



**FAIRTRADE
FOUNDATION**

Fairtrade Standards for UK Operators

In four parts

Part 3 (of 4) – Additional requirements for purchasing from certified producers (direct or via an exporter)

These are the requirements relevant to companies wishing to import from a Fairtrade certified producer group and include: contracts, payment terms, sourcing plans, pre-finance, price and premium rates and product specific requirements.

The requirements in part 2 also apply.

(See part 4 for licensing a product for use of the Mark)

All companies registered with the Fairtrade Foundation must meet the relevant requirements and will be audited against them.

Fairtrade Foundation QMS	Page 1 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

Contents

	<u>Section</u>	<u>Who should read this?</u>	<u>Page</u>
3.1 to 3.7	Contractual arrangements between importers and producers	All price/premium payers	4
3.8	Exceptions to Fairtrade standards – Retroactive product certification and product compensation	Price/premium payer – applying for an exception	12

Annexes

	<u>Section</u>	<u>Who should read this?</u>	<u>Link</u>
Annex 3.1 Fairtrade price and premium			
3.1.01	Fairtrade price and premium table	All price/premium payers	Click here
Annex 3.2 FLO Product Specific Trade Standards (see Part C)			
3.2.01	Bananas Small Producer Organisations	Operators purchasing bananas from SPOs	Click here
3.2.02	Bananas Hired Labour	Operators purchasing bananas from HL	Click here
3.2.03	Cocoa Small Producer Organisations	Operators purchasing cocoa from SPOs	Click here
3.2.04	Coffee Small Producer Organisations	Operators purchasing coffee from SPOs	Click here
3.2.05	Dried fruit SPO	Operators purchasing dried fruit from SPOs	Click here
3.2.06	Fresh fruit & fresh vegetables SPO	Operators purchasing fresh fruit/veg from SPOs	Click here
3.2.07	Fresh fruit & fresh vegetables HL	Operators purchasing fresh fruit/veg from HL	Click here
3.2.08	Fruit juices SPO	Operators purchasing fruit juice from SPOs	Click here
3.2.09	Fruit juices HL	Operators purchasing fruit juice from HL	Click here
3.2.10	Herbs & spices SPO	Operators purchasing herbs/spices from SPOs	Click here
3.2.11	Honey SPO	Operators purchasing honey from SPOs	Click here

3.2.12	Nuts & oil seeds SPO	Operators purchasing nuts/oil seed from SPOs	Click here
3.2.13	Quinoa SPO	Operators purchasing quinoa from SPOs	Click here
3.2.14	Rice SPO	Operators purchasing rice from SPOs	Click here
3.2.15	Cane sugar SPO	Operators purchasing cane sugar from SPOs	Click here
3.2.16	Soybeans & pulses SPO	Operators purchasing soybean/pulses from SPOs	Click here
3.2.17	Tea SPO	Operators purchasing tea from SPOs	Click here
3.2.18	Tea HL	Operators purchasing tea from HL	Click here
3.2.19	Wine grapes SPO	Operators purchasing wine grapes from SPOs	Click here
3.2.20	Wine grapes HL	Operators purchasing wine grapes from HL	Click here
3.2.21	Flowers and plants HL	Operators purchasing flowers/plants from HL	Click here
3.2.22	Seed cotton SPO	Operators purchasing seed cotton from SPOs	Click here
3.2.23	Sportsballs HL	Sportsballs from HL	Click here
Annex 3.3 Exceptions			
3.3.01	Foundation exceptions policy for producer certification in circumstances where FLO-CERT cannot inspect and certify producer organisations	Price/premium payer – applying for an exception	Click here
Annex 3.4 List of Current issues of Annexes			
3.2.34	List of Current issues of Annexes	All price/premium payers	Click here

SPO = Small Producer Organisation. HL = Hired Labour.

Please note the Annexes will be updated regularly – if you have printed this off please check the website for the latest version.

Fairtrade Foundation QMS	Page 3 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

3. Contractual arrangements between importers and producers

THIS SECTION APPLIES TO FAIRTRADE PAYERS – IMPORTERS RESPONSIBLE FOR PAYING THE FAIRTRADE PRICE AND/OR FAIRTRADE PREMIUM TO THE PRODUCER ORGANISATION OR CONVEYOR IN THE DEVELOPING COUNTRY

3.1 Contractual arrangements

(FLO GTS Intent) Contracts between producers and buyers set the framework for Fairtrade trade operations. It is important that the contractual obligations are mutually agreed, well documented, and clearly understood by the contracting parties.

Guidance: The price and premium payer depends on which level the price is set in the FLO Part C Trade Standards:

If the price is Farm Gate or Ex Works then the company buying from the producer organisation at the Farm Gate is the payer. This could be either an importer, a processor in the South or the exporter. If the price is set at FOB, and the producer organisation is exporting the product itself, then the importer is the payer. If the price is set at FOB, but the producer organisation is not exporting the product itself (i.e. there is an independent exporter) then technically the responsibility lies with both the exporter and the importer to ensure that the correct price and premium is paid. Typically, the importer is considered the payer (i.e. responsible for ensuring that the price and premium are paid) and the exporter is considered a conveyor (i.e. responsible for passing the correct price and premium on to the producer. In this situation, the importer pays the price and premium to the exporter who then passes the money on to the producer. Both (importer and exporter) are responsible for ensuring that the correct price and premium are paid. Alternatively if the Operator importing has a direct relationship with the producer they pay the premium directly to the producer, therefore in essence by passing the exporter.

3.1.01 (FLO GTS 3.1) Buyers must sign binding purchase contracts with producers. Unless otherwise stated in the product standards, contracts must as a minimum clearly indicate:

- agreed volumes
- quality
- price
- payment terms
- delivery conditions
- arbitration mechanism agreed by both parties.

Specific requirements in the Part C Trade Standards apply to: bananas, coffee, dried fruit, fresh fruit, fruit juices and soybeans and pulses. Please see **Annex 3.2**.

FLO guidance: Contracts must be written for all products bought and sold under this standard.

As a minimum, both parties must agree volumes, quality, price, payment terms and delivery conditions, and these agreed terms must be clearly stated in the contract.

Any such additional requirements from the relevant product standards must be included in the agreed contract.

Responsibility for drawing up the contract should be mutually agreed on. Where no agreement can be reached then the responsibility to draw up the contract rests with the buyer who must also ensure that the contract reaches the seller in an agreed language.

The standard also requires that a mechanism for arbitration is written into contracts between producers and Fairtrade payers or conveyors.

Suspension

3.1.02 (FLO GTS 3.2) Where notice is made of a producer's or buyer's suspension from Fairtrade, signed contracts made before the date of notice will be recognised as valid for Fairtrade certified products for a maximum period of six months.

FLO guidance: Existing Fairtrade contracts entered into before notice of suspension may be fulfilled if both parties (producer and buyer) agree.

Fairtrade Foundation QMS	Page 4 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

To be considered as certified, the product must be delivered within a time limit of six months.

New Fairtrade contracts must not be signed after the date of the notice of suspension.

Decertification

- 3.1.03** (FLO GTS 3.3) Where an Operator is decertified, they must immediately stop buying or selling products as Fairtrade certified. This standard is applicable from the date of decertification. Contracts with a decertified Operator that have been fulfilled before the date of decertification shall be accepted. Contracts that have not been fulfilled at the point of decertification shall not be classified as Fairtrade contracts.

FLO guidance: This standard makes it clear that from the date of decertification, Operators must not purchase products from, or sell products to, decertified Operators for sale as a certified product.

The standard also clarifies that where a certified product from a decertified Operator has been delivered before the date of decertification, then it shall be accepted as certified. For example, in an FOB contract, if the product is on board before the decertification then it shall be accepted. Contracts that have not yet been delivered are no longer Fairtrade contracts.

Disadvantageous terms

- 3.1.04** (FLO GTS 3.4) Buyers must not offer to buy certified products from a producer on condition that the producer sells a quantity of non-certified product under terms that are distinctly disadvantageous to the producer.

FLO guidance: This standard applies to Fairtrade payers who buy both certified and non-certified products from the same producer.

The standard makes it a requirement that the purchase of non-certified products under terms that are distinctly disadvantageous to the producer must never be undertaken as a condition for certified purchases. The certifier will determine whether any given transaction can be considered as 'distinctly disadvantageous'.

Producers that feel they have experienced disadvantageous practices by Fairtrade payers should document their concerns and send these as a complaint to the certifier.

Access to contracts by producers

- 3.1.05** (FLO GTS 3.5) Producers must have access to the contracts signed between conveyors and Fairtrade payers.

FLO guidance: This standard makes it a requirement that conveyors must give producers access to the contracts they have signed with Fairtrade payers. This means that on request from a producer, the conveyor must make a copy of the relevant contract(s) available to that producer.

Quality claims

- 3.1.06** Claims associated with specific consignments must be documented according to the relevant trade policy requirements on claims, and applications must be made within the required time periods.

This standard relates to specific claims that may form the basis of disputes between a producer and a buyer. The standard requires that Operators try to resolve any such disputes, but where this is not possible the Operator must document the claim according to the requirements of the relevant trade policy and must follow the certifier's procedures for claims and resolutions where these exist.

- 3.1.07** Operators must also comply with the FLO Part C Trade Standards, which specify additional requirements for some products – see the table in paragraph **3.6.01** for a summary.

3.2 Sustaining trade

(FLO intent) Fairtrade aims to create sustainable trade partnerships between producers and their buyers, which enable producers to have long-term access to markets under viable conditions. Above and beyond standards requirements, it is important that these relationships grow stronger over time and are based on mutual respect, transparency and commitment.

Exchange of information is one important element of the trade relationship, in particular for producers. Sourcing plans allow producers to plan their production more effectively, and to ensure that they can deliver the required amounts of products (of the required quality) to buyers. The aim is

Fairtrade Foundation QMS	Page 5 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

to encourage buyers to facilitate the planning process for producers.

Buyers are also encouraged to give any additional assistance they can mutually agree on with producers. Tools such as information sharing, price updates, quality training, risk sharing plans and others should be considered.

Sourcing plans

3.2.01 (FLO GTS 4.1) Buyers (including those making purchases via marketing boards) must provide a sourcing plan to each producer from whom they plan to buy, as well as to conveyors, if applicable.

Specific requirements in the Part C Trade Standards apply. Details of these are in **Annex 3.2**. In the Part C Trade Standards for flowers and bananas, the sourcing plan indicates which percentage of the sourcing plan is binding.

FLO guidance: This standard makes it a requirement that every Operator planning to buy from a particular producer must provide a sourcing plan to that producer. The certifier will expect to see evidence that a sourcing plan has been provided to each producer. Wherever applicable, the buyer must also share a copy of the sourcing plan with the conveyor.

Sourcing plans are developed with reference to qualities, quantities, dates of delivery or purchase, price or value as outlined in the product standards.

Buyers are encouraged to use the buying pattern of the previous season or year as a guide for the development of their sourcing plans. In cases where no prior buying patterns exist (i.e. when the buyer, producer, or product is new within the trading relationship) the buyer should make a reasonable estimate.

The applicable timing for the provision of sourcing plans to producers is further defined in the product standards.

Any buyer who is purchasing a certified product that is exported via a marketing board must nonetheless provide a sourcing plan to the producer. Buyers may also consider sharing the sourcing plan with the marketing board to help planning.

3.3 Pre-finance

(FLO intent) Pre-finance is one of the core benefits for producers within the Fairtrade system. The intention of this section is to help producers gain access to reasonable forms of financial assistance to support their purchases from members.

Pre-finance should be provided as soon as possible after signature of contract to ensure that producers can make the most effective use of it.

Fairtrade encourages traders to offer other forms of financing or payment such as 'pre-payment', 'advance-payment' and/or 'crop-finance' to producers. However, this standard refers to 'pre-finance' only in relation to payments which are made against agreed contracts between producers and buyers for Fairtrade products. Pre-finance payments are payments which usually attract interest.

The standards explicitly state that buyers may explore possibilities to seek pre-finance via third parties. However, the interest rates that the producer pays on such pre-finance agreements must not be higher than the buyer's cost of borrowing from the third party.

The percentage limitation for pre-finance represents the maximum that buyers are required to pay, if producers request it. However, buyers are encouraged to provide higher percentages of pre-financing if so desired by the producer, upon mutual agreement.

3.3.01 (FLO GTS 5.1) Producers may request pre-finance from Fairtrade payers against agreed time periods and, where required, against specific quantities, unless otherwise specified in the product standards.

(FLO Part C Trade Standard) The pre-finance requirements do not apply to bananas, sports balls, flowers and fresh fruit, for which pre-finance agreements are negotiated directly between the producer and the Fairtrade payer. For the other products, the Part C Trade Standards specify when the pre-finance has to be made available. These Part C Trade Standards are in **Annex 3.2**.

Where marketing boards exist, pre-finance requirements are not applicable to the relevant products.

FLO guidance: This standard makes it an option for producers to request pre-financing from Fairtrade payers. With this standard, the onus rests with the producer to request pre-finance against agreed contracts from the Fairtrade payer of that contract.

Fairtrade Foundation QMS	Page 6 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

Fairtrade payers may choose, with the agreement of the producer, to offer pre-finance, via a third party.

Where producers feel that they are being coerced into not requesting pre-finance, they are encouraged to document a complaint for further investigation to the certifier.

Cane sugar operators sourcing from Paraguay, Malawi, Mauritius and Zambia are exempt from pre-finance requirements until 31 December 2009.

- 3.3.02** (FLO GTS 5.2) Where pre-financing is requested and unless otherwise stated in the product standards, Fairtrade payers must provide pre-finance up to 60% of the contract value. The minimum percentage of the pre-finance must be defined by the producer.

FLO guidance: Producers may request pre-finance of up to 60% of the contract value. Buyers must provide the pre-finance requested.

Producers may use the Fairtrade minimum price level (where this exists) when calculating the pre-finance value. For products that do not have minimum prices or when market prices are higher than the Fairtrade minimum price, then the contract value may be used.

The level of the pre-finance must be determined by the producer, up to 60%.

Where both parties are in agreement, pre-finance exceeding 60% of the contract value can be given.

- 3.3.03** (FLO GTS 5.3) Fairtrade payers must make pre-financing available from the point of signature of contract onwards and not later than a specified time period as stated in the product standard.

FLO guidance: This standard makes a distinction between making a request for pre-finance and the actual delivery of the pre-finance. While the request must be made when orders have been confirmed, this standard requires that the pre-finance is made effectively available for use (delivered) by the Fairtrade payer to the producer as soon as possible after the contract is signed. At the latest, pre-finance must be delivered within the time period determined in the product standard.

- 3.3.04** (FLO GTS 5.4) Where a sufficiently high level of risk of non-repayment or non-delivery has been associated with a particular producer, and only where that level of risk has been assessed and verified via a third party lender, then the pre-finance requirements under **standards 3.3.02** and **3.3.03** do not have to be met.

*This standard gives an option to the Fairtrade payer to request from the certifier that requirements under standards 5.2 (**3.3.02** above) and 5.3 (**3.3.03** above) do not have to be met.*

The assessment mechanism will be via a third party lender. Where the Fairtrade payer views a particular producer requesting pre-finance as 'high risk', they must approach a third party lender to request pre-financing for the producer. Where the lender agrees, then this must be done. Where the lender undertakes an assessment and classifies the producer group as 'high risk' and will not provide pre-finance, then this assessment report from the lender must be submitted to the certifier.

Where buyers are deemed to assess their producer partners persistently as being 'high risk', the certifier may request an additional verification from an additional third party lender. The interpretation of 'persistently' in this context will be determined by the certifier.

Interest charges

- 3.3.05** (FLO GTS 5.5) Interest charges on the pre-financed value must be agreed by both the buyer and the producer. They must not exceed the buyer's current cost of borrowing (including administrative costs), and buyers are encouraged to make pre-finance available on better terms (at lower rates of interest) to the producer.

FLO guidance: The buyer is allowed to charge interest on the pre-financed amount. The interest rate must not exceed the buyer's cost of borrowing. Both parties must agree on the level of interest that is charged on the pre-financed amount.

Agreement on the interest rate may include consideration of any administrative costs that have been incurred by the buyer in organizing and delivering the pre-finance.

National and local legislation

- 3.3.06** (FLO GTS 5.6) The requirements of local and national legislation take priority where they conflict with these requirements on pre-finance.

FLO guidance: In cases where local and national legislation means that the Fairtrade payer is not

Fairtrade Foundation QMS	Page 7 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

legally permitted to pay pre-finance, this standard does not apply. In such cases, it is important that the Fairtrade payer communicates the legal restrictions to the producer.

Contracts and credit agreements

- 3.3.07** (FLO GTS 5.7) When pre-finance has been agreed upon, the Fairtrade payer must document either a separate pre-finance section within the contract or a separate credit agreement with the producer.

FLO guidance: Under this standard, the provision of pre-finance must be documented as a separate section within the contract or as a separate credit agreement. This means that the pre-finance facility should be documented in a clear agreement including terms and conditions for both parties. This should include the amounts to be pre-financed, start dates, date of repayment, consignment contract details, rates of interest, and options for collection of payment (i.e. from the contract payments).

3.4 Pricing

(FLO Intent) The Fairtrade minimum price or relevant market price and the Fairtrade premium are core benefits of the Fairtrade system for producers. The payment of the Fairtrade minimum price and Fairtrade premium is a key function of those trade Operators that buy from producers and are responsible for paying the Fairtrade price (the 'Fairtrade payer').

Fairtrade minimum prices are meant to protect and reduce the risks for producers in the event that market prices fall.

Fairtrade minimum price

- 3.4.01** (FLO GTS 6.1) Fairtrade payers must pay to producers at least the Fairtrade minimum price for the product contracted, where it exists, or the relevant market price where no Fairtrade minimum price exists. When the relevant market price for a product is higher than the Fairtrade minimum price, then at least the market price must be paid.

FLO guidance: The Fairtrade minimum price of a product, where it exists, is the lowest possible price that the Fairtrade payer may pay to the producer. The Fairtrade minimum price is the starting point for price negotiations between the producer and the Fairtrade payer. When the relevant market price for a product is higher than the Fairtrade minimum price, then at least this higher market price must be paid.

Both parties must keep evidence of the price level and how it was agreed. Either party can demonstrate the market price based on agreements/contracts with other clients/suppliers for a similar time period (if and when required).

The Fairtrade minimum price includes any reference to organic prices or organic price differentials. Fairtrade payers must refer to the Fairtrade minimum price information which is published separately in the FLO Fairtrade minimum price and Fairtrade premium table.

*The prices are specified in the FLO document – Fairtrade minimum price and Fairtrade premium table. www.fairtrade.net and in **Annex 3.1.01**.*

- 3.4.02** (FLO GTS 6.3) The price may be set, by mutual agreement, for any future delivery date, unless otherwise stated in the product standards.

*FLO guidance: This standard gives both the Fairtrade payer and the producer the option to determine when and how the price is fixed, unless this has already been defined in the product standards. This means that as long as both parties are in agreement about when and how the price is fixed and the requirements under standard **3.4.01** above and **3.4.06** below have been met, then they will be in compliance with this standard.*

- 3.4.03** (FLO GTS 6.4) Fairtrade minimum prices are set at one or several levels in the trade chain.

Fairtrade minimum prices apply up until the point where producers are responsible for the product. Where there is no available price for the appropriate level of responsibility of the producer, then the minimum price has to be adapted accordingly.

In the case of a Small Producers' Organisation, Fairtrade minimum prices are set at the level of the producer organisation, not at the level of individual producers (members of the organisation).

FLO guidance: Fairtrade minimum prices are set at one or several levels in the trade chain: Farm Gate (see the specific FLO definition of farm gate), Ex Works (EXW), Free on Board (FOB), or other Inco Term levels.

For each product sale, only one minimum price is applied, that is, at the price level where the

Fairtrade Foundation QMS	Page 8 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

producer's responsibility ends.

Fairtrade minimum prices set at farm gate and EXW are only applicable to producers who do not export the product themselves. Fairtrade minimum prices set at FOB level are applicable only for producers exporting the product themselves.

For example, if a producer organization is responsible for a product up to farm gate level, then the farm gate price applies (where it exists).

If no price exists for the relevant level of responsibility of the producer, then the minimum price must be adapted accordingly. For producers who go beyond the level of responsibility implied by the price, any additional costs borne by the producer should be added to the minimum price. Where the producer's responsibility ends before the level at which the price is set, then reasonable costs included in the price but not borne by the producer may be deducted from the minimum price. These costs should be documented. The interpretation of 'reasonable cost' in this context will be determined by the certifier.

For example, if a producer is responsible for all costs up to farm gate level but not beyond, but the Fairtrade minimum price is only set at FOB level for that product, then the price the producer receives from the Fairtrade payer will be the FOB price minus reasonable transport and export costs.

3.4.04 (FLO GTS 6.8) New Fairtrade minimum prices apply from the date of their announcement by FLO unless otherwise defined by FLO. However, existing contracts must be honoured at the price already agreed on.

FLO guidance: New Fairtrade prices announced by FLO will come into effect on the date of their announcement and must be applied by Operators from that date on, unless otherwise defined by FLO. The new prices relate to new contracts being negotiated from that date onwards.

For existing contracts where the price has already been agreed and fixed, then the original price must be honoured. This applies even where the delivery date of that contract is in the future.

3.4.05 (FLO GTS 6.5) Cases may also arise where Fairtrade minimum prices are set at relevant levels, but where the producer or the payer bears the costs of certain activities which are not reflected in the price.

Where a producer bears a cost which is not included in the Fairtrade minimum price, then this additional cost must be added to the Fairtrade minimum price paid to the producer.

Conversely, where a certain cost is included in the Fairtrade minimum price, but the producer is not responsible for that cost, then that cost may be deducted from the Fairtrade minimum price paid to the producer.

FLO guidance: For example, if a producer takes responsibility for an activity which is not included in the Fairtrade minimum price (e.g. transport to the harbour, specific packing or processing), the cost of this additional activity will be added to the Fairtrade minimum price paid by the Fairtrade payer to the producer.

On the other hand, if a producer receives inputs in kind from the Fairtrade payer and the producer does not pay for them, then the costs of these inputs must be documented and may be deducted from the price paid by the Fairtrade payer to the producer.

Fairtrade premium

3.4.06 (FLO GTS 6.2) Fairtrade payers must additionally pay a Fairtrade premium for the product. Where applicable, conveyors are responsible for passing the Fairtrade premium on to the producer. Rules for payment apply differently to different types of Fairtrade organisations, as follows:

- For Small Producers' Organisations, payment must be made directly to the certified Small Producers' Organisation.
- For Hired Labour Situations, payment must be made directly to the account of the Joint Body of the certified Hired Labour Operator.
- For Contract Production Projects, payment must be made directly to a separate account for which the Promoting Body or its nominee is responsible.
- Where appropriate, payment may also be made to a Premium Trust fund or Premium Channel, or to another agreed third party with the written permission of the producer.

FLO guidance: Fairtrade payers must pay a Fairtrade premium for the products purchased, as specified in the relevant Fairtrade product standards.

Fairtrade Foundation QMS	Page 9 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

The requirements for who should receive the payment vary according to the type of producer organisation being paid. The producer may request that payment is made via a third party where this is appropriate.

Fairtrade payers must refer to the Fairtrade premium information, which is published separately in the FLO Fairtrade minimum price and Fairtrade premium table. See **Annex 3.1.01**.

No discounts are allowed to be made from the Fairtrade premium payment.

Payment methods

- 3.4.07** (FLO GTS 6.6) Unless otherwise specified in the Part C Trade Standards, Fairtrade payers may use any available payment method as long as it is transparent, traceable and mutually agreed between the Fairtrade payer and the producer.

FLO guidance: This standard allows for both parties to come to an agreement on the best mechanism for payment and receipt of payment. Any financial instrument available to the Operator can be used (for example: letter of credit; bank transfer) as long as the payment method is agreed between both parties.

All forms of payment must be transparent and traceable. The responsibility for demonstrating payment to the certifier rests with the Fairtrade payer.

- 3.4.08** (FLO GTS 6.7) Payment of the Fairtrade price must be made no later than 30 days after date of invoice unless otherwise specified in the product standard.

FLO guidance: The standard states that payment of Fairtrade prices must be made no later than 30 days after the date of invoice. The product standards may specify different terms.

The Fairtrade price consists of the Fairtrade minimum prices (where they exist and are applicable) and of the Fairtrade premium.

*Product specific Trade Part C Standards have different requirement for payment terms. These are detailed in **Annex 3.2**.*

3.5 Retroactive certification of producer's stock

Foundation policy: To help support disadvantaged farmers in the developing world, the Foundation may support the FLO policy on retroactive certification of the harvest immediately prior to the producer achieving full certification with FLO-CERT, thus ensuring that the producer benefits from the payment of an additional Fairtrade price and premium.

- 3.5.01** (FLO GTS 1.2) Unless otherwise stated in the product standards, certified producers may sell products that have been held in stock for a maximum of one year before the certification was initially granted as certified.

FLO guidance: This standard relates to crops harvested before the producer was certified. It also applies to non-agricultural products that are 'held in stock'.

It means that a producer obtaining certification may begin selling recently harvested/stocked products without having to wait for the next harvest or production.

Traceability requirements will be applied to these products.

3.6 FLO Part C Trade Standards

- 3.6.01** The FLO Part C Trade Standards specify the requirements for the Fairtrade price and premium payer for the specific Fairtrade commodities. The following table identifies where there are additional requirements in the product specific standards. The operator shall comply with the requirements of the product standards relevant to their Fairtrade purchases (see linked **Annexes 3.1 and 3.2**). Each 'A' identifies that there is an additional requirement to the GTS in the product specific Standard.

NB: HL refers to Hired Labour. SPO refers to Small Producer Organisations

Fairtrade Foundation QMS	Page 10 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

Part C Trade Standard	Bananas SPO & HL	Cane sugar SPO	Cocoa SPO	Coffee SPO	Dried fruit SPO	Flowers & plants HL	Fresh fruit & veg SPO & HL	Fruit juice SPO & HL	Herbs & spices SPO	Honey SPO	Nuts & seeds SPO	Quinoa SPO	Rice SPO	Seed cotton SPO	Sports balls HL	Soybeans & pulses SPO	Tea SPO & HL	Wine & grapes SPO & HL
5. Contracts	A			A	A		A	A								A		
6. Sustaining trade	A	A	A	A	A	A	A	A	A	A	A	A	A	A		A	A	A
7. Pre-finance		A			A			A	A	A	A	A	A	A		A	A	A
8. Pricing	A	A		A	A	A	A		A						A			
Payment terms	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	
9. General						A							A	A				
9. Qualities		A								A	A							
9. Non-Fairtrade sales	A																	
9. Shipment conditions	A																	
9. Force majeure	A																	
9. Shortfall in sales	A																	
10. Additions for cotton														A				
Annex 1	A								A									
Annex 2	A																	

3.7 Certification of producer groups

3.7.01 Producer groups are certified by FLO-CERT. However there are circumstances where FLO-CERT cannot audit a producer group due to safety concerns and duty of care for the auditor. In these cases the Fairtrade Foundation may consider an exception as detailed in **Annex 3.3.01**.

3.8 Exception to the Fairtrade Standards – Retroactive product certification

THIS SECTION APPLIES TO IMPORTERS RESPONSIBLE FOR PAYING THE FAIRTRADE PRICE AND/OR PREMIUM TO THE PRODUCER ORGANISATION OR CONVEYOR IN THE DEVELOPING COUNTRY

3.8.01 Retroactive product certification can be defined as either:

- a) When an importer has bought a product from a Fairtrade certified producer or exporter and now wishes to convert it into a Fairtrade certified product by paying the FLO Fairtrade price and/or premium.
- or**
- b) Where an importer has purchased a product from a producer who subsequently became Fairtrade certified. The product from the current and previous harvest is eligible to be converted to Fairtrade certified by paying the FLO Fairtrade price and/or premium

Guidance: There are special rules for wine grapes, which involve longer timelines (see the FLO Standards for Wine Grapes) and tea (see the FLO Trade Standards for Tea). See Annex 3.1.

Criteria for a request by an importer

3.8.02 Retroactive certification is generally not permitted and can be granted only in exceptional cases.

3.8.03 When deciding whether to accept and support an application for retroactive product certification from an importer, the Foundation shall take into account the following criteria:

- There exists a written purchase contract for the products purchased as non-Fairtrade.
- Documentary evidence is supplied for the consignment, e.g. bill of lading, air waybill or invoices.
- Proof of payment for the consignment that was originally sold as non-Fairtrade by the producer is supplied (to be used to calculate the Fairtrade price due to the producer).
- Evidence of the commitment to the long-term relationship with the producer, such as by a letter of intent or sourcing plan is supplied.
- The importer is up to date with their flow of goods reporting.

Procedure for retroactive product certification

3.8.04 An application must be made to the Product Certification Officer at the Foundation, using the relevant application form and including the following documents:

1. Purchase contract with the producer (for the product brought as non-Fairtrade).
2. Bill of lading or air waybill.
3. Invoice from the producer.
4. Proof of payment to the producer showing the price paid for the product as non-Fairtrade.
5. Evidence of the commitment to the long-term relationship with the producer, such as by a letter of intent or sourcing plan.

3.8.05 The importer shall calculate Fairtrade price shortfall and balance owing as follows:

1. Fairtrade price adjustment = Fairtrade price + premium – price paid or agreed per quantity.

Where the product has been hedged by the Fairtrade trader and the price is to be fixed by the seller's call, then the trader must clearly explain the effective 'Price Paid' figure that is used in the above calculation.

2. Fairtrade balance owing = Fairtrade price adjustment x quantity or volume.

The applicant shall provide a transparent calculation to the Foundation of the Fairtrade balance owing.

3.8.06 The Foundation will consider the application according to the above criteria.

Fairtrade Foundation QMS	Page 12 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01

3.8.07 If accepted the Foundation will notify FLO-CERT and the applicant and identify the product as being retroactively certified (this will be detailed on the Schedule F – Exceptions and exemptions once implemented)

3.8.08 The Operator will be required to:

1. Notify the producer and ask for an invoice for the Fairtrade balance owing or self-invoice as appropriate.
2. Pay the Fairtrade balance owing within the payment terms specified by the Foundation

Guidance: The Foundation will specify payment terms as close to the normal payment terms as is possible based on the situation.

3. Copy the invoice and payment details to the Certification department at the Foundation
4. Notify all customers who are to be supplied with the retroactively certified product.

Fairtrade Foundation QMS	Page 13 of 13	Date of issue	Issue No.
Section 4 – Fairtrade Standards – Part 3		1 September 2009	01