

# **Oversight Committee Minutes**

## **Meeting 34: 18&19 September 2023**

### **Teleconference meeting**

#### **Present:**

OC members: Jules Colombo (day 2), Theresa Glammert-Kuhr, Martin de la Harpe, Ben Huyghe, Richard Kwarteng, Marike de Pena, Iresha Sanjeewanie, John Young (Chair)

Excused: Jules Colombo (day 1, proxy to John Young), Jannis Bellinghausen (substituted by Theresa Glammert-Kuhr)

Fairtrade International S&P: Eleonora Gutwein, Margret Loeffen, Christine Knickelbein

Contributing observer: Monika Berresheim (item 9)

Observers: Kerstin Cron (items 3, 5, 6); Simone Fernandes (item 5); Oksana Forkutsa (items 5, 6, 9); Subindu Gharkel (items 5, 6); Ernesto Gonzales (items 3, 9); Thomas Meyer (item 4); Caroline Schersch (item 9); Sarah Singer, Markus Staub (item 3)

#### **Disclaimer:**

The Fairtrade International (FI) Oversight Committee (OC) aims to reach consensus, but decisions may not always reflect the opinions of all members.

#### **Item 1 – Opening**

The chair opened the meeting and stated that the quorum was met.

Agenda: The agenda was agreed upon unanimously.

Conflict of interest: No conflict of interest was identified.

#### **Ground Rules:**

The chair reminded the OC about the ground rules for the meeting:

- All confidential information shared within the committee is kept confidential and should not be circulated or disclosed outside the committee. This does not apply to public minutes.
- All decisions will be based on consensus whenever possible.

#### **Review of actions items:**

Fairtrade Pilots:

- Pilot Facilitator (PF) to develop a work instruction → is being finalized.
- Collect further information on ongoing pilots and filling key documentation gaps for identified pilots with pilot project managers as well as filling information gaps in the pilots tracker → on the agenda for this meeting (item 8).

- Implement OC guidance and collect monitoring indicator data to update the OC on the progress of pilots → on the agenda for this meeting (item 8).

### **Item 2 – Updates**

#### **Fairtrade Australia & New Zealand (FANZ)**

In the OC meeting in June, the OC had agreed on the recommendation to the FI Board to revoke the certification rights of FTANZ due to major disruption in their operation. The board has not yet taken a decision, it is planned for the coming months. In the meantime, information is being collected on the affected customers to have a better idea of the size of the business and to develop a feasible transition plan.

#### **ISEAL assurance code**

From FI's independent evaluation against the ISEAL Assurance code, two remaining non-compliances (NCs) were closed. One NC is being clarified and is expected to be closed soon, too. There is only one NC left for which the correction deadline has been extended to January 5, 2024.

### **Item 3 – Gold pilot approval request**

The PF presented a pilot project to test sourcing gold for electronics, and its scalability, to the OC for decision. The presentation included a description of the pilot, results from the peer consultation and inputs from the Fairtrade Executive Team (FET) as well as an overview of advantages and risks with mitigation measures. Based on the assessment the PF recommended the OC to approve the start of the research phase for the pilot on gold sourcing for electronics. The PF appraised the pilot with a 76% feasibility. The FAIRTRADE Mark will not be used.

An iterative decision-making process was proposed as more details would be clarified in the research phase of the pilot. Another OC decision will be asked to implement the pilot and another one after testing in two supply chains.

#### **Discussion:**

The OC welcomed the iterative decision-making approach with the short research phase as this pilot has a different context than usual pilots.

The point was raised that in gold in general testing the impact on mines is needed and to see if such project was sustainable. A pilot was seen as a good option for such evaluation.

The importance of a good nomenclature was put forward for a good distinction between “book and credit” and “book and claim” (no legal ownership of the product) which is not the case for this pilot as it is about Premium balancing not volume balancing.

It was also suggested to use the mass balancing approach with a legal purchase instead of Premium balancing as it would be possible to trace in Fairtrade and make it more credible, and feasible to certify.

Overall, the OC recommended using the research phase to clarify the nomenclature (to make sure it is consistent and aligned with other processes like exceptions) and to work on the claim associated with this sourcing model.

#### **Decision:**

The OC unanimously agreed to approve the start of the pilot to test sourcing gold for electronics with the conditions as set out by the PF.

#### **Next steps:**

- Q3/Q4 2023: Consult FET

- Q3/Q4 2024: Update on research, planning and consultation phase results for OC inputs and endorsement
- Q4 2025/Q1 2026: Present results phase 1 for OC endorsement
- Q2 2026 - Q2 2027: Phase 2
- Q2 2027: Pilot appraisal for OC endorsement

The OC will be regularly updated on the progress and later on the monitoring data.

#### **Item 4 – Potato pilot approval request**

The PF presented a pilot for retro-certification for potatoes to the OC for decision. The pilot presents an opportunity to formalize an existing exception on retro-certification for potatoes and gather learnings that would inform the review of Fairtrade Standard for Fresh Vegetables, specifically related to requirements for possible retro-certification. The PF recommended to approve the proposed pilot. The PF appraised the pilot with 89% feasibility, indicating high feasibility. The FAIRTRADE Mark will be used.

#### **Discussion:**

The OC suggested looking into a second supply chain as this might be valuable.

The need for a good nomenclature was raised here as well to distinguish between “systemic retro-certification” (regulated by the Standard) from “occasional retro-certification” (as an exception). Systemic retro-certification is already permitted in certain Fresh Fruits and will soon be introduced in Flowers. It is also applicable to Sugar and Tea with specific rules around it.

It might also be efficient to cover vegetables in general and ideally have same rules for perishable fruit and vegetables. The PF pointed out that this would be part of the research.

The OC suggested to look into other supply chains like beets or carrots. However, as this would require more resources, the PF suggested to see how the current pilot evolves. Other products would be part of additional pilots if brought forward separately.

#### **Decision:**

Decision 1:

The OC unanimously approved the pilot to test retro-certification in potatoes supply chains as recommended by the PF.

Decision 2:

The OC unanimously approved to include the possibility of maximum 1 new potato supply chain to ensure a level playing field.

#### **Next steps:**

- Q4 2023: Signing pilot agreements with PM and announce pilot (by PF)
- Q4 2023: Include pilot on digital projects map and create URL (by PF)
- Q4 2023: Set monitoring indicators (PM with support PF)
- Q4 2023: Develop PM ToR (PF)
- Q4 2023: Develop other pilot documentation as required for the ‘Research, consultation and planning checklist’ (PM with support PF)
- Q4 2025: Appraisal and final report to the OC for OC endorsement (PM and PF)

The OC will be regularly updated on the progress and later on the monitoring data.

### **Item 5 – Cotton pilot approval request**

The PF presented a pilot to test a new model for the product composition of cotton products, allowing the blending of Fairtrade cotton with recycled cotton as long as the Fairtrade cotton content continues to be at least 50% of the final product. The PF set out the rationale for the pilot and an analysis on the risks and benefits. The OC was asked to approve the pilot. The PF appraised the pilot with a 84% feasibility, indicating high feasibility. The FAIRTRADE Mark will be used (with clear indication of % Fairtrade content).

#### **Discussion:**

The question was raised if the policy for cotton product composition rules for different cotton product had been approved and made publicly available or if the relevant parts would be added as an interpretation note to the Cotton Standard product composition requirements. The AM responded that the long-term plan was to include what is needed from the cotton policy into the Standard and not to have an extra policy anymore.

Another question was if a pilot was needed or if this model could be part of the existing policy (blending with recycled fibres). The PF pointed out that a pilot was needed as the Fibre Crop Standard requires that all the cotton used has to be Fairtrade certified. The set up in the pilot is not covered by the Standard as it would be mix of Fairtrade cotton and non-Fairtrade (recycled) cotton.

Other suggestions were:

- To clarify how to check that what is added is actually recycled, as usually the non-Fairtrade ingredient of a product is not checked.
- To have a clear Fairtrade claim which should specify the recycled content.

#### **Decision:**

The OC unanimously approved the Pilot on blending Fairtrade cotton with recycled cotton as recommended by the PF.

#### **Next steps:**

- Q4 2023: Develop workplan and PM ToR
- Q4 2023: Complete other pilot documentation as required for the 'Research, consultation and planning checklist' (PM with support of the PF)
- Q4 2026/Q1 2027: Appraisal and final report to the OC (PF)

The OC will be regularly updated on the progress and later on the monitoring data.

### **Item 6 – Australian cotton pilot approval request**

This PF presented a 3-year pilot for testing blending Fairtrade cotton with cotton certified by 'Cotton Australia' in a 50/50 blend to the OC for decision. The PF appraised the pilot with a 62% feasibility. The FAIRTRADE Mark would be used (with clear indication of % Fairtrade content).

#### **Discussion:**

The OC pointed out that a risk evaluation of this pilot was difficult without a proper due diligence on the other label that would be used alongside with the Fairtrade one.

Another concern was that this pilot would be against the Fairtrade principles not to put Southern producers in competition with Northern producers on the same crop, which could have implications on other products too.

There was a concern on the traceability, where the PF clarified that the Australian cotton would be shipped to India for processing with Fairtrade certified cotton which means that the AP would do all the certification.

**Decision:**

The OC did not approve the pilot (6 disagreed, 1 abstained, 1 agreed).

**Next steps:**

- Inform the PM about the OC decision and ask to resubmit a pilot application with a due diligence on Cotton Australia

**Item 7 – FLOCERT reports**

Prior to the meeting, FLOCERT's Senior Assurance Scheme Manager (SASM) had shared their Certification KPI Report 2022 with the OC. The main highlights of the report were presented during the meeting.

The ASM asked for guidance on how to proceed in the future regarding the presentation of the KPI report.

**Discussion:**

The following points were raised during the discussion:

The OC asked if the report could include more details on the NCs which have led to sanctions, to understand the impact of changes in the Standards on NCs and to identify which Standards are difficult to be met. The AM pointed out that this kind of information is not part of the FLOCERT reporting duty on their KPI performance. Analysis on NCs is part of the monitoring review of the Standards and lies with the Standards Unit. Such review should happen one/two years after a new standard is implemented and is part of the Standards Committee work.

It was agreed to separate the number of decertifications due to non-payment from the voluntary decertifications in the future.

The question was raised if there were any products that stand out in the NCs and decertifications, and if these numbers were put into context to understand the reasons. There is no concrete analysis made, however, the risk classification of customers gives a good indication on high-risk sectors. As a result, the AP is auditing there more. The SASM welcomed the OC to look at the product factsheets that the AP provides on their stakeholder portal which give some context to these matters.

The AM concluded that the purpose of the Certification KPI Report is to monitor the performance of the certifier which is a requirement from ISEAL. However, the need to review and update the indicators was acknowledged, which will be done together with the AP. It will also be a good opportunity to distinguish between what is necessary for Oversight on the certification body to monitor their performance and what is interesting from a business development perspective (this should go to another forum).

**Next steps:**

- Q2 2024: AM and SASM to review and update the KPIs.

**Item 8 – Pilot updates and learnings**

The PF gave an update on the active pilots and the progress against the monitoring indicators set for each pilot.

In this meeting the PF presented the full list of pilots with their progress monitoring and first learnings.

The following pilots are currently in the implementation stage and show good progress:

- Textiles pilot
- Max Havelaar France North- North pilot
- Young plants pilot

- Coconut for processing–Pricing for Impact Pilot

The following pilots are in the SOP pre-request stage:

- The “environmental and social COSP pilot” shows good progress and a formal application is expected for November 2023.
- The “Voluntary LI/LW Standard pilot” shows some limited progress and will probably be turned into an offer to business project.

The PF asked the OC to decide on two pilots which had been discontinued:

- South– south sugar India pilot (due to lack of progress and identified risk):

The PF made the following recommendations to the OC:

1. to extend the discontinued status of the pilot until 30.11.2023 to give a final chance to receive a final application with a proposal to mitigate the identified risk (While the pilot is discontinued, no sales contracts can be signed against pilot conditions.)
  2. to close the pilot by 30.11.2023 if no application is received by the PF by 30.09.2023. If a pilot application has been received, it will be brought to the OC for decision making.
- Voluntary organic differential cotton India pilot (due to major change of external circumstances and unclear processes and responsibilities.):

The PF made the following recommendations to the OC:

1. To extend the pilot until end of November 2023 to confirm whether there is interest from an entire supply chain in the pilot. If there would be supply chain interest, a formal request for extension will be brought to the OC in November.
2. To close the pilot by 30.11.2023 unless interest of a concrete supply is confirmed by support letters received by the PF no later than 15.10.2023.

The PF presented initial learnings gained through the pilot processing which led to the following conclusions:

- Several points will be considered for the review of the pilots SOP in 2024: Iterative decision making, formal pilot announcements, end-announcements, potential default closing of inactive pilots and further clarifications to the process.
- PF needs to actively support and follow-up (especially for monitoring).
- Closer alignment with the workstreams of the Innovation Hub and the Global Service Development unit have started and shall be deepened.

### **Discussion:**

#### South– south sugar India pilot:

If the OC decides to close the pilot, the stakeholders can still hand in a new request for a pilot and start fresh and following the pilot SOP. Provided that new contracts aren't signed there is no big risk to close the pilot.

The stakeholders will be informed by the decision so they can still submit a final application until the end of September 2023 and even beyond, always two months before the next OC.

#### Voluntary organic differential cotton India pilot:

The OC raised the importance for having success criteria, and that pilots should be closed if they were not reached. The PF clarified that this pilot (as well as the one discussed before) was an old pilot which had not been proposed under the pilot SOP and that this was merely for cleaning up. Now with the pilot SOP a proper monitoring will be in place for future pilots.

It was suggested to just keep this pilot close and wait for a new application.

### **Decisions:**

Decision 1 on the “South– south sugar India pilot”:

The OC unanimously agreed to

- allow the pilot to remain discontinued until November 2023, so give the FMO and GPM one final chance to submit a final application with a proposal which the AP considers auditable to mitigate the risk of volumes traded against the pilot conditions leaving India via Mass Balance.
- the automatic pilot closing by 30.11.2023 if no application is received by 30.09.2023. If no pilot application is received, the pilot will be closed automatically in November 2023. If a pilot application has been received, it will be brought to the OC for decision making.

Decision 2 on the “Voluntary organic differential cotton India pilot”:

The OC unanimously agreed to

- close the “voluntary organic differential cotton India pilot”.

### **Item 9 – Sugar Exception**

The Senior Advisor (SA) Sugar gave an overview on the current sugar market and issues producers and traders are facing.

The AM explained the several measures proposed by the SA Sugar, FI, and the Supply Chain Manager for Sugar in Fairtrade Germany, that is believed to address the many challenges present in the sugar industry. Furthermore, the AM presented a category B exception, for special circumstances, which was requested by the Brand, Licensing and Trademark Legal Specialist at Fairtrade Australia and New Zealand (ANZ) and was escalated by the Exceptions Committee (EC) to the OC for decision as it was found too complex and high risk. The need for the measures and the exception is related to the complex and difficult situation of sugar producers and traders, where the demand for Fairtrade sugar is very high and at the same time the production of Fairtrade sugar has significantly declined, due to export bans (e.g. Cuba), decertification of producers (e.g. Mauritius) and other unforeseen circumstances (e.g. Malawi, Mauritius weather conditions).

According to the SA Sugar, FI, the measures and the exception aim to relax the rules of the Fairtrade Standards (Cane Sugar and Trader) regarding mass balance in order to allow more flexible solutions for producers to sell their products as Fairtrade. The proposed models in the measures and in the exception, the mass balance ‘book and claim’ (similar to Group Mass balance) or the ‘Premium credit booking’ (not at present model used in the Fairtrade Standards) are currently not allowed in the Fairtrade Scheme, especially for Single Site Mass Balance, in any product category. This is because in the case of mass balance ‘book and claim’ there is no physical delivery of the Fairtrade product to the processing site of the Fairtrade certified entity and in the case of ‘Premium credit booking’ there is no actual purchase (legal ownership) of the Fairtrade volumes at all. In this case the premium is paid to the Fairtrade certified producers equivalent to the non-Fairtrade volume purchased and booked as Fairtrade in documents. It is argued by the SA Sugar, that allowing more flexibility and granting an exception for Premium credit booking is a producer centred solidarity solution.

The AM understands that granting such exception would also serve the purpose of offering a flexible solution to Fairtrade producers so they can benefit from the Premium while at the same time, exporters at origin can keep supplying the market with the sugar the market needs.

Furthermore, the AM presented an analysis that had been conducted, considering input from the SU (Standards Unit), FLOCERT, Brand and the OC technical members to reflect on the measures proposed.

The proposed measures in detail and AM’s conclusions and recommendations are as follows:

**Measure 1: ‘Flexible’ Like-for-like rule for the exchange of types of sugar when mass balancing**

Conclusion: Since the price of white sugar has increased, it is justified to temporarily allow the sourcing of white refined sugar to mass balance and create unrefined brown sugar without the need for traders to demonstrate that the transaction was NOT disadvantaging producers. The assumption is, that since there is high demand for Fairtrade sugar, and the price of the white sugar has gone up, allowing this exchange will be to the benefit of the producer after all.

Recommendation: to grant a collective exception to temporarily allow the sourcing of white refined sugar to mass balance unrefined brown sugar without the need for traders to demonstrate that the transaction was not to the disadvantage to the producer.

Measure 2: Flexible Mass Balance and the interpretation of 'processing': Temporarily lifting the physical delivery rule in the single site mass balance requirement (TS 2.1.10)

Conclusion: The Trader Standard requires certified operators trading in single site mass balance, that the Fairtrade inputs must be delivered to and processed at the same site where the Fairtrade output is processed. Traders should aim to use Fairtrade inputs to process or sell Fairtrade outputs. The collective exception aims to relax this rule for sugar to allow certified traders to buy Fairtrade sugar without the physical delivery of this same Fairtrade sugar to the processing unit.

Recommendation: to grant an exception to the single site mass balance rule, to allow traders to buy Fairtrade sugar without the physical delivery of this same Fairtrade sugar to the processing unit.

Measure 3: Exception to allow Premium credit booking of Fairtrade Premium between sugar producers in Mauritius and Fiji

Conclusion: The measure goes beyond book and claim model: which would lead to reputational risk for Fairtrade

Recommendation: not to approve the exception to allow Premium credit booking of Fairtrade Premium between sugar producers in Mauritius and Fiji (transaction (premium paid) without physical/legal purchase of any Fairtrade volumes (goes beyond the book and claim model)) as it is deemed a high reputational risk for Fairtrade.

The OC was asked to decide on the measures and the exceptions as recommended by the AM.

### **Discussion:**

The OC discussed the three measures and raised the following points:

There was consensus that there is a need to solve this emergency and that the complexity of the product was affecting adherence to the Standards. It was recommended to react now by agreeing on temporary measures and later to find a long-term solution, e.g. by a change in the Standards.

Measures 1 and 2 were seen to reduce the barrier to sell Fairtrade sugar and increase sales and Premium which would benefit the producers. It was recommended to look at the impact of the granted exceptions and potentially arising risks to be able to take a concrete decision for next steps.

The measures were seen as less risky as there would be a physical purchase of Fairtrade sugar which can be reported and checked in Fairtrade (the AP's transaction and premium payment reporting tool).

The measures could be seen as "an expansion of the possibilities of mass balancing".

Measure 3 was seen as posing a higher reputational risk as there would be no purchase of Fairtrade sugar and no legal ownership.

In theory, the measure would support producers in their challenging situation, as they would get Premium that they could invest in production. However, receiving Premium without actual documented sales, would pose a problem for the producers' books and they could be accused of money laundering. A separate reporting system like Fairtrade would have to be developed to collect Premium payments to be able to monitor them.



In addition, the Producer Network representatives raised that receiving Premium without actual Fairtrade sales would be against the Fairtrade principles that are about trade and not charity.

To find a long-term solution, the AM proposed to review the different mass balance rules during the Trader Standard revision, to consult on the 3 proposed measures (which would entail an adjustment of the claim) and a clarification of the existing rules.

**Decision:**

Decision 1: The OC unanimously approved measure 1, the collective exception to the like for like rule for one year as set out by the AM.

Decision 2: The OC approved, with one abstention, measure 2, the exception to the physical delivery requirement in the site mass balance requirement for one year as recommended by the AM.

Decision 3: The OC agreed, with two abstentions, to decline the granting of the exception on Premium credit booking as described in measure 3.

**Next steps:**

- October 2023: AM to draft the exception granting letters following the OC decision
- October 2023: OC Chair to sign the granting letters
- October 2023: AM to inform parties involved and other members on a need-to-know basis
- October 2023: Implement measures according to the OC decision
- November 2023 – 2024: SA Sugar to monitor measures according to OC decision
- November 2024: SA sugar to report back to the OC with an evaluation of the measures implemented through the exception

**Item 10 – Chair and Vice Chair Election**

The OC members decided to postpone the Chair/Vice chair election to the November OC.

**Item 11 – AOBs**

**The second term of a technical member of the OC** is ending end of 2023. According to the OC ToR terms of technical members can only be renewed once in contrast to the SC where the term of a member can be renewed twice. The call for a new OC member will be launched as soon as possible. At the same time, it was suggested to look into aligning the OC ToR to the SC ToR, thus allowing to renew the membership of technical members twice.

**Pilots:** The concern was raised if the pilot planning considered the required effort for the AP and whether or to what extent a pilot would create additional costs to the AP: In general, the lead of the pilot has to make sure budget is available to cover incurring costs. After the endorsement of a pilot follows a research phase to develop the pilot where resources have to be taken into account. The AP will have to be involved in the research phase to be able to estimate the cost/effort and to see how it can be covered.

**Next Meeting date:**

The next Oversight Committee meeting will take place on November 28, 2023.

The meeting was formally closed.