Guidance for Determining Scope Under the Trade Standard

Fair Trade USA

Version 1.0.0

Introduction

The Fair Trade USA Trade Standard covers traders and brands of various products in different parts of the world under one generic set of requirements. The scope of a Trade Certificate can cover a single entity (such as a trader that organizes all aspects of its business within a single legal entity), or a group of entities (such as a trader who works with one or several independent entities who provide services such as processing or storage).

The scope of the Certificate can vary significantly depending on the type of activities and the number of entities and/or sites that are included. Ensuring that the scope requirements are followed is important to ensure that as the Fair Trade Certified™ product is processed, transported, stored, exported, imported, manufactured, packaged, labeled, and sold to the consumer, the necessary entities along the supply chain are covered by Fair Trade USA certification. This allows Fair Trade USA and the Conformity Assessment Body to verify that the correct amount of Fair Trade Price and Fair Trade Premium has been paid, and ensures traceability of product such that only those products eligible for sale as Fair Trade Certified are sold or claimed as such.

Purpose

This guidance document provides step-by-step assistance in determining the scope of a Certificate under the Trade 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 Trade Standard, which can be downloaded on the Fair Trade USA website. This guidance document further explains that policy, with greater detail and examples, and is intended to help understand which sites within a supply chain must be included in the Certificate.

All entities, sites, and activities included in the scope of a Certificate must comply with the requirements of the Trade Standard, must be reported to Fair Trade USA, and are subject to audits by Fair Trade USA and/or an approved Conformity Assessment Body. Additionally, Licensees are required to report on Fair Trade Certified transactions that are within the scope of the Certificate to Fair Trade USA.

Scope and Applicability

This document applies to all entities certified against the Fair Trade USA Trade Standard.
Related Documents

- Fair Trade USA Trade Standard
- Requirements for Certificate Scope Under the Trade Standard.

1. Licensee Roles and Responsibilities

1.1. Identifying the Licensee

The Licensee holds the Trade Certificate on behalf of one or more entities in its supply chain. The types of entities which must be licensed with Fair Trade USA as a Licensee include the following:

1.1.1. Any entity that buys, sells, or otherwise takes legal ownership of a Fair Trade Certified product

As the requirements of the Trade Standard apply to the trade of Fair Trade Certified products, any entity taking legal ownership and engaging in the purchasing or sale of Fair Trade Certified product must be licensed with Fair Trade USA and abide by the requirements of the Trade Standard. This could include sites or entities who don’t take physical ownership of the Fair Trade Certified product.

The simplest example is an importer purchasing product from a Fair Trade USA producer.

If there are additional independent entities between the importer and producer that take legal ownership of the product, they would have to be licensed on their own.

This applies for all entities up to the point where product is purchased in final packaging for the end consumer (see section 1.2).
1.1.2. **Any entity that invoices, pays, or otherwise handles Fair Trade Premium and/or Fair Trade Price**

This includes any entity in the supply chain who is designated as a Fair Trade Price and/or Premium Payer or Fair Trade Conveyor, even if they are buying product after it is in final packaging for the end consumer. This also includes brokers who do not take legal ownership of the product but negotiate the contract and handle Fair Trade Premium payments.

![Diagram of the supply chain involving a producer, certificate holder, trading agent/broker, importer, and retailer.]

This also includes a grower’s agent engaged in consignment sales, who sell goods on behalf of a Fair Trade grower or exporter (see Sub-Module 3.6 of the Trade Standard). While the grower’s agent never takes legal ownership of the product, they act as the Fair Trade Price and Premium Payer (see 1.4), and must calculate the total Premium owed based on final sales of Fair Trade Certified product, and make all payments of Price and Premium back to the grower.

Note, if a broker negotiates a contract on behalf of a buyer but does not handle Price or Premium payments, they do not need to be licensed as their own Licensee. They are considered a subcontractor of the Licensee (see section 2.2).

1.2. **Entities Exempt from Being Licensed with Fair Trade USA**

Some entities which take legal ownership of Fair Trade Certified product do not need to be a Licensee.

1.2.1. **Entities purchasing finished, labeled Fair Trade Certified product ready for sale to the end consumer**

As long as they are not responsible for paying the Fair Trade Premium or Fair Trade Price, entities purchasing finished, labeled Fair Trade Certified product ready for sale to the end consumer do not need to be licensed as a Licensee. This typically includes retailers and distributors.
This also includes entities purchasing product in bulk to sell directly to end-consumers, such as retailers for seafood fresh case or food service providers. These entities must sign an agreement with Fair Trade USA committing to traceability requirements for Fair Trade Certified product. Please contact your account manager for more information.

1.2.2. Entities whose activities are covered by another approved Fair Trade Certificate

This generally includes entities certified against the Fairtrade International Trader Standard by FLO-CERT, unless special circumstances require them to be licensed with us. Please contact Fair Trade USA’s Certification team (certification@fairtradeusa.org) for more details on what FLO Certified traders need to also be licensed with Fair Trade USA.

Most Certificate Holders of a producer Certificate\(^1\) issued by Fair Trade USA or an approved certifier do not need to be licensed as a trader (as in the green box in the example above). However, if a Certificate Holder for a producer Certificate is also classified as a Fair Trade Payer, they must be licensed with Fair Trade USA as a trader and their Fair Trade Price and Premium payment activities must be covered by a Trade Certificate. This is important for verifying proper calculation and payment of Fair Trade Premium, as these requirements are not fully covered by producer Standards. This generally occurs when a Certificate Holder is vertically integrated: a vertically integrated supply chain is any supply chain where the Certificate holder (i.e. production unit) and the Premium Payer (i.e. brand) operate as a single entity (no purchases, sales, or consignment between them). For example, when the Certificate Holder is managing the Certificate for its supplying farm(s) and/or owns the supplying farms and is selling directly to a retailer, the Certificate Holder will also serve as the Premium Payer and therefore subject to the requirements of the Trade Standard, including Premium payment and calculation. The Fair Trade USA Certification team will confirm when a Certificate Holder also needs to be a Licensee.

\(^{1}\) A producer Certificate refers to all entities, sites and activities certified under the Agriculture Producer Standard (APS), Capture Fisheries Standard (CFS), or the Factory Standard for Apparel and Home Goods (Factory Standard) by Fair Trade USA, or Fairtrade International producer standards.
1.2.3. Entities and sites who are only transporting Fair Trade Certified product

All other entities and sites where Fair Trade Certified product is only being transported do not need to be included. For example, shipping companies, and ships and trucks transporting product between buyers.

1.3. Roles and Responsibilities of the Licensee

In all cases the Licensee must be a legal entity and cannot be a person. They are responsible for ensuring compliance with the Trade Standard by all sites and entities included in the scope of the Certificate. They must have the capacity to make and enforce agreements with any other sites or entities included in the Certificate, including any subcontracted entities.

In addition to ensuring proper handling of Fair Trade Certified product, Price, and Premium, the Licensee is responsible for ensuring that any labels designed and/or applied to a product with the Fair Trade Certified seal comply with the requirements of the Fair Trade USA Trade Standard, even if an independent entity not included within the scope of the Certificate designs or applies the label.

Only a Licensee may buy and sell product as Fair Trade Certified and handle Fair Trade Premium or Fair Trade Price payments.

1.4. Roles and Responsibilities as Fair Trade Price and/or Premium Payer or Fair Trade Conveyor

Some Licensees have an additional responsibility as a Fair Trade Price and/or Premium Payer or Conveyor.

**Fair Trade Premium Payer:** A Fair Trade Premium Payer is the entity responsible for paying the Fair Trade Premium. The Fair Trade Premium Payer may be the exporter, importer, first buyer, or brand depending on where the Fair Trade Premium is set and structure of the supply chain. Fair Trade Price and Premium Payers are generally the same entity, but sometimes are separate entities.

**Fair Trade Price Payer:** A Fair Trade Price Payer is the entity responsible for paying the Fair Trade Minimum Price or relevant market price, whichever is applicable as per the Fair Trade USA Price and Premium Database. The Fair Trade Price Payer may be the exporter, importer, first buyer, or brand depending on where the Fair Trade Price and Premium is set and structure of the supply chain.
**Fair Trade Conveyor**: An entity that initially purchases product at the relevant market price, receives the Fair Trade Price and/or Premium from a Fair Trade Payer, and is then responsible for passing the Fair Trade Adjustment and/or Premium amount to the certified producer and/or Fair Trade Committee accordingly.


**1.4.1. Determining who is a Fair Trade Price and/or Premium Payer or Fair Trade Conveyor**

A Licensee’s role as Payer or Conveyor is determined by the structure of their supply chain and level at which they are purchasing Fair Trade Certified product. Fair Trade USA will notify a Licensee of their role as a Payer or Conveyor.

When a Licensee is importing product and purchasing directly from a producer, they are a Fair Trade Price and Premium Payer.
Where there is an independent exporter in between the importer and producer, the exporter typically is a Fair Trade Conveyor and the importer is a Fair Trade Price and Premium Payer. However, the role of the exporter and importer can vary depending on where the Fair Trade Price and Premium are set and structure of the supply chain. Please contact Fair Trade USA’s Certification team (certification@fairtradeusa.org) for more details.

2. Identifying Sites and Activities to Include in the Scope of the Trade Certificate

Any individual site or entity performing activities that are relevant to the Fair Trade Certified product or transactions must be included in the scope of the Trade Certificate, while some sites operated by the Licensee which do not handle Fair Trade Certified product, paperwork or payments may not need to be included. All sites and entities included in the scope of the Certificate must comply with the Trade Standard’s requirements, Fair Trade USA must be informed of the location of these sites and activities they are performing (1.1.2.b of the Trade Standard), and Fair Trade USA and approved Conformity Assessment Bodies have the right to visit these sites to perform auditing activities as necessary.

2.1. Determining Which Sites Must be Included in the Trade Certificate

All activities connected to trading and/or handling of Fair Trade Certified product and/or Fair Trade Premium and Fair Trade Price must be included in the scope of the Trade Certificate and audit. This means that any site or entity that is owned or managed by the Licensee that handle Fair Trade Certified product, paperwork on Fair Trade Certified sales or purchases, or Fair Trade Premium must be included in the scope of the Certificate.

Fair Trade USA needs to know about the sites where activities relevant to Fair Trade Certified purchases, sales and product handling take place.

For example, entities which engage in group mass balance must include and report to Fair Trade USA all sites where Fair Trade Certified inputs are delivered, and all sites where Fair Trade Certified outputs are sold from.

For a large company with many offices and warehouses, only sites where purchase orders are created, payments of Premium are made, handling or storage of product, or any labelling or re-labelling of physical product occurs must be included and reported to Fair Trade USA. Offices which don’t engage in direct contracting with or payments to suppliers of Fair Trade Certified product are not relevant.
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Local distribution centers of labelled product in final consumer facing packaging don’t have to be included in scope, but the Licensee is still responsible for ensuring those sites comply with all traceability and labelling requirements.

Note that independent entities contracted by a Licensee that design a product label with the Fair Trade Certified seal are not required to be included in the scope of the Trade Certificate. However, it is the responsibility of the Licensee to ensure that the design and use of the Fair Trade Certified seal on product labels complies with requirements of the Trade Standard, as outlined in Sub-Module 1.3.

2.2. Subcontracted Sites and Activities

A subcontractor is an individual or company that is not managed by the Licensee nor subject to a controlling interest by the Licensee (either through ownership or family relationships) and which does not take legal ownership of the Fair Trade Certified product but provides services to process, pack, or transform the product.

For any entities where Fair Trade Certified product is handled by a subcontractor, the Licensee must have a contract or an agreement with the entity which covers all of the following elements:

a) That the entity or site will ensure that Fair Trade Certified product is not mixed with non-Fair Trade Certified product, in accordance with requirements in Module 3 of the Trade Standard.

b) That Fair Trade USA and/or an approved Conformity Assessment Body may enter the site(s) to perform control activities against these contract requirements.

Note, any entity that is handling Fair Trade Price or Premium payments, even if on behalf of another Licensee, must be licensed themselves as a Licensee (see 1.1) and so is not considered a subcontractor.