



FAIRTRADE
INTERNATIONAL

EXPLANATORY DOCUMENT FOR THE FAIRTRADE TRADER STANDARD



Photos: Tea – India, Didier Gentilhomme; Cocoa – Ivory Coast, Marie-Amélie Ormières; Flowers – Kenya, Fairtrade International SU; Bananas – Dominican Republic, Nicolas Gauthy

This document may be principally helpful to traders that are Fairtrade certified or Fairtrade verified, as it describes the requirements that are applicable to them. For producers and for non-certified licensees, this document may also be helpful to raise awareness about trader requirements.

The Fairtrade International Standards & Pricing provides this Explanatory Document to all stakeholders to explain the intent and requirements of the standard and to guide to full understanding of these.

This Explanatory Document however is not part of the Standard, and neither does it replace it. Operators will only be audited/verified on the Standard, not on this Explanatory Document.



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Introduction:

1 Purpose of this document

This document is intended to help understand the Fairtrade Trader Standard. It should be read together with the Standard

(http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/generic-standards/TS_EN.pdf) and the Fairtrade Product Standards (<http://www.fairtrade.net/our-standards.html>).

Every organization is different, and representatives of producers can also request practical and specific regional advice from the National Fairtrade organization or Producer Network in their country.

2 What is Fairtrade?

Fairtrade's vision is a world in which all producers can enjoy secure, sustainable livelihoods, fulfil their potential and decide on their future. It is a trade relationship looking for equity and connecting disadvantaged producers and consumers. It allows producers to reach export markets under fairer conditions, strengthen their position in international trade, gain improved access to finance, and take part in capacity-building programs and generally take more control over their lives. For workers on farms, it means primarily decent wages, the right to join trade unions and overall better working conditions.

In order to be part of the Fairtrade system, traders and producers have to comply with certain requirements which are defined in the Fairtrade Standards set by Fairtrade International. A certification body audits and grants certificates to traders for complying with this standard.

3 What is the underlying principle of the Trader Standard (TS)?

The aim of this standard is to foster the establishment of mutually beneficial and sustained trade relationships between Fairtrade certified producers and traders. It is also intended to provide greater transparency of the flow of Fairtrade Premium and prices as a core element of the TS. This standard provides a consistent set of trade rules across all Fairtrade products. Some product specific rules are then defined in the product standards.

4 Core requirements and voluntary best practices

The new version of the Trader Standard (applicable from September 2015) includes both core requirements and voluntary best practices (VBP).

All core requirements in the TS must be complied with. They are minimum requirements, meaning that operators have to comply with all of them upon first certification.

In addition, the Standard includes voluntary best practices, that are not compulsory for Fairtrade certification, but that recommended as best trading practices. VBP are a new element of the Trader Standard which aims to recognise and incentivise certified traders who go beyond minimum compliance and who are committed to best trading practices. VBP are being introduced to offer a continuous improvement framework for traders to work towards best trading practises across their businesses. Producers would also benefit from knowing what is considered best practice in their ongoing negotiations with traders. Another key rationale for introducing VBP is that they constitute a framework to progressively engage with supply chain actors beyond the Fairtrade Payers, and encourage them to move towards more sustainable trading practices.

5 To whom does this standard apply?

This standard applies to all who trade (buy, sell or process) Fairtrade certified products, up to the point where the product is in its final packaging. In other words this means that within this scope all operators who take legal ownership of Fairtrade certified products must be audited and certified against these standards. This can vary among products and supply chains. In fresh fruit for example, producers often label and package the product at the producers' site.

FSP cotton operators beyond ginning, called "verified operators", also fall under the scope of this standard.

In addition to the above, all operators receiving or handling the Fairtrade price and Fairtrade Premium must comply with this standard, even if they don't take ownership of the product.

This standard also applies to producers who act as traders by trading Fairtrade products on behalf of other producer organisations.

Non-certified licensees fall beyond the scope of certification and are not audited against this standard. Rules applying to non-certified licensees are defined in their licensing agreement. However, the clauses of the licensing agreement reflect the intent of the Standard.

Since some requirements apply to some traders and not to others, a box at the top of each requirement or voluntary best practice clearly specifies who the requirement applies to.

6 To which Fairtrade mark does this standard apply?

This standard define the rules for trading products under both the Fairtrade mark and the Fairtrade program mark of the Fairtrade Sourcing Programme (FSP) for cocoa, sugar, cotton and the Gold Sourcing Programme. For more information on these Marks, please click on this link: <http://www.fairtrade.net/the-fairtrade-marks.html>.

In general, all requirements apply to both the Fairtrade mark operators and the FSP operators. When requirements are applicable solely to FSP operators, it is mentioned in the “applies to” column.

7 How are operators certified and audited?

Operators wanting to apply for Fairtrade certification have to get in contact with FLOCERT¹ or with the respective Certification Body operating in their country. More information on the application process can be found on the website: <http://www.flocert.net/fairtrade-services/fairtrade-certification/how-it-works/>.

After the initial certification, audits are carried out regularly to check if operators comply with the Fairtrade Standards. .

All core requirements of the standard are translated into technical compliance criteria, which define concretely what operators are expected to do to fulfill the standards. The list of compliance criteria (checklist) is published by the certification body. This is a very useful checklist and can be accessed at <http://www.flocert.net/fairtrade-services/fairtrade-certification/compliance-criteria/>.

If during an audit, a trader is found non-compliant against a compliance criteria, a non-conformity is raised and corrective action is required.

Voluntary Best Practices (VBP) are reflected in the certification checklist as “assessment criteria”. All traders are audited against the assessment criteria to check whether they are applying these practices or not. But since these VBP are voluntary, a non-compliance will not lead to a corrective action nor sanction, and will not affect the certification status of the operator. Those traders who do engage in VBPs will get a positive score.

When there is doubt on whether an operator has correctly fulfilled a requirement, the certification body will make its assessment according to the objectives of the standards.

8 When does this standard become applicable?

This standard becomes applicable as of September 1st, 2015. This means that from September 1st 2015 on, all certified traders are required to start complying with the standard requirements. Auditors will start using the checklist of the new standard as of September 15th, but will apply it only to activities that have taken place after September 1st 2015.

For example, the contract requirements apply to contracts signed after September 1st. The quality claim requirements apply to quality issues that occurred after September 1st. The pre-

¹ More information on the application process can be found on the website: <http://www.flocert.net/fairtrade-services/fairtrade-certification/apply-for-fairtrade-certification>

finance requirement applies to shipments that will take place at least 6 or 8 weeks (depending on the product) after September 1st.

The labour and environment sections of the standard will become applicable as of January 2017. All traders are expected to comply with these requirements. Fairtrade will start auditing against them as of January 2017 as the assurance model behind still needs to be defined in more detail. This also gives a transition period for operators to prepare themselves for conformity.

9 Which additional documents are relevant for certification?

The TS is the main reference for traders in Fairtrade². In addition to the trader standards, Fairtrade International publishes **product-specific standards** that need to be considered when producing and trading a specific product.³ The product standards include some product specific requirements that come in addition, complement or replace the Trader Standard.

If you are trading a product sourced from a SPO, please consult the product standards here:

<http://www.fairtrade.net/small-producer-standards.html#c7105>.

If you are trading a product sourced from a Hired Labour set-up, please consult the product standards here: <http://www.fairtrade.net/hired-labour-standards.html#c7122>

If you are trading a product sourced from a Hired Labour set-up, please consult the product standards here: <http://www.fairtrade.net/contract-production-standards.html>.

Fairtrade Minimum Prices and Fairtrade Premium levels are published separately from the product standards. An updated version of the **Fairtrade Minimum Price and Fairtrade Premium database** can be found on the Fairtrade International website:

<http://www.fairtrade.net/793.html?&L=0>.

Those responsible for paying the Fairtrade Price and Premium to producers (Fairtrade payers and conveyors) have to make sure that their payments at least meet the Fairtrade Minimum Prices or the relevant market price whichever is higher, plus the Fairtrade Premiums published by Fairtrade International. Also, producers need to make sure that they are informed about relevant Fairtrade Minimum Prices and Fairtrade Premium levels.

² For producers, the requirements related to their trading practices are included in their respective producer standard (Small-producer organisation, Hired labour set up, or contract production set-up). www.fairtrade.net/generic_producer_standards.html

Summary of Requirements

1. Generic requirements

1.1. Right to trade

All trading operators who take ownership of the Fairtrade product at some point in the supply chain or handle the Fairtrade Price and Fairtrade Premium must receive permission from the certification body before starting to trade (req. 1.1.1). They will be audited in order to check if they are in line with Fairtrade Standards. The operator makes sure that all sites which are related to Fairtrade activities including storage and processing buildings, can be accessed by auditors (req. 1.1.2).

In addition, the certified operator must contractually require all its additional entities / sub-contractors to comply with the standard and to accept audits, and must register these additional entities with the certification body (req. 1.1.3). The certification body decides on a case by case basis if it is necessary to check subcontractors. They assess if there is a risk that the standards are not entirely respected at the subcontracting site and decide if consequently, an inspection is needed. In case two operators use a common processing unit on sub-contract, they both have to provide details separately (e.g. for the social compliance third party audit report in the case of cotton).

To ensure traceability, traders can only purchase Fairtrade products from Fairtrade certified suppliers (req. 1.1.4). At the same time, traders can only sell Fairtrade products (as Fairtrade), to Fairtrade certified (or verified) traders (req. 1.1.5).

NEW: When purchasing from SPOs, traders must purchase products from the Producer Organization itself, not from individual members of the cooperative. In case it is not possible, the trader needs to demonstrate why, and have to framework contract to define the conditions (1.1.6).

If a producer or a buyer is suspended from Fairtrade, deliveries of Fairtrade products already agreed on in signed contracts are fulfilled unless both parties agree otherwise (req. 1.1.7).

In case a producer or a buyer is decertified, it must immediately stop selling or buying products as Fairtrade. This rule has to be respected from the date of decertification (req. 1.1.8).

All operators have to name one key contact person who is responsible for all Fairtrade matters and provides the certification body with updated contact details and other relevant information (req. 1.1.9). This person needs to have the responsibility for compliance in the company, and have the adequate means to ensure compliance.

✓ 1.2. Use of the Fairtrade mark

Any use of the Fairtrade trademark or any claim or reference to Fairtrade needs prior authorization. The standard includes rules on when and how to apply the trademark's use, and makes reference to the Trademark Use Guidelines. This requirement is now extended to any reference to Fairtrade or any claim related to Fairtrade, on products but also in any communication (req. 1.2.1, 1.2.2, 1.2.3).

2. Trade:

✓ 2.1. Traceability

Traceability means that individual Fairtrade products need to be identifiable as Fairtrade at all steps of the supply chain and in all relevant documents and packaging. The aim of Physical Traceability is to ensure that products sold as Fairtrade are sourced from Fairtrade producers. The objective of Documentary Traceability and Mass Balance is to ensure that Fairtrade producers have received the applicable Fairtrade Minimum Price and Fairtrade Premium.

The TS rules on traceability are divided into three sections:

- **Documentary traceability** requirements → compulsory for all operators
- **Physical traceability** requirements → compulsory for all operators except cocoa, cane sugar, fruit juices, tea, and FSP cotton operators with no physical traceability. Applicable to cocoa, cane sugar, fruit juices, tea, and FSP cotton operators who voluntarily choose to apply physical traceability.
- **Mass Balance** requirements → compulsory for cocoa, cane sugar, juice and tea operators and to FSP cotton operators with no physical traceability

What does Documentary Traceability imply?

Documentary traceability is compulsory for all Fairtrade operators. Fairtrade products have to be identified in all documents with an identification mark, e.g. the words "FLO Fairtrade" and the buyer's FLO ID. All Fairtrade operators have to demonstrate where the Fairtrade product came from and to whom it was sold. Contracts, bills of lading, delivery notes, invoices etc. will demonstrate which volumes of Fairtrade product were bought, sold and manipulated. The following information must be documented:

- Sale of the Fairtrade product: What was sold (product form, volumes)? Who sold it? When?
- Processing of the product: Type of processing? Yields?

The operator must have a system in place to record all relevant information. Every quarter, the Fairtrade payer must send a report to the certification body with details of all the

Fairtrade transactions. Volumes will be checked to ensure that the amount of Fairtrade product sold is equivalent to the amount of Fairtrade inputs sourced (taking processing yields into account).

Is Physical Traceability compulsory for all operators?

In principle, Fairtrade International standards require physical traceability for all products and operators.

However Fairtrade International does not want to put unreasonable expectations on Fairtrade producers and traders. Physical traceability of cocoa, tea, sugar and juice products is not possible without excluding a significant number of farmers and workers from Fairtrade's benefits – and often the most marginalized. By requiring physical traceability on products where producers have no control over processing, farmers and workers would lose opportunities to sell on Fairtrade terms if the companies processing their products don't keep Fairtrade products separate. As a result, Fairtrade International exempted sugar, fruit juice, tea and cocoa from the physical traceability requirements. For these product categories physical traceability is **recommended but not compulsory**. All operators that have physically traceable products are encouraged not to drop this traceability.

Also, in the Fairtrade Sourcing Programme, where the primary focus is on the volume of raw commodities sourced under Fairtrade terms, physical traceability is not required.

What does Physical Traceability imply?

Physical traceability in a Fairtrade supply chain is the ability to follow a specific Fairtrade product all along the supply chain and through all stages of production and processing. Fairtrade products have to always be segregated from non-Fairtrade products (exceptions apply to cocoa, tea, sugar and juice products). For instance: Fairtrade coffee cannot be mixed in transportation with non Fairtrade coffee and Fairtrade rice cannot be stored simultaneously in the same silo as non Fairtrade rice.



When processing the product, Fairtrade products need to be processed in different processing lines than non Fairtrade products. If this is not possible Fairtrade products will be processed at a different time than non-Fairtrade products. The operator also has to ensure that the risk of Fairtrade products being replaced with non-Fairtrade products is minimal.

It is in the hands of the operator to choose how it will guarantee physical traceability. The operator has to make sure that the product is clearly identifiable e.g. marked as "FLO Fairtrade" with the Fairtrade International ID of the seller, lot numbers and/or product identification marks.

Cocoa, tea, juice and sugar operators can choose to apply physical traceability or not. Those cocoa, tea, juice and sugar operators that want to be audited for physical traceability need to

make sure that the Fairtrade products that they source come from an operator successfully audited against the physical traceability rules in the TS.

Only those Fairtrade products successfully audited against the physical traceability requirements all along the supply chain will be allowed to use claims and messaging for products with physical traceability (see figure 1).

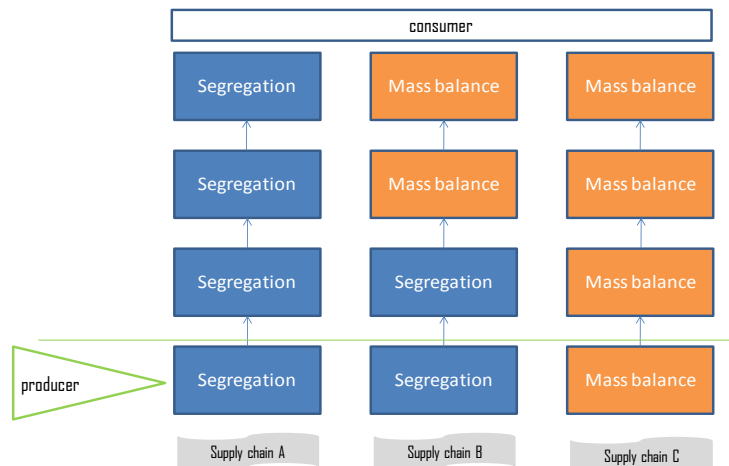


Figure 1: only supply chain A can use claims and messaging for products with physical traceability

What does Mass Balance imply?

Mass Balance is only applicable to cocoa, cane sugar, juice and tea, FSP cotton and Gold Sourcing Programme operators with no physical traceability. There are two types of Mass Balance practices:

- Single Site Mass Balance

This means that when a producer or company delivers a quantity of Fairtrade ingredients to a factory or site, only the equivalent amount of processed Fairtrade product leaving that site may be sold as Fairtrade. For example, if a farmer delivers a tonne of Fairtrade tea to a factory for processing, the factory can only sell the equivalent amount of processed tea as Fairtrade.

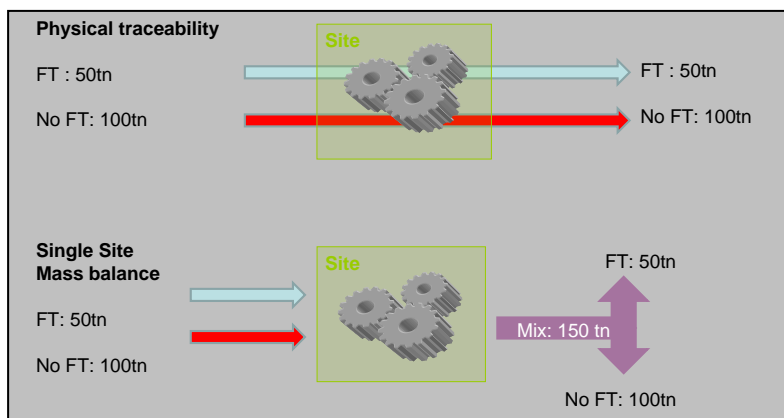


Figure 2: Physical traceability and Single Site Mass Balance practices. The blue arrow represents the flow of Fairtrade product and the red arrow the flow of non Fairtrade product though the green factory (in this example the processing yield is 100%).

- **Group Mass Balance**

This means that the amount of Fairtrade product a company buys must match the amount of the processed product it sells as Fairtrade. The company will be audited on the total amount bought and sold from all of their production sites instead of each individual site. **Only cocoa and sugar operators** can implement Group Mass Balance for up to two years and ending by 2017. A study will be carried out in 2015 to evaluate the impact of group mass balance. Based on the results, Fairtrade will define a plan for phasing out mass balance.

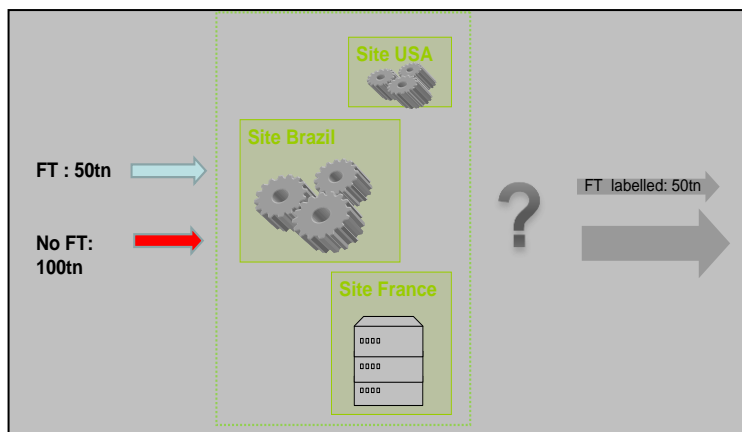


Figure 3: Group Mass Balance practice. The blue arrow represents the flow of Fairtrade product and the red arrow the flow of non Fairtrade product though a group of green factories (in this example the processing yield is 100%).

All cocoa, tea, sugar and juice operators implementing Mass Balance need to source Fairtrade ingredients from the same kind and quality as those used for processing the Fairtrade products e.g. if an operator sells Fairtrade chocolate made with high quality cocoa the Fairtrade ingredient purchased cannot be low quality cocoa beans; if an operator sells Fairtrade organic sugar the ingredient purchased cannot be non-organic Fairtrade sugar; and if an operator sells Fairtrade green tea the ingredient purchased cannot be Fairtrade black tea.

Some operators working with composite products (product with more than one ingredient) use traceable and non traceable Fairtrade ingredients e.g. a chocolate processor using Fairtrade traceable nuts and Fairtrade non traceable cocoa and sugar. Only cocoa, sugar, tea and juice are exempted from physical traceability. The operator needs to apply for an exception if a Fairtrade traceable ingredient in a composite product loses traceability when mixed with non-traceable Fairtrade ingredients.

2.2. Product composition

Consumer ready products that contain several ingredients are known as Fairtrade food composite products (FCP). Section 2.2 of the Fairtrade Trader Standard describes the conditions under which a food composite product may carry the FAIRTRADE Mark and which food composite ingredients can be considered Fairtrade.

What is a food composite product and a food composite ingredient?

Food composite products are consumer ready drinks and foods which contain more than one ingredient. A classic Fairtrade example is chocolate: it is made with Fairtrade certified cocoa and sugar, but also contains other ingredients for which there are no Fairtrade Standards, like milk or emulsifiers.

A food composite ingredient is an ingredient used in Fairtrade composite products, which itself is also made up of several ingredients. One example is chocolate chips to be used in Fairtrade labelled biscuits or muffins. Food composite ingredients are used by manufacturers and are not sold directly to consumers.

What are the main features of the food composite product (FCP) requirements?

- **Minimum Fairtrade content:** At least 20 percent of a food composite product's ingredient must be Fairtrade certified. The 20% minimum percentage only applies to products that will be sold to consumers. Food composite ingredients are produced by operators in the middle of the supply chain and do not need to comply with a threshold as they are not sold to consumers.
- **Units of measurement:** Minimum percentages are calculated in weight for solids and in volume for liquids. Added water and/or dairy can be excluded from the calculation if they make up more than 50 percent of the product. The percentage of Fairtrade ingredients is calculated as the total weight of all ingredients before processing (i.e. the ingredients in their original form when purchased); otherwise, evaporation or product loss during processing could distort the Fairtrade percentage.
- **The product must contain as many Fairtrade ingredients as available:** We require licensees and operators to make every effort to ensure that their product and/or ingredient contains as many Fairtrade ingredients as possible. If an ingredient is available as Fairtrade, it must be used, regardless what percentage it makes up of the final product (ingredients which constitute less than 1% of the final product also have to be Fairtrade certified).

- **Exceptions:** While the goal is always to use as many Fairtrade ingredients as possible, sometimes Fairtrade ingredients are not available for a variety of reasons. Therefore, in special circumstances, licensees and operators may apply for an exception, that will allow them to use a non-Fairtrade composite product or ingredient instead of a Fairtrade one. To obtain this, licensees and operators can apply, through their Licensing Body or Certification Body, for an exception to the food composite product requirement. Exceptions might be granted in the following cases: supply shortage, new standard, inadequate quality and unavailable ingredient.
- **The Exception Committee:** The Exceptions Committee makes sure that any exceptions are granted in a consistent and transparent way and takes decisions on applications for exceptions type II (provenance and transitioning ingredient). The Exception Committee has also developed a list of unavailable ingredients to be found in the following link: http://www.fairtrade.net/generic_trade_standards.0.html.

3. Production:

3.1. Labour and 3.2 Environment

NEW: The introduction of labour and environment requirements intends to level the playing field between labour and environment requirements for producers and for traders, and specifically between small producer organizations who export themselves, and exporters/processors. These requirements are already enshrined in local and national laws in most countries. Fairtrade has always advocated and expected traders to comply with these laws. Adding the requirements to the Trader Standard gives Fairtrade a tool for action when breaches of labour or environmental law are identified, while keeping additional certification costs to a minimum.

Regarding labour:

- all traders are expected to comply with national and international labour laws and fundamental ILO conventions (req. 3.1.1).

Regarding environment:

- all traders are expected to comply with national environmental laws (req. 3.2.1).
- In addition, the Prohibited Materials List, which lists the substances that producers are not allowed to use in the production of Fairtrade products, will be extended to traders along the whole supply chain, as of January 2017 (req. 3.2.2). Derogation possibilities are described in req. 3.2.3. Please note that this list is currently under review.
- Also, the environment section includes some voluntary best practices, to encourage traders to engage in the reduction of the negative environmental impact of their

operations, in terms of minimizing negative environmental impact (VBP 3.2.4), using recycled or biodegradable packaging (VBP 3.2.5), or reducing carbon footprint (VBP 3.2.6).

Fairtrade is currently developing an assurance model to check compliance with this requirement, which will become applicable as of January 2017. Fairtrade will provide more information on how this will work, once the model is defined in more detail.

4. Business and development:

4.1. Contracts

All Fairtrade sales have to be regulated via a written contract. The objective is to ensure transparency of Fairtrade operations, so that all parties are very clear about the terms and conditions of Fairtrade transactions (Req 4.1.2 for payers, and req. 4.1.4 for conveyors). The buyer is responsible for drawing up the contract where not otherwise agreed. Signed contracts are binding for both parties and can only be changed if both parties agree. Nothing in the contract must contradict requirements from Fairtrade standards. A mechanism on how to reach an agreement in case of conflict between two contracting parties has to be included in the contract.⁴

If an operator buys both under Fairtrade and non-Fairtrade terms from the same producers' organization, both arrangements have to be separated. In particular, operators cannot force producers to accept disadvantageous conditions such as lower prices or longer payment terms for sales of non-Fairtrade products as a requirement for concluding a Fairtrade contract.

NEW: The contract needs to include the price calculation, and a detailed breakdown of any deductions from the Fairtrade minimum price, in case the transaction takes place at a different level than the one where the FMP is set. (For example, if the price is set at FOB level and the buyer buys from the producer at EXW level, then the deduction of export costs must be listed in the contract) (TS, req. 4.1.3).

NEW: Conveyors need to inform producers on a quarterly basis, of what happened to their product, so they know what to expect in terms of Fairtrade premium: for each purchase contract, they need to indicate the exact volumes sold, the price differential due, and the premium due, and who it was sold to (TS, req. 4.1.5).

It is considered best practice for the conveyor to have a tripartite between producer / conveyor / Fairtrade payer, or to share with the producer the contract they have with their own buyer, so that the producer is made aware of all the conditions under which their products has been sold to the next buyer (4.1.8).

⁴ "Rules of Arbitration" by the International Chamber of Commerce (ICC) are available here: www.iccwbo.org/uploadedFiles/Court/Arbitration/other/rules_arb_english.pdf. Operators may also refer to the "Guidelines for Arbitrating Small Claims under the ICC Rules of Arbitration": www.iccwbo.org/uploadedFiles/Court/Arbitration/arbitration/small_claims.pdf

Please also check the product standards as they include some additional specific requirements for some products. For example:

- for flowers and plants, the TS section on contract requirements (4.1.1) does **not** apply. Here, sourcing plans can be handled like contracts, indicating as a minimum the contract elements required by the TS (quality, price, payment terms and delivery conditions) and additionally the estimated volumes. Final purchasing orders have to be confirmed in writing.
- for **Fresh Fruit, Fresh Vegetables and Dried Fruit**, a number of additional points related to contracts are included in the product standards..

4.2 Fairtrade price and premium

Producers have to receive at least the market price for their Fairtrade product, or the Fairtrade Minimum Price (when it exists), whichever is higher.

In addition, producers receive a Fairtrade Premium, on top of the price of the Fairtrade product.

Market price:

The market price is understood as the “normal” price that prevails for equivalent products. Producers and traders need to agree in the contract, on the source of information used to define the price of the Fairtrade product. When a market price reference is indicated in the product standard (see coffee and cocoa standards), then this reference must be used to calculate the market price.

When there is no Fairtrade Minimum Price defined for a particular product, (as for example, for most herbs and spices, some fruit, flowers), traders have to pay at least the market price.

When the Fairtrade Minimum Price is higher than the market price, traders have to pay the Fairtrade Minimum Price.

Fairtrade payers pay the Fairtrade Minimum Prices directly when purchasing the product, while conveyors first pay the market price, and then, later on, convey the difference between the Fairtrade Minimum Price and the price already paid (called the differential).

Fairtrade Minimum Price

Fairtrade Minimum Prices and Premium are available on the Fairtrade website under the following link: <http://www.fairtrade.net/price-and-premium-info.html>.

Further information concerning what costs are included in the Fairtrade Minimum Price is specified in the product standards.

For Small Producers' Organizations, prices are always set at the level of the organization, not of the individual member. That means that from the price paid to the organization, costs for managing the organization and other collective costs, e.g. for processing or transport are deducted. This means that individual members eventually receive less than the price paid to the producer organisation.

Price Levels

Fairtrade Minimum Prices are set at specific levels in the trade chain which determine at which point the ownership of the product passes from the seller to the buyer and therefore which costs should and should not be covered by the set price.

Ex Works means that delivery takes place when the seller makes the goods available to the buyer at the premises of the seller or another named place (works, factory, warehouse, etc.). The goods are not cleared for export and not loaded on to any collecting vehicle. Costs for transport to the agreed place are normally included in the FMP. The buyer is responsible for all charges. If delivery takes place at a collection point outside of the producer organization (e.g. a port), all costs related to transport should be paid by the buyer if not included in the FMP.

Farm Gate⁵ price as used by Fairtrade International does not mean the gate of the individual farmer but refers to the gate of the producers' organization. In the Fairtrade context, this term has the same meaning as ex works unless there is a different statement in the product specific standards.

Free on Board (FOB) means that the seller delivers when the goods pass the ship's rail at the named port of shipment. From that point forward, the buyer has to bear all costs and risks of loss or damage to the goods. Under FOB terms, the seller is required to clear the goods for export. Transportation of the goods to the port of shipment and loading costs are included in the price. The buyer is responsible for all other charges.

All additional costs that producers might have and that might not be covered by the Fairtrade Minimum Price such as transport, specific packing or processing, must be added to the applicable price. The same applies for the opposite situation: If costs are included in the Fairtrade Minimum Price and producers agreed in the contract not to be responsible for them, these costs may be deducted by the buyer. The price structure including transport, processing and export costs should be laid down in the contract.

For all transformed products, the actual input of the raw product as an ingredient serves as a basis for the price and Fairtrade Premium calculation. For organic produce, higher prices are set in the Fairtrade Minimum Price and Fairtrade Premium table. Also in this case, if market prices are higher, these should apply.

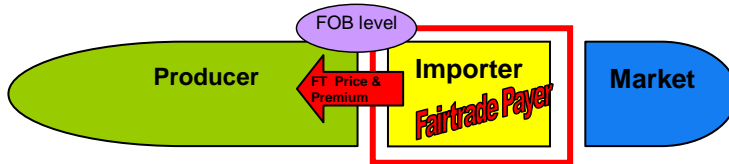
Domestic sales of Fairtrade products and products processed by producers: pricing rules for those products that are sold in the producing country (TS, req. 4.3.5) and for products that are processed by producers (TS, req. 4.3.6) have been added.

Fairtrade Payer and Conveyor

Fairtrade's ambition is to encourage producers to move up the value chain, add value to their products and take on more responsibility and ownership. Therefore, Fairtrade encourages producers to export directly.

⁵ Farm Gate is the old definition formerly used by Fairtrade International. Subsequently, the term "farm gate" is replaced by "ex works" in Fairtrade International price reviews.

When producers export directly, the importer is the Fairtrade payer.

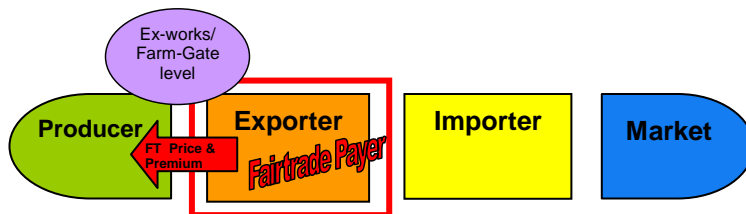


In some supply chains, producers sell via an exporter. Exporters then play a key role in providing access to the market for producers.

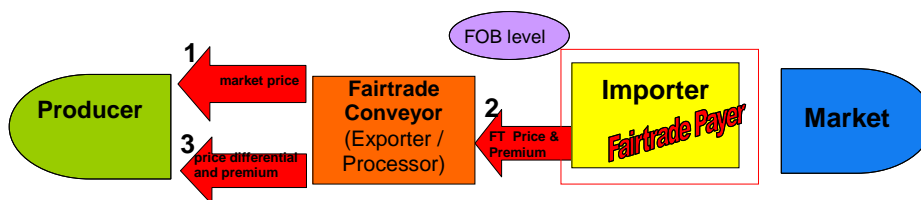
When producers sell via an exporter, the role of the exporter can vary, depending on the responsibility that the exporter takes.

The exporter acts either as the Fairtrade payer, or as a conveyor. Whether exporters are payers or conveyors depends on the supply chain and may be different in each case. Annex 1 of the Trader Standard provides more information on who acts as a payer and who acts as a conveyor in a supply chain.

When the exporters act as **Fairtrade payers**, they are responsible for paying the Fairtrade Minimum Price or the relevant market price, whichever is higher, upon purchase of the product from the producer, as per diagram below.



Exporters acting as conveyors first buy from the producers, pay the applicable market price, and take ownership of the product. Once the exporters sell the products to the importer, they convey the Fairtrade Premium and differential (difference between the Fairtrade Minimum Price and the price they have already paid).



Fairtrade Premium

On top of the price, Fairtrade payers have to pay a Fairtrade Premium (req. 4.2.7). Fairtrade Premium levels can be found on the Fairtrade International website (see above). For Small Producers' Organizations, payments must be paid directly to the organization. In Hired Labour set-ups, Fairtrade Premium money must be transferred to the account of the Joint Body once available. In Contract Production projects, the Promoting Body receives the Fairtrade Premium on behalf of the registered producers.

The Fairtrade Premium is never given to individual members by the Fairtrade payer. No deductions can be made to the Fairtrade Premium payments.

Both parties agree on the best mechanism for payment and receipt of payment such as letter of credit or bank transfer. All payments are documented.

Fairtrade Minimum Prices and Fairtrade Premiums are regularly reviewed by Fairtrade International and levels are adapted to current situations. Operators must ensure that they are aware of new and/or updated prices and apply them.

4.3 Timely payment

The intent of this section is to ensure that payments are made as soon as possible.

The exact payment terms for Fairtrade payers are defined in the product standards.

Fairtrade Premium payments have to be clearly separated from price payments.

For Fairtrade payers, payment terms are the same as for the price of the product.

For conveyors, Fairtrade Premium Payments must be made latest 15 days after the invoice is issued unless both parties agree on a different timeframe, but it should be latest 30 days after the end of quarter.

4.4 Access to finance

The intention of pre-finance is to help the producers gain access to reasonable forms of financial assistance so that – in the case of small producer organizations for example - they can easily buy the product from their members.

“Pre-finance” under this standard only refers to payments which are made against agreed contracts between producers and buyers for Fairtrade products.

While in the previous standard, it was up to the producer to request pre-finance, this has changed and it is now up to the buyer to offer pre-finance (req. 4.4.1).

Under certain circumstances (too high risk, pre-finance not allowed by law, or the producer declines the offer), the buyer is exempted from providing pre-finance. The buyer then has to justify to the auditor why the producer is considered as high risk.

This requirement applies to the first buyer, so if a conveyor is involved, the conveyor is responsible for offering pre-finance. But the conveyor can also facilitate access to pre-finance via the importer (acting as a third party lender).

The buyer can provide pre-finance either directly, or facilitate that this is done by a third party lender. A third party lender in this context refers to an ethical bank, an ethical bank, or another trader (for instance the importer).

In case the buyers provide pre-finance directly, they must agree in writing on the conditions of pre-finance (req. 4.4.2).

The terms and conditions of the pre-finance are outlined in the product standards: the buyers are obliged to offer pre-finance for at least 60% of the value of the contract. However, if both parties agree, a higher percentage can be granted. The pre-finance must be made available any time after signing the contract, within the timeframe specified in the product standards. For most products the timeframe is six weeks before shipment. Agreements on pre-finance are settled by both parties and written down in a separate section in the contract or in a separate credit agreement. Agreements should cover amounts to be pre-financed, start dates, dates of repayment, rates of interest, payment options and administrative costs to organize and deliver pre-finance.

The buyer has the right to charge interest on the pre-finance requested. The interest charges must be mutually agreed between the producer and the buyer. As a best practice, they would be on more advantageous terms for the producer, ideally with no interest rate (as per voluntary best practice (VBP 4.4.4).

In case the buyer facilitates access to pre-finance via a third party lender, the buyer needs to provide all necessary information for the third party lender to provide pre-finance (req. 4.4.3).

Please note that in some product sectors or some producer set-ups, the pre-finance requirements do not apply:

- Flowers and sports balls are exempted from pre-finance requirements.
 - For fresh fruit, pre-finance conditions should be negotiated between producers and the Fairtrade buyer and specified in the contract. This approach takes into account the product-specific needs of highly perishable goods where pre-finance as set in the TS causes problems.
 - For sugar, when individual SPO members sell directly to a mill, pre-finance is not required.
 - For contract production operators, the TS section on pre-finance does not apply.
- In Contract Production Projects, the Producer Executive Body or the Producer Organization (PO) does not buy the product from its members; the Promoting Body (PB) buys directly from producers. Therefore, the PB is not required to provide pre-finance to the PO. However, once the PO has initiated collective actions (sales) on behalf of its members, it is able to request pre finance from the PB.

Fairtrade also encourages buyers to offer other types of financial assistance, such as crop financing⁶ or advance payments⁷, loans for investment, as a voluntary best practice (VBP 4.4.5).

4.5 Sourcing plan and market information

Fairtrade International seeks to build transparent and sustainable trading relationships between Fairtrade producers and buyers that allow for **long-term planning** (several years ahead) and **sustainable production** practices. To facilitate this, the Trader Standard require buyers to submit a **sourcing plan** to the producers, or at least realistic information on market prospects (req. 4.5.1).

The objective is that producers are informed, to the extent possible, on the prospects for future Fairtrade sales. Market prospects are understood not just as a volume figure, but also include qualitative information about market opportunities or market constraints, and information about steps underway to gain sales contracts.

Timelines for providing a sourcing plan differ from products to products, and are defined in the product specific standards.

- For annual crops, the sourcing plan covers 12 months and must be renewed 3 months in advance.
- For seasonal crops, the sourcing plan covers the season and must be renewed 2 weeks before the start of the season.
- For year-round crops, the sourcing plan covers 3 months and must be renewed 2 weeks before it expires.
- For dried fruit (processed product not dependent on harvest season), the period covered by the sourcing plan must be agreed by both parties.
- For flowers, the sourcing plan covers a period of 6 months.

Along with the required sourcing plan, Fairtrade International encourages buyers and producers to regularly exchange information (on prices, market, etc.) and buyers to offer additional support in training or risk management to Fairtrade producers. This is mentioned in the Standard as a voluntary best practice.

Please note that this requirement is compulsory for first buyers, and for Fairtrade payers (in case they are not first buyers).

Besides, since Fairtrade acknowledges that first buyers in the supply chain are reliant on sourcing plan information coming from their own customers. Therefore Fairtrade encourages operators along the whole supply chain to provide sourcing plan and market prospect information to their own supplier, as a voluntary best practice (req. 4.5.2. and 4.5.3).

⁶ Crop financing refers to providing financial or material input to make growing of a certain crop possible, e.g. buying fertilizers and seeds.

⁷ Advance payments refer to regular payments that are paid before the due date without charging interest rates.

4.6 Sharing risks

The aim of this section is to promote a more equitable sharing of risks between producers and their buyers. The main risk included here is the quality risk.

The buyer needs to communicate transparently to the producer if the produce does not meet the quality specification. (req. 4.6.1).

Also, the buyer cannot demand product specifications outside the control/responsibility of the producer in their contract (req. 4.6.1). This requirement is covering all claims which are not considered Force Majeure but which do fall outside the control/responsibility of the producer. For example, if bananas were sold EXW and while being loaded in the port were bruised, then this is outside the responsibility of the producer because when checked at the premises of the producer they were not bruised and after this point in the supply chain the producer is not responsible.

4.7 Capacity building

The intent of this section is to acknowledge and encourage additional support that some operators may provide to producers, beyond the commercial transaction, in order to contribute to their empowerment and development.

This covers, in the first instance, supporting producers and workers' priorities (VBP 4.7.1). This support should not be imposed on producers, but should rather be defined by the producer organisation itself, according to its own needs. The purpose is to ensure that the support is given in a way that empowers the producer. This contribution must be in addition to the Fairtrade Premium paid to the producer or to the workers. Areas of support must be chosen by producers/workers. Support can be given to producers either directly or through a partnership, in the form of funding, training, facilitation of partnerships or other means.

Fairtrade also acknowledges operators who go out of their way to seek out vulnerable producer groups in deprived, remote or conflict - affected regions or countries (VBP 4.7.2). This can apply to any operator who buys directly from the producer group (the exporter or importer) or a brand who requests its supplier to source from vulnerable groups. For those operators who do not have any influence on the choice of the producer group, this voluntary best practice is not applicable.

Any actions that an operator may carry out to facilitate the producer's access to the market are also acknowledged (VBP 4.7.3). Examples of this can include but are not limited to:

- Offering market or commercial development services for the benefit of the producer.
- Facilitating contact between the producer and other traders for the benefit of new market opportunities for the producer.
- Inviting the producer to participate at a trade fair.
- Assisting the producer with commercial promotional materials.
- Promoting the producer via communication materials such as a website, flyer or newsletter.

4.8 Trading with integrity

This is a generic requirement (req. 4.1.8) that enables Fairtrade to sanction major unacceptable and unfair trading practices that are not explicitly covered in this standard, but that can affect the credibility of the Fairtrade system and the ability of the Fairtrade operators to trade products. The standard provides a list of examples of major unfair trading practices, based on a green paper produced by the European Commission. This list is not exhaustive, so other major malpractices not mentioned there, are also covered by this requirement.

Auditors will check that they do not see any major unacceptable trading practices. If they do, they will investigate in more detail.

Also, in case a stakeholder (a certified operator, a Fairtrade staff, an auditor...) notices a major unfair trading practice, they can make an allegation to the certification body, and this will trigger an audit. The allegation procedure is available here:

<http://www.flocert.net/fairtrade-services/fairtrade-certification/appeals-and-allegations/>.

For more information about the Trader Standard, please contact the Standards Unit at:
standards-pricing@fairtrade.net.