

UTZ GUIDANCE DOCUMENT

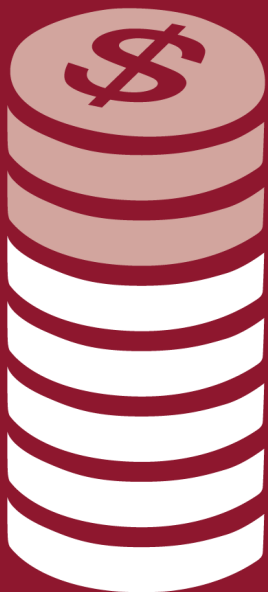
UTZ PREMIUM (Version 1.0 | August 2016)

Guidance on premium, as required in the UTZ Core Code of Conduct for group and multi-group certification (version 1.1)

This guidance document is part of a set of documents designed to assist with implementation of specific topics within the UTZ Core Code of Conduct.

This document is intended for use by farmer groups and the technical assistants supporting them in the certification process.

Mandatory premium for UTZ certified produce.



Premium is paid by the **first** buyer.

Transparency about **how much** premium is paid & how it is **used**.



Group members **must benefit** from the UTZ premium in **kind** or in **cash**.



UTZ AND PREMIUM

A better crop is a key driver for a better livelihood and the UTZ premium is an important incentive for producer groups and their members to implement sustainable farming practices. The UTZ premium is an additional pay to cover the investments for the implementation of certification, but also to reward group members for their efforts to produce sustainably. UTZ aims to create transparency on the amount and use of the UTZ premium to make sure farmers benefit.



BOX 1

WHAT IS THE UTZ PREMIUM?

The UTZ Premium is 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 UTZ standards. The UTZ premium is mandatory and agreed upon between the certified group or producer and the first buyer. It is paid net of any deductions for repayment of pre-financed goods or services and is registered in the UTZ Good Inside Portal.

The Group member premium is the part of the UTZ premium received by an UTZ certified group that is forwarded to the individual group member, in cash and/or in kind. The group member premium does not include group management spending (such as use of premium for audit costs and other administrative purposes), nor services or products delivered to the whole group/community (such as facilities or trainings).

The **aim of this document** is to

- Explain the UTZ approach to the premium;
- Inform groups and their trainers on how to use and distribute the premium correctly and transparently
- Show groups and trainers what documentation is required on premium use.

ABOUT THE UTZ PREMIUM AND GROUP MEMBER PREMIUM

The UTZ Code of Conduct covers *the UTZ premium* and *the Group member premium*. The *UTZ premium* is a **cash amount** paid by the first buyer to the certified producer group. The payment of premium is **mandatory**, but the amount depends on the negotiation between the buyer and the producer group. The UTZ premium that is paid to the group is **net of any deductions for repayment of pre-financed goods or services and is entered in the Good Inside Portal (GIP)**. This means that the amount visible in the GIP is the actual amount that the group receives in its bank account.

The producer group allocates the UTZ premium to pay for: group management costs (e.g. audits); products and services used for the group (e.g. training); and in-kind or cash payments to certified group members. The part of the UTZ premium that is forwarded to the certified group members is called the *Group member premium*.

BOX 2: what does the Code say (version 1.1)

G.A.26

- A "Use of UTZ premium" procedure is in place and communicated to group members.
- The UTZ premium clearly benefits group members in cash and / or in kind.
- The procedure and records cover: group management spending (e.g. audit cost); products and services delivered to the group (e.g. training, storage facilities); and Group member premium; benefits in form of cash or tangible goods (in kind).
- Records are kept updated.

G.A.27

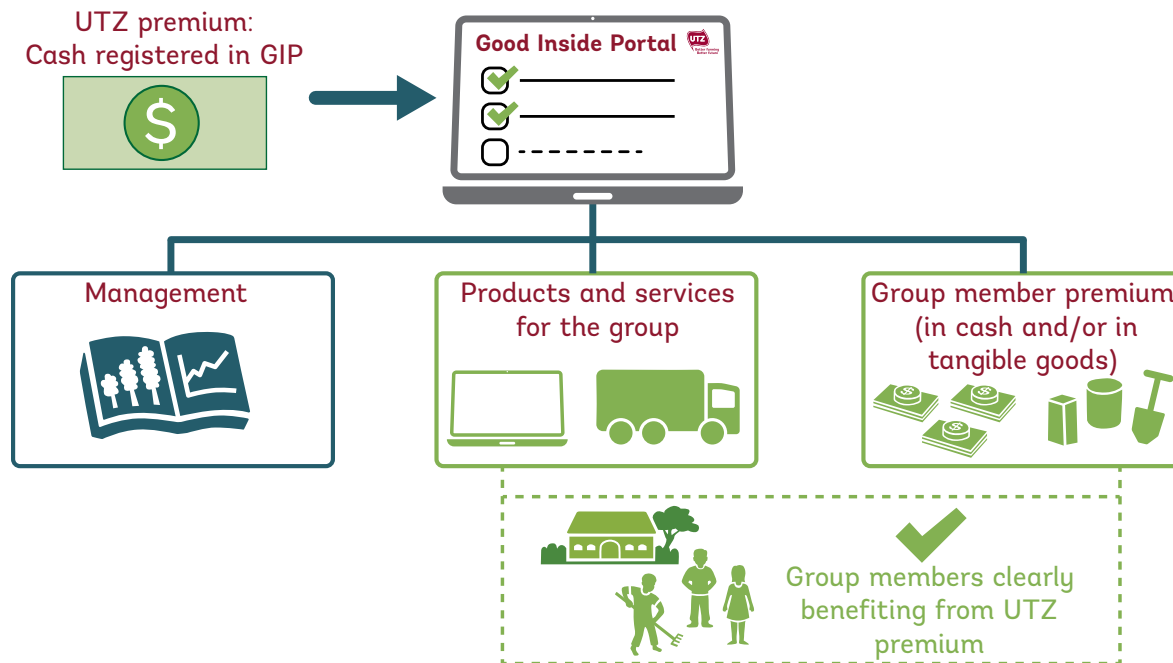
- The Group Member premium is paid in a timely and convenient manner.
- Prices, premiums, and timing of premium payment are clearly communicated and transparent to group members.

ⁱ UTZ is aware that some producer groups receive (large) in-kind investments that in some cases are considered similar to premium payments by first buyers. However, knowing the complexity of quantifying the in-kind investments in a consistent and transparent way across products and countries, UTZ decided to firstly address transparency on the payment of the cash amount from first buyer to producer groups.

UTZ does not prescribe how the UTZ premium should be divided between management, group and group members. However, the Code requires that certified group members should clearly benefit from the UTZ premium. This means that not all UTZ premium can be spent on management. Group members should be informed how the premium is used for management, group and group members.

Allocating the UTZ premium

The allocation of the UTZ premium is depicted below:



The UTZ premium may be spent on, for example, the following:

For group management:

- Training for group staff (IMS staff, and workers at central locations)
- Compensation for internal inspectors and child labor liaisons, where relevant
- External audit

For products and services delivered to the group:

- Training for group members, workers and their families
- Technical advice from service providers
- Facilities, such as nurseries and storage
- Community development

Provision of cash and inputs for group members, such as:

- Tools, planting material, pesticides, fertilisers and shade tree seedlings.
- Additional payments

UTZ does not prescribe how groups should allocate the premium to different categories and does not require provision of free inputs, tools or cash to farmers. However, allocating some part of the premium to cash or in kind payments to farmers is often advisable, since it can be a way to reduce side-selling and increase loyalty. For transparency reasons we advise the following:

- Involving group members in deciding on the allocation and use of the premium
- Regular and clear communication from the group to its members
- Proper records and documentation, which staff and group members can access
- Recording UTZ premium in the Good Inside Portal through which the total UTZ premium is visible and thus transparent to both the group and the first buyer.

Example of how an agreement for UTZ premium is reflected in the Good Inside Portal:

Transaction ID	Transa... Date	Creation Date	Confirm... Date	Transact... Type	Seller	From Country	Buyer	To Country	Product	Volume*	Program	Premium Total Program Fee	Status
TR-80bd1ca8-4379	05/16/2...	03/02/2...	03/02/2...	Sales				SPAIN	Cocoa Beans	99768	IP	150.00 / MT € 997.68	Confirmed

AGREEMENT
UTZ Premium:
Cash payment
of €150 per MT
for quality X

WHAT TO HAVE IN PLACE?

Setting up a procedure for the use of UTZ premium.

YEAR 1	YEAR 2	YEAR 3	YEAR 4
Create a procedure on the use of the UTZ premium and ensure that the UTZ premium clearly benefits group members in cash and/or in kind.			
Communicate the procedure to group members through for example contracts, letters, announcements, or posters. Keep records of your communications.			
<p>The procedure on the use of UTZ premium (G.A. 26) should explain:</p> <ul style="list-style-type: none"> Who is involved in deciding the allocation of the UTZ premium; The factors (percentages) that determine the allocation of the UTZ premium between group management spending, products and services for the group, and Group member premium; The factors (percentages) that determine the allocation of the Group member premium to cash and/or in kind investments; How and when the Group member premium will be paid; The procedure which will be used when group members are indebted to the group; The person responsible for the communication of UTZ premium and prices to group members; How and when the allocation of the UTZ premium for that season/year will be explained to group members. 			
	Pay the Group member premium in accordance with your group's procedure.		
	Pay the premium at least once a year.		
<p>In planning the payment of the Group member premium, ensure that (G.A.27):</p> <ul style="list-style-type: none"> Someone is made responsible for making the payments; The receipts or proof of payment are signed and provided to group members; A complaints procedure is put in place (G.A. 28). <p>In communicating on the premium and prices, ensure that:</p> <ul style="list-style-type: none"> The content of the communication includes the prices for the respective qualities of the product, the total premium received and the different amounts allocated to group management, group and group members (in cash and/or in kind). The communication is written clearly and the way of communication ensures that illiterate group members can understand the information. 			

IN PRACTICE: ACHIEVING TRANSPARENCY ON UTZ PREMIUM

To ensure a transparent approach to the UTZ premium your group should take the following steps:

A. ESTABLISH A POLICY ON PREMIUM

In the IMS manual, there should be a statement on what the group would like to achieve from the premium and how it is distributed. Members should be consulted and fully informed of the policy; this will build trust between members and management.

B. AGREE THE PREMIUM WITH FIRST BUYER

The group management has to negotiate the premium with the first buyer. The agreement should stipulate:

- The amount of UTZ premium in relation to a given volume and quality,
- Conditions for payment (e.g. quality requirements),
- Timing of payment and how the UTZ premium will be paid,
- If the buyer wishes: the distribution of the premium (between group management spending and group member premium) and how it will be paid to the group member.

C. COMMUNICATE THE PREMIUM PROCEDURE TO GROUP MEMBERS

The premium procedure can be communicated in a number of ways, for example:

- Including the general principle of premium payment in the contractual agreement between group and group member (see G.A. 9);
- At farmer meetings at group, section or village level during which the use of UTZ premium procedure and payment is explained;
- Displaying posters at central locations, such as the buying office, church or mosque.

D. REGISTER CERTIFIED VOLUMES THAT GROUP MEMBERS SELL TO THE GROUP

The volumes bought from group members must be recorded:

- Clear documentation (receipts, records or passbook) of the volume and quality of the product that a farmer has sold to the group must be kept.

E. COMMUNICATE THE PRICES AND PREMIUM PAID

Official written information (e.g. letters or posters at a buying office) should be made available to group members, covering:

- The volumes purchased from the group members who will receive a premium;
- The date that premium will be paid and how;
- The premium group members receive when they are indebted to the group (e.g. due to pre-financed goods or services);
- The difference between the market price paid and the group member premium to the farmer.

F. BE TRANSPARENT ABOUT PAYMENT OF PRICES AND PREMIUM

Well-defined practices should be followed:

- Issuing receipts to group members when they receive their group member premium;
- Appointing independent people who will check that payment is correctly made.

PREMIUM IN THE CHAIN OF CUSTODY FOR FIRST BUYERS AND OTHER SUPPLY CHAIN ACTORS

The UTZ Chain of Custody for Supply Chain Actors sets requirements for transparency in relation to the premium.

The first buyer and farmer group have to agree the UTZ premium amount, any conditions for payment, timing and how the premium will be paid. The agreed UTZ premium is entered in the Good Inside Portal, net of any deductions for repayment of pre-financed goods or services. Both the farmer group and first buyer can enter the UTZ premium in the portal. Auditors might request proof of payment to ensure that the producer group 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.



BOX 3

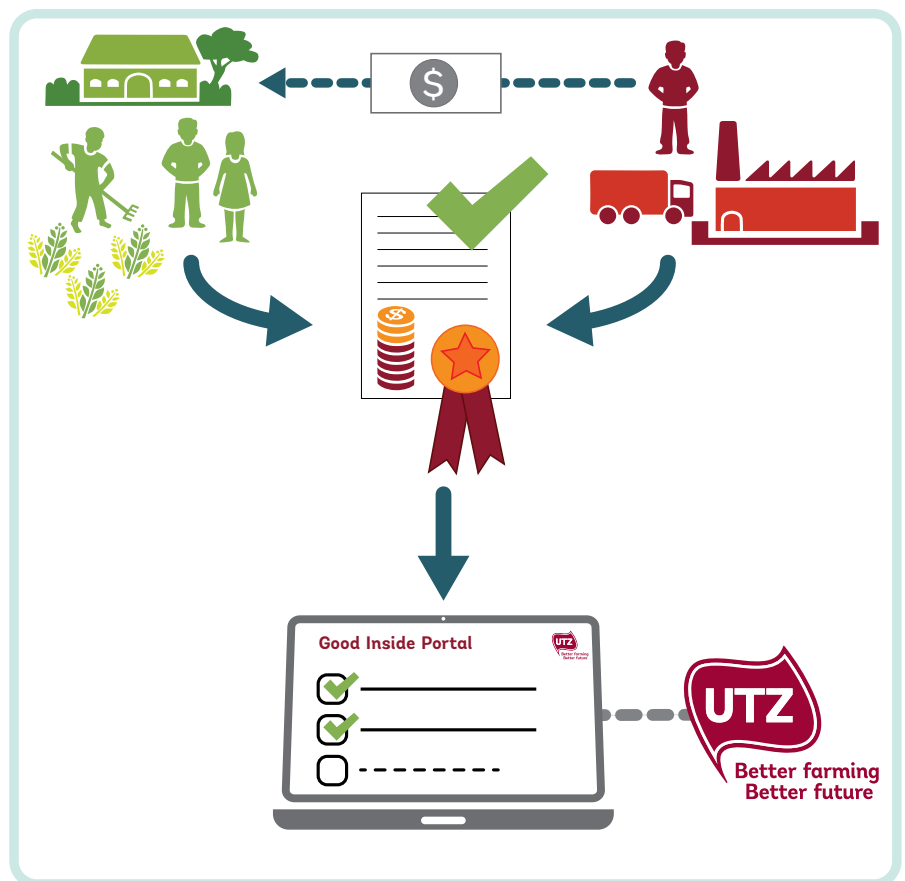
CHAIN OF CUSTODY AND PREMIUM - KEY STEPS

The producer/producer group and first buyer agree 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 paid net of any deductions for repayment of pre-financed goods or services.

Proof of payment and acknowledgement from the producer/producer group of the receipt of the UTZ premium is made available.

The UTZ premium is indicated in the sales or purchase announcement in the Good Inside Portal.



Box 4 : Good to know

In case the producer group receives in kind investments from the first buyer, UTZ recommends that both parties stipulate in the agreement the type of in-kind investments and the monetary value they represent. However, these investments are not part of what UTZ considers to be the UTZ premium.

ANNEX 1

EXAMPLE OF A PROCEDURE ON THE USE OF UTZ PREMIUM PROCEDURE ON THE USE OF UTZ PREMIUM 2015–2016

1. Before the harvest, group management communicates to group members the total amount of UTZ premium the group will receive.
2. Group management will also communicate the price for cocoa.
3. Communication occurs at meetings in each section.
4. Group management allocates the the UTZ premium as follows:
 - a. X% for group management spending on:
 - i. External audits, and training of IMS staff or workers.
 - b. Y% for products and services delivered to the group:
 - i. Training of group members, group member workers and their families on topics XYZ
 - ii. Technical advice from service providers/consultants on ABC
 - iii. 2 nurseries, 10 soil fertility analyses and 10 PPEs.
 - c. Z% for group members (cash and inputs):
 - i. Cash
 - ii. Inputs, such as tools, planting material, pesticides, fertilisers, shade trees.
5. Group management keeps receipts of all payments of group member premiums and all delivery notes of input. Group members receive receipts of cash payments and/or delivery notes of inputs.
6. The procedure is communicated through letters to the certified group members and through meetings at the different sections.
7. The group management will not deviate from the procedure.

ANNEX 2

EXAMPLE OF PROCEDURE WHERE FIRST BUYER IS MAKING IN-KIND INVESTMENTS FOR CERTIFICATION

Procedure on the use of UTZ premium 2015–2016 first buyer is pre-financing certification costs

1. The group has agreed with buyer x a UTZ premium of €125 per metric tonne, and will receive in addition an in kind investment of €75 per metric tonne.
2. The €75per metric tonne will be spent on in-kind investments:
 - i. Training of producers representing €XXX
 - ii. Salary of agronomist representing €XXX
 - iii. Planting material representing €XXX
3. Group management communicates to member the allocation of the in-kind investments and the UTZ premium of €125 per metric tonne:
 - i. €75 per metric tonne for financing of in-kind investment
 - ii. A% of €125 for group management spending on external inspections;
 - iii. B% €125 for products and services delivered to group (agrochemicals);
 - iv. C% of €125 for group members in cash.
4. Group management communicates twice a year to group members on the amount of UTZ premium and in-kind investments received.
5. Group management keeps receipts or records of all payments
6. Group members receive receipts or records of cash payments
7. Group management records UTZ premium in Good Inside Portal.