



Summary and Response to Feedback

Draft Trade Standard 2.0.0

Version 1.0.0

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Fair Trade USA



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1. INTRODUCTION

Fair Trade USA is a nonprofit organization and the leading certifier of fair trade products in North America. Its trusted Fair Trade Certified™ seal on a product signifies that it was made according to rigorous fair trade standards that promote sustainable livelihoods and safe working conditions, protection of the environment, and strong, transparent supply chains. Rather than creating dependency on aid, Fair Trade USA's model empowers farmers, workers, and fishermen to fight poverty and earn additional money to improve their communities. Recognized as a leading social venture by the Clinton Global Initiative, the Skoll Foundation, and Ashoka, Fair Trade USA also develops, implements, updates, enforces, and audits against fair trade standards which drive income sustainability, community and individual well-being, empowerment, and environmental stewardship. Learn more at FairTradeCertified.org.

Since 2017, we have been in the process of revising our Trade Standard in order to help us better achieve our mission and vision for change. The objective of the Trade Standard is to enable the economic development of Fair Trade producers through their trading partners, and to assure consumers that the Fair Trade Certified products they buy were grown, harvested, manufactured, and traded in ways that improve livelihoods and protect the environment. The Trade Standard focuses on traders' roles in supporting the economic development of Fair Trade producers. Requirements around Fair Trade pricing, pre-determined Fair Trade Premium, reliable contracting, and pre-finance enable producers to harvest and make Fair Trade products in a sustainable way. These requirements also allow producers to follow the Fair Trade principles of empowerment, social responsibility, and environmental stewardship in their certification. Finally, the Trade Standard includes requirements for the handling, sale, traceability, and marketing of Fair Trade Certified product to ensure that only products purchased on Fair Trade terms are labeled as Fair Trade Certified.

We consider ourselves lucky to have received so much feedback from our broad stakeholder base during the public consultation and we could not be more thankful for the time and brainpower our partners spent to help us build a more impactful Trade Standard. **This document contains a summary of the key themes from the feedback we received on the draft of the Trade Standard as well as Fair Trade USA's responses to the suggestions made.**

The document begins with a summary and response to higher level feedback and comments that are more general in nature. Then, we document the key themes from each module of the Trade Standard. We also received many detailed comments not captured in these key themes and we have made many small edits not reflected in this summary in order to create an even more effective and clear Standard.

2. HIGH-LEVEL FEEDBACK FOR FAIR TRADE USA

Overall, stakeholders were very positive about the direction of the revised Trade Standard, found it to be written and structured clearly, and appreciated the consistency of requirements across product categories and the addition of Intent and Clarification. Many stakeholders also expressed appreciation of the consultation process and the opportunities to participate via written comments, phone calls, webinars, and in workshops.

Fair Trade USA Response: Thank you again to all of the industry leaders, thought partners, and experts who spent countless hours providing feedback on the Draft Trade Standard 2.0.0. Your involvement in helping us craft the Trade Standard 2.0.0 was critical, and we could not have done it without the addition of your expertise and knowledge.



One frequently expressed concern throughout several sections of the standard was that requirements in the Trade Standard expand beyond what stakeholders viewed as the appropriate scope and role of Fair Trade USA. In other cases, stakeholders were pleasantly surprised to learn that the Trade Standard covers some unique elements of fair trade.

Fair Trade USA Response: Many of these requirements relate to the economic development component of the Trade Standard, such as elements required in contracts or timelines by which product price must be paid. The economic development component of the Trade Standard is, in fact, one of the most unique elements of Fair Trade supply chains and it provides rights and protections for factories and workers. It is the main way in which our Trade Standard differs from other ‘chain of custody’ verifications, and part of our unique model. Although we strive to encourage leading practices, we also want our standards to be feasible for partners to implement. The Fair Trade USA Standards team never stops collecting learnings from standards implementation to iterate and improve upon our Standards requirements for future versions of our standards (the next version of the Trade Standard is slated for 2024, in line with ISEAL best practices).

2.1. Scope of the Trade Standard

Subcontracted Activities

Some stakeholders requested more clarification and detailed guidance regarding subcontractors, particularly those working for factory and distribution centers. Some apparel and home goods (AHG) brands’ feedback suggested that elements of the scope related to subcontractors, for example, the adherence to ILO Core Conventions, moved beyond the scope of what Fair Trade USA can and should enforce.

Fair Trade USA Response: After further consultation and consideration of what is both achievable appropriate, and in line with our peer organizations, we are eliminating the proposed requirement in the draft version that “Any site or entity that physically labels a product with the Fair Trade Certified seal or designs a product label with the Fair Trade Certified seal” be included under the scope of the Trade Standard. We are also eliminating the requirement that any site or entity that handles label design be included in scope. Labeling activities are covered by the requirements of the Trade Standard, but the trader will be responsible for other entities not necessarily required to be in the scope or be directly licensed with us. By including sites or entities that buy, sell, or otherwise take ownership of a Fair Trade Certified product as well as sites that invoice, pay, or otherwise handle Fair Trade Premium and/or Fair Trade Price under the Scope, this will always ensure that an appropriate trader is included. This will also guarantee that the correct use of the Fair Trade Certified seal is always covered by the scope. Since any entity taking legal possession before product is in “final consumer packaging” must be licensed with us, it is not in final consumer packaging if the label has yet to be applied.

We have also chosen to eliminate the requirement that subcontractors must adhere to the ILO Core Conventions. The Draft Trade Standard had stated that traders must have a contract or an agreement with the subcontracted entity which states that the subcontractor meets the ILO Core Conventions related to forced labor, freedom of association and collective bargaining, child labor, and discrimination, among other issues. We had added this requirement to be consistent with our producer standards, but this would have represented a significant expansion of the scope.



Fair Trade USA Informed of Mass Balance Sites

We received some requests for guidance from companies employing mass balance on whether they would need to need to inform Fair Trade USA of all sites where Fair Trade Certified product is handled.

Fair Trade USA Response: While we understand that this may require additional time and effort to communicate, in the final Trade Standard 2.0.0, we will require that Fair Trade USA be informed of all sites where Fair Trade Certified product is handled in order to support appropriate sourcing and tracking for products using mass balance systems. This is further detailed in the separate document, Requirements for Certificate Scope under the Trade Standard.

3. MODULE 1 – General Requirements

3.1. Limits on Orders Placed While Producer Under Suspension

The draft rules stated that when a supplier is suspended, new contracts with existing suppliers can only be made for up to 50% of the volume previously traded. The draft Compliance Criterion 1.2.2.b stated, “If the trader or their supplier/buyer are suspended, new contracts or purchase agreements of Fair Trade Certified product are only signed if there is an existing trade relationship. New contracts or purchase agreements are limited to 50% of the volume traded with that partner in the twelve months prior to the date of suspension.” Several AHG brands expressed concern over this requirement based on the nature of how product lines are sourced in the AHG industry, commenting that the requirement is infeasible for their industry. One AHG brand commented that limiting FT orders hurts workers without any real additional incentives to management to fix the issue that led to the suspension.

Fair Trade USA Response: After further consideration and conversation with key stakeholders, and keeping in mind the intent of the suspension restrictions – to motivate the factory to resolve non-compliances as quickly as possible and to ensure that buyers are prepared for potential decertification – we have decided to create an allowance whereby the volume limitation is not applicable for traders in the Apparel and Home Goods sector (the requirement will remain as is for traders in other categories). The final Trade Standard (1.2.2.b) states that for Apparel and Home Goods only, “If the trader or their supplier or buyer are suspended, new contracts or purchase agreements of Fair Trade Certified product may only be placed that can reasonably be fulfilled prior to the end of the suspension period (the decertification deadline).” The inclusion of this allowance is intended to account for long lead times in the industry, as well as the understanding that because Fair Trade USA expects brands to source 100% of their product from a factory under Fair Trade terms, reducing new orders to 50% of the volume previously traded is unrealistic. We are including the clause that orders must be able to be “reasonably fulfilled prior to the end of the suspension period” in order to explicitly prohibit the placement of orders that would place pressure on a factory to rush orders or necessitate overtime or any other type of factory practice prohibited in any other part of the Factory Standard for Apparel and Home Goods.

3.2. Canceling Orders When Producer is Decertified

Many Apparel and Home Goods brands, and some factories, expressed significant challenges with having to cancel outstanding orders immediately when a producer becomes decertified. This concern was due to long-lead times for ordering and production specificities in AHG. One AHG brand noted that in the AHG industry, once an order is placed, there is no other buyer for the specific branded product, whereas with other products, if a product becomes decertified, the supplier can find another buyer. Another noted that when POs are placed, the products have often already been sold to retailers as Fair Trade Certified and



are already printed in catalogs. We did not receive feedback noting significant concerns from stakeholders in other categories.

Fair Trade USA Response: We understand the challenges relating to this requirement; however, ensuring that Fair Trade Certified product is not sourced from or sold by decertified entities is crucial to maintaining the integrity of the Fair Trade program. We will be keeping the requirement in 1.2.3.b, but working with AHG brands to address challenges with specific orders.

3.3. Timelines For Selling On Product

Summarized as following in hot topics response: “Draft rules stated that product in stock from a decertified producer can be sold on as Fair Trade Certified only within 120 days following decertification for business to business transactions, and within one year for consumer sales.

Nearly 50% of all survey respondents stated they did not agree with the timelines. A majority of those who disagreed represented AHG brands and retailers. There were significant concerns expressed from most brands: impossible to remove label after the fact, can’t control other entities selling product to consumers, and not un-common for some product to stay in stores for a while. Brands feel confident they could trace individual products back to individual PO, enabling them to prove (even years later) that product was produced while factory was certified. Overall stakeholders from other categories were fine with the limitations, and many thought they were an important control on reputational risk and Premium tracking, though some stakeholders trading products with longer shelf-life thought the 1-year limitation on final consumer sale would be challenging.”

Fair Trade USA Response: We appreciate the thoughtful feedback shared on this topic. Because limiting the timeline to sell to consumers is outside of the ability of most brands to control, we are removing the limitations on both business-to-business and direct-to-consumer sales. The Fair Trade Certified seal lets consumers know that at the time that a product was produced, it was produced under Fair Trade terms; even if the producer is subsequently decertified, that would not change what had happened in the past. If it was bought under Fair Trade terms, then it should stay as such. Consistent with our peer certification organizations, we are eliminating this requirement.

3.4. Labor Rights and Environmental Protection

The inclusion of the criteria relating to following applicable labor and environmental laws as well as restricting the use of certain chemicals (Sub-modules 1.4 and 1.5) in trading activities is new to the Trade Standard, and we received valuable feedback on the new additions. Feedback generally was in favor of these additions, however there were requests for more detail around how compliance with such laws will be assessed.

Several produce traders were not in favor of the inclusion of 1.5.1.b, which states that “Pesticides listed on Fair Trade USA’s Red List of Prohibited Pesticides are not used on Fair Trade Certified product.” There was some confusion from several stakeholders regarding why rules around pesticide use are in the Trade Standard, as some stakeholders thought these requirements are more suited to production standards. One AHG brand commented that they believe that chemicals used for things like fumigation should be the responsibility of the factory producing the product, not the brand farther downstream. One produce and another AHG brand trader noted that in many instances, traders are neither aware of nor able to control the use of pesticides and hazardous chemicals by other actors in long supply chains. One produce importer cautioned against the inclusion of concepts outside of the scope of Fair Trade USA.

Regarding the compliance criterion which requires adherence to country-specific environmental laws (1.5.1.a), one AHG brand asked what would occur if there are no such laws in the country of manufacture



(and whether they would be expected to adhere to US laws even in the country of manufacture). One AHG brand noted that the language relating to which specific environmental laws must be followed was not clear enough.

Fair Trade USA Response: As noted in 1.5.1.a, compliance with applicable laws will be assessed in the case that any stakeholder makes an allegation or auditors observe any major violation, then this will trigger Fair Trade USA to conduct a deeper investigation into the issue. We have always expected that trading partners follow applicable laws but are explicitly clarifying the expectation in the Trade Standard version 2.0.0. In the case that there are no applicable environmental laws in a country, we would not expect a trader to adhere to US laws in their trading operations in that country. And while we understand that “applicable environmental laws” is a broad term, we wrote the compliance criterion that way deliberately because Fair Trade USA is always gaining new partners in new geographies and laws are subject to change, so it would be infeasible to write out exactly which laws we are referring to.

The reason why we have included requirements around pesticide and hazardous chemical use in the Trade Standard is to cover situations where a Fair Trade USA Red List pesticide is used during the trading of a product, rather than during its manufacturing process. This requirement would apply, for example, when a produce trader is engaging in product fumigation after the produce was grown and harvested. Requirements relating to the use of chemicals during the production of products is covered under our other producer standards and adhering to those requirements is the responsibility of the producer Certificate Holder.

4. MODULE 2 – Economic Development

4.1. Price and Payment Timelines

Timeline

Draft rules stated that Price payments for the product price should be made as soon as possible and no later than 30 days after the date of the product invoice and that the buyer and supplier may mutually agree upon an alternative payment timeline that is fair and reasonable.” A majority of feedback around the separation and standardization of Price and Premium payment timelines were in agreement with the changes and timelines. Many Apparel and Home Goods brands requested longer price payment timelines however, primarily due to internal invoicing systems. As many of them have only a small percentage of their product volumes as Fair Trade, they noted the administrative difficulty of changing the price payment timeline of just those specific orders in the context of much larger, company-wide invoicing systems. AHG factories preferred shorter price payment timelines. Academic and industry experts commented that requiring a maximum timeline cutoff, even with justification, would be useful because including an allowance for alternative timelines of undefined length is likely to render the compliance criterion less meaningful.

Fair Trade USA Response: We understand the challenges inherent in changing a small percentage of Fair Trade Price payments within much larger company systems. However, we also want to ensure that payments are made as quickly as possible to producers. After additional consultation on this specifically with our AHG brand partners, the Trade Standard 2.0.0 contains an alternative allowance to the 30 day baseline for AHG, which changes their baseline requirement to 45 days so that more AHG Price Payers can meet the baseline expectation. Our understanding is that 45 days is a reasonable, albeit leading practice. We will also be implementing a maximum alternate agreed-upon timeline period which cannot exceed 90 days for all traders, even with justification. This is



consistent with Premium payment rules, which also have a maximum alternate agreed-upon timeline period.

4.2. Premium Payment Timelines

Shorter timelines present challenges

The draft standard stated that payments of Fair Trade Premium must be made as soon as possible and no later than 30 days after the date of the product invoice. There was also a stipulation that if the producer has requested a different payment schedule, the Fair Trade Payer and producer may mutually agree upon a different payment schedule. Similar to the feedback received regarding price payment timelines, AHG brands in particular did not think this was feasible due to their internal invoicing systems and the fact that for many companies, Fair Trade Certified products only represent a small percentage of their purchases. The vast majority of AHG brands agreed that because they have incorporated Fair Trade Premium payments into their automated internal payment systems, changing the premium payment timelines would be difficult, if not impossible. Produce importers and a seafood consultant noted the same administrative challenges and also added that quality claims are sometimes reported late or even not until payments are tendered, which would make adhering to this timeline difficult. Produce producers' comments noted that they prefer quicker premium payments. There was also interest from a variety of categories on expanding options for alternate payment timelines.

On the other hand, one Consumer Packaged Goods (CPG) brand commented that they did not agree with the exception for longer premium payment timelines because they disadvantage producers already dealing with economic pressure from infrequent payments, and they recommend keeping the original "30 days of product invoice or monthly" timeline. They noted that any negotiation power regarding longer payments will always lie with the trader, which could lead producers to agreeing to longer payment timelines even if it were not in line with the Fair Trade Committee's goals.

One AHG brand noted that this timeline will be difficult to adhere to because often there are several invoices that go into one payment. Another AHG brand commented that in some cases, factories send them invoices at different intervals so paying Premium based on the date of the product invoice is infeasible if they do not yet have the Premium invoice.

Exception for quarterly payment

One AHG brand noted that it currently pays quarterly premium on the quarter's orders because different teams handle premium and product payment and they are concerned that a shorter premium payment timeline could create accidental double or lack of payment. One produce importer noted that their lots ship at different times and reporting to the grower is done based on these lots so they believe that waiting to pay until the end of each quarter when they close all applicable lots and provide the growers with the complete documentation makes more sense. One produce importer noted the importance of keeping in (and requested an expansion of) the allowance for quarterly Premium payments as there are often variances in quality and the market across the season which can slow payment timelines. AHG brands were unanimous in that they would like the allowance for quarterly (or at least longer than 30 days) expanded to allow the payer to request this schedule as well.

Many stakeholders noted that quarterly Premium payments might benefit producers, noting that they might enable more large brands to participate, demand less administrative overhead and reporting for the producer, create fewer bank fees for the producer, and that they might support more long-term, larger projects which require more investment and planning. Conversely, one CPG brand commented that receiving quarterly Premium payments would be detrimental to producers when they are accustomed to



and depend on receiving monthly payments and suggested that if Fair Trade USA envisions specific instances in which producers would benefit from quarterly Premium payments, those circumstances should be named in the standard as extenuating circumstances. Feedback from produce producers indicated an overwhelming preference for faster Premium payments, especially in produce categories with temporary workers and high staff turnover. While the majority of the many produce producers questioned noted that they'd like to get premium payments monthly, another sizeable section of the produce producers noted that what is most important regarding the timing of Premium payments is that they receive the Premium payment at the same time as the price payment. One produce importer also noted that they have found that the time it takes the worker committees to vote on, get quotes for and start a project is significant; they noted that they have not seen the committee unable to fund a project due to the quarterly timeline.

Fair Trade USA Response: The concerns noted here were similar to those related to the payment of the Fair Trade Price. While we understand the challenges relating to accelerating these timelines, we believe that receiving Premium in a timely manner is critical to the economic development of Fair Trade Producers. As leading companies in their respective industries, we believe that our partners will make every attempt to meet these deadlines and in doing so, help shift the industry norms toward more timely payments more broadly.

In order to accommodate the specific challenges inherent in the Apparel and Home Goods industry, we have changed the baseline expectation for AHG to a 45 day Premium payment timeline rather than 30 days.

Based on the feedback above, we have made some alterations to the rules surrounding alternative timelines. Regarding which party is allowed to propose an alternative Premium payment timeline, we have removed the requirement the producer must be the one to request the alternative Premium payment timeline; alternative Premium payment timelines may now be proposed by either party. However, we will require that alternate Premium payment timelines be mutually agreed upon, mutually beneficial, and that they should be in the best interest of the producer. We have also removed the other requirement that was in the draft standard which stated that one of the two circumstances under which alternative payment schedules may be used was if the Premium amount is less than USD 500. Further consultation elucidated the fact that this was too small of an amount to be relevant in many cases.

As was in the draft standard, Premium payment must be made at maximum quarterly.

In produce supply chains, Premium must be paid on all purchases (not sales) unless a trader is engaging in consignment, in which case, Premium payment is based on sales volumes by the Premium Payer. Different rules for traders using consignment sales will be outlined in the separate document, Guidance on the use of Consignment. Please see the Vertically Integrated Supply Chain Policy for additional requirements and detail relevant to traders in vertically-integrated supply chains.

Conveyors conveying Premium in 15 days

One produce exporter stated that this would be difficult to adhere to because of the slow nature of international transactions and payment systems, and one produce importer noted that they don't close out lots quickly enough to pass along the payment in 15 days. A handful of respondents who disagreed with this were unclear on what it meant. For example, one produce importer commented that this would mean that the importer must finance the costs, as retailers do not usually tender payment for nearly a month and one CPG was brand unclear whether this was included as part of the 30-day timeline for payers.



Fair Trade USA Response: The reason for including this criterion (now 2.2.2.e) is to ensure that Conveyors pass along Premium payments in a timely manner. Premium Conveyors are not expected to convey Premium before they have received it from a Premium Payer, so there is no need for concern about financing the Premium before being paid by their buyer. While we understand that in some cases, larger invoicing systems will again make adhering to this requirement difficult for some Premium Conveyors, we believe that including this requirement will help all traders move toward more timely and fair payment systems.

Bank fees

Many stakeholders also commented on the inclusion of a stipulation stating that bank fees must be paid by the Premium Payer (2.2.1.a and 2.2.1.b). Some respondents were not in favor of the restriction on deducting fees from Premium to cover banking fees and transaction costs. Multiple produce traders suggested that there should be an exception for banks with exceptionally high fees, and that the burden of bank fees should fall on the Premium recipient. An AHG retailer echoed some of these comments and suggested that fees charged by the producer's bank should not be the responsibility of Premium Payers and Conveyors, and a brand that noted that bank fees differ from bank to bank, so this would be difficult to standardize and that their finance teams have no way to obtain proof or receipts of wire fees. One produce brand commented that they were in favor of the Premium Payer paying the bank fees for the transaction to a producer, but not the fees of the supplier's bank.

Fair Trade USA Response: In the spirit of Fair Trade USA, we maintain that no deductions to Premium may ever be made to cover bank fees or transaction costs. However, we realize that in the draft standard, it was unclear whose bank fees were to be the responsibility of the Premium Payer. Therefore, in the Trade Standard 2.0.0, we have clarified that bank fees and other transaction costs charged to the Premium recipient (including applicable taxes) are not the responsibility of the Premium Payer – the Premium Payer is only responsible for bank fees and transaction costs charged to them for sending the payment.

4.3. Premium Calculation

Feedback indicated that there was some confusion on how to calculate Premium. A produce importer noted that growers create a weekly price of sale document noting the Fair Trade Premium to return to the grower and that this Premium should be based on actual production and post-production work done by workers, noting that it is a fixed, established cost.

Fair Trade USA response: We are keeping the stipulation that was in the draft standard that “Where Premium is set as a percentage of product price, the calculation and payment of Premium are based on the original negotiated product price.” We engaged in a significant amount of further consultation on this issue and concluded that this keeps with the Trade Standard’s goals of supporting economic development for producers and avoiding unfair trading practices. We have added clarification that if product is rejected entirely due to a quality claim, no Premium is owed on that product. For more detail on this topic, please see 2.2.1.c.

4.4. Prohibition on the use of checks

The draft standard prohibited the payment of both product price and Premium by check, due to traceability and verification concerns. However, we received feedback from a produce exporter, among others, that it is important to allow the use of checks as they are the only form of payment available in some areas where banking systems are not robust.



Fair Trade USA Response: After additional consultation on the matter, we will allow the use of checks for both product price and Premium payment as long as they are documented, traceable, and made in the correct currency. Checks may be used only where they are the standard form of payment, and they must be paid to the producer Certificate Holder bank account rather than to an individual. Bank transfers or letters of credit are preferable to the use of checks.

4.5. Contracts

Premium on Purchase Orders

The Draft Trade Standard required that each purchase order made for Fair Trade Certified product contain the amount of Fair Trade Premium owed as well as how it was calculated, among other components. AHG brands nearly unanimously agreed that the requirement to include the amount of Premium owed on purchase orders was infeasible. This was mainly because of the way that their internal purchasing and invoicing systems are set up, echoing similar concerns from AHG stakeholders regarding payment timelines.

Fair Trade USA Response: The intent of Fair Trade USA's requirements relating to contracts and agreements is to encourage and maintain transparent trade relationships and to ensure that all parties understand their roles and responsibilities, rights, and mechanisms for resolving disputes. Considering the feedback received and the intent of this section, we are keeping the requirement to include this information but will create an allowance in 2.3.2.b whereby Premium amount may be omitted from the purchase order if necessary. This is allowed only as long as information in the purchase order and Fair Trade Agreement (or other mutually-agreed upon document) is sufficient and clear enough to allow the trader, producer, and Fair Trade USA to easily calculate Premium owed. This means the Fair Trade Agreement or other written agreement must clearly define the Premium calculation process and final purchase orders clearly define price and final purchase volumes of Fair Trade Certified product.

Volume Estimates

The draft Trade Standard required that a signed, written agreement between suppliers and traders exists which contains a commitment by traders to provide estimates of purchase volumes. Produce producers and AHG factories noted that receiving estimates of purchase volumes has been useful and is something they would like to help determine equipment purchases, production planning, and premium project planning. However, produce buyers noted that these estimates may not necessarily be very accurate as there are large swings in supply and demand. A seafood trader mentioned this would be very difficult as the raw material required for each order will be different depending on the type of product ordered as different processing methods require different volumes of raw material. Some AHG, coffee, produce brands noted that they would not want to set unrealistic expectations for their suppliers. Some respondents were unclear on the wording "commitment to provide estimates of purchase volumes," thinking it meant that the estimate itself was a commitment.

Fair Trade USA Response: We have decided to keep this requirement (part of 2.3.2.a) as it was in the draft standard (except we changed "purchase volumes" to "order volumes" to accommodate situations where there are not official "orders") to support accurate sourcing and production planning. Although we understand the hesitation around a commitment to provide volume estimates, the intent behind this requirement is to encourage the development of sourcing plans and open communication between buyers and suppliers in a manner that works for both parties. A "commitment to provide volume estimates" does not mean that traders must commit to purchase a certain volume; it just means that they must commit to giving producers their best estimate. 2.5.2.b



complements this criterion by encouraging buyers and suppliers to work together to improve the accuracy of these estimates over time.

Contract Elements

There was general agreement from most stakeholders on the trade terms required to be in contracts, and most are already including the majority of this information. Some AHG brands and produce importers commented that the Fair Trade Agreement and contracting requirements seem to be outside of the scope of the Fair Trade program and that there should be flexibility in how a trader can meet these requirements.

Several AHG brands noted that because Fair Trade Certified products represent only a portion of their purchases, including all of the required contract elements may be difficult as their contracts are part of complex, larger systems (similar to several other raised by AHG brands) and they were unclear on whether they would need to create a supplemental agreement.

There was also some confusion regarding the structure of contracts, purchase agreements, and Fair Trade Agreements; for example, one produce importer commented that creating one document which includes all contract and Fair Trade Agreement requirements makes the most sense. An AHG brand also inquired as to whether the Fair Trade Agreement would need to be updated each season or if it could be in effect for longer. There were also many requests for a template for the Fair Trade Agreement.

Fair Trade USA Response: Ensuring that agreements are written in a transparent and clear way is directly in support of one of the goals of the Trade Standard, which is to support the economic development of producers. To ensure that regardless of the internal purchasing systems in use, the requirements can be met, the Trade Standard builds in significant flexibility in how a trader can meet these requirements. Compliance criterion 2.3.1.a states that the “Fair Trade Agreement can be incorporated into existing agreements and can take the form of an MOU, contract, master purchase agreement, or other written document signed by both parties” and 2.3.2.b states that purchase order information “can take the form of a contract, purchase order, or other document that defines final purchase amounts. The information may also be part of an electronic system, as long as the required information is accessible by both buyer and seller as well as Fair Trade USA and its auditors.” We aim to provide useful resources to help traders meet these requirements while not being overly prescriptive. Fair Trade USA will be working on a template for a Fair Trade Agreement to provide to partners if requested. Additionally, the cadence of updating the Fair Trade Agreement must be specified and can therefore carry over into seasons as long as it is in line with what is stated in the agreement.

4.6. Applicability of Pre-Finance

The draft Trade Standard required that when requested from a producer, the first buyer must either provide direct pre-finance against a specific Fair Trade contract or support the producer with securing pre-financing from a third-party lender against that contract.

The consensus from AHG brands was that providing direct pre-finance is uncommon in their industry, it would be challenging due to the small size of Fair Trade programs within larger companies, and they lack the internal systems to support pre-finance. However, we received feedback from AHG brands that allowing factories to seek loans based on the brands' POs is common.

Produce importers noted that pre-finance is already commonplace in produce but that often a producer has several buyers, so receiving pre-finance from one may be insignificant. A produce exporter noted that in situations where pre-finance is not customary, this could be a disincentive to participate in the program,



and a produce importer noted that because knowledge of final yields is not known prior to the season, they may end up giving more than 60% of the yield.

A cocoa trader noted that the concept seems counterintuitive when trying to support producers in becoming financially independent.

A nonprofit partner noted that due to power dynamics, we may want to consider requiring the first buyer to offer the pre-finance. An academic expert focused on AHG noted that pre-finance is becoming increasingly common, but its intention can backfire as it is sometimes used as a way for suppliers to obtain bridge financing to cover long payment terms.

There was a notable amount of misunderstanding where traders thought they must provide direct pre-finance (as opposed to support in accessing).

Fair Trade USA Response: As the requirement is relatively flexible and requires only support in accessing pre-finance rather than the direct provision of pre-finance, we will be keeping the requirement in the Trade Standard 2.0.0 as it was originally written in the draft standard. In line with other standards-setting organizations, we believe that this supports producers to grow their operations rather than disempowering them. Because we are not going to require first buyers to offer pre-finance support, we will instead ensure that producers are aware of their right to request it through a focus on training for producers. Producers may request up to 60% of the contract value, not 60% of the final value of the yield. Finally, because we have requirements relating to payment timelines, using pre-finance as a bridge to cover long payment terms would not be a concern for our traders.

4.7. Sustaining Trade

AHG brands provided a lot of feedback about how to ensure appropriate lead times for orders, reasonable production changes, and responsible exit strategies to support factories in implementing good labor practices and the Fair Trade USA program. Some brands requested more outcomes-based requirements here as lead times and production changes vary greatly and they suggested that the draft requirements were too vague. There were also questions from brands about what Fair Trade USA defines as a “reasonable lead time.” Some AHG stakeholders would prefer a more flexible exit strategy timeline (the draft requirements specified notification six months “prior to the termination of the trading relationship of Fair Trade product, or to significant reduction in volumes ordered as Fair Trade.”). Alternatively, an AHG factory mentioned that it is customary to ask for a lead time up to a year in advance of termination or a significant change to the trading relationship. Many brands are also curious about whether Fair Trade USA might consider mutual recognition with other certifications in the apparel industry that cover many of these concepts with which they are already complying.

Fair Trade USA Response: While some of the terms in the standard are vague, such as “unreasonable,” this was intentional in order to avoid being overly prescriptive as we understand that many situations must be assessed on a case-by-case basis. We attempt to define terms and use specifics as appropriate; for example, we define “unfair trading practices” in the Intent & Clarification section of 2.5.1.a. At this time, we are not engaging in mutual recognition of any other certifications in the Apparel and Home Goods industry; however, we are constantly in the process of benchmarking our standards against other peer standards and it is something that is on our radar to explore down the road. Additional consultation indicated that keeping the six-month minimum notification for significant reduction to volume or the termination of a trading relationship for Apparel and Home Goods traders is a reasonable timeline for the industry, striking a fair balance between suggestions from various types of stakeholder groups.



Several produce producers noted that they would like more detail prohibiting unreasonable demands on quality claims and decreasing orders. Produce producers also requested requirements ensuring that detailed information be shared with them about sales, deductions, rejections of product, and requirements to ensure that contracts are upheld according to agreed-upon terms. One produce importer also mentioned that the inclusion of growers' agents in produce supply chains may complicate the rules around exit strategies. A seafood producer mentioned that it might be valuable to include prohibiting the unfair trading practice of undercutting the market price of fish when buyers purchase from fishers fishing illegally.

Fair Trade USA Response: Ensuring that producers receive clear explanations regarding price deductions, rejections, etc. and that traders and producers are engaging in fair trading relationships is one of the foundational aims of the Trade Standard. Objective 2.3.3. states “the Fair Trade Agreement and all purchase orders are honored. Any changes, disputes or other claims are documented.” It requires that any quality claims documented, and that any deductions to the agreed price as a result of such claims are fair and transparent, and communicated to the producer. One of the purposes of the written agreement, required as outlined in 2.3.2.a, is to clearly define the terms by which any price deductions are made and one of the reasons we require the creation of such a document.

With regard to the potential complications on growers' agents exit strategies, please refer to the separate document, Guidance on the use of Consignment, for additional detail on the applicability of relevant sections of the Trade Standard to traders using consignment sales.

The unfair trading practices highlighted in 2.5.1.a are practices which research and consultation have indicated to be commonplace and damage the capacity of producers to compete and/or comply with Fair Trade production standards; not practices which are illegal. Engaging in illegal activities in Fair Trade USA supply chains has always been prohibited, but we have explicitly stated it as so in this version of the Trade Standard. Sub-modules 1.4 and 1.5 state that traders must follow all applicable environmental and labor laws in effect in their countries as well as the ILO Conventions. At this time, we have chosen not to outline all of the specific illegal practices that are prohibited; however, we will continue to collect feedback on common issues that arise in all of our supply chains and may consider outlining these in a separate document in the future.

5. MODULE 3 – Product Traceability

5.1. Traceability Through Documentation

Many stakeholders including coffee, produce, and CPG brands commented that accurate, documented traceability is beneficial to them for impact tracking. One produce importer found the additional requirements too prescriptive, noting that they already have traceability programs in place in the produce industry and suggested that if a company can demonstrate effective traceability in existence, they need not conform to Fair Trade's specific requirements. Some AHG brands mentioned that complications may arise with syncing up traceability systems and requested additional guidance on how to implement effective traceability.

Fair Trade USA Response: Enabling product traceability so that a product with the Fair Trade Certified claim and seal maintains its integrity is fundamental to Fair Trade's model, so all of the requirements relating to traceability through documentation remain in the Trade Standard 2.0.0. If a supply chain already has a robust traceability system in place, that should make it much easier to provide documents to demonstrate product integrity during an audit. We have also written these requirements in such a way that they should allow for maximum flexibility; for example, in 3.1.1.a,



the standard states “The company has a system and documented procedures in place to ensure the traceability of all transactions and volumes of Fair Trade Certified product.” As we have a wide range of partners under the Trade Standard, there are varying needs; for example, to address the concerns of those who would like more guidance, 3.1.2.b defines the specific requirements needed on purchase and sales documentation.

A produce exporter highlighted the importance of tracking product transformations to ensure the integrity of communicating Fair Trade to consumers. A cocoa brand was in favor of these requirements regarding transformation and emphasized the importance of specific label requirements on transformed products. One seafood implementation partner said it is very challenging to track transformation of seafood along supply chains with product coming from many places and noted that it was impossible to know how much is lost from which batch.

Fair Trade USA Response: While we understand there are some situations in which tracking product transformation can be difficult, we have decided that this requirement will remain in the Trade Standard 2.0.0. If a situation arises where it is infeasible to obtain the correct conversion rate or processing loss, the nearest estimate or industry standards may be used. Fair Trade USA is working on calculating standardized conversion rates and processing losses for seafood which will be available soon. In certain circumstances, Fair Trade USA’s Certification team may work with individual traders to ensure the appropriate amount of Premium is paid to producers.

5.2. Identity Preserved

Only a handful of coffee (and one cocoa) brands expressed interest in using identity preserved traceability in their own supply chains to improve impact data, though a majority were in favor of or not opposed to the inclusion of identity preserved as long as it remains optional. Mixed interest was also expressed by some stakeholders in the produce and AHG industries, though these categories saw less need for this level of traceability in their supply chains. Most buyers acknowledged, however, that implementing identity preserved traceability would require more work for suppliers and were not sure how supportive all supply chain actors would be. A seafood producer was interested in the idea of identity preserved but said it would depend on the cost of implementation.

Fair Trade USA Response: While there was limited immediate interest expressed in utilizing identity preserved traceability by stakeholders overall, we see the potential for this higher level of traceability to add great value in certain supply chains, particularly in the coffee sector for brands that are interested in more direct information on their Fair Trade impact. We will maintain the section on identity preserved traceability and have added an additional requirement that Fair Trade USA must be informed and approved the use of identity preserved traceability to ensure that traders and brands only attempt to implement these more rigorous traceability practices where the full supply chain is supportive of doing so.

5.3. Retro-certification

While there were limited comments submitted on the addition of a maximum time limit of three years for retro-certification (the draft stated that “Product may be retro-certified up to three years after date of the original purchase”), the comments received were supportive of this addition and generally felt it was an appropriate timeline. Some tea traders questioned whether the three-year timeline for retro-certification allowed by Fair Trade USA would cause problems in supply chains where Payers are purchasing from entities certified by Fairtrade International, which sets a maximum timeline of six months for the retro-certification of tea.



Fair Trade USA Response: We were pleased that stakeholders expressed support for the addition of a maximum time period for retro-certification. To ensure that the longer timeframe allowed by Fair Trade USA did not cause conflicts for tea supply chains certified through both Fair Trade USA and FLO, we added clarification that tea may only be retro-certified when Premium is paid directly back to producers, not another entity classified as a Fair Trade Payer.

5.4. Consignment

A small number of stakeholders including a sugar manufacturer and a produce grower commented that they felt sales under consignment are not in line with Fair Trade principles, as they limit producer decision-making about sales of their product. However, a significant majority of stakeholders from the produce sector commented that consignment sales are a standard practice in the industry and that not allowing such sales would severely limit Fair Trade sales of produce. They also commented that they felt the draft proposed rules were sufficient to protect producers selling under consignment and were happy to see we outlined these additional requirements for growers' agents.

Stakeholders expressed limited interest in the ability to sell Fair Trade products under consignment outside of produce sold in the US, though the potential for sales in Canada or the EU were mentioned as possibilities.

Produce growers that have sold product under consignment noted various challenges they have experienced in the past which they think are the most important risks to control. These included not receiving sufficient information from the growers' agent on expectations of product quality, the volume of product delivered as Fair Trade Certified not being sold as Fair Trade Certified and the difference and why this occurred was not communicated, and delays by the agent which cause product not to be sold at all. A trader also noted the importance of tracking and communicating conversion of product from Fair Trade to conventional.

A couple of produce importers were concerned by the restriction that "no more than 10% of the delivered volume of labeled product may be sold as non-Fair Trade Certified without paying the Fair Trade Premium", as they felt that the point of consignment sales is to allow greater flexibility and that 10% is not sufficient, in particular for new trading relationships. Another produce importer did not believe we should allow any labeled product to be sold without Premium being paid, and also asked for clarification on how labeled product that is donated or dumped due to quality issues should be treated in regard to this limitation.

Fair Trade USA response: We were happy to see that most stakeholders supported our inclusion of consignment sales and the outlined rules overall. Based on limited stakeholder interest in consignment sales outside the context of produce in the US, we did not expand the applicability of this section, and added greater clarification that only traders of produce that are licensed under the Perishable Agricultural Commodities Act (PACA) may engage in consignment sales. We may consider expanding this to other regions in the future, but this would require significant expansion of requirements to protect producers, as the requirements and support offered through PACA currently cover much of this risk.

We added more details around requirements for a written agreement between the growers' agent and producer to ensure producer concerns around transparency are addressed. We also added a requirement for the growers' agent to provide the producer a monthly reconciliation of Fair Trade Certified sales.

We maintained the requirement that growers' agents must pay Premium on at least 90% of all product sold with the Fair Trade Certified label. This relates to product integrity and maintaining a



trusted program. If a product carries the Fair Trade Certified label, Premium should be paid on that product. We understand the specific challenges in consignment sales in the produce industry and built flexibility into this requirement by allowing the removal of the label. If the agent wishes to sell more than 10% of the ordered volume as non-Fair Trade Certified and not pay Premium on it, the Fair Trade Certified label and claim must be removed from the product.

