Introduction

Retro-certification is a business transaction in which a Fair Trade Price and/or Premium Payer purchases eligible product from a fair trade producer or exporter under non-Fair Trade terms and converts it into Fair Trade Certified™ product at a later date. Sub-Module 3.5 of the Fair Trade USA® Trade Standard contains the compliance criteria (CC) with which traders must comply when employing retro-certification, whether it be the systemic version (which applies only to *Camellia sinensis* and cane sugar) or the exceptional version (which applies to all other products, including tisanes, herbs, spices, apparel and home goods, etc.).

Purpose

This guidance is intended to clarify the requirements in Sub-module 3.5, with call-out boxes for the documentation required at each step in the retro-certification process.

This guidance document is not meant to replace the complete details of the Trade Standard requirements. To fully understand the requirements, Licensees employing retro-certification (*Licensee*, specifically the price and/or Premium Payer) must read the Trade Standard, as important information on compliance is detailed in the Intent and Clarification column.

Scope and Applicability

This guidance applies to all Licensees employing retro-certification, whether it be the systemic version or the exceptional version.

Related Documents

- Fair Trade USA Trade Standard
- Fair Trade Certified™ Seal & Language Use Guide

Overview of the Four Steps in Retro-certification Process

1. Determine Product Eligibility
   - Retain original transaction records
   - Verify timelines

2. Gain Approval
   - Document the relevant information in the Fair Trade Agreement or addendum

3. Communicate retro-certified product
   - Submit records to suppliers; request invoices
   - Submit transaction reports to Fair Trade USA

4. Remit payments
   - To the correct bank accounts
   - Equitable distribution across multiple suppliers
1. Determining Product Eligibility

Use of retro-certification is limited to only those products that have been approved by Fair Trade USA.

- *Camelia sinensis* and cane sugar are the only products eligible for systemic retro-certification (CC 3.5.1.a).
- For all other products, Fair Trade USA grants Licensees the ability to employ exceptional retro-certification on a case-by-case basis.

Only product that was (1) sourced from a producer or exporter with a valid Fair Trade Certificate covering that product, (2) not originally traded as Fair Trade Certified and (3) not labelled as Fair Trade Certified when originally traded, may be retro-certified (CC 3.5.1.b).

Product sourced from a producer that has since been decertified is not eligible for retro-certification as long as the producer remains decertified (CC 3.5.1.b, and also CC 1.2.3.a).

The are timeline constraints for retro-certification. The maximum time limit for retro-certification is three years from the date of product purchase (CC 3.5.1.h).

Product that was purchased from a producer who was not certified at that time, but who has since recently achieved certification, is eligible for retro-certification. However, the product must have been produced no more than one year (365 days) prior to the date that the producer was granted certification. Product that was produced more than a year prior to that date is not eligible for retro-certification (CC 3.5.1.i).

Ensuring that the correct amount of Fair Trade Premium (and, where applicable, Fair Trade Adjustment) owed on retro-certified product gets paid to the appropriate producer or Fair Trade Conveyor starts with the Licensee keeping complete and accurate records of the original purchase(s) of eligible product. It also requires the Licensee to track the total volume(s) of eligible product purchased from each producer and/or Fair Trade Conveyor. These records must include the following information (from CC 3.1.2.b):

- The name (and, once available, the Fair Trade ID) of the buyer and seller;
- Product names;
- The applicable dates of transaction;
- Product quantities;
- Product characteristics. (Note: for seafood, these must include the species name and country of origin. Best practice is to include the scientific name of the species, where possible.)

Box 1
2. Gaining Approval to Employ Retro-certification (CC 3.5.1.a)

Prior to engaging in retro-certification, Licensees must:

- inform and receive approval from Fair Trade USA of their intent, and;
- inform each of the producers (and, where applicable, the Fair Trade Conveyers) from whom product was sourced of the intent to employ retro-certification, and properly document this.

These requirements apply to both systemic and exceptional retro-certification. However, the difference between the versions is that systemic retro-certification only needs to be approved by Fair Trade USA and producers and suppliers once and may subsequently be employed on an open-ended basis (provided that Licensees conform with all other requirements). Exceptional retro-certification, by contrast, is not intended for open-ended use.

In terms of physical product traceability, the Licensee that initiates retro-certification must have physical possession of eligible product. In addition, they must be able to implement and demonstrate compliance with the segregation and identification requirements for physical product traceability (Sub-Module 3.2) upon retro-certification of eligible product. So where retro-certification requires Licensees to be able to link records to specific product batches (CC 3.5.1.e), for physical product traceability this means that the Licensee must be able to physically identify product.

For Licensees who are employing mass balance (Sub-Module 3.4):

Because physical product traceability is not required with mass balance systems, in these cases the requirement to link records to specific product batches does not extend to the physical identification of retro-certified product. However, once eligible product is retro-certified, Licensees must be able to implement and demonstrate compliance with the all requirements in Sub-Module 3.4.

Regardless of whether a Licensee uses physical product traceability or mass balance, the requirements for traceability through documentation (Sub-Module 3.1) always apply to retro-certified product—see Box 1 and Box 3 for specific cross-references.
3. Communicating after Product has been Retro-certified (CC 3.5.1.e)

Licensees engaging in retro-certification must communicate the retro-certification of eligible purchases to the producers (and where applicable, the Fair Trade Conveyors) who supplied the product batches that were retro-certified. This communication:

- must happen on a quarterly basis, with the notice sent no later than 30 days after the end of the quarter. (Note: these are maximum allowable timelines; Licensees may send the notice on a shorter cadence, especially in cases of exceptional retro-certification.)
- should include a request for the relevant producers and Fair Trade Conveyors to prepare and submit invoices for the Fair Trade Premium and, where applicable, Fair Trade Adjustment, to the Licensee. (Note: In order for the Licensee to remit payment to the correct accounts, these invoices should include the bank account information for both the producer (for payment of the Adjustment, where applicable) and the Fair Trade Committee (for payment of the Premium).)

Licensees must keep records of the retro-certification of eligible product (see also Objective 3.1.2). These records must contain all relevant information, including:

- The name and Fair Trade ID of the buyer and seller;
- Invoice number(s) from the original purchase;
- Quantities of retro-certified product;
- Product names;
- Product characteristics when purchased and sold (Note: where retro-certification happens in conjunction with Mass Balance, then the product form and country of origin information must be sufficient to verify (1) the appropriate Fair Trade Premium rates and (2) ‘like for like’ condition; see CC 3.4.2.b);
- Calculation and amount of Fair Trade Premium, and if applicable, the Fair Trade Adjustment owed. (Retro-certification of products that have a Fair Trade Minimum Price may result in the need for the Price Payer to remit a Fair Trade Adjustment.)

Licensees engaging in retro-certification must include these records in their quarterly communications to suppliers.

Licensees engaging in retro-certification must also report all retro-certified product transactions to Fair Trade USA as part of their normal transaction reporting process.
4. Payments (CC 3.5.1.f)

After the Licensee has notified the relevant producers according to Section 3 (above), they must then remit payments for the Fair Trade Premium and, where applicable, the Fair Trade Adjustment.

Payments must be remitted to the correct bank account (for Premium, to the Fair Trade Committee’s account(s) or alternative account as defined in the Fair Trade Agreement; for Adjustment, to the producer’s account). Where a Fair Trade Conveyor is involved, payments may be remitted to that party, who would then convey payment(s) on to the correct bank account(s).

**Note:** Licensees might be purchasing from supply chains that include a non-Fair Trade USA payer (an entity that has been categorized as a Price and/or Premium payer by an approved certifier and is not a direct Licensee with Fair Trade USA). Where these non-Fair Trade USA payers are supplying product that is retro-certified, then the Licensee may not remit payment to these entities. Instead, they must remit payment of the Premium directly to the Fair Trade Committee bank account(s), and where applicable, the Adjustment directly to the producer bank account.

The maximum allowable timeline for remitting payments is 30 days from the end of each quarter. (Note: Licensees may remit payment on a shorter timeline, especially in cases of exceptional retro-certification.) However, the Licensee and the Certificate Holder, on behalf of the Fair Trade Committee(s), may mutually agree to an alternative Premium payment timeline, so long as it is mutually beneficial and in the best interest of the producer.

This longer alternative Premium payment timeline and the justification for it must be recorded in the Fair Trade Agreement.

4.1. Distributing Premium Across Multiple Producers

Frequently, a Licensee can trace eligible product back to multiple batches that were procured from multiple suppliers. This gives rise to a question of *how should a Licensee decide which suppliers will receive Premium from retro-certification in these cases?* Fair Trade USA’s expectations are that Licensees avoid concentrating retro-certification (and thus Premium and, where applicable, Price Adjustments) on one or a
select few suppliers, unless there are qualitative reasons to select product batches from one supplier over another. Where there are no qualitative differences, Licensees should implement an equitable approach, for example dividing the quantity of retro-certified product across all eligible suppliers, or by applying retro-certification evenly on a rotating basis. Licensees may not deliberately or punitively exclude eligible suppliers from their retro-certification program, e.g. as a form of retribution or to gain leverage in negotiations. Such behavior would constitute a violation of the requirements in Objective 2.5.1 for Licensees to engage in fair and transparent trading practices.

Sample Timeline

(2) Feb 1, 2018  
Licensee purchases eligible product from Certificate Holder  
Start 3-year timeframe for product to be retro-certified

(3) Dec 1, 2019  
Licensee identifies need to retro-certify eligible product, applies with Fair Trade USA

(5) Dec 17  
Licensee notifies Certificate Holder of intent to employ retro-certification

(6) Dec 19  
Certificate Holder approves retro-certification

(7) Dec 20  
Licensee documents retro-certification in Fair Trade Agreement or addendum

(8) Dec 22  
Licensee retro-certifies product

(9) Jan 15, 2020  
Licensee communicates all Q4-2019 retro-certifications to Certificate Holder

(10) Jan 20  
Certificate Holder invoices Licensee

(11) Jan 30  
Licensee remits Premium and Adjustment payments to Certificate Holder

Dec 31, 2019 (end of Q4)  
Start of 30 day deadline for Licensee to:
  (1) Communicate all retro-certifications from Q4-2019;  
  (2) Remit payments for Fair Trade Premiums and Adjustments (where applicable).