



Procedure to set SPP prices

[2.9-EN Standards Definition Procedure SPP V8.0 2021-02-05](#)

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Contents

- What are the components of an SPP Minimum Sustainable Price?
- How is each SPP Minimum Sustainable Price component calculated?
- What stages are involved and how does decision-making happen when setting an SPP Minimum Sustainable Price?



Procedure objective

The objective of this procedure is to set fair SPP Sustainable Prices to properly reward farmers for their hard work: such prices are based on production costs, as well as producers' realities. Our ultimate goal is to contribute to a better world for everyone.



Stages to set SPP Minimum Sustainable Prices

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What does the SPP price setting procedure look like?

Three main work stages take place when setting an SPP Minimum Sustainable Price:

1. Production Cost Study
2. Complementary Analyses
3. Decision-making to set Minimum Sustainable Price



Stage 1. Production Cost Study

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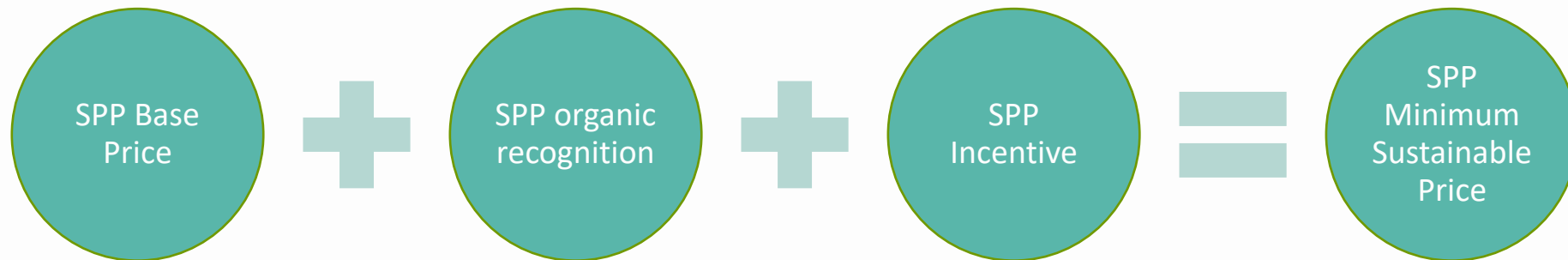
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Stage 1 Objective

The objective of this first stage is to calculate the SPP Minimum Sustainable Price components



These two components together reflect total production costs



SPP Minimum Sustainable Price Components (1)

- **Base Price**

It is calculated based on **generic production costs** (i.e., excluding the specific costs of organic production) incurred by a producer and by each SPP Small Producers' Organization to produce a given amount of product. Example: to produce 100 pounds of coffee.



SPP Minimum Sustainable Price Components (2)

- **Organic recognition**

Calculation basis for this are the **specific production costs** incurred by a producer and the Small Producers' Organization he belongs to to produce a certain amount of certified organic product, for example: organic fertilizers, organic certification, among others.



SPP Minimum Sustainable Price Components (3)

- **SPP Incentive**

It is equivalent to 10-15% of the SPP Base Price. This incentive is an economic stimulus to strengthen organizational, production, commercial and business related activities, as well as other activities that contribute to producers' wellbeing.

Note: The SPP incentive does not directly reflect production costs.



Production cost data collection process

Stage 1 is carried out in 3 phases:

- **Phase 1.** Prior research and preparation of cost form
- **Phase 2.** Collection of data from SPOs.
- **Phase 3.** Analysis, processing and presentation of results (data adjustment and projections).



Phase 1. 1 . Prior research

Before starting with the cost study, a preliminary analysis is carried out regarding crop growth stages, times and management, as well as processing degree and processing methods for the product in question.

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Phase 1. 2. Preparation of cost form (1)

Based on document-based research, the SPP Universal Cost Form is adjusted, so as to create a specific Cost Form for the product in question.

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Phase 1.

2. Preparation of cost form (2)

The cost form is designed in such a way that the following elements are differentiated:

1. Specific organic production costs VS generic costs
2. Costs at producer level VS costs at Small Producers' Organization level



Phase 1. 2. Preparation of cost form (3)

Producer-level costs include:

- Cost of Land Use
- Investment costs
- Costs during pre-operational and operational stages
- Opportunity Costs (Profit Margin)

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Phase 1.

2. Preparation of cost form (4)

Organization-level costs include:

- Investment costs
- Administration Costs
- Transformation Costs,
- Collection, processing, packaging costs
- Commercialization and promotion costs
- Certification costs (SPP, organic)



Phase 1.

3. Living Costs Form (1)

For each cost study regarding main Products, a Living Costs Form is incorporated, in addition to the specific Cost Form of the product.

The purpose of this form is to gather information on expenses concerning goods and services that producers have to pay to live a dignified life.



Phase 1. 3. Living Costs Form (2)

This form includes:

- Food and housing
- Clothing and personal Hygiene
- Education
- Health
- Transportation
- Recreation and cultural activities

*Note: The information collected via this form is used for Stage 2
“Complementary Analyses”*

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Phase 1.

3. Living Costs Form (3)

Once the specific Cost Form has been created, a virtual workshop is held for Working Group members (i.e., Small Producers' Organizations and buyers) to review:

- Work Plan
- Cost Form
- **Specific methodology** to collect costs for the product in question.

Note: A Working Group is made up of the stakeholders that produce and/or market the product in question.



Phase 1.

Specific methodology for cost collection (1)

A methodology is defined for each product according to **common specific criteria**:

- 1. Timeframe:** The appropriate period of time to conduct the production cost analysis based on each product's life cycle. It covers everything from the initial investment to the full production phase.



Phase 1.

Specific methodology for cost collection (2)

2. Production yield: The period that is taken into account to calculate the average production yield over a given period: for example, 3 or 5 years.

3. Unit of measurement to be set for the product (t, kg, lb, etc.) to determine cost per unit.



Phase 2. Collection of data from Small Producers' Organizations

Two main tools are used to collect production cost data:

- Product-specific Cost Forms
- Interviews and virtual meetings with the Small Producers' Organizations involved



Phase 3.

Analysis, processing and presentation of results (1)

To perform a cost analysis, information on the total production costs of the different Small Producers' Organizations is projected, including:

- **Average yield** per producer
- **Total productivity** of the Small Producer Organization as a whole



Phase 3.

Analysis, processing and presentation of results (2)

These general criteria are considered for cost adjustment and projections:

- Currency and exchange rate
- Inflation
- Investment amortization
- Removal of outliers

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Phase 3.

Analysis, processing and presentation of results (3)

According to cost projection obtained, the following elements are calculated:

1. Average total costs

Generic costs	= Annual Historical Average for generic costs (Both Producer level and Organization level)
Specific organic production costs	= Annual Historical Average for organic costs (Both Producer level and Organization level)
Average total costs	= Generic costs + Specific organic production costs



Phase 3.

Analysis, processing and presentation of results (4)

2. Costs per unit of measurement used for the product (ton, kg, lb, etc.) based on average total costs.

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Phase 3.

Analysis, processing and presentation of results (5)

To establish an SPP Minimum Sustainable Price, the following indicators must also be calculated, based on the **average total production costs** :

- **Net Profit:** Income after subtracting annual expenses (Annual income – Annual Expenses).
- **Break-even Point:** point at which total cost and total income are equal. Profit is obtained once this point is surpassed.



Phase 3.

Analysis, processing and presentation of results (6)

- **Break-even price per unit:** Price at which each product unit must be sold to reach the break-even point; that is, the minimum price you can sell your product for and still cover your costs for a determined time frame.
- **Accumulated Net Profit,** the sum of current year's Net Profit and previous year's net profit. This information is used to calculate profit margin, according to a given break-even point.



Phase 3.

Analysis, processing and presentation of results (7)

Finally, the SPP Minimum Sustainable Price components of each participating small producer organization are calculated, as shown below:

SPP Base Price	Break-even point – Specific organic production costs
SPP Organic Recognition	Specific organic production costs
SPP Incentive	In a 10-15% range in relation to the SPP Base Price
SPP Sustainable Price	= SPP Base Price + SPP Organic Recognition + SPP Incentive



Stage 2. Complementary Analyses

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Phases of Stage 2

It is carried out in 3 phases:

- **Phase 1.** Complementary research
- **Phase 2.** Adjustments to financial projections
- **Phase 3.** Price scenario simulations

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Phase 1. Complementary research

Research is conducted on:

- Organic and conventional market prices
- Fair trade minimum prices from other schemes
- Production Costs
- Inflation
- Quality/origin differentials
- Others

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Phase 2. Adjustments to financial projections

Adjustments are made to the financial projections obtained in Stage 1 based on the information from the "cost of living" forms, with regard to the minimum income for farmers to get a 'Living Wage'.

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Phase 3. Price scenario simulations

Based on the analyses and adjustments, a simulated backed-up price scenario document is prepared. This is submitted to SPP stakeholders for discussion.

Finally, a report is made with the information generated at this stage. This report will be reviewed before making final decisions about an SPP Minimum Sustainable Price.



Stage 3. Decision-Making to set SPP Minimum Sustainable Price

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Stage 3. Decision-Making to set SPP Minimum Sustainable Price

Phases of Stage 3

Final decision making to set a Minimum Sustainable Price involves 3 phases:

- **Phase 1.** Preparation of proposal; Working Group meeting
- **Phase 2.** SPP Minimum Sustainable Price characteristics are defined.
- **Phase 3.** Review and approval of the Minimum Sustainable Price by the governing bodies of SPP Global

Stage 3. Decision-Making to set SPP Minimum Sustainable Price



Phase 1. Preparation of proposal; Working Group meeting

Producer Group must review cost study results and complementary analysis to generate a unique SPP MSP proposal to be presented later to the full Working Group (where the companies are included) for discussion and/or approval.

Proposal must be supported by the production cost study conducted for the product or products in question.



Phase 2. Defining SPP Minimum Sustainable Price characteristics (1)

The different characteristics of the SPP Price are defined:

- Common **quality differentials** for the product in international markets.
- Regional variations in terms of average crop yield and average crop sizes for the product in question.
- Likewise, if there were important justifications for having differentiated prices per region, **margin of difference** must be paid special attention to avoid unequal competition.



Phase 2. Defining SPP Minimum Sustainable Price characteristics (2)

If feasible and reasonable, the SPP minimum prices are to be set above the prices of other fair trade labels; this is because of SPP's positioning, which mainly **seeks to maximize the value that producers get for the products they make and sell.**

Stage 3. Decision-Making to set SPP Minimum Sustainable Price



Phase 3. Review and approval of the Minimum Sustainable Price by the governing bodies of SPP Global (1)

For a price proposal to be considered approved by the Working Group and to be presented to the SPP Global Standards and Procedures Committee, it must have at least the explicit approval of the Producer Group.

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Stage 3. Decision-Making to set SPP Minimum Sustainable Price



Phase 3.

Review and approval of the Minimum Sustainable Price by the governing bodies of SPP Global (1)

The SPP Global Standards and Procedures Committee reviews and, if applicable, approves the proposal (s) submitted or decides to make justified modifications.

Stage 3. Decision-Making to set SPP Minimum Sustainable Price



Phase 3. Review and approval of the Minimum Sustainable Price by the governing bodies of SPP Global (2)

Subsequently, the decisions made by the Standards and Procedures Committee are reviewed and ratified by the SPP Global Board of Directors.

Note: In case of non ratification, the CD backs up its decision and asks the CNP to reformulate the proposal (s)

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Stage 3. Decision-Making to set SPP Minimum Sustainable Price



Phase 3.

Review and approval of the Minimum Sustainable Price by the governing bodies of SPP Global (3)

Once the agreements have been ratified, a corresponding effective date is fixed and the new SPP Minimum Sustainable Price is published in the SPP Price List.

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Recap

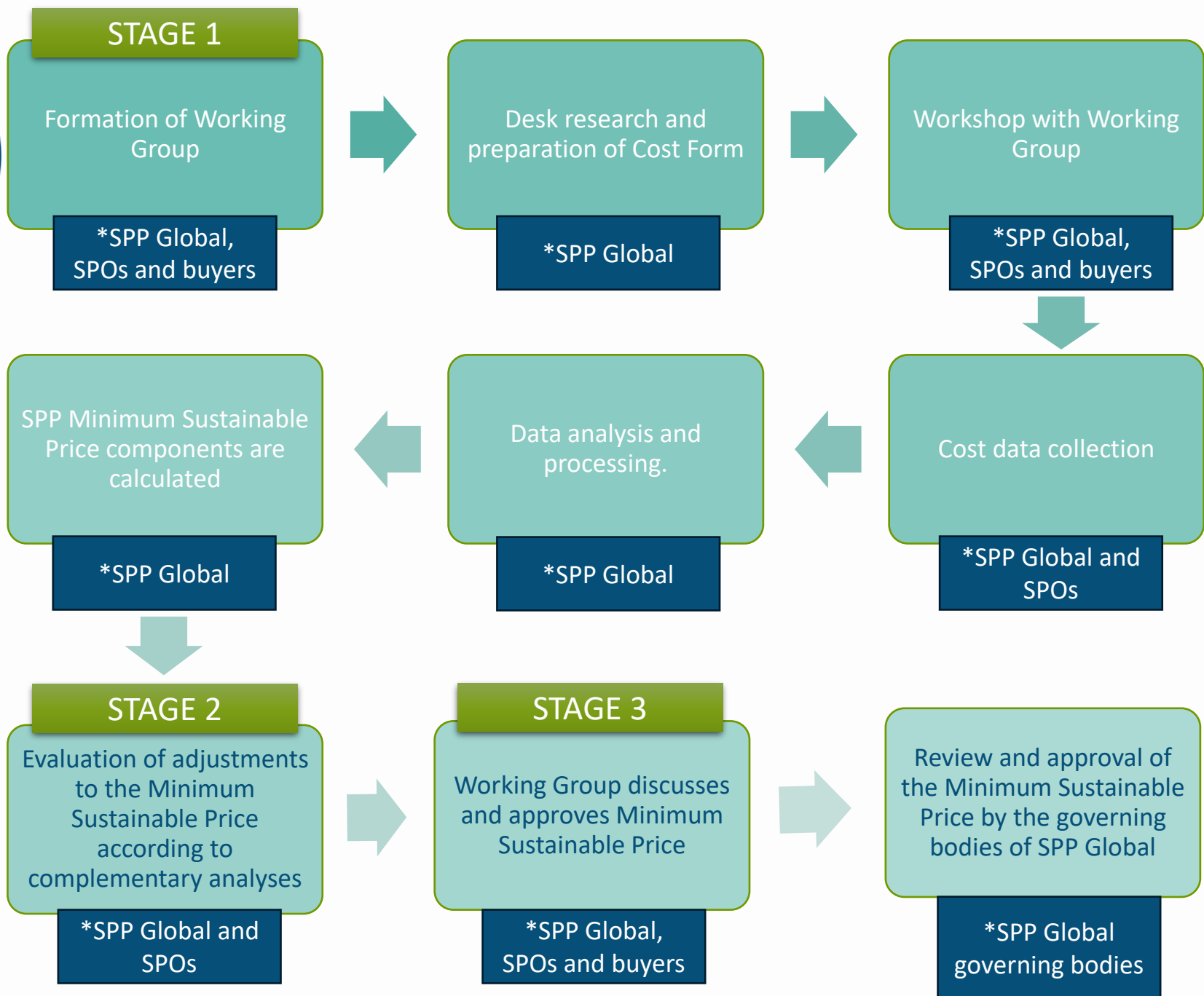
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*Stakeholders involved



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