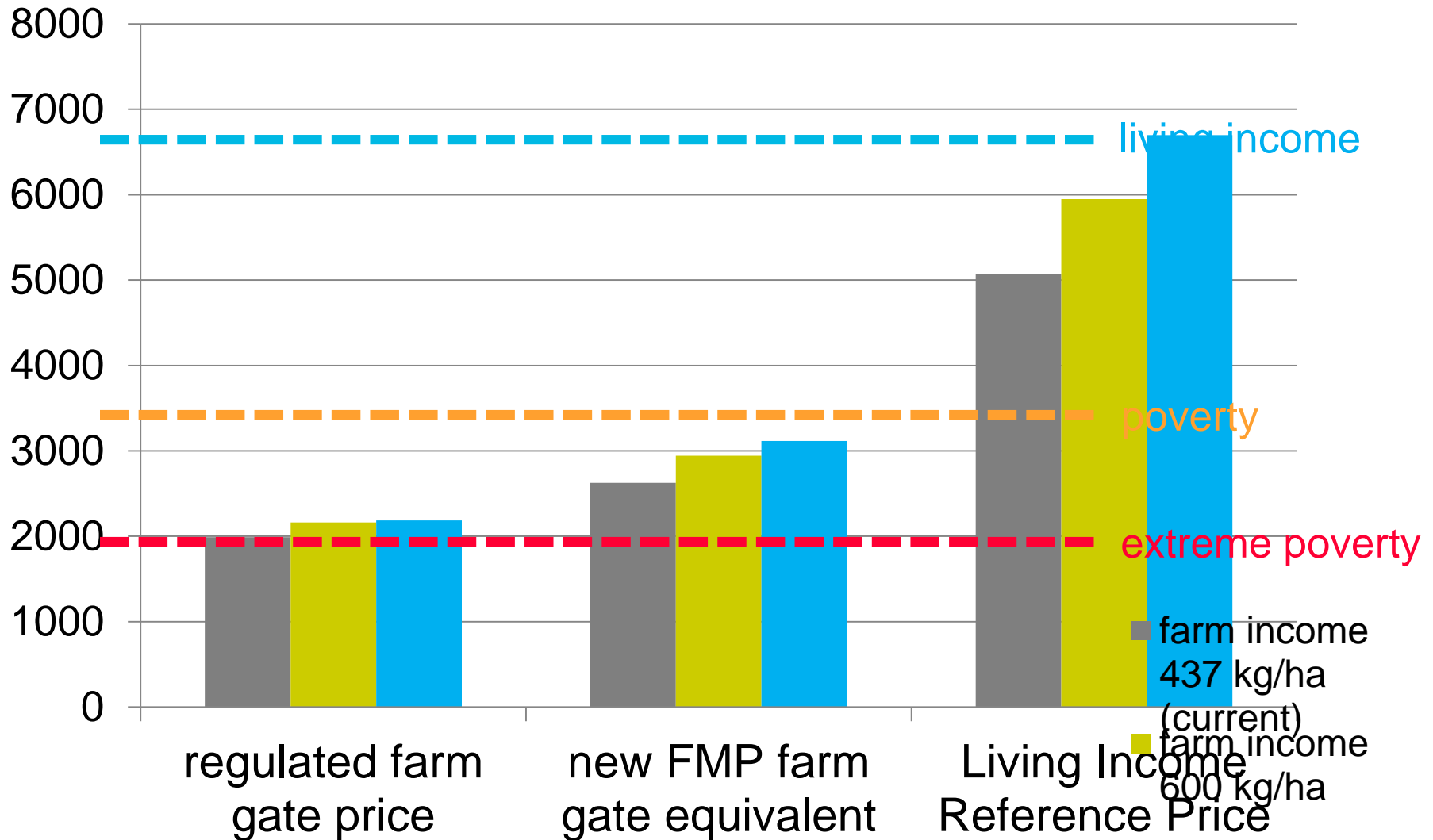
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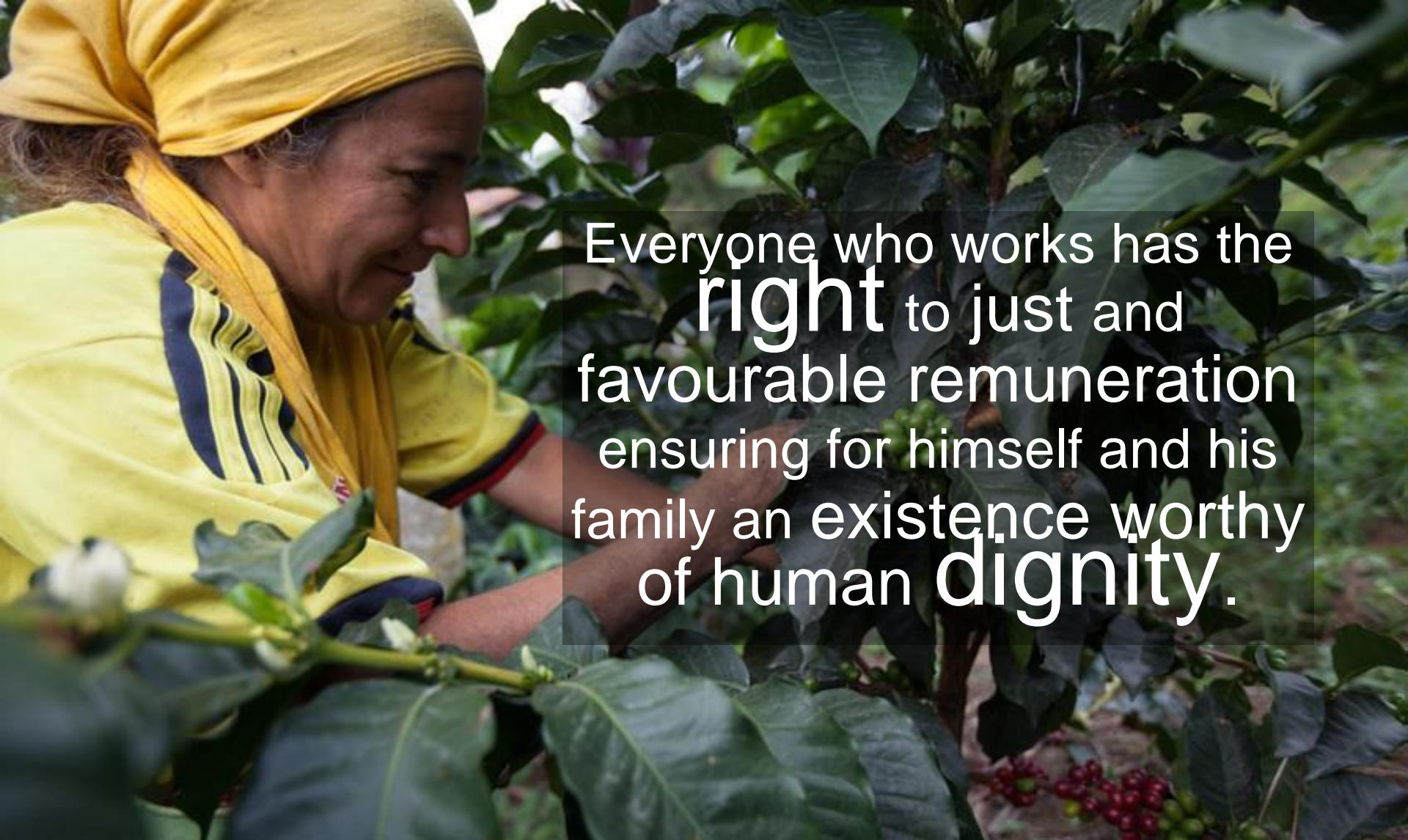
$$4,2\text{ha} \times 800\text{kg} = 3360\text{kg}$$

↓

\$2668

income scenarios Côte d'Ivoire





Everyone who works has the
right to just and
favourable remuneration
ensuring for himself and his
family an existence worthy
of human **dignity**.



unequally divided





start 2005

create awareness

start 2012

lead by example

**the sooner,
the better**

inspire to act

accountability

credibility





**Beyond
Certification**

**= Living income
reference price**

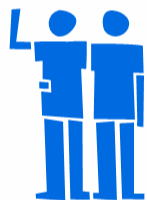
= 5 year contract



**A HIGHER
PRICE**



**TRACEABLE
COCOA BEANS**



**STRONG
FARMERS**



**IMPROVED
PRODUCTIVITY
AND LESS DEPENDENCY
ON COCOA**



**THE
LONG-TERM**

**= full bean to bar
traceability (incl.
traceable butter)**

**= CLMRS for
all farmer
households**



Determine and Pay (since 2013): Living income supporting Cocoa price

* Tony's Additional farmer premium (1819)

what does a cocoa farmer get in 18/ 19?

	FGP	FT premium	Tony's	totaal	
CdI	1328	200	318	1846 USD/kg	39% bovenop FGP
Ghana	1570	200	260	2030 USD/kg	29% bovenop FGP

* Coop administration premium (1819)
= 70 USD/MT

Challenges



- Get full premium from cooperatives to farmer
 - in cash or in kind IF directly reducing production costs/ adding to Living income
 - Timing of premium (considered a bonus, not part of LI)
- Productivity increase (to 800kg/ha)
- Limit risk of inward selling
- Monitoring long term impact
- Ensure compliance with 5 SP's with mission allies

BACK IN 2003, WE CO-CREATED THE AAA PROGRAM WITH THE RAINFOREST ALLIANCE IN ORDER TO

- ✓ **Secure** sourcing of highest quality coffees
- ✓ Support improvement of **farmers' livelihoods**
- ✓ Strengthen landscape **resilience & adaption** to climate change
- ✓ Enable **product innovation** to delight consumers



Farms



Communities



Landscapes

OVER THE PAST 15 YEARS, THE AAA PROGRAM HAS EXPANDED TO 12 COUNTRIES

441
agronomists

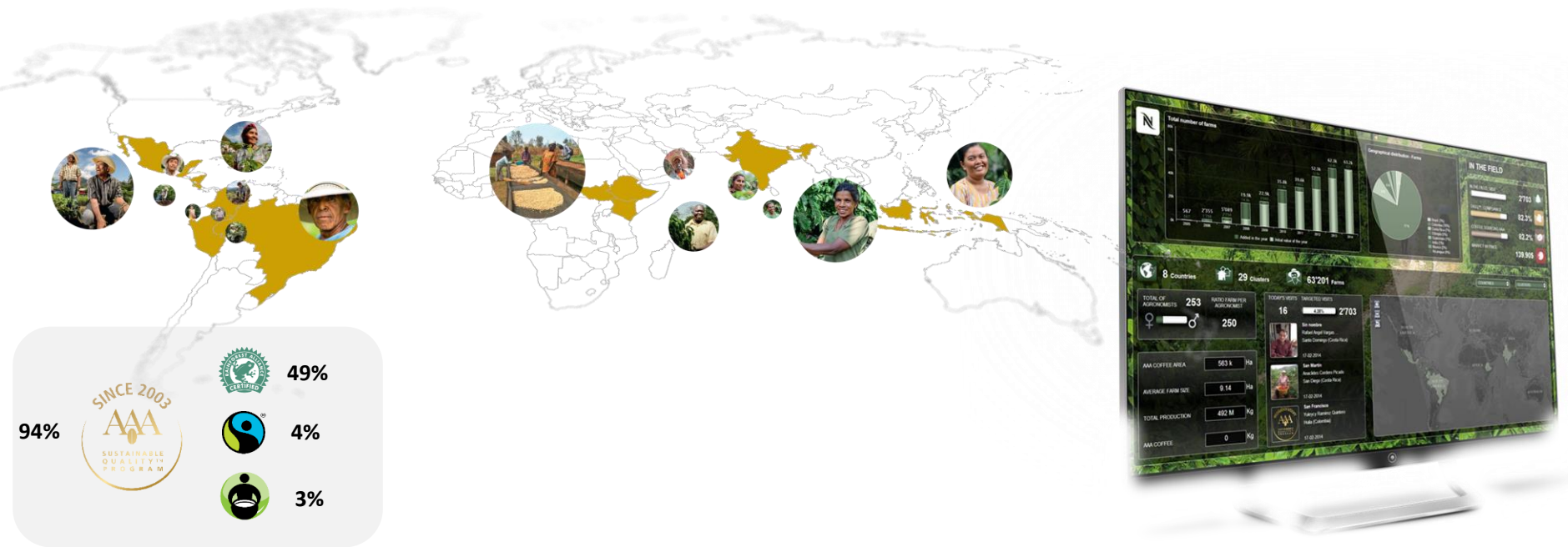
>76'000
farmers

~18'000
Certified Farms

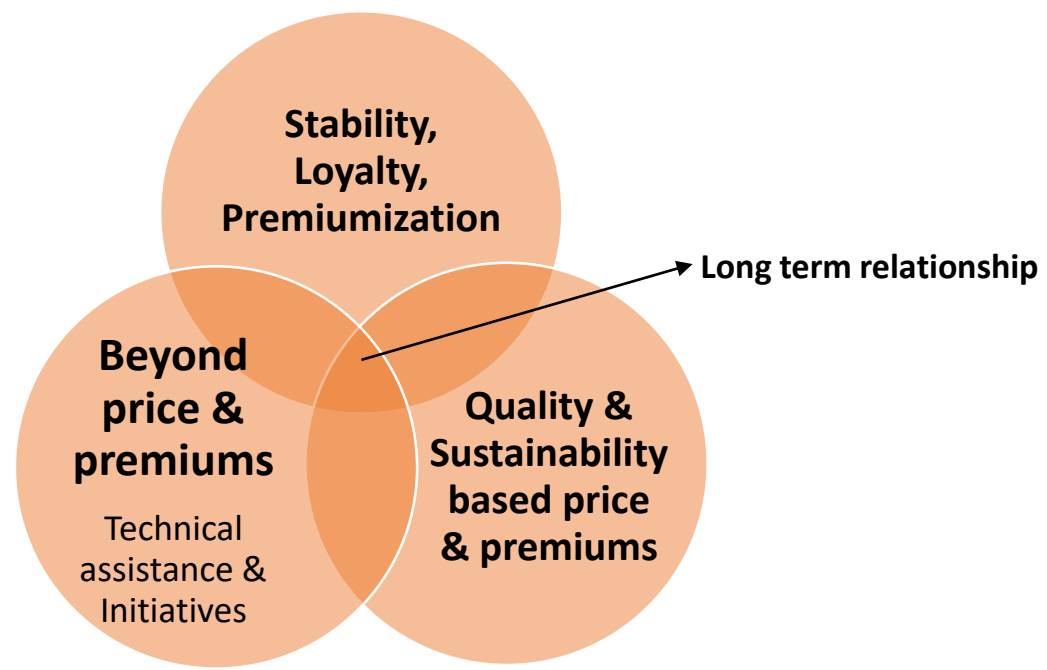
>287'000
AAA coffee
hectares

165'000
farmer contacts
in 2017

>40 partners



Three step approach towards creating more value for the farmers



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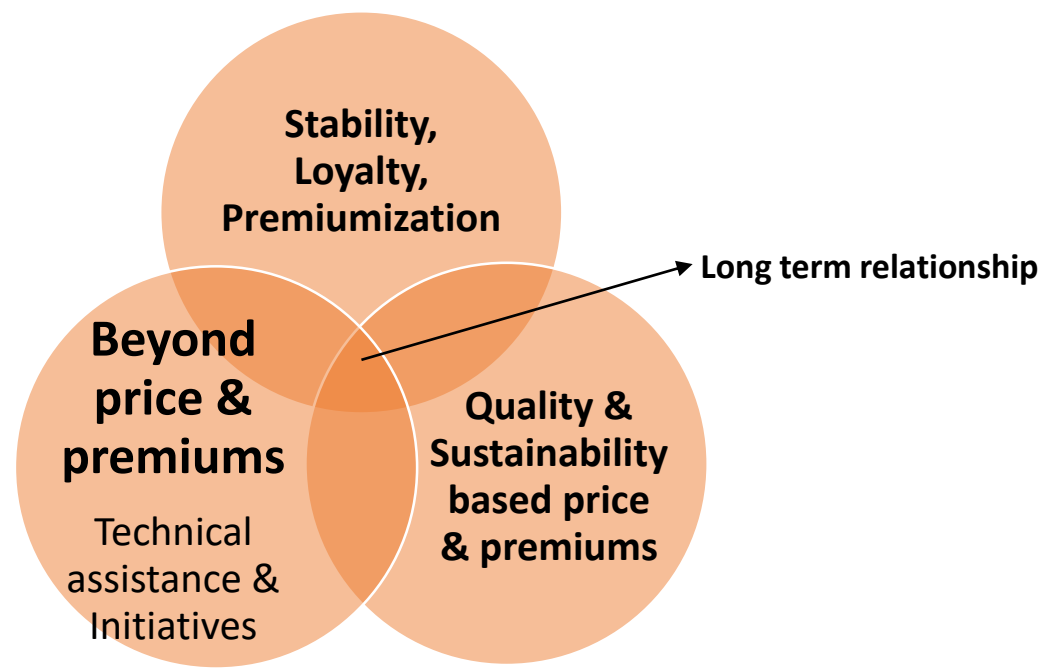
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Three step approach towards creating more value for the farmers



Pricing and Trading Models – Table Discussion

- Innovations:
 - What did you find interesting from the examples?
 - What other trading model/ pricing mechanism innovations do you see as having potential?
- Challenges:
 - What are the limitations of what you have seen?
 - What are the questions we need to be exploring?

15 min discussion at table. Feedback to plenary on 2 or 3 insights / questions.