



FAIRTRADE LABELLING ORGANIZATIONS INTERNATIONAL

FAIRTRADE STANDARDS

for

Contract Production Projects

Foreword

Fairtrade is an initiative for small farmers and wage workers in the South, who have been restrained in their economical and / or social development by the conditions of trade. If fair access to markets under better conditions of trade can help to overcome the restraints of development, they can join Fairtrade.

Small farmers who are organised into structures (in co-operatives, associations or other organisational forms) can join Fairtrade if they are able to contribute to the social and economic development of their members and their communities and are democratically controlled by their members. *In this case the Generic Standards for Small Farmer's Organisation apply.*

There might be cases where there are no small farmers organisations existing due to particular product-related reasons or as from the regional cultural context. In this respect, **Small producers** who are either unorganised or are organised into structures which have no legal status, can join Fairtrade if they have a partnership with an intermediary organisation (exporter, processor, private enterprise or NGO), to which they **contract** and which is able and willing to contribute to their social and economic development. The continual demonstration of the efforts of this organisation to support the producers to reach a level of organisation that can comply over time with one of the existing Generic Standards (*for Small Farmer's Organisation or for Hired Labour situations*) is a condition to apply to Fairtrade. *In such cases and according to the application rules (see the guidance document to be made available in the first half 2005) the Standards for Contract Production Projects apply.* The standard for Contract Production is applicable for products / countries where producers are not realistically able to be certified against the Small Holder or Hired Labour standards. The standard is specifically to encourage the formation of autonomous producer organisations where they do not exist.

Workers can participate in Fairtrade if they are organised, normally in unions, and if the company they work for is prepared to promote workers' development and to pass on to the workers the additional revenues generated by Fairtrade. Such companies working with hired labour (farms, plantations, etc.), can be certified if they comply with the requirements in this document. *In this case the Generic Standards for Hired Labour apply.*

Introduction

In setting its Standards FLO follows certain **internationally recognised standards and conventions**, especially those of the ILO (International Labour Organisation), as these form the basic labour rights most widely accepted throughout the world. In this document each Standard is formulated in general terms, and, where applicable, reference is made to external standards which FLO follows.

The Standard is then followed by the **requirements** against which producers will actually be inspected. The requirements are divided into:

- **minimum requirements**, which all producer organisations must meet from the moment they join Fairtrade, or within a specified period; and
- **progress requirements**, on which producer organisations must show permanent improvement. A report on the achievement of progress requirements should be made each year.

Minimum in this sense is meant to ensure that:

1. Fairtrade benefits reach the small farmers and/or workers.
2. The small farmers' organisation and/or the workers has/have potential for development.
3. Fairtrade instruments can take effect and lead to a development which cannot be achieved otherwise.

The degree of progress, which FLO requires from each producer organisation, depends on the level of economic benefits it receives from Fairtrade and on its specific context.

Scope

This Standard specifies requirements that apply to **Contract Production Projects** only. For Standards related to small farmers' organisations and hired labour situations please see the respective documents.

This Standard specifies requirements for **small producers who are either unorganised or are organised into structures which have no legal status**. Such producers can apply to Fairtrade if they are contracted, working locally **in partnership** with a legally registered entity, the **Promoting Body**. This entity signs a contract with FLO and takes the responsibility to engage actively in the development process to reach a level of organisation over time that is able to comply with one of the existing Generic Standards for small farmers organizations or hired labour situations.

The Promoting Body (exporter, processor, private enterprise or NGO) is willing to and is able to contribute to the social and economic development of the producers and their communities.

Therefore, the Promoting Body takes responsibility to organise the producers groups into **Producer Organisations** and to enable them to gain autonomy. This partnership between the Promoting Body and the producers enables the producers to access the benefits of Fairtrade.

In the first instance:

- Producer Organisations are developed for producers to be integrated in a development process and to be on a more equal relationship with their contracting partner, where negotiations and producer interests can be better represented.

In the second instance:

- The producers develop into strong Producer Organisations, which will become eligible to be certified against one of the existing Generic Standards of FLO.

The goal of this Standard is to help producers develop into strong and auditable producer organisations and move towards compliance with generic standards. The timeframe to reach this stage is dependent upon the local conditions, is specific for each project, and is specified within the producers' Organisation Development Plan.

The first certification is based upon the compliance with all minimum requirements. The demonstration of continual development of competences, organizational level and social projects is a sine qua non condition for re-certification. The development steps and measures are defined at each inspection by the Promoting Body and Producer Executive Body / Producer Organisation(s) in agreement with inspectors. The progress requirements are specific to each potential organisation according to its own organisational, social and economical development. The non compliance to these requirements would be a reason for de-certification.

The scope of the Fairtrade Standards for Contract Production Projects is applicable to products and / or countries where producers are not realistically able to be certified against the Small Holder standards or Hired Labour standards. **The scope of the Fairtrade Standards for Contract Production Projects is limited to cotton producers in India and Pakistan and Basmati rice producers in India.**

Terms and Definitions

For the purpose of this Standard the following terms and definitions apply:

Contract Production Project:

The Contract Production Project represents the partnership between the Promoting Body and the Producer Organisation(s). In a given context there can be more than one Producer Organisation working together with the same Promoting Body.

The Promoting Body:

The Promoting Body can be any intermediary organisation, either a trader (exporter / processor), or non-trader (NGO or private) with trading activities, which is a legal entity forming a partnership with the producers it contracts from. To avoid conflicts of interest between commercial activities and the interests of producer development, the Promoting Body must ensure that its' responsibilities for producer development activities are clearly separated from its role as trader. The Promoting Body is demonstrably willing and able through its corporate mission and business practises to enable the producer organisation(s) to gain autonomy. In writing and in practice it is responsible for and uses resources independent of FLO to help producers organise themselves. It accepts in writing responsibility for ensuring the smooth flow of premiums to producer organisations as well as for the safe custody of the premiums.

Producer Organisation(s):

The Producer Organisation is a structure, which has the function to enable producers to democratically decide on premium use and through which they can negotiate with the promoting body over terms of trade, becoming stronger over time as a self-sustainable and legally recognised small farmers organisation.

Producer Executive Body:

The Producer Executive Body comprises of elected representatives of the /all registered producers. This body is the intermediary between the registered producers and the Promoting Body until a Producer Organisation has been established, and represents the producers' interest versus the buyers of the produce. The Producer Executive Body is especially important to ensure that Fairtrade premium money is handled properly and in the true spirit of what it is meant for. Once a Producer Organisation(s) has been established the Producer Executive Body can, if so wished, assume the function of a structure similar to an executive committee.

1 Social Development

1.1 Fairtrade adds Development Potential

Fairtrade should make a difference in development for certified producers.

1.1.1 Minimum Requirement

- 1.1.1.1 The Promoting Body demonstrates that Fairtrade revenues will promote social and economical development of small producers.
- 1.1.1.2 The Promoting Body is willing and capable to assist the producers in reaching a level of organisation over time that is able to comply with the existing generic standards of FLO (for small farmers organisations or for hired labor situations).
- 1.1.1.3 The participating producers are willing to reach a level of organisation of their own choice over time that is able to comply with one of the existing Generic Standards and to cooperate with the Promoting Body in this regard.

1.1.2 Progress Requirement

- 1.1.2.1 An organisation development plan is developed under which the benefits of Fairtrade (including the Premium) are shared based on *democratic decisions* taken by the producers.

1.2 Fairtrade products are sourced from Small Producers

By small producers it is understood that the producers are not structurally dependent on permanent hired labour and that they manage their production activity mainly with own and family labour.

1.2.1 Minimum Requirement

- 1.2.1.1 The majority of the registered producers fall into the category of small producers.
- 1.2.1.2 Of every Fairtrade certified product from registered producers sold by the Promoting Body, more than 50% of the volume is produced by small producers.

1.2.2 Progress Requirement

- 1.2.2.1 Where a minority of small producers from among the registered producers is producing a particular Fairtrade product, the Promoting Body takes special care to ensure that this minority always receive a cost-covering price for their product from the Promoting Body or the buyer. The Promoting Body establishes an appropriate system to ensure this.

1.3 Democracy, Participation and Transparency

As in the case of small farmer organisations, the Producer Organisations must be participatory, democratic and transparent in their decision-making and in the actual implementation of activities where Fairtrade premiums are used. There must be no discrimination regarding membership and participation.

1.3.1 Minimum requirements for the Promoting Body

- 1.3.1.1 The Promoting Body provides to FLO a list of producers with whom it has an established relationship of at least one year and who are in compliance with the requirement 1.1.1.3.
- 1.3.1.2 The Promoting Body signs a Fairtrade contract with each registered producer. The Promoting Body signs the contract with FLO on behalf of the producers.
- 1.3.1.3 The written contract between the producers and the Promoting Body does not restrict any producer in their sales to other buyers.
- 1.3.1.4 The Promoting Body ensures that the producers know and understand the Fairtrade conditions, contract, and price.

- 1.3.1.5 The Promoting Body ensures with the registered producers the establishment of a structure that allows the producers to take decisions about the use of the Fairtrade premium in a democratic way (Producer Executive Body).
- 1.3.1.6 The Promoting Body ensures the establishment of one or more autonomous Producer Organisations and helps these organisations formalise their internal systems for democratic participation in a transparent manner, reporting back to FLO on a regular basis. It establishes an organisation development plan(s) together with the Producer Executive Body clearly setting out the steps, with a time frame, to create a formal but not necessarily legally recognised organisation(s).
- 1.3.1.7 The Promoting Body provides capacity building services to the producers so as to formalise this organisational structure(s).

1.3.2 Progress requirements for the Promoting Body

- 1.3.2.1 The Promoting Body together with the Producer Organisation(s) establishes an organisation development plan(s) clearly setting out the steps, with a time frame, that it will take for the Producer Organisation(s) to become strong and independent and a legally recognised entity.
- 1.3.2.2 If there are non-contracted producers interested in joining the Producer Organisation(s), who are also small producers, the Promoting Body takes steps to incorporate these producers into the Fairtrade system into the existing Producer Organisation(s) or by facilitating the setting up of new autonomous Producer Organisations.
- 1.3.2.3 The Promoting Body assists the Producer Organisation(s) to move towards becoming a legally recognised entity over time.

1.3.3 Minimum requirements for the registered producers and the Producer Executive Body

- 1.3.3.1 Producers have signed a contract with the Promoting Body, following the logic of standard requirement 1.1.1.3.
- 1.3.3.2 The registered producers have defined structures for participation and decision making amongst themselves, allowing for a Producer Executive Body (PEB) to be formed, and therewith allows the registered producers to take decisions on the use of Fairtrade premium money in a democratic way.
- 1.3.3.3 This Producer Executive Body, together with the Promoting Body, establishes an organisation development plan(s) clearly setting out the steps, with a time frame, to create a formal but not necessarily legally recognised organisation.
- 1.3.3.4 There is a clearly demonstrable process by which all the producer members are represented by the Producer Executive Body.
- 1.3.3.5 The Producer Executive Body ensures that it presents the annual report and accounts on the use of Fairtrade premium to all its members each year.
- 1.3.3.6 The decisions taken by the Producer Executive Body are shared with the members through an appropriate information flow system after each Producer Executive Body meeting.
- 1.3.3.7 There is an established feedback system so that members' concerns are passed back to the Producer Executive Body regularly.

1.3.4 Progress requirements for the Producer Organisation(s)

- 1.3.4.1 The initial organisational structure is converted into a formal but not necessarily legally recognised Producer Organisation in accordance with the organisation development plan.
- 1.3.4.2 This Producer Organisation(s) together with the Promoting Body, updates the organisation development plan(s) clearly setting out the steps, with a time frame, that they will take for the Producer Organisation(s) to become strong and independent and a legally recognised entity.

- 1.3.4.3 This Producer Organisation(s) can clearly demonstrate its capacity to administer its' activities / training / operations.
- 1.3.4.4 Measures are taken to improve the members' commitment to the Producer Organisation(s).
- 1.3.4.5 This Producer Organisation(s) (through the Producer Executive Body) is able to negotiate the terms of trade of its produce with the buyers.
- 1.3.4.6 This Producer Organisation(s) is able to organise efficiently so as to allow the buyers to access the products at minimum costs within the timeframe allowed by the trade.
- 1.3.4.7 The participation of the members in the Producer Organisation(s)'s administration and internal control is improved steadily over time through access to training and education as made available by or through the Promoting Body.
- 1.3.4.8 The Producer Organisation(s) is converted into a legally recognised entity.
- 1.3.4.9 The Producer Executive Body has a fixed term not exceeding three years and is re-elected or re-nominated through a clearly demonstrable process in which each and every member of the Producer Organisation(s) has a say.

1.4 Non-Discrimination

FLO follows ILO Convention 111 on ending discrimination of workers. The Convention rejects "any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation" (art. 1). As far as applicable, FLO extends these principles to members of organisations.

1.4.1 Minimum requirements

- 1.4.1.1 If the Producer Organisation(s) or/and the Promoting Body restricts new membership, the restriction does not contribute to the discrimination of particular social groups.

1.4.2 Progress requirements

- 1.4.2.1 The Promoting Body ensures that programs related to disadvantaged/minority groups within the Producer Organisation(s) are in place to improve the position of those groups, particularly with respect to recruitment, staff and Producer Executive Body membership and Producer Organisation(s) membership.

2. Economic Development

2.1 Fairtrade Price

2.1.1 Minimum Requirements for the Promoting Body

- 2.1.1.1 The Promoting Body ensures that producers know the basis on which the prices are set. The Promoting Body also ensures that for all Fairtrade purchases the price paid is not less than the declared Fairtrade price for the product.
- 2.1.1.2 The Promoting Body ensures that the terms of payment, the provision of credit, including the interest rates, any service charges levied by the service providers in lieu of extension services and any deductions from the payments to be made by the buyers to the producers, has been made clear to the producers in a demonstrable manner before the production cycle begins.
- 2.1.1.3 If the Promoting Body supplies inputs to the producers for the production process, the Promoting Body is able to clearly demonstrate that the prices of these inputs have been declared in a transparent manner. The prices of the inputs shall not be higher than the normal market prices of the inputs.

2.2 Fairtrade Premium

The Promoting Body facilitates processes by which the Producer Organisation(s) develops the capacity to administer the Premium in a way that is transparent to the beneficiaries and to FLO. Decisions on the use of the Premium are taken democratically by the members of the Producer Organisation(s) and the Producer Executive Body.

2.2.1 Minimum requirements for the Promoting Body

- 2.2.1.1 The Promoting Body stands Trustee for the safety of the Fairtrade premiums in the event of any embezzlement of these funds, until the Producer Organisation(s) becomes independent, and replaces an amount equal to the amount embezzled from its own resources. In the event of legal arbitration, the Promoting Body will be held legally responsible by FLO for the safety of the Premium.
- 2.2.1.2 As the legal entity closest to the registered producers, the Promoting Body commits to accept the Fairtrade Premium either directly or in the name of its nominees for onward availability of these funds to the registered producers. A separate bank account specifically to receive the Fairtrade Premium is in place. The administrative cost for this bank account, until the Producer Organisation(s) is established, is paid for equally by the Promoting Body and the premium.
- 2.2.1.3 The Promoting Body accepts in writing that it stands Trustee to FLO for safe custody of the premiums in line with these standards until the organisation(s) of registered producers become independent. The Promoting Body recognises registered producers as the rightful recipients of the premium.
- 2.2.1.4 The Premium is not used at least until the Producer Executive Body is in place.
- 2.2.1.5 The Promoting Body informs the registered producers through the Producer Executive Body on premium availability and ensures its documentation.
- 2.2.1.6 The Promoting Body ensures that the registered producers are aware of the purpose of the Fairtrade Premium, and of the system by which premium receipts and expenses are accounted for to facilitate external auditing.
- 2.2.1.7 No part of the Premium is used by the Promoting Body for facilitating the creation of the Producer Organisation(s) or the Producer Executive Body, except in exceptional circumstances and with the written permission of the majority of the registered producers.
- 2.2.1.8 The Promoting Body commits in writing to allow the Producer Executive Body to make its decisions in an independent manner. The Promoting Body supports the decision making process of the Producer Executive Body regarding the specific use of the Premium.
- 2.2.1.9 The Promoting Body ensures that the Producer Executive Body develops the capacity to manage the Premium in a way that is transparent to the producer members and to FLO.
- 2.1.1.10 The Promoting Body ensures that the system of handling premium funds is audited externally annually and a report as well as audited accounts of Premium use are provided to the registered producers and FLO annually or upon request at any time.

2.2.2 Progress requirements for the Promoting Body

- 2.2.2.1 The Promoting Body makes available capacity building services so that not merely the decision making process on Premium use but also the processes for implementing these decisions, recording these systematically and providing FLO with reports and audited accounts are gradually taken over by the Producer Executive Body and later the Producer Organisation(s).

2.2.3 Minimum requirements for Registered producers and Producer Executive Body

- 2.2.3.1 Each group of registered producers proposes specific uses of the Premium to the Producer Executive Body, which is responsible for vetting and approving the proposals after a consultative process with all registered producers.

2.2.3.2 A mechanism is in place ensuring that the Producer Executive Body splits the Premium proportionately to the different groups of registered producers according to Fairtrade sales.

2.2.3.3 In case the producers hire casual labour for their production activity, the Premium is shared also with the labour and/or their communities.

2.2.4 Progress requirements for Producer Organisation(s)

2.2.4.1 The Producer Organisation(s), with the support from the Promoting Body, is gradually taking over full responsibility for the handling of the Fairtrade premium funds.

2.2.4.2 The Producer Organisation(s), together with the Promoting Body, acknowledges receipt of the premium.

2.2.4.3 If the amount of Premiums available in a year is known in advance, the Producer Executive Body on behalf of the Producer Organisation(s) makes an annual plan and budget, preferably within its general plan and budget for the use of the Premium. Even when the amount of the Premium is not known, the plan is made based on reasonable sales projections.

2.2.4.4 The accounts and annual report of the Producer Organisation(s) are shared at least annually with the all the respective stakeholders (not only with the members).

2.3 Export Ability

The Promoting Body must have access to the logistical, administrative and technical means to bring a quality product to the market.

2.3.1 Minimum requirements for the Promoting Body

2.3.1.1 Logistics and communication equipment are in place.

2.3.1.2 The Promoting Body ensures that the Producer Organisation(s) meet existing quality standards for the market relevant for Fairtrade labelling (preferably through previously sold products).

2.3.1.3 Demand for products of this origin and quality is demonstrated.

2.3.1.4 The Promoting Body has either experience or closely collaborates with buyers who have experience in the commercialisation of a product.

2.3.2 Progress requirements for the Promoting Body

2.3.2.1 The Promoting Body makes available processes through which commercialisation is made increasingly more efficient to maximise the economic viability of the business and to improve the returns available to the producers.

2.3.2.2 The Promoting Body supports and facilitates the Producer Organisation(s) having access to and using any market related certificates, which it holds in their name allowing this organisation to access other buyers independently.

2.4 Economic strengthening of the organisation

2.4.1 Progress requirements for the Promoting Body

2.4.1.1 The Promoting Body provides access to appropriate extension services and pre-financing to the producers.

2.4.2 Progress requirements for the Producer Organisation(s)

2.4.2.1 The Producer Organisation(s) gradually takes on more responsibility over the whole commercialisation process.

2.4.2.2 The Producer Organisation(s) works towards the strengthening of its business related operations.

3 Environmental Development

3.1 Environment protection

The Promoting Body will facilitate processes by which producer members are made aware of their responsibilities towards the environment. Producers are expected to protect the natural environment and to make environment protection a part of farm management.

Producers will implement a system of Integrated Crop Management (ICM), with the aim of establishing a balance between environment protection and business results, through the permanent monitoring of economic and environmental parameters, on the basis of which an integrated cultivation and protection plan is devised and permanently adapted. FLO encourages producers to work towards organic certification. ICM minimises the use of fertilisers and pesticides, and partially and gradually replaces them with organic fertilisers and biological disease control.

3.1.1 Minimum requirements

3.1.1.1 The Promoting Body ensures that producer members are made aware of their responsibilities towards the environment and keep records of the application of these requirements.

3.1.1.2 The Promoting Body ensures that producers live up to national and international legislation regarding the use of pesticides, handling pesticides (storing, filling, cleaning, administration, etc.), the protection of natural waters, virgin forest and other ecosystems of high ecological value, erosion and waste management.

3.1.1.3 Pesticides in WHO class 1 a+b, pesticides in the Pesticide Action Network's "dirty dozen" list and pesticides in FAO/UNEP's Prior Informed Consent Procedure list (respecting updates, see appendix) cannot be used.

3.1.2 Progress requirements

3.1.2.1 The Promoting Body will encourage the members of the Producer Organisation(s) to implement **a system of Integrated Crop Management (ICM)**.

3.1.2.2 The members of the Producer Organisation, with the support from the Promoting Body, are gradually taking over full responsibility to protect the natural environment and to make environment protection a part of farm management.

4 Standards on Labour Conditions

FLO regards the ILO Conventions as the authority on working conditions, and expects all registered producers to meet the requirements as far as possible. Where a significant number of workers are employed by a Producer Organisation there are specific standards to meet. In cases where a small number are employed and where workers are casually hired by farmers themselves, the organisations should take steps to improve working conditions and to ensure that such workers share the benefits of Fairtrade. This should be part of the development plan and be reported to FLO.

The term "workers" refers to all those employed, including casual, seasonal and permanent workers.

In cases where a plantation or factory is a member of the producer organisation certified by FLO, the generic standards for hired labour apply fully and the plantation or factory will need to go through a separate inspection process. However, the Promoting Body itself will not be inspected against these standards unless it is a part of the product handling chain.

In the case where small producers use externally hired labour to augment their own and family labour it is expected that this labour would also meet the ILO conventions.

Applicable to all Producer Organisations and their members (through the Promoting Body)

4.1 Forced Labour and Child Labour

FLO follows ILO Conventions 29, 105 and 138 on child labour and forced labour. Forced or bonded labour must not occur. Bonded labour can be the result of forms of indebtedness of workers to the company or middlemen. Children may only work if their education is not jeopardised. If children work, they must not execute tasks, which are especially hazardous for them due to their age.

4.1.1 Minimum requirements

4.1.1.1 The Promoting Body ensures that forced labour, including bonded or involuntary prison labour does not occur.

- 4.1.1.2 The Promoting Body ensures that children are not employed (contracted) below the age of 15.
- 4.1.1.3 The Promoting Body ensures that working does not jeopardise schooling or the social, moral or physical development of the young person.
- 4.1.1.4 The Promoting Body ensures that the minimum age of admission to any type of work which by its nature or the circumstances under which it is carried out, is likely to jeopardise the health, safety or morals of young people, shall not be less than 18 years.
- 4.1.1.5 The Promoting Body ensures that employment is not conditioned by employment of the spouse. Spouses have the right to off-farm employment.

4.1.2 Progress requirements

- 4.1.2.1 The Promoting Body makes the Producer Organisation(s) and the individual producers aware of the ILO conventions and encourages them to follow these with regard to their labour force.
- 4.1.2.2 The Producer Organisation, with the support from the Promoting Body, is gradually taking over full responsibility to improve the working conditions of their members and their labour force.

4.2 Non Discrimination

FLO follows ILO Convention 111 on ending discrimination of workers. The Convention rejects “any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation” (art. 1). As far as applicable, FLO extends these principles to members of organisations.

4.2.2 Progress Requirements

- 4.2.2.1 The Promoting Body is responsible to make the producers aware of the laws relating to sexual harassment. If there are no such laws, the Promoting Body is responsible to draft a suitable policy in this regard and to make all producers aware of the same.
- 4.2.2.2 In the event where women labourers are used the Producer Organisation(s) has a system by which any cases of sexual harassment are reported to a specific body set up by the organisation and suitable action is taken against the errant producer.