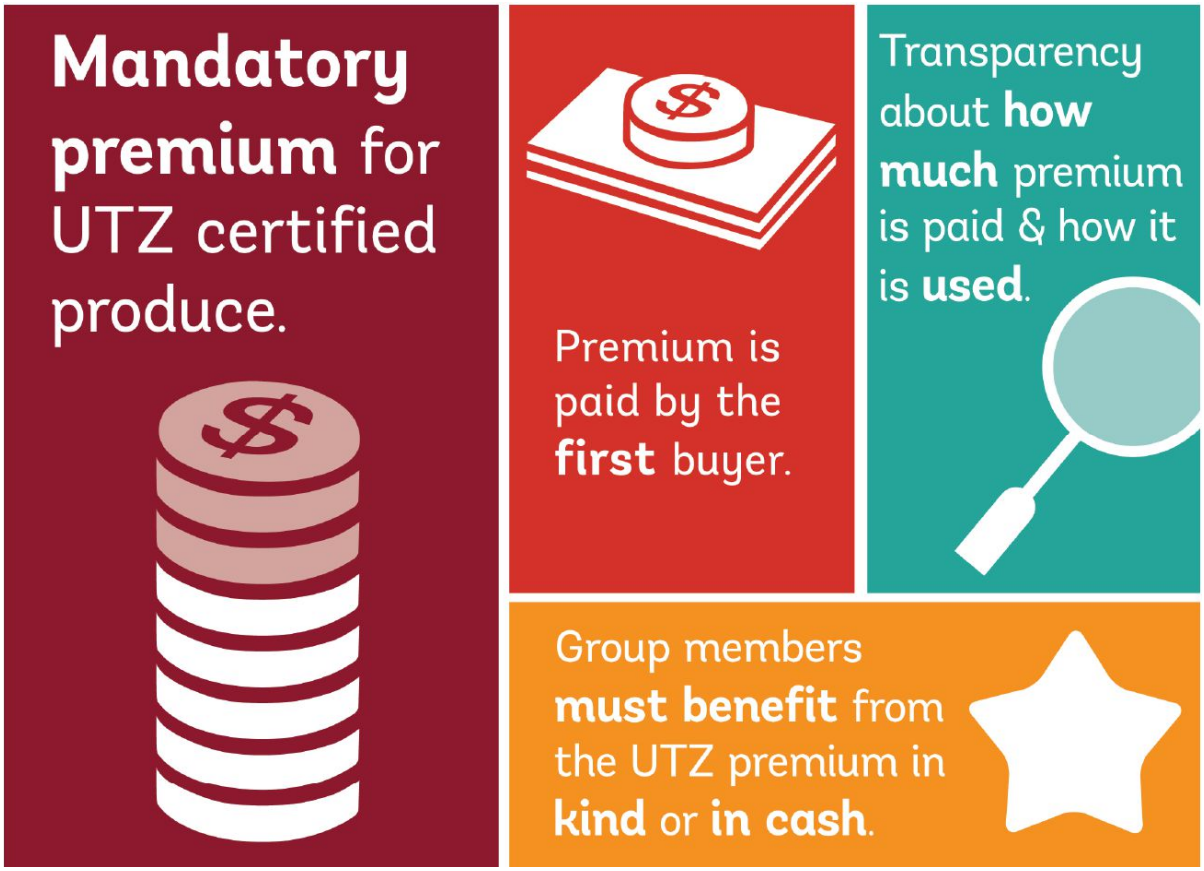
UTZ GUIDANCE DOCUMENT

UTZ Premium for Supply Chain Actors

(Version 1.0, June 2017)

Guidance on premium for Supply Chain Actors in the UTZ program, as required in the UTZ Chain of Custody (version 1.1).



UTZ and premium

A better crop is a key driver for a better livelihood. The UTZ premium is an important incentive for individually certified producers (estate owners), groups and their members to implement sustainable farming practices[1]. The UTZ premium means an additional income to cover the investments for the implementation of certification, and provides a financial incentive for producers to implement sustainable practices.

The aim of this document is to:

- Explain the UTZ approach to the premium
- Instruct on how to provide a premium correctly and transparently
- Suggest to first buyers what documentation to have available relating to premium payment

UTZ has developed a position paper on the transparency of premium in the supply chain. The document can be found on our website[2].

What is the UTZ premium?

Definition of UTZ premium

An additional **cash** amount paid above the market price for a similar conventional (non-certified/ non-verified) product, because the product is sustainably produced and meets the requirements of the UTZ standards. The UTZ premium is mandatory and agreed upon between the UTZ Code of Conduct certified group or producer and the first buyer. It is net of any deductions for repayment of pre-financed goods or services, and is registered in the UTZ Good Inside Portal.

Only a cash amount is considered as the UTZ premium and is registered in the GIP. A first buyer can also provide in-kind payments and services in addition to the cash premium but this in-kind value is not taken into account in the UTZ premium and is not recorded in the GIP.

Premium in the Chain of Custody Standard for first buyers

In the UTZ program, the first buyer is the commercial entity buying from the group or individual producer and taking legal ownership of the certified product. They are the one who confirms the first sales of certified product in the Good Inside Portal (GIP).

The UTZ Chain of Custody Standard for supply chain actors sets requirements for transparency in relation to the premium and includes two control points relating to premium payment by the first buyer.

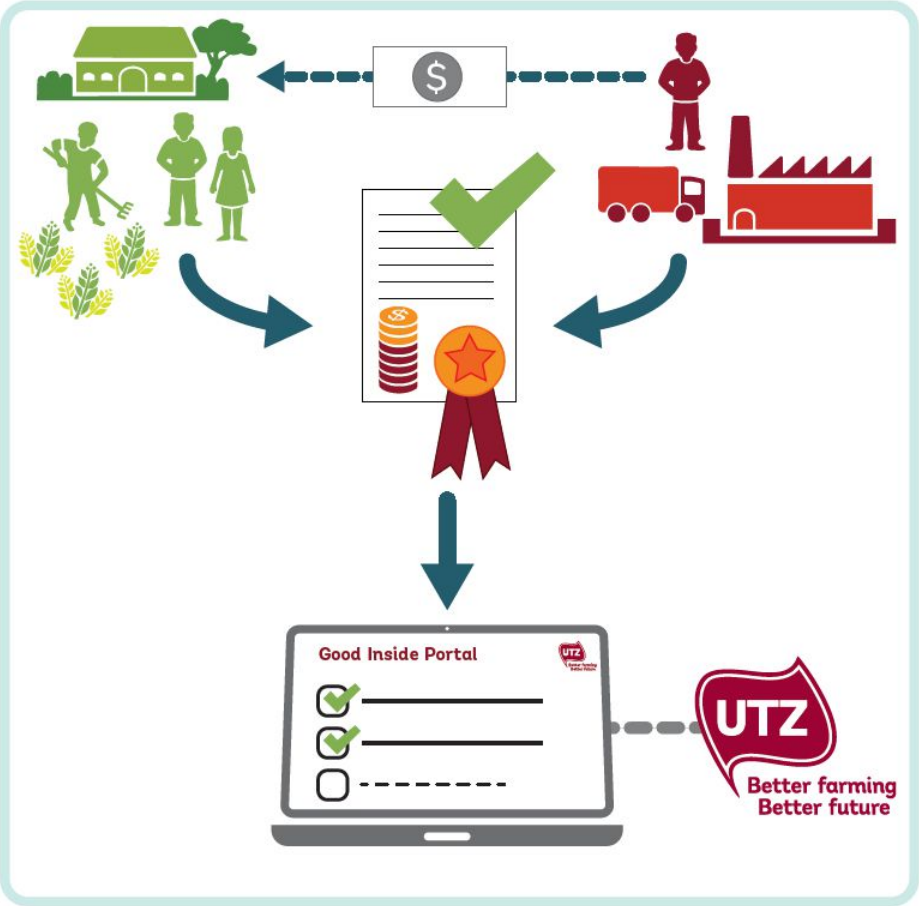
[1] UTZ developed a Guidance Document on the UTZ Premium for producer groups: https://utz.org/?attachment_id=4202

[2] The UTZ Position Paper on Premium can be found here: https://utz.org/?attachment_id=6944

UTZ premium (Note: 16 & 17 only apply to first buyers)		
16	The producer/producer group and first buyer agree upon a procedure for payment (covering amount and timing) of the UTZ premium on all product claimed (or retroactively claimed) as UTZ certified. The UTZ premium is net of any deductions for repayment of pre-financed goods or services Proof of payment and of acknowledgement from the producer/producer group of the reception of the UTZ premium is available.	
17	The UTZ premium is indicated in the sales or purchase announcement in the GIP.	

The first buyer and the group or individual producer have to agree on the UTZ premium amount, any conditions for payment, timing and how the premium will be paid. The group or individual producer enters the agreed UTZ premium in the GIP and the first buyer confirms in the system. Auditors will request proof of payment to ensure that the group or individual producer has received the UTZ premium.

The UTZ premium in the portal will also be visible to UTZ to allow reporting on UTZ premium at an aggregated level to end-buyers. UTZ will not share information with third parties on individual premiums paid.

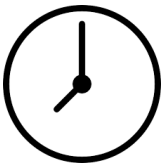


How can a first buyer comply with the Chain of Custody Standard?

1. *Define an agreement with the producer/producer group*

The group or individual producer and the first buyer negotiate and agree on the procedure for payment of the premium. Such engagement in a negotiation over the amount of the premium not only empowers the individual producer/ producer group (which is part of the mission of UTZ), but also strengthens commercial relationships. This procedure should be agreed upon for purchases done directly (contracts between the producer and first buyer) and for purchases done via auction systems[3] (contracts involving a broker or marketing agent acting on behalf of the producers).

2. *Determine the amount & timing of payment*



This information is part of the agreement. Groups and individual producers must know how much premium they will receive, and when they will receive it. This transparency enables groups to plan the distribution of the premium, and to communicate to group members how much to expect and when. Timely and reliable information on the amount of premium motivates groups and individual producers to commit to sustainable farming and allows them to plan their investments and activities.

The agreement clearly stipulates the UTZ premium and clearly indicates the market price, and the premium for being an UTZ product. In the case of coffee and tea, prices paid to groups or individual producers are heavily influenced by quality. Therefore, the agreement between first buyer and group or individual producer should clearly differentiate between the market price, including the differential for quality (coffee) and the premium for being an UTZ product.

When it is not possible to indicate the exact amount of the premium before the beginning of the season, it can be included in the procedure as a premium range, mentioning that the exact amount will be fixed at the moment of the sale but will be within the range as written in the agreement.
This has to be clearly indicated in the procedure agreed between the producer and the first buyer.
After the harvest, the first buyer is accountable for the premium paid to the producer or producer group.

An example procedure reflecting the amount and timing of payment can be found in Annex 1.

3. *Pay the UTZ premium (UTZ premium = cash premium)*

The UTZ premium should be the cash amount that the group or individual producer receives in their bank account, above the market price for a similar conventional (noncertified/non-verified) product.
In reality, many Supply Chain Actors (SCAs) provide in-kind investments or services and invest in sustainable agricultural production by (pre-) financing certification activities for producers/producer groups. However, these in-kind investments are not included in our definition of the UTZ premium. As we aim for clear and direct financial transparency without the need to monetize different types of investments. Therefore:

- Any amount that will be eventually reimbursed should not be included as part of the UTZ premium
- The UTZ premium also should not include in-kind investments (regardless of whether they will be reimbursed or not) such as supplying fertilizers or training to the producer/producer group.

It is recommended that if in-kind investments or services are provided, the monetary value is made transparent to the group or individual producer. The premium is expected to be an additional amount over the market price.

4. *Collect proof of payment and acknowledgement of reception*

Proof of payment and acknowledgement from the group or individual producer that they have received the UTZ premium has to be available to verify that the premium has been paid and in accordance with

[3] See page 8 for more specific information related to Auction systems

the agreed procedure. The proof can be a mail from the group or individual producer as well as a bank statement that the premium has been transferred to the producer bank account.
This prevents any potential dispute over whether the premium has been correctly received.

5. *Register the premium in the Good Inside Portal (GIP)*

The UTZ premium paid matches with the amount registered in the GIP. This ensures full transparency on payment of the premium.
The producer/producer group is responsible for making the sales announcement in the GIP (as required in the Code of Conduct for group in G.A.25 and for individual in I.A.19). Sales announcements should be made right after shipment of the UTZ product.
See below how the UTZ premium is reflected in the GIP upon making a sales announcement. As a first buyer, you are responsible for confirming this transaction and verifying:

- The amount indicated in the transaction is the same as agreed upon with the producer/producer group;
- The unit is correct (premium can be indicated per kg or per MT in the system).

Please consider that the system only allows the group or individual producer to enter the premium in:

- Euros for the cocoa and tea program;
- US dollars for the coffee program.

In the situation of a producer and a first buyer that signed an 'On-behalf user authorization', the first buyer is responsible for making the sales announcement in the GIP, including indication of the premium. The first buyer has to provide the producer with the confirmation of the transaction generated in the GIP within 2 weeks after confirming the transaction (as requested in the Chain of Custody Standard, control point 11).

Sales Announcement

Sales Announcement

Seller

Member Name

Member ID

Contact Person

Telephone Number

Fax Number

Country

Buyer

Member Name

Member ID

Contact Person

Telephone Number

Fax Number

Country

Transaction

Seller Contract Number	0727
Seller Reference Number	0727
Buyer Reference Number	0727
Sales Date	08/10/2016

Attached Documents

No Attachments

Product Details

Product Name	Cocoa Beans
Program	IP
Original Producer	
Member ID	
Original Producer Country	
Volume	1,620
Volume Unit	Kg

Transport Details

Transport Medum Type	Train
Train ID	
Shipping Date	08/10/2016

Finance

Premium	EUR 176.00 /MT
Program Fee (per 1,000 kg)	EUR 10
Total Program Fee	EUR 16.2

Traceability

Transaction ID	TR-fc7a6bfd-2586
Transaction Status	Announced
Creation Date	08/19/2016
Created By	
Last Updated	
Last Updated By	

Close Ok

Documentation relating to UTZ premium for the audit

During your Chain of Custody standard audit, all volumes purchased from groups or individual producers will need to provide the following to the auditor:

☐ Agreed procedure
☐ Acknowledgement of reception from the group or individual producer
☐ Overview of GIP confirmations, including indicated premium and transaction number

1. *Agreed procedure*

The agreed upon procedure may be reflected in a documented format. The agreed procedure can be sent via mail or written in the contract. It specifies when the UTZ premium will be paid and the specific amount of the UTZ premium[4]. The total amount paid for the product and for certification activities can be broken down into:

- FOB or farm gate price or auction price of the product, including the quality differential if relevant;
- Additional premium amount in cash to be paid directly to the producer/producer group (UTZ premium) per kg or MT;
- If first buyer is financing certification cost or other services, the amount is clearly indicated and cannot be deducted from the UTZ premium.

The separation between the FOB, farm gate price or auction price of the product and the UTZ premium should be clearly documented.
The first buyer can indicate in the procedure what the UTZ program fee is and clarifies that it is not deducted from the premium.
The timing of the premium payment has to be indicated clearly in the procedure.

2. *Acknowledgement of reception*

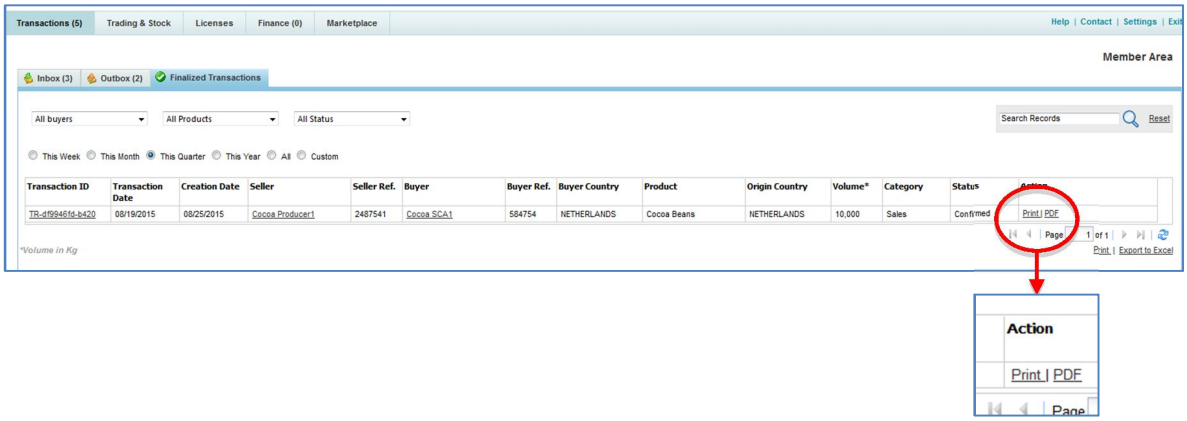
The first buyer keeps an acknowledgement that the group or individual producer has received the UTZ premium, signed by the producer or, in case of a producer group, preferably at least two representatives of the producer group. This can also be a bank statement that the premium has been paid to the producer bank account.

3. *Overview of GIP confirmations*

Before confirming a transaction, the first buyer should verify the premium indicated by the producer. A pdf transaction report can be generated which indicates the UTZ premium paid for each transaction. This amount should match with what the producer/producer group has acknowledged to have received.

[4] The procedure doesn't need to be UTZ specific in case of multi-certified product.

You can obtain the PDF of the transaction by clicking on "PDF":



Product sold via Auction System

Auctions systems for coffee/tea operate in the main exporting countries:

- Sri Lanka (Colombo) – Sri Lanka Export Development Board[5],
- Indonesia (Jakarta) – Indonesia Tea Board[6],
- Kenya (Mombasa) – East African Tea Trade Association[7] (for all East African tea origins);
- India – Tea Board of India[8].

When the coffee or tea is bought through an auction system, the following process for premium payment is used:

1. Coffee or tea lots which are UTZ certified are clearly marked in the auction catalogue, this must be ensured by the producer and its broker or marketing agent. Buyers know beforehand if the product is UTZ certified or not.
2. UTZ coffee and tea will be sold in the auction as any other conventional product. Knocked down price is the final price of the coffee or tea and doesn't include the UTZ premium.
3. Buyers of UTZ coffee or tea will inform the seller or broker that the coffee or tea needs to be claimed as UTZ.
4. It is possible to have a pre-agreement about the premium between buyers and producers of UTZ product. Each producer / buyer agreement can be agreed individually. Payment timing and value of the premium are part of the terms of the pre-agreement.
5. Premium will be added to the knocked down price in the auction contract made between the first buyer and the producer.
6. Producers will announce the sales of the UTZ tea in the Good Inside Portal using the 'auction functionality'[9] (as required in the Code of Conduct for group in G.A.25 and for individual in I.A.19). A handshake code will be generated by the system and provided to the first buyer.
7. Premium value will be registered in the Good Inside Portal when making the sale through auction and it reflects the value made in the pre-agreement if any.
8. First buyer is responsible for verifying that the premium entered in the transaction reflects the paid amount before confirming. If the premium paid is not reflected, the first buyer rejects the transaction and asks the producer to modify the data entered.

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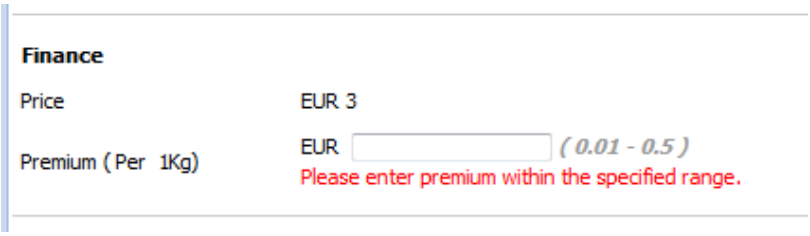
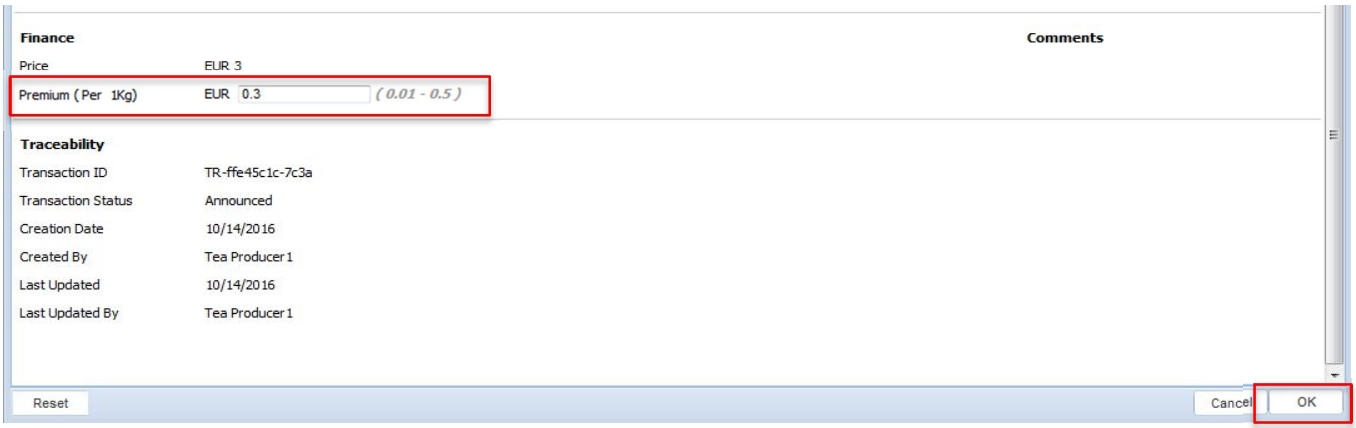
[5] http://www.srilankabusiness.com/tea/the-tea-auction.html
[6] http://indonesiateaboard.org/
[7] http://www.eatta.com/the-mombasa-tea-auction
[8] http://www.teaboard.gov.in/
[9] For more information on the auction functionality, refer to pages 25 to 28 of this document: https://www.goodinsideportal.org/c/document_library/get_file?p_l_id=55122&folderId=151675&name=DLFE-3816.pdf





Country specifications:

India

In India there are six auction centres (Kolkata, Siliguri, Guwahati, Cochin, Coimbatore and Coonoor) which operate under a Tea e-Auction[10] system. Teas in India are mainly sold via the auction, however it is possible to buy teas via purchase contracts directly between 1st buyers and producers. Any tea can be purchased outside of the auctions.

- The auction centres use an online e-auction system for the offering of tea, bidding process, auction contracts and invoicing of auction contracts.
- It is not possible to make changes to the fixed e-auction invoicing system to include certification premium payments, due to the implications to the whole tea trade market (mainly not certified teas) .

Kenya

In Kenya, the auction system is under the management of the Kenya Coffee Producers and Traders Association (KCPTA)[11]. The KCPTA has developed the guidance 'Guiding Principles and Procedures for sale of Certified Coffees through the Auction'[12], including guidance on premium agreement and payment. Exporters wishing to buy certified coffee have to comply with these guidelines.

Sri Lanka

In Sri Lanka all black teas are sold officially via the Colombo Auction. Organic teas are sold outside of the auction via direct contract between buyers and producers.

In annex 2, an example of the process for premium payment through the Sri Lanka Colombo auction is detailed.

[10] https://www.teaauction.gov.in/Home.aspx

[11] http://www.kenyacoffee.co.ke/index.html

[12] For more information on the document, please contact KCPTA

Annex 1: Example of an agreed procedure in cocoa

1. 150€/MT will be paid to the supplier as the UTZ premium for all volumes purchased as UTZ and registered in the GIP. This amount will be paid on top of the farm gate price which is applicable at the time of purchase.

2. There will be two periods where the UTZ premium will be paid to the supplier:
   i. In May, following the previous certified main harvest
   ii. In November, following the previous certified small harvest

3. The first buyer will assume the costs of the audit and of training services provided to the supplier.

4. All other costs associated with certification (hiring of IMS staff, internal inspections, salaries for pesticide application team, payment of group member premiums, etc.) will be assumed by the supplier.

Annex 2: Example of a premium payment process through the Sri Lanka Colombo auction

1. Tea lots which are UTZ certified are clearly marked in the auction catalogue, this must be ensured by the producer and its broker or marketing agent. Buyers know beforehand if the tea is UTZ.
2. UTZ teas will be sold in the auction as any other conventional teas. Knocked down price is the final price of the tea and doesn't include the UTZ premium.
3. Buyers of UTZ tea will inform the seller or broker that the tea needs to be claimed as UTZ.
4. Broker and 1st buyer will agree on the value of the premium.
5. It is possible to have a pre-agreement about the premium between buyers and producers of UTZ teas. Brokers can facilitate this pre-agreement. Each producer / buyer agreement can be agreed individually. Payment timing and value of the premium are part of the terms of the pre-agreement.
6. Premium will be added to the knocked down price in the auction contract made by the broker. Brokers can make an adjustment of the auction contract to include the premium. The invoice from the broker to the 1st buyer will include the knocked down price plus the premium (aggregated into one lump sum). Broker will ensure that the price and value of the premium is clearly registered in the auction contract.
7. Brokers receive their fees based on a percentage of the auction contract. It is a fact that brokers then will receive a small percentage of the price and the premium, but this is estimated as minimum.
8. Producer will receive the payment via the broker based on the auction contract and according to the auction timeframes and regulations. This ensures that the producer will be informed of the price and value off the premium and will receive its payment timely.
9. Since smallholders receive (by law) a 68% of the auction contract paid for their teas sold via the plantations this procedure will ensure that smallholders also receive a share of the premium paid for an UTZ contract.
10. Producers will announce the sales of the UTZ tea in the Good Inside Portal using the 'auction functionality'. This will generate a handshake code which the producer will give to the broker.
11. Brokers will facilitate the handshake code to the 1st buyers after agreement and payment of the premium, so that 1st buyer can register the purchase in the Good Inside Portal.
12. Premium value will be registered in the Good Inside Portal when making the sale through auction and it reflects the value in the auction contract.
13. First buyer is responsible for verifying that the premium entered in the transaction reflects the paid amount before confirming. If the premium paid is not reflected, the first buyer rejects the transaction and asks the producer to modify the data entered.