Explanatory Document

Orange Juice Price

19 August 2019 (previous version 13 June 2013)

Overview

The Standards Committee has made a decision with regard to the Orange Juice Price Review project. The outcome of this is that new Fairtrade Minimum Price and Fairtrade Premiums have been set for *Frozen Concentrate Orange Juice* (FCOJ) and *Not From Concentrate Orange Juice* (NFC) and a new pricing model has been established for *oranges for juice*. The pricing model is also accompanied by changes in the standards criteria for Fairtrade Standard for Fresh Fruit for Small Producer Organizations and the Fairtrade Standard for Fresh Fruit for Hired Labour.

The pricing project aimed to solve obstacles encountered specifically in the orange juice sector; as such the pricing model for *oranges for juice*, in some aspects, is different from the Fairtrade Minimum Price mechanism that is usually defined for Fairtrade products. Specifically, the proposal that was presented to the Standards Committee for final decision offered solutions for all stakeholders, especially producer organizations selling *oranges for juice* to third-party processors/exporters (which, is the situation of the majority of Fairtrade producers). The new pricing model allows for (i) an increase in the value received by producer organizations selling *oranges for juice*, which better reflects increased costs of sustainable production, while maintaining (or only slightly increasing) the prices at which Fairtrade orange juice reaches consumer markets; (ii) a mechanism that considers differing processing yields between regions; (iii) standards that allow producers of *oranges for juice* to benefit from times when market prices of orange juice are above the FMP for juice; (iv) a continued commitment to ensuring fair competition within the sector, by applying the FMP for orange juice to all value chains.

This document is in addition to the Orange Juice Price Announcement. Considering that the orange juice pricing model varies somewhat from our usual fixed Fairtrade Minimum Price mechanism, the intention of this document is to provide additional information to stakeholders about how the new pricing mechanism will be implemented.

General Questions

Why did you explore an alternative pricing mechanism for Fairtrade orange juice?

In September 2011 the Standards Committee agreed that Fairtrade would explore, on a product-by-product basis, new economic mechanisms as pricing tools that could potentially increase benefit for producer organizations within the Fairtrade system. The orange juice sector was an ideal candidate for this exploration, due to the fact that some obstacles had already been identified within the sector (i.e. via the Ghana price suspension and August 2012 orange juice pricing model changes) and that in general, stakeholders were engaged and willing to make changes to the pricing model.

Are the standard revisions announced in the September 2012 Orange Juice Pricing Model or January 2012 Ghana Suspension still valid?

The June 2013 price announcement supersedes these two standard revisions, as these were considered interim solutions for orange juice pricing until the decisions of the Orange Juice Price Review were able to be fully implemented.

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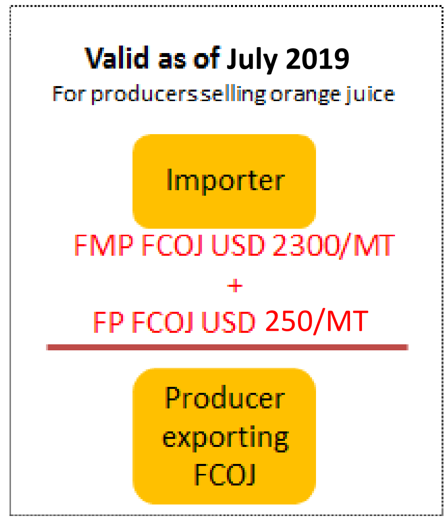
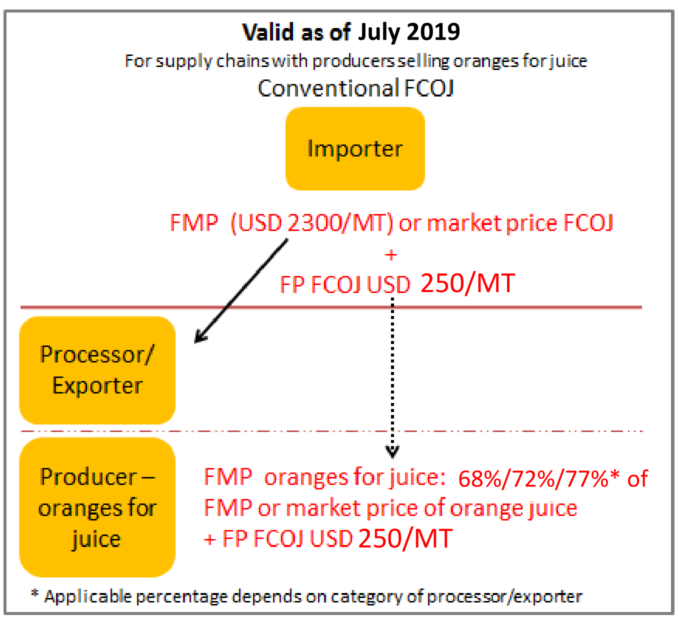
Additional explanation of the price announcement



What Fairtrade Minimum Price and Fairtrade Premium apply for producer organizations selling orange juice?
Whether selling FCOJ or NFC, producer organizations exporting orange juice for themselves will continue to use the FMP and FP for orange juice established at FOB level, just as they did before the price review. The only change that these producers will see as a result of the price review is an increase in the value of the FMP (in the case of conventional FCOJ only). This Fairtrade pricing for value chains with producers selling orange juice is presented in the diagram to the right (using the prices for conventional FCOJ as an example).

What Fairtrade Minimum Price and Fairtrade Premium apply for producer organizations selling oranges for juice?
For producer organizations selling *oranges for juice* to be processed into FCOJ or NFC, there is no one fixed FMP for *oranges for juice*, but instead the new pricing model will apply.



This model is based on a sharing mechanism in which the importer pays the FMP or market price for orange juice to the processor/exporter and the processor/exporter shares a minimum percentage of this orange juice price with the producer organization as payment for the oranges for juice. Similar to the FMP mechanism, in this case the % is considered a minimum as the seller/buyer could mutually agree a higher % to the producer. For FCOJ value chains, these percentages vary depending on three processor/exporter categories and whether the production is organic or conventional. For NFC value chains, these percentages vary depending on organic or conventional production. In order to define the price to be paid to the producer organization, the producer and processor/exporter must determine what defined percentages apply to their specific value chain.

With regard to the Fairtrade Premium, the producer organization selling oranges for juice should receive the full amount of Fairtrade Premium for the amount of orange juice produced from the *oranges for juice* sold. For this reason, the pricing table indicates that for the Fairtrade Premium for *oranges for juice*, stakeholders should refer to the ‘juice equivalent’.

The graphic above shows how the pricing model will be applied for supply chains with producer organizations selling oranges for juice.

How do I know how the pricing model applies to my supply chain?

To calculate the FMP for oranges for juice that applies to your supply chain:

1. Determine whether the oranges for juice are sold for NFC or FCOJ.
2. Find the percentage of the orange juice FMP that applies to the specific value chain (which may depend on organic vs. conventional production, as well as processor/exporter set-up in their particular value chain).
3. Calculate the FMP based on the amount of juice equivalent. If the market price is higher, then the producer must receive a percentage of this price.
4. If the producer is interested in knowing how much he receives per MT or box of oranges for juice, they can then divide this amount by the processing yield.

Please see example here:

Producer A produces conventional oranges for juice for FCOJ. Because Producer A works with a processor/exporter using 6 extractors or less, Producer A should receive a FMP of 68% of the orange juice FMP or market.

If the market price is below FMP:

- The FMP for conventional FCOJ applies. The FMP is USD 2300 / MT. Producer A should receive the FMP of 68% of the FOB orange juice price for the *oranges for juice* sold. Based on this, 68% of USD 2300 is USD 1564/ MT of juice equivalent.

If the market price is above the FMP:

- The market price for conventional FCOJ applies. As such, Producer A should receive 68% of the FOB orange juice market price (for this example, let's assume the market price is USD 2400 / MT) for the *oranges for juice* sold. Based on this, 68% of USD 2400 is USD 1632 / MT of juice equivalent.

Does this mean that there is no established Fairtrade Minimum Price for producers of oranges for juice?

There is no *one* established fixed Fairtrade Minimum Price for *oranges for juice*, but because the minimum price for *oranges for juice* is dependent on the FMP for orange juice, there is essentially a Fairtrade Minimum Price. Producers must receive a percentage of the orange juice market price, or at least of the orange juice FMP for their *oranges for juice*.

What does it mean that the oranges for juice pricing model is based on USD/MT of juice equivalent?

In order account for differing juice yields (which ultimately affects the price of the orange juice) among different regions/countries within the minimum price of *oranges for juice*, the price paid to producers will be based on the amount of juice produced from the oranges sold. For example, in some regions, producers produce oranges that have an average processing yield of 250 boxes[1]to make one MT of FCOJ, while in other regions, the average yield is somewhat lower, at 280 boxes per MT of FCOJ; producers in these two regions will receive the same price for the amount of juice produced from their oranges. But, if this price is converted into the price per box (by dividing the price paid for juice by the yield), each producer receives a different price per box.

[1]One box is equal to 40.8kg. Before June 2013, a 40.8kg box was the unit of measurement for the Fairtrade Minimum Price of *oranges for juice*.

For this reason the product specific standard requires that the contract mentions the price calculation for oranges for juice and references the yield as identified in the preliminary analysis report.

What do the different processor/exporter categories mean?

For the oranges for FCOJ pricing, there are three different FMP categories, depending on the type of processor/exporter set-up that processes the oranges for juice of each producer organization. These categories taken into consideration the differences in processing facility sizes and export methods impact the cost of processing/export. The categories are as follows: (1) producers working with processor/exporter using bulk export techniques; (ii) producers working with processor/exporter using 6 extractors or less; (iii) producers working with all other processor/exporter set-ups. Each processor/exporter should define what category applies to their situation in order to understand what FMP applies in their case.

Why is there also a price for 'Oranges for Juice processing in consumer countries'?

It came to the attention of the Standards Unit that at least one value chain was in need of a fixed FMP for *oranges for juice*, due to the fact that the producer organization exports oranges for juice directly for processing in consumer countries. As such, the FMP and FP is only applicable when oranges for juice are first exported to a consumer country before being processed in that country. This FMP and FP should only be used when the supply chain set-up impedes the definition of the processing yield.

Why are the standard changes made to the Fairtrade Standard for Fresh Fruit?

For orange juice producer organizations, the Fairtrade Minimum Price and Premium continue to be applied at FOB level, and as such, no changes are made to the Fairtrade Standard for Prepared and Preserved Fruit and Vegetables. The standard changes made to the Fairtrade Standard for Fresh Fruit reflect the changes necessary to implement the pricing model for *oranges for juice*.

What should you do if you are unsure what Fairtrade prices apply to your value chain?

If a stakeholder is unsure about what category applies to their specific value chain, they can contact FLO-CERT or the Standards Unit at Fairtrade International.