Guidance for Determining Scope Under the Factory Standard for Apparel and Home Goods

Fair Trade USA

Version 1.0.0

Introduction

Apparel and home goods supply chains are often highly complex, with components sourced in multiple countries and unfinished product traveling among different facilities for cutting, assembly, embellishment, and other processing steps. The Fair Trade USA Factory Standard for Apparel and Home Goods (Factory Standard) covers these diverse supply chains under one set of requirements that apply to all of these manufacturing set-ups. A Fair Trade Certificate defines the site(s) which have been audited and approved for Fair Trade production. The scope of a Certificate can range from a single entity (for instance a cut-make-trim factory), to multiple entities of different sizes owned and controlled by one party (for instance a complex of factory buildings).

Because the Factory Standard can be applied to one or more entities of varying structures, the scope of an individual Certificate can vary widely between different Certificates. It is therefore very important to ensure that scope requirements are followed so that all applicable requirements within each entity can be evaluated for compliance during the audit.

Purpose

This guidance document provides step-by-step assistance in determining the scope of a Certificate under the Factory Standard. The full requirements for which sites must and can be included in the scope are included in a separate policy, Requirements for Certificate Scope under the Factory Standard for Apparel and Home Goods, which can be downloaded on the Fair Trade USA website. This guidance document further explains this policy, with greater detail and examples, and is intended to help readers understand which sites within a supply chain must or can be included in the Certificate and which requirements are applicable for each site affiliated with the Certificate.

The scope is determined during the application process and approved by Fair Trade USA before the initial audit to ensure the proposed scope is eligible for certification. All applicable requirements are evaluated for compliance during the audit. Any time a new site is added to the Certificate, the scope must be reviewed and determined.
Scope and Applicability

This guidance document applies to all applicants for certification and all Certificate Holders certified under Fair Trade USA’s Factory Standard. This document applies to all entities certified against the Factory Standard.

Related Documents

- Factory Standard for Apparel and Home Goods, version 1.3.0
- Requirements for the Scope of the Certificate Under the Factory Standard for Apparel and Home Goods

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 supply chain. It sells the labelled Fair Trade product to the brand or its closest trader. The Certificate Holder is responsible for ensuring compliance with the Factory Standard, including compliance with Sub-section 5.3 which relates to subcontractors and suppliers.

The Certificate Holder also cooperates with brands and Fair Trade USA in the operation of the Apparel and Home Goods program.

1.2 Identifying the Certificate Holder

The simplest model for a Certificate is a single site, for instance Factory A in Figure 1 below where cutting, assembly, embellishing, labelling and packing are completed within the same legal entity. Factory A can be the Certificate Holder.

![Figure 1](image)

In cases where a business holding owns a larger complex of multiple production facilities, and only some units (buildings) handle Fair Trade production, the legal entity owning the facilities intended to produce Fair Trade product is the Certificate Holder (Figure 2). For example, in a complex of six production buildings
with a common entrance, where only two buildings handle Fair Trade production, the two buildings handling Fair Trade production must be included in the full scope and audit. The four production buildings not handling Fair Trade production can be excluded from the full scope. The legal entity owning the complex of six facilities is responsible to ensure the two units in full scope comply with the Factory Standard.

![Sells Fair Trade Product from Factory B, Units 3-4](image)

It is also possible for a Certificate Holder to produce Fair Trade product in multiple factories located at different addresses, under the same Certificate (Figure 3). For example, a Certificate Holder is producing Fair Trade product in four factories (A, B, C and D), each located at different addresses. The Certificate Holder may include all four sites in the same Certificate and audit, as long as the distance between each factory allows the audit to be conducted by the same auditors. Factories located in different countries require a separate audit and therefore require separate Certificates. This will require all four factories to always be in full compliance with the Factory Standard and be audited together for the same year-related criteria since all four factories 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.

![Sells Fair Trade Product from Factory A, B, C, D](image)
1.3 Restrictions on, and Responsibilities of the Certificate Holder

Generally, the Certificate Holder is an actor in the supply chain that buys and sells Fair Trade product. It can be a manufacturing facility that buys raw materials from suppliers to make Fair Trade products, or it can be an exporter that buys nearly-finished products from facilities to complete the production process, label, pack and sell.

In all cases, 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 and monitor suppliers and subcontractors.

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 4). 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. However, mixed legal ownerships within the same building are not eligible for Fair Trade certification in multi-level buildings.

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 product, and the related factory-provided living areas utilized by the workers, even if workers from other facilities not producing Fair Trade product utilize the same living areas. This means that the production facilities producing Fair Trade product, 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.

Any worker housing provided by the site’s management is considered part of a site and is included in the scope of the Certificate, even if it is located elsewhere.

The simplest model for a Certificate Holder is a single site. For instance, Factory A in Figure 1 where cutting, assembly, embellishing, labelling and packing are completed within the same legal entity and no living areas are provided. Factory A constitutes the site in full scope of the Factory Standard.

A more complicated but very common supply chain structure is where an entity completes only the last assembly steps of the production processes, along with labelling and packing activities and buys materials or subcontracts prior processes to other entities. As shown in Figure 5, Factory B sews, finishes, labels and packs t-shirts made of fabric purchased from Supplier C and dyed in subcontracted in Facility D. Factory B is in full scope of the Certificate, Supplier C and Subcontractor D are subject to Sub-section 5.3 of the Factory Standard.

In cases of a larger complex of multiple production facilities where only some of the units (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 buildings with a common entrance, where only two buildings handle Fair Trade production but all workers of the complex share housing and eating areas: the two buildings 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 buildings 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 Final Substantial Production Processes

Sites where final substantial production processes of Fair Trade product occur, such as assembly and labelling, must always be included in the scope of the Certificate, even if the production step is done by a subcontractor. Thus, if the Certificate Holder is buying finished product from suppliers, then those suppliers must be included in the scope of the Certificate.

For example, Factory A buys fabric from Supplier B and sends it for assembly to Subcontractor C with production specifications for t-shirts to be cut, sewn and packaged. Once finished, the t-shirts are shipped to Factory A where the brand and Fair Trade USA labels are attached. Factory A, where labelling and selling occurs, and Subcontractor C, where cutting, sewing and packaging occurs, must be included in the full scope of the Certificate.
2.2.2. Embellishment

Production processes that can be considered non-substantial to the making of a final product include minor embellishment of Fair Trade product.

Figure 8 shows an example where a pillow is sewn, stuffed, packaged and labelled at Factory A and is sent to Subcontractor C for embellishment (embroidery). The embroidery subcontractor C is not required to be included in the full scope of the Certificate and audit, but must comply with Sub-section 5.3 of the Factory Standard.
2.2.3 Subcontracting

The production activities that may be excluded from the full scope of the Certificate may occur in facilities outside of the certified factory, such as the production of components by suppliers or minor processes by subcontractors. The Certificate Holder is responsible for the monitoring and compliance of all its suppliers and subcontractors (including homeworkers) handling Fair Trade product, as required in Sub-section 5.3 of the Factory Standard. Fair Trade USA may require inspection of the subcontractors to evaluate their compliance status.

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. Figure 9 illustrates a complex supply chain with Factory A producing various upholstered furniture items. A couch from Factory A is made of a wood frame produced by subcontractor B, metal legs purchased from metal component supplier C, cushions purchased from foam supplier D, and is then assembled, upholstered and labelled at the certified site, Factory A. Only the final assembly and upholstery facility where labelling is applied, Factory A, must be included in the full scope of the Certificate, whereas suppliers C and D (metal legs and cushions) and subcontractor B (wood frame) must only comply with the requirements of Sub-section 5.3.