Introduction

UTZ focuses on enabling producers to become more resilient, through training and access to better farming practices, which in turn enables them to maintain or increase their productivity, secure future supplies, secure or increase their income and create a better future.

As part of the UTZ program, when a producer or group sells their products as UTZ certified, they must receive a premium from their buyer. The UTZ premium is an additional cash amount paid above the market price for a similar conventional product, because the product is sustainably produced and meets the UTZ standards. The amount is not fixed by UTZ, but negotiated between the producer or group and first buyer as part of the market process. The premium should be sufficient to cover the direct costs of certification such as external audits. However, premiums paid are only one benefit of the UTZ program we believe that in order to ensure farming becomes more sustainable for the producer increasing the producer's productivity so they are able to earn a higher income will have a more lasting impact.

What is UTZ's vision on the premium?

A cash premium is mandatory and determined by the market. The payment of a premium is mandatory in the UTZ program: for every purchase of an UTZ product, the first buyer, normally a trader must pay a cash premium to the producer or producer group it buys the product from. The amount/premium is not fixed but is agreed upon between the buyer and the producer group or the individual producer. It is paid net of any deductions and must be registered in the UTZ traceability system (Good Inside Portal - GIP).

The premium is part of a whole negotiation on price, volumes, quality, duration of contracts, investments, etc. This is a market process in which UTZ does not interfere as we believe that the producer or group should negotiate the premium with the first buyer.

To enable producers to negotiate the UTZ premium, UTZ provides guidance, including an example of what the final agreement between producer group and first buyer should cover. At the same time, it is also a requirement in the Chain of Custody (ChoC) that first buyers should negotiate the UTZ premium with the Code of Conduct certificate holder.

Definitions

• **Producer**: The person or organization who represents the farm and has responsibility for the products sold by the farm.

• **Group**: A group of organized producers that are part of a shared IMS and are certified together under the option “Group certification” or “Multi - Group certification” described in the UTZ Certification Protocol. The group of organized producers can be organized in an association or cooperative or managed by a supply chain actor (such as an exporter) or another entity.

• **Group member**: A producer who is certified as part of a group. It can be the person who is the actual operator of the farm (e.g. a sharecropper), and does not need to be the land owner.

• **Group member premium**: Part of the UTZ premium received by a 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).

• **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 farmer group distributes the premium to the individual farmers. In the case that the premium is an agreement between the buyer and a group, it is the group that decides how to allocate the UTZ premium between three types of cost categories: 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 (farmers).

UTZ does not prescribe how the UTZ premium should be divided between management, group and group members. However, UTZ does require that certified group members should clearly benefit from the UTZ premium. This means that although the premium can be used to fully pay for the audit and other certification key features but not all UTZ premiums can be spent on more removed and broader management and group members should be informed how the premium is used for management, group and group members.

Allocating at least some part of the premium to cash or in kind payments to this can also help to reduce side-selling and increase loyalty.

Besides the certification requirements on premium spending and documentation, we furthermore advise groups to do the following:

- Involve group members in deciding on the allocation and use of the premium.
- Regular and clear communication from the group to its members.

Premium transparency in supply chain supported through better data. UTZ aims to create transparency on the amount and use of the UTZ premium to make sure farmers benefit from certification.

Our stakeholders have many questions about the costs and impact of certification, and want to know how certification contributes to better livelihoods of farmers and their communities in terms of financial impact. UTZ also understands that end buyers of UTZ certified produce want to know how much of the extra sum they pay is actually reaching the producer. Therefore, UTZ encourages the whole supply chain to be transparent about the pricing, i.e. indicate which part of the price is the actual amount of cash premium paid to the certificate holder.

UTZ proactively invests in creating and improving transparency about premiums throughout the supply chains in two ways:

- By continuously strengthening our Code of Conduct and the Chain of Custody
- By collecting data on cash premiums paid and facilitating the dissemination of this data

Transparency in our Code of Conduct and Chain of Custody. UTZ recently designed new and better measures to provide transparency on the amount and use of the cash premium. Our improved Code of Conduct and the Chain of Custody contain specific and new control points to create transparency between the first buyer and the producer group and between the
producer group and the individual group members.

UTZ requires the management of the group to report to the farmers about spending of the premium in a transparent way. This includes having a “Use of UTZ Premium” procedure in place. UTZ provides a clear guidance on how such a procedure could look like. The annual audit checks whether the group has followed their own procedure, and via the audit reports UTZ collects information about the spending of the UTZ Premium by the group and what share of the premium is directly forwarded to individual group members.

Collecting data on cash premiums. Through GIP, UTZ is already collecting data on cash premiums paid by the 1st buyer in the supply chain to the certificate holders (individual producers or producer groups). UTZ is currently investing in increasing the reliability of the cash premium data.

For this purpose, GIP will be adapted to support better data entry. Within its monitoring and evaluation process UTZ is looking to collect information on how the UTZ Premium is used, and whether it is re-invested in the farms or groups or used in a different way. Pending technological developments UTZ will in the future facilitate tracking the premium paid to the producer group for coffee and cocoa in specific supply chains to the end-buyer.

These measures allow UTZ to report to end buyers at aggregate level per country the UTZ premium received by certificate holders. By publishing these figures, end buyers have an understanding what the minimum is they should pay above the conventional market price.

Challenges
Level of the cash premium depends on in-kind contributions. UTZ is aware that some producer groups receive (large) in-kind investments that in some cases are considered similar (part of) 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 producers and groups. This means that it is mandatory for a cash premium to be paid.

We will also further investigate the role of the in-kind investments for certification purposes and the interaction with the UTZ premium. This will contribute to a better understanding of how producer/groups benefit from certification.

Conclusion
The UTZ Premium is just one of the benefits of the UTZ program, alongside other economic, social and environmental benefits. The UTZ Premium can be an important incentive for producers joining the UTZ Program. It can provide producers with the financing they need to cover the direct costs of certification, such as the cost of audits, or can be used to provide better living or working conditions for workers, or make improvements on the farm.

The negotiation of the UTZ Premium should be between the producer and the first buyer, as part of the market process; and the use of the Premium should be with the producers themselves – they know best how the Premium should be spent for their own needs. We do not want producers to be restricted to investing only in community projects, if they feel investing in the farm is the best way to ensure they can increase their sustainability.

UTZ plays an important role in ensuring that the Premium process between first buyer and producer is implemented and transparent through the use of GIP and ongoing monitoring and evaluation. This means that buyers, producers and consumers can be confident that benefits of sustainable farming are received by all.