



Fairtrade Foundation Briefing on Financial Times Article

A Financial Times article (9 September 2006) has raised questions about the activities of Fairtrade certified coffee producer groups in Peru. Here, we respond to the main issues raised.

1. What do Fairtrade standards say about paying minimum wages?

Fairtrade standards for organisations of small farmers are aimed at promoting sustainable development through trade. With regard to workers employed directly by the co-operative, whether permanent, temporary or casual, the standards state:

*“All employees must work under fair conditions of employment. The **producer organisation** must pay wages in line with or exceeding national laws and agreements on minimum wages or the regional average”* (Generic Fairtrade Standards for Small Farmers’ Organisations 4.3 page 21).

Fairtrade recognises that the members of these producer organisations are small farmers who struggle to earn a decent livelihood for themselves and their families. Therefore, FLO standards also state: *“For workers casually hired by **small farmers themselves**, the farmers’ organisations should take steps to improve working conditions and to ensure that such workers share the benefits of Fairtrade. This should be part of the development plan for the producer co-operative reported to FLO”* (Generic Fairtrade Standards for Small Farmers’ Organisations, Section 4 introduction).

This means that Fairtrade standards that refer to employment conditions primarily put the emphasis on the small farmers’ organisations to achieve compliance themselves, but also to do what they can to support their membership in looking for ways to progressively improve working conditions. FLO-CERT inspectors do record employment conditions that appear to deviate from local law or ILO Conventions. Corrective action is required for any breach of standards by producer organisations. For issues concerning workers hired by individual small farmers, details are passed back to the farmers’ organisations, who are responsible for incorporating these issues into their own action and development plans.

A review of the FLO Generic Standards for Small Farmers’ Organisations is currently in process, including consideration of this complex and difficult issue. Any additional criteria will have to be achievable and auditable by FLO-CERT as the standards would be devalued by the inclusion of requirements that can’t be properly checked.

2. Are Fairtrade certified coffee farmers in Peru paying seasonal workers a fair wage?

In order to meet requirements on minimum wages, farmers must themselves be able to earn a decent return for the sale of their crop. While Fairtrade standards offer a minimum of \$1.21/lb to the co-operative plus \$0.05/lb premium (for green arabica beans), many farmers are only selling a small part of their total crop to the Fairtrade market. In the case of the farmers’ co-operatives in Peru quoted in the Financial Times article, one group sells on average 10% on Fairtrade terms and another 15%. This means they remain heavily at the mercy of the conventional market, often forced to sell for less than the cost of production. Therefore, even with some benefits from Fairtrade, the farmers hiring the workers are often still very poor themselves.

Minimum wages often allow for a proportion of the payment to be made in kind (for example, in the form of food and accommodation). In Peru the statutory daily minimum wage is 16 Peruvian Nuevo Soles (\$5.00) or 11.2 Soles (\$3.45) after the permitted 30% deduction for food and accommodation has been made. According to the article, while one small farmer in a Fairtrade certified co-operative was paying casual workers 12 Soles (\$3.70) a day, very slightly above the minimum wage, four others were paying just 10 Soles (\$3.08). However, one worker also reported that this was around 25% above what he could get from farms elsewhere. In Peru as a whole, almost half of the population live below the national poverty line, while over one third earn less than \$2.00 per day¹.

To tackle this situation, Fairtrade supports a development process by which the farmers work progressively towards a sustainable solution to the problems of low incomes and poor livelihoods. Part of the answer lies in producers being able to sell a higher proportion of their crops at better prices, as well as in identifying other sources of income. In Peru, an increasing number of farmers are also converting to organic and speciality shade-grown coffee which can earn higher prices, as well as intercropping coffee with other cash or food crops, and exploring eco-tourism projects etc. With stable prices and premiums from Fairtrade, producer groups have more resources to explore and fund these alternatives and bring in expertise where they need to.

3. Is non-certified coffee being sold as Fairtrade?

Fairtrade standards insist that only coffee purchased by co-operatives from their members can be sold as Fairtrade certified. Many co-ops also trade coffee purchased from non-members; this is helpful to both the farmers who produce it and the co-ops themselves, so we don't want to prevent this. However, this coffee must be kept separate from the certified coffee they sell on to Fairtrade buyers.

The Fairtrade reporting and auditing system tracks sales into and out of the co-operatives and is therefore designed to pick up irregularities where they occur. The effectiveness of the system is demonstrated by the fact that FLO-CERT audits had already identified irregularities in the coffee supply chain in Peru and consequently arranged a trade inspection for the week commencing 11 September 2006. The Financial Times journalist was informed of this but chose not to include it in his article.

As mentioned already, many Fairtrade producer groups are not able to sell all their certified coffee on Fairtrade terms, and their first priority is to get the best deal for their own members. It is therefore unlikely that many producer organisations would prefer to pass off uncertified coffee in this way, when they would gain much more by selling their own members' coffee to Fairtrade markets. For this reason, we don't believe the problem is endemic in the Fairtrade system. However, our inspectors and trade auditing systems remain vigilant on this issue and take rigorous action wherever required.

3. Does Fairtrade allow certified groups to plant coffee on protected forest land?

The Fairtrade system takes environmental sustainability issues very seriously. In fact, while there have always been environmental provisions within Fairtrade standards, we have recently revised and strengthened the environmental requirements in our standards for all producer groups, in order to make our policies clearer and more consistent and integrate new insights on these issues. Breaches of these requirements are always treated very seriously.

¹ Figures taken from UNDP Human Development Report 2005. Figures for Peru (based on 2001-3) showed 37.7% living at or below \$2 per day, and 18.1% living below \$1 per day. An estimated 49% of the population is estimated to be living below the Peruvian national poverty line.

While a lot of coffee is grown under shade, and therefore can help preserve forested areas, planting in conservation areas is now prohibited in section 3.1.2.2 of the Fairtrade standards. Meanwhile, new planting in virgin forest areas is also prohibited (section 3.1.2.3) for small producer organisations growing coffee. Exceptions to this rule may only be made if new planting can be done in a manner that preserves the natural habitat to the maximum extent possible and where the producers have no other available arable land. Full details of our environmental requirements for coffee growers can be found in the Generic Fairtrade Standards for Small Farmers' Organisations, December 2005, available in the Standards section at www.fairtrade.net.

The 'evidence' of planting on protected land presented to the Financial Times has not been shared with the Fairtrade Foundation (or FLO/FLO-CERT) so we cannot comment on the specific case at this time. We have requested that the Financial Times submits written evidence to FLO-CERT so that it can be incorporated into our own investigations and any necessary actions taken.

4. What happens if Fairtrade standards are breached?

All producer organisations are inspected against Fairtrade standards which include provisions on the issues raised above. In the case of individual small farmers selling via co-operatives, Fairtrade certification includes individual farm visits to a representative sample of members of the producer organisations – this form of 'group inspection' is standard practice for certification bodies.

Non-compliance is treated very seriously, with corrective action required in order to retain Fairtrade certification. The objective of Fairtrade is to support producer organisations in their development; therefore where a breach of Fairtrade standards occurs the first response is to give the producer group the opportunity to address problems, rather than simply expel them, which would benefit no one. However, where an organisation with the capacity and resources to take action has repeatedly failed to do so, then suspension from trade or decertification are options available in the last resort.

5. Does FLO-CERT need an external watchdog?

Fairtrade aims to promote sustainable development by providing better terms of trade and increased market access for disadvantaged producers and workers in the developing world.

Fairtrade Labelling Organisations International (FLO) is divided into two organisations:

FLO eV is the umbrella organisation for 20 Fairtrade national labelling initiatives. It sets Fairtrade standards, develops Fairtrade business, and provides producer support. **FLO-CERT** is an international certification company that is owned by FLO but which operates independently. It is responsible for the inspection and certification of producer organisations and traders against internationally agreed Fairtrade standards.

Independence of FLO-CERT

In order to guarantee the credibility of the Fairtrade Certification Mark, FLO-CERT operates an independent, transparent and worldwide consistent certification system that follows the requirements of ISO 65, the international quality norm for certification bodies. ISO 65 accreditation, towards which FLO-CERT is working, is the most widely respected accreditation scheme used by many other certification schemes, including organic etc.

While it is fully owned by FLO eV and shares the same vision, FLO-CERT operates as a completely autonomous and separate organisation.

- FLO-CERT maintains a separate staff structure with its own management and Director. Staff are recruited explicitly for their expertise in certification and auditing. FLO-CERT inspectors for producer organisations are based in the South. They are contracted based on their expertise in auditing social and environmental compliance.
- FLO-CERT has a completely autonomous information management system. Information can only be accessed by FLO eV or its members (national Fairtrade Labelling Initiatives) with the permission of the certified producers and traders.
- The composition of the FLO-CERT Board follows the rules for ISO 65 accredited certification bodies. It comprises a balance of key stakeholders such as certified operators, independent certification experts and consumer representation.
- An independent Certification Committee meets every two months to advise FLO-CERT on certification decisions and policies and to maintain an overview of decision making. Its membership is different from the Board but similar in its stakeholder composition.

Quality of Certification

The inspections are performed by 72 highly qualified FLO-CERT inspectors – of whom 54 specifically focus on the inspection of producer organisations. Every year, all inspectors must undergo a week long training course which ends with an examination. The audit methodology is tailor-made for the evaluation of the Fairtrade Standards. The inspectors are locally based (in the country itself or neighbouring country) and familiar with the local culture, law and language. The time the inspector spends on the ground depends on the size of the producer organisation, the complexity of the producer organisation and the number of certified products they are seeking to sell.

A full Fairtrade inspection can take a minimum of four and a half days for a small producer organisation and up to seven weeks for the largest co-operative unions. No producer organisation can become certified without an initial physical inspection. FLO-CERT operates a group certification model, which includes the inspection of the central organisation and random checks of a representative sample of individual farmers. The size of the sample is normally based on a square root approach, which is standard practice in group certification, and the table below gives a guide to the structure. More details can be found at www.flo-cert.net.

Number of members of organisation	Interview partners
< 25	> 90% of all members/workers
26 – 500	Minimum 25 members/workers
500 – 2000	Minimum 5% of all members/workers
> 2000	Maximum 100 members / workers

Following an inspection, a report is sent to FLO-CERT for evaluation. The evaluator submits a recommendation to the Directors of FLO-CERT whether this producer should be certified. The final certification decision is taken by the Director. A further quality control takes place every two months when the external Certification Committee reviews the decisions of FLO-CERT and provides additional guidance.

FLO-CERT is confident that its certification system is robust and efficient. However if at any time issues are brought to the attention of FLO-CERT they will be investigated and addressed by the FLO-CERT Quality Management, who are responsible for the continual improvement of Fairtrade certification processes.