Introduction

The Fair Trade USA Factory Standard for Apparel and Home Goods (Factory Standard) covers diverse supply chains under one set of requirements that apply to all manufacturing set-ups. Fair Trade USA recognizes that supply chains in the rug industry are unique and differ from most supply chains in the apparel and home goods setting. In rug manufacturing supply chains, the Certificate Holder (CH) is the workshop where the majority of the hours of labor on the rug is conducted, i.e. tufting and weaving, regardless of whether this entity takes legal ownership of the product. In most cases, the CH only conducts weaving and tufting processes and sends the product back to the material owner (trader) for finishing, labelling and selling the product to the brand. In rare instances, the CH is the entity that produces and sells the rugs. This is allowed as long as the tufting/weaving is included in the scope of the Certificate. Rug supply chains that fall under special circumstances should contact Fair Trade USA at the time of the application to ensure their group is scoped correctly and the scope is approved prior to the certification audit.

Figure 1
Purpose

This guidance document provides step-by-step assistance in determining the scope within which the audit will be conducted and the Certificate issued for factories in the rug industry. It provides guidance on the entities, products, sites, and activities that must (required) and may (optional) be included in the scope of the Certificate.

The full requirements for which sites and activities in the rug industry must and may be included in the scope are included in a separate policy, Requirements for Certificate Scope in the Rug Industry under the Factory Standard for Apparel and Home Goods, which can be downloaded on Fair Trade USA's website.

Scope and Applicability

This guidance document applies to all CHs that are applying to be certified or currently are certified against the Fair Trade USA Factory Standard. This includes traders and weaving and tufting facilities that are vertically integrated.

Related Documents

- Factory Standard for Apparel and Home Goods, version 1.3.0
- Requirements for Traders in the Rug Industry Under the Factory Standard for Apparel and Home Goods
- The Fair Trade USA Glossary

1. Certificate Holder Roles and Responsibilities

1.1 Role of the Certificate Holder

The Certificate Holder holds the Certificate on behalf of one or more entities in its rug manufacturing supply chain. The CH is responsible for monitoring and ensuring compliance with requirements in the Factory Standard for all sites included in the Certificate, and cannot be a person but rather is a company or legal entity.

1.2 Identifying the Certificate Holder

The CH is the entity where the majority of the hours of labor on the rug is conducted, regardless of whether they take legal ownership of the product. In most cases, the CH only conducts weaving and tufting processes and sends the product back to the material owner (trader) for finishing, labelling and selling the product to the brand (see Figure 2a).
In rare instances, the CH may be the entity that conducts all rug manufacturing processes at the location where the rug is finished (see the green dotted line in Figure 2b). The dotted blue line in Figure 2b illustrates that other finishing facilities, such as those conducting quality inspection or labelling or only storing the rugs may also be included in the scope of the Certificate. This is allowed as long as, at a minimum, the tufting and weaving workshop (Workshop A) is included in the scope of the Certificate.

The simplest model for a Certificate is a single site, for instance workshop A in Figure 2a where, at a minimum, weaving and tufting are completed within the same legal entity. Workshop A can be the Certificate Holder.
In cases where a business holding owns a larger complex of multiple workshops, and only some workshops (buildings) handle Fair Trade production, the legal entity owning the workshops intended to produce Fair Trade product is the Certificate Holder (Figure 3). For example, in a complex of six workshops with a common entrance, where only two workshops handle Fair Trade production, the two workshops handling Fair Trade production must be included in the full scope and audit. The four workshops not handling Fair Trade production can be excluded from the full scope. The legal entity owning the complex of six workshops is responsible to ensure the two units in scope comply with the Factory Standard.

Figure 3

It is also possible for a Certificate Holder to produce Fair Trade rugs in multiple workshops located at different addresses, under the same Certificate (Figure 4) as long as these workshops are all owned by the CH. For example, a Certificate Holder is producing Fair Trade rugs in three workshops (A, B, and C), each located at different addresses. The Certificate Holder may include all three sites in the same Certificate and audit, as long as the distance between each workshop allows the audit to be conducted by the same auditors. Workshops located in different countries require a separate audit and therefore require separate Certificates. This will require all three workshops to always be in full compliance with the Factory Standard and be audited together for the same year-related criteria since all three workshops will share the same Certificate. This option can be advantageous when a Certificate Holder has mechanisms in place to ensure compliance at all sites, as it centralizes fees and operations related to Fair Trade certification. It is recommended to thoroughly evaluate the capability of each site to maintain compliance, as failure to comply at one site may affect all sites under the Certificate.
1.3 Restrictions on, and Responsibilities of the Certificate Holder

The Certificate Holder must be a legal entity. The Certificate Holder can be based in another country from where the product is manufactured, as long as it has local staff or contracted a local support organization in the country of production to implement the Factory Standard.

The Certificate Holder may own or rent the production facility, but it must be the sole occupant of the entire building where Fair Trade production occurs in order to be eligible for Fair Trade USA certification (Figure 5a).
Certificate Holders, whether owners or tenants, may produce different products or brands on each floor of a building they occupy, and different activities may occur in the facility (See Figure 5b). However, mixed legal ownerships within the same building are not eligible for Fair Trade certification in multi-level buildings.

**When the CH does not own the supplied materials for weaving and tufting**

Generally, the Certificate Holder in the rug industry is an actor in the supply chain that weaves and tufts Fair Trade rugs and does not take legal ownership of the product.

In those set-ups, the CH must ensure that the trader of the rugs further up the supply chain understands that they may be visited as part of the audit. During all their work on the Fair Trade product, the CH must ensure that Fair Trade rugs are physically identified and marked clearly as Fair Trade Certified for traceability throughout production, storage and transport while they are in the CH’s possession.

**When the CH owns the supplied materials for weaving and tufting**

In rare instances, the CH does not only provide the weaving or tufting service but also owns all materials and conducts all production processes (weaving, tufting, finishing, labelling, etc.) on its premises and then sells these rugs on to brands from that location. This is allowed as long as, at a minimum, the tufting/weaving is included in the full scope of the Certificate.
2. Identifying Sites and Activities to Include in the Scope of the Certificate

A Fair Trade Certificate is held by a company. However, not all of the Certificate Holder’s sites, or all of its suppliers must be included in the scope of the Certificate. This section explains which sites and activities must be included and be in full compliance with the Factory Standard for the Certificate to be granted.

2.1 Defining a Site

Site is defined as a production building or any group of buildings producing Fair Trade rugs, and the related CH-provided living areas utilized by the workers, even if workers from other workshops not producing Fair Trade rugs utilize the same living areas. This means that the production facilities producing Fair Trade rugs, the worker housing, eating and rest areas, whether on or off-site of the production facility, must be compliant with the full Factory Standard. For instance, the Certificate Holder must respect the health and safety requirements equally for all areas and all workers.

The sites included in the Certificate must comply with the Factory Standard at all times, even when not producing Fair Trade product.

The simplest model for a Certificate Holder in the rug industry is a single site that conducts the weaving and tufting. For instance, Workshop A in Figure 2a where weaving and tufting are completed within the same legal entity and no living areas are provided. Workshop A constitutes the site in full scope of the Factory Standard.

A rarer supply chain structure is where an entity does not outsource rug production processes, such as weaving and tufting, to workshops but completes all production processes, along with labelling, packing and selling activities, within their own business (see Figure 2b).

In cases of a larger complex of multiple production workshops where only some of the workshops (buildings) handle Fair Trade production, but all workers of the larger complex share living areas, the living areas and the buildings where Fair Trade production occurs must be included in the full scope (Figure 6). For example, in a complex of six production workshops with a common entrance, where only two workshops handle Fair Trade production but all workers of the complex share housing and eating areas: the two workshops handling Fair Trade production, as well as all shared areas such as dormitories and the canteen must be included in the full scope and audit. The four production workshops not handling Fair Trade production can be excluded from the full scope.
2.2 Determining Which Sites and Activities Must be Included in the Certificate

2.2.1 Weaving and Tufting

The majority of hours in the making of a rug consists of weaving and tufting processes. Hence, sites where at a minimum weaving and tufting occurs must always be included in the scope of the Certificate.

2.3 Determining Which Sites and Activities May be Included in the Certificate

Sites not required to be in the full scope of the Certificate may be included at the CH’s discretion, if agreed by the Fair Trade Committee and Premium Participants (see Figure 2b). For example,

- sites where Fair Trade rugs are only stored or transported;
- sites where any processing steps before or after weaving and tufting occur, such as finishing or inspection.

3. Subcontracting

When the CH does not take legal ownership of the product and only provides a service of weaving or tufting, the CH is not allowed to use subcontractors.

Certain supply chains can be complex and each structure is different, hence the scope of the Certificate must be evaluated by Fair Trade USA for all new applicants or when a change in the scope occurs.