

Explanatory Document

Introducing Fairtrade and its organisations

An explanation of some of the key words, phrases, players and processes in Fairtrade



Cocla coffee cooperative, Peru. Photo: Henrik Kastenskov



Fairtrade

Fairtrade is aimed at benefiting those who find it difficult to sell into the international market and to trade responsibly and profitably when they do.

Fairtrade brings benefits such as access to the market, with increased sales and increased income as well as advice and support.

Producers are expected to use these benefits to increase their organisations' ability to trade responsibly and to respect and improve the lives of those who work with them, the communities in which they work and the environment.

The benefits are also to be used by any workers employed to improve their living and working conditions and those of their communities."

The Fairtrade Certification Mark

Shops and supermarkets like to sell fair trade products with a Fairtrade Mark because it shows people who are buying them that the shop has paid a fair price for the product. It also shows that the shop is working with the people who made the product (the producer) in a fair way.



Fairtrade Certification

A producer organisation or plantation producing a product for which a Fairtrade Standard exists, can apply for certification.

The Fairtrade Standards can be found on the website: www.fairtrade.net

The certification is currently carried out by FLO-Cert GmbH.

Once the application is accepted an accredited inspector will visit the applicant and conduct an initial inspection against the Fairtrade Standards.

Traders, such as exporters, importers, processors and manufacturers can become Fairtrade registered. Traders are also inspected to assure that they pass on the Fairtrade minimum price and premium and that the agreements made between the producer and trader are based on long term and stable relationships in which the rights and interests of both parties are mutually respected.

Fairtrade Standards

The Fairtrade Standard for a product is set by the not-for-profit Fairtrade Labelling Organizations International (FLO). FLO is progressively developing FT standards for more and more products coming from developing countries.

The Standard is set after discussion with many different sorts of people who are involved in the production and trading of that product, including the producers and traders as well as national labelling organisations and external experts.

If there is a set of Fairtrade standards for your product category then it will include the generic standard (section A) as well as product specifications, if available (section B) and product specific trade standards (section C).

There are different generic standards depending on whether you are a small farmers' organisation or are in a hired labour situation.

A 'small farmers' organisation' is made up of a group of individual small farmers or producers of a product who mainly depend on their own or their families labour, though they might



employ some seasonal labour. Hired workers, usually on estates or in factories, often face different situations and that is why there are different standards.

Have a look at the document called 'Why Fairtrade?' to see what FLO is trying to do by setting Fairtrade Standards.

Fairtrade Minimum Price

Fairtrade says that you should get a minimum price for your product which should cover all your costs of production.

This price is set by the international Fairtrade Labelling Organizations International (FLO) and can be found on the FLO website. www.fairtrade.net To decide on the price, FLO, through its Standards Unit, talk with lots of people who are involved in different ways in the production and trading of this product, including people like you. The price will be set when the Fairtrade product is first launched and will be updated when necessary.

The price you get should pay for the work and all the other costs you and your organisation have in growing and producing this product efficiently.

Under Fairtrade conditions, you must make sure that the trader who buys the product from you pays you at least that minimum price.

The minimum price may be different for the same product in different countries, because the costs may be different too.

You should actively discuss and try to negotiate with the person who wants to buy your produce to pay a price which is higher than the minimum price. That is for you to work out with them, the minimum price is the lowest possible price that you should receive for your product.

For technical reasons, some products don't have a minimum price.

Fairtrade Premium

The Fairtrade Premium is money on top of the price that you agree for the product, it is an extra payment. It should not be included in discussions about the price. The Premium varies from product to product. It is set by FLO and not the buyer and the buyer has got to pay it. It cannot be used by the buyer as payment to you for other products.

The Premium will usually be in the range of 5 – 30% of FOB or 'farm gate' price.

The Fairtrade Premium is money to support you as you make your business better and improve your community and your environment. It has been used to fund projects such as schools, a bus stop and recreational facilities. It can also be used for training. The Premium is not to pay for overhead costs spent in growing your produce. These costs are included in the minimum price for your produce.

The Hired Labour Standard states that the Premium is not to be given out directly to individual workers in cash or in kind.

The use of the Fairtrade Premium is decided by the General Assembly of Members in the case of Small Farmer organisation and in the case of a Plantation by the Joint Body. The process of making decisions about the Premium and managing its use is an important development tool in itself.

A Joint Body

When the Standards for Hired Labour are being followed, a Joint Body must be set up. It is the body which decides how the Premium will be spent. It is made up of workers (hired labourers) and management but with a majority of workers. The workers are elected to the



Joint Body by all the workers meeting in a General Assembly and they are there to represent all the workers' interests. The Joint Body talks to the workers to find out how they want the Premium spent. The Joint Body makes the final decision and then manages the spending of the Premium.

One of the aims of Fairtrade is to support workers in a creative relationship with managers. This should help the workers to gain the knowledge and skill to ensure that they are treated fairly. The Joint Body is an important way to do this.

There are clear rules about how Joint Bodies should be run. See the Guidance Document on the Premium and Joint Bodies and the Hired Labour Standard.

A General Assembly

In a hired labour situation a General Assembly is where all the workers meet together to elect their representatives to the Joint Body or to guide the Joint Body on premium use.

In small farmers' organisations, the General Assembly is when all the members meet to discuss and decide on the use of the Fairtrade Premium. The people they elect to run the organisation are the people who manage the use of the Fairtrade Premium.

Pre-financing

For small farmers' organisations, if you have been given an order for your Fairtrade products, but you can't afford to pay for some of your costs to meet the order, then you can ask the person who has given you the order to pay for some of it in advance. This, for instance would give you access to cash to pay the members for their crops much earlier. According to the Fairtrade standards, for some products your buyer is obliged to pay you partly in advance if you ask for it, for other products it is voluntary. You should check the product specific standard to see what is available on your product.

You can get an advance for up to 60% of your order value. The buyer can charge you interest on this advance. You may be able to borrow this money locally at lower interest.

Long-term relationships

Buyers of Fairtrade products are encouraged to develop long term and stable relationships with producers that respect the rights and interests of both parties.

A contract will be signed for the first part of the season and a Letter of Intent saying how much the buyer is likely to purchase for the rest of the season. Increases in production and improvements in facilities should then be easier and safer for you to plan and fund.



Introducing Fairtrade Organisations - Who does what

1. Fairtrade Labelling Organizations International (FLO)

FLO is a not for profit organisation that is owned by the National Initiatives (see below). It is based in Bonn, Germany.

FLO Standards Unit

The Standards Unit (SU) develops the standards which Fairtrade is measured by. It has a Standards Committee, which takes decisions based on research carried out by the staff of the Standards Unit. The Standards Committee is made up of FLO stakeholders, such as producers, traders, national labelling organisations and external experts. The members of the Committee, the staff and experts talk with all those involved in a product to set and review standards, minimum prices and the Premium.

FLO Producer Business Unit

The Producer Business Unit (PBU) has staff in Bonn who cover different areas of the world, they also each specialise in a different product(s) covered by Fairtrade. They have links with producers and with traders, such as exporters, importers, processors and manufacturers and with PBU Liaison staff.

The PBU Liaison staff are based in the field and work with the organisations who are producing Fairtrade products. Where possible, they help them understanding any issues that have been raised as part of the certification process.

They also assist in finding new producers for products which are in demand.

FLO Central Services and Finance Unit

As well as looking after such things as the servicing and financial management of FLO, this Unit manages a Producer Fund to help producers who are having problems in paying for Fairtrade certification.

2. FLO Certification GmbH

FLO Certification GmbH (FLO-Cert) is a commercial company based in Bonn, Germany and is a separate organisation to FLO.

FLO-Cert is the certification body inspecting and certifying against FLO Standards. It has a network of inspectors who visit producers to see that they comply with Fairtrade Standards. These inspectors report back to FLO-Cert.



The **Certification Committee** (internal or external) takes the decisions about certification, based on the findings of the inspector.

The External Certification Committee is made up of FLO stakeholders, such as producers, traders, national labelling organisations and external experts. The Internal Certification Committee is made up of at least three employees of FLO-Cert.

Appealing certification decisions is dealt with by an **Appeals Committee**.

To make sure that producers and traders are following Fairtrade conditions, a specially developed trade auditing system checks that every Fairtrade-labelled product sold to a consumer has been produced by a certified producer organisation which has been paid the Fairtrade price. The **Trade Certification** department within FLO-Cert deals with the control of all trade partners in the system.

3. National Initiatives

The National Initiatives (NIs) are based in the 21 countries which are selling Fairtrade Labelled products. They are in Austria, Australia and New Zealand, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxemburg, Mexico, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, USA.

They award the Fairtrade Label to products which are being sold in their country under Fairtrade conditions by licensees of the Label.

You should check, before certification, whether you can sell your product under Fairtrade terms in the country you want to.

National Initiatives also work on the promotion of Fairtrade in the countries where they are based. They encourage consumers to buy more Fairtrade products and make public and political campaigns on the need for fairness in trade.



Introducing the Fairtrade Certification Process for the Producer

This is the sort of action process you might go through as a producer considering whether to become Fairtrade certified.

1. You decide to think about getting Fairtrade Certified.
2. Look at www.fairtrade.net and get copies of the Guidelines and Explanatory documents to find out what Fairtrade is all about.
3. Decide which of the standards you would qualify for, the Standards for Small Farmers' Organisations or those for Hired Labour situations and within that category, the product specific standard if there is one for your product. Each standard states in it who would qualify.
4. Look at the Explanatory Document and the Standard for the relevant category and product.
5. Decide if you think you still want to get certified. As part of this decision, you should find out if there are any buyers who want to buy your products under Fairtrade terms in the countries you want to sell to. FLO are not able to guarantee you a sale just because you are certified.
6. Deciding whether to get certified is an important business decision. It costs money to become Fairtrade certified. Once certified, you'll need to invest in improvements each year and in accessing Fairtrade markets. The costs of certification are given on the website www.fairtrade.net. You should decide whether you think the costs are going to be worth the expected benefits.
7. To assist you in taking a decision, you may want to contact a FLO Liaison officer – FLO has a number of them based in producer countries that may be able to visit you – resources permitting.
8. If you think the investment will pay-off, then apply to FLO-Cert for an application for certification and they will send you an Application Form. Contact certification@flo-cert.net.
9. Return the completed form and they will tell you if you qualify for application, if you do they will send you an Application Pack with much more information and tell you how to continue with your application. You will have to pay a fee if you want to carry on with your application.
10. If you don't succeed in your initial application you may be able to get help so you will succeed, from FLO Producer Business Unit. FLO-Cert will give you information about this in their response to you.



11. Meanwhile, you should be planning any work you need to do to make sure you will pass certification. To do this, look at what is required under the Generic Standard or the Product Standards. These are all on the website.
12. An Inspector will visit your site to see if you can be certified.
13. The Inspector will report back to FLO-Cert. in Germany and your application will be discussed by the Certification Committee.
14. If you pass, you will get your certificate and will be able to sell under Fairtrade terms as long as you have a buyer who wants to buy under those terms.
15. You may not pass, but may be told of things you can do which will help you pass next time. It is up to you if you want to do those things and apply again.
16. Even if you do pass, you are likely to be told of things which you must do to stay Fairtrade certified. Here again, you may wish to try to contact a local FLO liaison officer to discuss how best to follow up on these points. You will be regularly inspected to make sure you are doing these things and to see if you still qualify for certification.
17. The buyer of the product you have a Fairtrade Certificate for, has to apply for a Fairtrade Label in the country in which he wishes to sell your products to an end consumer.
18. The whole chain from producer to consumer that your product passes through will be checked by FLO-Cert to make sure that everyone is working on Fairtrade terms. This is called 'trade certification'.
19. You should receive at least the FLO set, minimum price for your product and the Fairtrade Premium. You may well be able to negotiate with the buyer for a price higher than the set minimum price.
20. You will be responsible for ensuring that the Fairtrade Premium is handed over to those responsible for spending it, as set out in the Fairtrade Standard you are working under.