

The Fairtrade Foundation



Annual Report and Financial Statements

for the year ended 31 December 2003

The Fairtrade Foundation

Legal and administrative information

Legal status	A company without share capital limited by guarantee registered number 2733136
Registered charity number	1043886
Registered address	Room 204 16 Baldwin's Gardens London EC1N 7RJ
Patron	George Alagiah
Directors/Trustees	Katherine Astill (for CAFOD) Barry Coates (for World Development Movement resigned 10 Nov 2003) Martin Drewry (for Christian Aid) Mike Gidney (for Traidcraft Exchange) Alastair Hanton OBE (Chair) Janice Langley (for NFWI) Adrian Stockman ACA (Honorary Treasurer) John Whitaker (for Oxfam)
Company Secretary	Phil Thompson
Bankers	CafCash Ltd Kings Hill, West Malling Kent, ME19 4TA The Co-operative Bank King's Valley, Yew Street Stockport, Cheshire, SK4 2JU Triodos Bank NV Brunel House 11 The Promenade Bristol, BS8 3NN HSBC 31 Holborn Circus London, EC1N 2HR
Solicitors	Bates, Wells and Braithwaite Cheapside House 138 Cheapside London EC2V 6BB
Auditors	Trustient Buckingham House East The Broadway Stanmore Middlesex HA7 4EB

The Fairtrade Foundation

Report of the Trustees

For the year ended 31 December 2003

The Trustees present their report and financial statements for the year ended 31 December 2003. The Legal and Administrative information on the facing page forms part of this Report.

The Objectives of the Charity

The Fairtrade Foundation is principally engaged in:

- Relieving poverty, suffering and distress in any part of the world.
- Promoting research into and education concerning causes and effects of poverty, particularly in relation to the conduct of trade and to the conditions of employment (including self-employment) of poor people in any part of the world, and publishing the useful results of that research.

The primary means of furthering the charity's objectives is through licensing and promoting the FAIRTRADE Mark ('the Mark') as an indicator that products meet international Fairtrade standards. These are designed to provide a better deal for disadvantaged and marginalised producers in developing countries. The standards that underpin the Mark are set by Fairtrade Labelling Organisations International (FLO), based in Bonn, Germany, of which the Fairtrade Foundation is a member.

The Foundation also has an important role, in partnership with its members, licensees and other partners, in raising awareness of the Mark as an independent consumer guarantee, and a wider advocacy role in highlighting the injustices of much conventional trade and promoting more equitable and sustainable alternatives.

Review of the Period

Overview

The trustees are pleased to report another very successful year for the Foundation in promoting the Mark as Britain's unique independent guarantee of "a better deal for Third World producers". At the same time, the wider context of the Foundation's work continued to highlight the need for reform of trading practices in order to tackle global poverty and inequality. Commodity prices remained low, and often below the cost of production for many small farmers, while protectionist policies in the EU, USA and other developed countries prevent poorer nations from diversifying into alternative markets. At home, the UK food market continued to be dominated by price cutting strategies that further reduce prices paid to producers, with the hardest hit again being those who are already most disadvantaged and marginalised.

In this context, sales of products carrying the Mark, which ensures producers receive a price that covers the cost of sustainable production, are enabling hundreds of thousands of farmers and workers to not only survive difficult market conditions, but to invest in future improvements. Whether on their farms, through improved quality or productivity, or in their communities, by using the Fairtrade premium for education, health or sanitation projects, the growing Fairtrade market is delivering increased stability and hope for the future. Furthermore, by providing a simple and effective mechanism for consumers in Britain to make a positive contribution, through their purchases, to the lives of people in the developing world, the Fairtrade Foundation supports the work of the Trade Justice Movement in advocating reform of international trade rules.

The key indicators of the Foundation's performance (the number and range of products certified through the FAIRTRADE Mark, their success in the UK market, and consumer awareness of the Mark itself) are therefore all closely related in terms of both the direct impact of our work on people in the developing world and on our advocacy role. As we report below, positive results were achieved on all these key indicators and the success of Fairtrade is encouraging further interest in our work among the UK business community. This brings huge opportunities, which we are obviously keen to develop, but also major challenges where companies seek to make "fair trade" claims without the endorsement

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of the Mark; these moves threaten to undermine consumer confidence and risk the credibility that we and our partners have built up over the past 10 years. We are determined to resist these attempts to undermine the Mark and, to this end, working with our international partners in FLO to develop new Fairtrade standards for a wider range of products is crucial in ensuring that all companies who wish to work with us can do so.

In addition to our primary activities, the Foundation has also made continued progress behind the scenes in developing the governance structures and management systems appropriate to our increasing scale and stakeholder base. We welcomed a number of new members following the review of our constitution over the past two years and look forward to more organisations joining in the coming years. Our risk management strategies have been reviewed in accordance with Charity Commission recommendations and will continue to be improved in the future. The trustees have paid particular attention to the pressures on our human, financial and other resources arising from sustained growth in the Foundation's activities which have been in the order of 50% annually. On the other hand, we recognise that the opportunities now open to us to expand the Fairtrade market further will not remain open for long if we fail to respond quickly. The trustees are pleased to acknowledge that the rate of progress we have achieved is largely a result of the commitment and dedication of staff and volunteers both within the Foundation and across the wider movement in which we work.

International Trade: Creating Wealth or Maintaining Poverty?

The world market price of arabica coffee averaged around \$0.65 a pound during 2003, compared to the minimum Fairtrade price of \$1.26 which ensures a sustainable livelihood for small farmers. Prices of many other agricultural commodities remained depressed during 2003, extending the suffering of millions of small farmers who depend on these crops for their living. Many are unable to maintain their farms and face destitution. The Foundation organised a trip for the BBC to report on the growing incidence of malnutrition among children in Nicaragua where 5,000 coffee workers staged a "March of the Hungry" in July 2003, in the course of which 14 marchers died en route to the capital.

Beyond the stories of individual suffering, whole countries are also seeing their development strategies being undermined by falling commodity prices and the lower value of the US dollar, reducing the amount available for spending on clean water, health improvements and education - the vital necessities for reducing poverty levels. These countries are also hit by tariffs imposed by richer nations on crops that they might develop for alternative and more secure sources of income. Indeed, in products like sugar and cotton, local markets are undermined by the export of cheap crops grown with high levels of subsidy in Europe and the USA (whose 25,000 cotton producers receive a staggering \$4bn annually in subsidies). The failure of the international community to reach agreement at the WTO summit in Cancun in September 2003 on new trade policies to benefit poorer countries illustrates the lack of political will and double standards of developed country governments.

Meanwhile, the food market in Britain, along with many other countries in the developed world, is increasingly dominated by a small number of supermarkets who compete aggressively on price and lead consumers to expect continual reductions in the price they pay for farmed produce. Where these savings can be achieved by greater efficiency in the supply chain from the farm gate to the shop floor, this is obviously a good thing. But too often the demand from retailers for lower prices is passed from manufacturers to importers and exporters who all seek to retain their profit margins and pass the cost reduction back along the supply chain. The buck stops with the farmer, who is faced with a choice of taking the price on offer or not selling at all. Bananas are a good example of this, with the typical retail price in British supermarkets falling from £1.15 to £0.74 a kilo in the course of 2003. At the other end of the supply chain, producers in Ecuador saw prices at the farm gate fall by 9% and received less than nine pence a kilo.

In contrast to this grim combination of pressures, members of Fairtrade organisations can use Fairtrade to survive and thrive – building long-term relationships with customers, developing access to new markets and investing for the prosperity of future generations – and over 800,000 families in 48 countries are now benefiting from the growing sales of Fairtrade certified products in the 17 member countries of FLO. Our system may not have all the answers on how to make trade work for the poor, but it does provide a model of the principles that need to be adopted by conventional markets.

Sales & Commercial Relations

Although the Fairtrade Foundation is not directly responsible for the marketing of products bearing the Mark, the sales achieved by our licensees through the year give a good indirect measure of the success of our communications work and of the impact on the lives of our producer partners.

The estimated retail value of Fairtrade products sold in the UK in 2003 increased by 46% over the previous year to reach £92 million. Our programme of extending the range of products carrying the Mark made excellent progress and by the end of the year consumers had a choice of over 200 certified Fairtrade products from 86 licensees. New product categories included grapes, apples, lemons and oranges from South Africa. Consumers were also able to buy Fairtrade herbal teas, including rooibos from South Africa, chutneys, sauces, jams and a wider range of cakes, biscuits and snack bars. Many more projects are still in progress; in March 2004, roses became the first non-food product to be launched and we also expect nuts, dried fruit and wine to be launched in 2004.

Supermarkets are increasingly recognising the Fairtrade market as a significant business opportunity, and most of the national chains now stock a wide selection of products which, in turn, encourages suppliers to develop more products, thus fuelling further growth. In fact the supermarkets that do not stock Fairtrade products are becoming notable as exceptions to this trend, but we hope that the increasingly clear demand from consumers will convince them of the case for Fairtrade.

Indeed, the business case is becoming increasingly compelling for companies seeking to attract and retain high-value customers. Last year we reported that the Co-op had switched all its own label chocolate to meet Fairtrade standards certified by our Mark. Six months later they reported that sales of their Fairtrade chocolate had risen by 21%, outstripping the sales growth of the leading chocolate brands, and that they intended to repeat the exercise for coffee. Following several months of close collaboration in identifying producers and roasters that could meet their demands, an extensive range of own label coffees was unveiled as the first 100% Fairtrade coffee category of any supermarket in the world. This groundbreaking move promises a further increase in the share of the coffee market represented by Fairtrade, which reached 18% of the roast and ground sector in 2003.

To respond to the growing interest from companies in our work, the Foundation invested in expansion of the Commercial Relations team, supported by the funding of one post by the Department for International Development (DFID) as part of its two-year project to expand the Fairtrade product range. While the team is extremely busy responding to new enquiries, they also work proactively to encourage more companies to engage with our mission, reassuring them that the fact that they are prepared to subject their business to external verification actually enhances consumer trust.

This argument is certainly resonating among the wider business community, where even those companies who do not actively trade in products covered by the Mark can support our work by offering Fairtrade products to their workforce through their catering procurement policies. During 2003, hundreds of employers, including leading companies such as KPMG and Orange, switched their tea and coffee supplies to products carrying the FAIRTRADE Mark, leading a trend that saw sales via the foodservice sector more than double in the course of the year.

New Product Development

One of the main planks of the strategic plan, agreed by the Trustees in 2001, is significant expansion of the Fairtrade product range to respond to the needs of disadvantaged producers, and to the demand from consumers and retailers for more Fairtrade products. The Foundation is in receipt of major grants from the DFID and Comic Relief, augmented by smaller contributions from other trusts, to implement this programme.

Thanks to this support, the Foundation worked with partners across the world to identify producer groups and agree standards for many new Fairtrade foods. The range of biscuits, cakes and snacks using Fairtrade cocoa and sugar also continued to expand. The Foundation worked in South Africa to register Thandi Initiative "empowerment farms" as Fairtrade producers and they supplied the UK market with the world's first Fairtrade grapes, apples, lemons and oranges. These farms support the South African government's initiative to transfer land ownership and commercial knowledge to black

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workers in co-operation with established produce suppliers. Consumers gave an enthusiastic response to the fruits of this initiative, as did former South African President Nelson Mandela who described the Thandi Initiative as a visionary and inspirational move and saluted the “new owners and shareholders who are working so hard to make their dreams come true.”

Certification

The credibility of the Mark depends on a robust certification system that ensures all products carrying our logo meet international Fairtrade standards. There are two aspects to this:

- Inspection and certification of producer organisations against social and environmental standards. This is the responsibility of FLO, the umbrella body for 18 national Fairtrade initiatives across Europe, North America, Mexico and Japan. FLO sets the standards and monitors compliance by producers and traders right across the world, so that, once registered, producers can sell into any of the member countries.
- Monitoring and audit of product supply chains to ensure that the relevant ingredients in all products have been purchased from producers certified by FLO in accordance with the relevant trading terms (e.g. minimum price). This work is shared between FLO (in respect of the international element of supply chains from producer to the main importer in Europe or elsewhere) and the national members operating in each market. The Fairtrade Foundation audits its UK licensees to verify supply chains from the importer through to sale by the licensee of the finished product.

During 2003, FLO expanded its work to encompass 375 producer organisations in 48 countries and now has 43 trained inspectors based in the countries or regions in which we work. The certification unit moved towards becoming a separate legal entity (FLO Cert GmbH) which will further improve the services it can offer to producers and traders; this was implemented in January 2004. This move frees up resources within the main structure of FLO to focus on standard setting, trade facilitation and producer support, and also enables FLO to move towards ISO 65 accreditation as a certification body.

In the UK the Foundation’s role is to monitor and audit the transactions of companies marketing products that carry the Mark. Under the terms of the licence agreement that companies must sign in order to use the Mark, they are required to report quarterly on their purchases, sales and stock levels for all products covered by the agreement. Quarterly monitoring is backed up by selected physical annual audits which are carried out on our behalf by Product Authentication Inspectorate (PAI) Ltd, an independent inspection company that specialises in the food sector.

The Foundation’s certification activities are overseen by a Certification Committee comprising two Trustees of the Foundation, two independent experts, and two members of staff with no involvement in the licensing process. Its responsibilities include:

- Assisting the Foundation to understand all certification issues and to set procedures for dealing with them.
- Setting policy on registering companies that apply to be licensed to use the FAIRTRADE Mark and on which licensees will be independently audited.
- Considering annual audit reports submitted by PAI Ltd and adjudicating on licensee certification issues.

The number of licensees increased from 48 to 86 during 2003 and the companies physically audited by PAI Ltd in the same period accounted for over 99% of all sales of products carrying the FAIRTRADE Mark.

International Developments

In 2003 the total volume of products traded under Fairtrade certified conditions increased by 43% across the 17 countries that are part of the FLO network, to reach a total volume of 83,761 tonnes. This represents a growth of nearly 300% since 1998. Coffee and bananas remain the most important commodities and traded volumes in these categories increased by 26% and 40% respectively. There were also strong increases in sugar (79%) and fruit juices (71%). At the market level, Italy and the US saw spectacular increases of 405% and 163% respectively. Britain retains its position as the second largest market for Fairtrade products after Switzerland, and now accounts for 29% of all Fairtrade sales by volume.

As a leading member of FLO, the Foundation commits time and resources into helping develop FLO's ability to certify and facilitate Fairtrade. Our Executive Director sits on the Board of FLO and other staff are regularly involved in projects to improve effectiveness through international working groups and collaboration with personnel in Bonn. We were therefore delighted to have the opportunity of hosting the second FLO Fairtrade Forum in London in September 2003, attended by 275 representatives of producer organisations, trading partners, and our colleagues from Bonn and the offices of other national initiatives. The full range of stakeholders from 51 countries came together to exchange ideas and experiences and to discuss the strategic directions of Fairtrade Labelling. The Forum coincided with the summit meeting of the World Trade Organisation in Cancun, Mexico and delegates were keen to demonstrate the alternative form of trade being developed through FLO as a model for the wider international community. The Forum was a dynamic event and was very successful in embodying the transparent and participatory system that Fairtrade Labelling strives to be.

Following discussions at the Forum, the Board of FLO approved a five-year strategic plan for the organisation in December 2003. This sets ambitious targets for a quantum leap in the scale and impact of Fairtrade Labelling, with the objectives of:

- Doubling the number of producer organisations certified by FLO.
- Extending the range of products covered by Fairtrade standards to over 30 categories including textiles and other non-food products.
- Increasing the total volume of products traded under Fairtrade conditions by a factor of four.

At the same time, FLO will seek to retain its position as the leading standards and certification body in its field by continually improving the credibility, transparency and effectiveness of its work with producers and other partners.

FLO is a member of ISEAL (the International Social and Environmental Accreditation and Labelling Alliance) through which a number of international standards and certification organisations work together to improve the quality and professionalism of their respective organisations and to gain international recognition and credibility for their programmes. Organisations currently participating in ISEAL include the International Federation of Organic Agriculture Movements, the International Organic Accreditation Service, the Marine Stewardship Council, the Forest Stewardship Council, the Conservation Agriculture Network, and Social Accountability International.

Promoting Fairtrade

A critical part of the Foundation's mission is to increase public awareness of the FAIRTRADE Mark and the wider issues of trade justice. The focal point of raising public awareness is the annual Fairtrade Fortnight campaign held during March, and in 2003 over 5,000 events were held nationwide, an increase of over 25% on the previous year. These events included the Archbishop of Canterbury's Fairtrade pancake race, tasting stands, visits from Fairtrade producers, cookery demonstrations, parliamentary debates, and much more.

The successful promotion saw dramatic increases in sales and awareness. The Foundation's annual MORI poll found that public recognition of the FAIRTRADE Mark was 25%, compared with just 12% four years ago, and Waitrose reported Fairtrade sales rising 31% after the Fortnight.

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Media coverage of Fairtrade also rose significantly – 2,847 mentions in the year – a 21% increase on 2002, with Fairtrade being mentioned on average four times every day throughout the year in the regional press.

The Foundation was the highly commended runner-up for the UK Charity of the Year Award 2003, with the host, comedian Paul O'Grady, praising the Foundation "for making Fairtrade a household name".

The Fairtrade Towns initiative launched in 2002 has mushroomed from the eight towns which achieved Fairtrade status in 2002 to over 30 by the end of 2003, with more than 70 others hard at work to reach their goals centring on creating awareness and distribution of Fairtrade products. The Mayor of London launched the capital's Fairtrade initiative encouraging Londoners to put their purchasing power behind Fairtrade. The prestigious St Martins Lane and Sanderson Hotels switched all their coffee, tea and chocolate to Fairtrade.

Schools and universities are switching as well, encouraged by Oxfam and student campaign network People & Planet. Oxford Brookes University was declared the world's first Fairtrade University – meaning Fairtrade foods are on sale on campus and authorities are committed to promoting the FAIRTRADE Mark. Birmingham University swiftly followed with many more in hot pursuit. In Hartlepool, pupils at two secondary schools set up co-operatives selling Fairtrade foods. The initiative was so successful that it is being replicated across the country.

The Foundation believes that Fairtrade offers a successful template for how trade can contribute to poverty reduction. Companies selling products with the FAIRTRADE Mark are trailblazers in a way of doing business that both tackles poverty and delivers commercial success. The Foundation seeks to mainstream Fairtrade in a way that puts the wider case for trade justice. For many people, buying Fairtrade products may be the first time they have considered international trade issues. Other Fairtrade supporters want their own purchases to make the point that more should be done by governments to change unfair trade rules.

Oxfam, Christian Aid and People & Planet collaborated with the Foundation to produce Action Cards calling on government ministers to implement fairer trade rules. The Foundation is an active member of the Trade Justice Movement – over 50 organisations campaigning together to influence World Trade Organisation negotiations and persuade the UK government to champion trade policies that reduce poverty and protect the environment.

Producer Support & Development

While Fairtrade provides direct benefits to producers through minimum prices, investment premiums and the opportunity to access new markets, many organisations are unable to take full advantage of this without assistance in developing their core capacities. FLO's Producer Support Network exists to help such producers access the support and services they need, such as technical help to improve quality or environmental management, or business and management skills to improve the running of their organisations. This support is often provided by other Fairtrade organisations which have the relevant skills and experience.

The Foundation does not get involved in this work as a core activity, but where funding is obtained from donors in the UK we often retain a co-ordinating role. At the end of 2003 the Foundation launched the East African Fairtrade Network, comprising producers in Ethiopia, Kenya, Uganda and Tanzania. This was the successful conclusion of a two-year project funded by DFID to help establish a regional consultative forum for Fairtrade producers in the region. As well as providing its members with a forum to discuss common problems and develop best practice, this body will also help feed into FLO's governance structure.

Acknowledgements

The Trustees wish to thank all the trusts, foundations and other bodies that provided grants and donations to the charity to further its aims. The principal funders are listed in notes 4 and 5 to the attached accounts. We are also grateful to the many other donors, large and small, whose generosity and support have contributed to the effectiveness of the charity during the year. This includes the 100 volunteers who have given their time to help in the office in many ways, and the numerous supporters throughout the country who have organised promotional events and lobbied organisations of many kinds to adopt Fairtrade goods. The Trustees are immensely grateful for the time and support given to the Foundation by our Patron George Alagiah. The Trustees also wish to recognise the dedication and commitment of the staff under the leadership of Executive Director Harriet Lamb, which is reflected in the results achieved.

The Organisation of the Charity

The Foundation is a company limited by guarantee and a charity registered in England and Wales. It is governed by its Memorandum and Articles of Association as adopted on 2 July 1992 and amended on 25 January 1994 and 20 May 2003. The founder members of the Company are CAFOD, Christian Aid, the National Federation of Women's Institutes, Oxfam, Traidcraft Exchange, and the World Development Movement. On 20 May 2003 the members approved changes to the Memorandum and Articles of Association to enable the governance structures to work efficiently with a wider membership base. On 5 December 2003 the following organisations were admitted to membership: Banana Link, Methodist Relief and Development Fund, Nicaragua Solidarity Campaign, People & Planet, Scottish Catholic International Aid Fund (SCIAF), and United Reformed Church. Discussions on future membership are continuing with a number of other organisations.

The Foundation's policy and strategy are set by the Board of Trustees. Under the Articles of Association in place until 20 May 2003, each of the six founder member organisations had the power to appoint one Trustee with the Board able to appoint up to five additional Trustees, with expertise in key areas of work, to serve on the Board. The Articles of Association were amended on 20 May 2003 and provide for the founder members to elect up to four Trustees and up to a further four Trustees to be elected by the full membership. The Board then has the power to appoint further Trustees, providing that the maximum number of Trustees does not exceed 10. The new arrangements for Board appointments will be utilised for the first time at the Annual General Meeting of the Foundation to be held on 24 June 2004.

The Board meets every three months, while a Finance and Personnel Committee, with delegated authority in specific management functions, supervises these aspects between Board meetings. The Committee consists of two Trustees, a specialist Adviser on Personnel Issues (a former Trustee), the Executive Director, the Deputy Director and the Head of Operations. A Certification Committee (see 'Certification' section above) has also operated during the year as a sub-committee of the Board.

Trustee's Responsibilities

Company law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of its results for that period.

In preparing those financial statements, the Trustees are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- Comply with applicable accounting standards subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Trustees have overall responsibility for ensuring that the company has an appropriate system of controls, financial and otherwise. They are also responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable

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them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees delegate to the Executive Director the day-to-day running of the Foundation, reserving to themselves the approval of budgets, staff salaries and major commitments such as leases on premises. Within the approved budgets, the Executive Director further delegates responsibility to identified budget holders for specific aspects of expenditure.

Trustees give their time and make no charge for their services to the Foundation. Expenses incurred in carrying out the work of the Foundation are reimbursed to those Trustees unable to claim from other sources and, in the year under review, £170 was refunded to one Trustee as reimbursement of travel costs.

Financial Review

Due to changes in accounting procedures (explained in the Notes to the Financial Statements on pages 14 to 28) the financial statements for the year are not directly comparable with those for the previous financial period. This is due to the fact that the preceding nine-month period did not include a Fairtrade Fortnight. A supplement to this report (which does not form part of the Statutory Accounts) has been produced (page 29) to facilitate comparisons. Comparative figures in the section below are taken from the annualised 2002 figures.

Incoming resources for the year were £1,417,800 compared with £1,197,000 for the 2002 year. This increase of around 18% is primarily from an increase in the level of licence fee income driven by the increasing range and penetration of Fairtrade products in the market. Licence fee income accounted for 54% of total income, an increase of four percentage points from 2002.

The Foundation has been successful in obtaining grant funding to cover the costs of part of its communications and new product development work. Both of these activities are vital to the ongoing success and growth of the organisation.

Overall there was an excess of income over expenditure of £154,000. Part of this was due to an above forecast increase in the rate of income growth in the final quarter of the year, but also from the objective of the Trustees to increase the reserves of the organisation. At the beginning of the year, free unrestricted reserves were some considerable way below the Trustees' desired level, but they are pleased to say that significant progress has been made during the year to bring them closer to the target range. This enables the Foundation to move into 2004 with greater comfort in that it has the financial reserves to sustain the organisation as it continues to grow and provide it with the ability to grasp the many opportunities that it has before it.

At 31 December 2003, the Fairtrade Foundation had cash balances of £218,000, an increase of £17,000 on the opening cash balance, and net current assets of £294,000, an increase from £141,000 at 31 December 2002. The increase in net current assets has not yet therefore fed through into an increase in cash and much emphasis is placed on managing liquidity as a vital part of day-to-day operations.

Closing unrestricted funds were £262,000, of which the Trustees have designated £81,000 for specific purposes in the coming year. At the balance sheet date, none of the restricted funds were in deficit.

Investment Policy and Performance

The Memorandum of Association provides that the Company may invest money not immediately required as the Trustees think fit – subject to law. The Board's investment policy rules out speculative investment and requires that funds expected to be needed within a twelve-month period be held in cash or on deposit with immediate or short-term notice access. It allows funds likely to be held for longer to be placed in low-risk investments and requires that the charity is not exposed to unrecoverable taxation. The policy also requires that no investment shall be made which is likely to damage the charity's interests by offending the ethics of current and potential stakeholders. At present all funds are

held in current or short term notice deposit accounts earning a market rate of interest and the trustees believe this to be the appropriate way for the Company to hold these funds.

Reserves Policy and Risk Management

A detailed review of the risks facing the Fairtrade Foundation is conducted each year by the Trustees and staff and forms an integral part of the charity's strategic planning. The Trustees believe that a full spectrum of risks faced by the charity has been identified, quantified and where appropriate, action taken on a continuing basis to mitigate those risks.

Our responses to identified external risks play a key part in shaping our strategy and our operational plans.

Internal risks are addressed by periodic reviews of internal controls and improvements in systems designed to minimise such risks. Examples include:

- Written procedures governing the delegation of authority to the Executive Director and to other staff.
- Formal limits of authorised expenditure for each staff member and the requirement for at least two signatories to approve transactions above specified levels.
- Segregation of duties related to finance amongst members of staff, as far as possible.
- Regular reviews and reconciliations of the accounting records by senior staff and volunteers.
- Responding to any control issues highlighted by our auditors.

A key component of the Trustees' strategy to mitigate risk is the policy of maintaining a level of unrestricted reserves which, in accordance with guidelines issued by the Charity Commissioners, ensures that there are adequate funds to meet all current and known future liabilities. Trustees consider that holding undesignated reserves equivalent to three months' core costs provides minimum resources to respond to unexpected adverse changes in the Fairtrade Foundation's funding or activities. At 31 December 2003 this is estimated at £220,319. At the same time, excluding those funds represented by Fixed Assets, general reserves should not exceed 25% of total anticipated annual expenditure. At 31 December 2003 this upper limit is estimated at £412,725. The actual level of undesignated funds at 31 December 2003 was £180,078, still below the minimum level, but significantly higher than at the end of 2002. The Trustees have set a budget for 2004 that should bring the level of unrestricted reserves closer to the lower level of this target range and they continue to review the level of reserves at regular intervals through the Finance and Personnel Committee.

The Fairtrade Foundation is an expanding charity in an ever changing environment and the Trustees are very much aware that the risks facing the charity are not constant. Consequently, the monitoring of risk will continue to be a high priority for the Trustees and staff.

2003 has been a year of major achievement and growth for the Foundation. 2004 marks the 10th anniversary of the FAIRTRADE Mark and the organisation is well placed to take advantage of the many opportunities that exist for the further development of the Fairtrade market and to bring the benefits of Fairtrade to an even wider number of marginalised producers in developing countries.

This report was approved by the Trustees on 25th May 2004 and signed on their behalf.

Alastair Hanton
Chair of the Board
The Fairtrade Foundation

25th May 2004

Independent Auditor's Report To The Members Of The Fairtrade Foundation

We have audited the financial statements of the Fairtrade Foundation for the year ended 31 December 2003 which comprise Statement of Financial Activities, (incorporating The Summary Income and Expenditure Account), the Balance Sheet, and related Notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the charitable company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and its members as a body, for our audit work, for this report, or for the opinion we have formed.

Respective Responsibilities of Trustees and Auditors

The Trustees' (who are also the directors of the Fairtrade Foundation for the purposes of company law) responsibilities for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Trustees' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities", published in October 2000. We also report to you if, in our opinion, the Trustees' Annual Report is not consistent with the financial statements, if the charity has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Trustees' remuneration and transactions with the charity is not disclosed.

We read other information contained in the Trustees' Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Trustees in the preparation of financial statements, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the charitable company's affairs as at 31 December 2003 and of its incoming resources and applications of resources, including its income and expenditure, for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Signed by:

Date: 25th May 2004

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Chartered Accountants & Registered Auditors
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HA7 4EB

The Fairtrade Foundation

Statement of Financial Activities for the year to 31 December 2003 (including Income and Expenditure Account)

		2003			2002 9 months to December
	Notes	Restricted £	Unrestricted £	Total £	Total £
Incoming Resources					
<i>Donations and similar incoming resources</i>					
Donations and miscellaneous income	3	-	81,606	81,606	16,378
Grants for general charitable purposes	4	-	99,600	99,600	64,650
<i>Activities to further the charity's objects</i>					
Grants receivable	5	415,212	-	415,212	207,373
Licence fees	6	-	766,119	766,119	493,866
Sale of promotional items	7	-	48,327	48,327	5,089
Interest received	8	947	5,989	6,936	4,231
Total incoming resources		416,159	1,001,641	1,417,800	791,587
<i>Cost of generating funds</i>					
Fundraising	9	-	28,304	28,304	23,995
Total cost of generating funds		-	28,304	28,304	23,995
Net incoming resources available for charitable application		416,159	973,337	1,389,496	767,592
Charitable Expenditure					
<i>Costs of activities in pursuit of charitable objects</i>					
Public education/awareness	10	201,885	370,427	572,312	354,371
Producer support	11	78,495	12,252	90,747	36,378
FAIRTRADE Mark development & monitoring	12	167,368	310,210	477,578	355,288
Management and administration	13	-	94,724	94,724	54,217
Total charitable expenditure		447,748	787,613	1,235,361	800,254
Total resources expended		447,748	815,917	1,263,665	824,249
Net income / (expenditure)	14	(31,589)	185,724	154,135	(32,662)
Transfers between funds		57,622	(57,622)	-	-
Fund balances brought forward		17,817	133,433	151,250	183,912
Fund balances carried forward		43,850	261,535	305,385	151,250

There were no recognised gains or losses for 2003 or 2002 other than those included in the Statement of Financial Activities.

The Notes on pages 14 to 28 form part of these Financial Statements.

The Fairtrade Foundation

Balance Sheet as at 31st December 2003

	Notes	2003		2002	
		£	£	£	£
<i>Fixed Assets</i>					
Tangible Assets	16		11,069		9,873
Current Assets					
Closing stock of promotional items		15,148		11,374	
Debtors	17	332,181		147,591	
Cash at bank and in hand		217,569		201,154	
		<u>564,898</u>		<u>360,119</u>	
Creditors					
Amounts falling due within one year	18	(270,582)		(218,742)	
Net Current Assets			294,316		141,377
Net Assets			<u>305,385</u>		<u>151,250</u>
Funds					
Restricted funds	19	43,850		17,817	
Total Restricted Funds			43,850		17,817
Unrestricted - designated	20	81,457		39,266	
Unrestricted	21	180,078		94,167	
Total Unrestricted Funds			<u>261,535</u>		<u>133,433</u>
Total Funds	22		<u>305,385</u>		<u>151,250</u>

Approved by the Board of Trustees on 25th May 2004 and signed on its behalf.

Adrian Stockman ACA
Honorary Treasurer, Trustee

25th May 2004

The Notes on pages 14 to 28 form part of these Financial Statements.

The Fairtrade Foundation

Notes to the Financial Statements

for the year to 31st December 2003

1 Accounting period

Change in Financial Year

In 2002 the Trustees changed the accounting reference date of the Foundation from 31 March to 31 December and accordingly the prior period figures cover the nine month period from 1 April 2002 to 31 December 2002.

To facilitate comparisons an additional page (page 29) has been added which does not form part of the Statutory Accounts, but which compares the estimated figures for the calendar year 2002 with the audited figures for the year 2003.

2 Accounting Policies

2.1 Basis of preparation of accounts

The accounts are prepared under the historical cost convention and include the results of the charity's operations which are described in the Trustees' Report and all of which are continuing.

The accounts have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective March 2000), the Companies Act 1985 and follow the recommendations in *Accounting and Reporting by Charities: Statement of Recommended Practice* issued in October 2000 (SORP 2000).

The charity has taken advantage of the exemption in Financial Reporting Standard No.1 from the requirement to produce a cashflow statement.

2.2 Company status

The charity is a company limited by guarantee. The founder members of the Company are CAFOD, Christian Aid, National Federation of Women's Institutes, Oxfam, Traidcraft Exchange, and World Development Movement. On 5 December 2003 the following organisations were admitted to membership of the Foundation: Banana Link, Methodist Relief and Development Fund, Nicaragua Solidarity Campaign, People and Planet, Scottish Catholic International Aid Fund (SCIAF) and United Reformed Church.

In the event of the charity being wound up, the liability in respect of the guarantee is limited to £1 per member. The Company is the UK member of Fairtrade Labelling Organisations International (FLO).

The members of the Company and FLO are Related Parties in the terms of SORP 2000.

2.3 Fund accounting

Restricted funds arise from grants and donations given to the Foundation for specific areas and activities of the Foundation's work in furthering its objects and are complemented by further amounts transferred from the unrestricted funds of the Foundation. The aim and use of each material restricted fund is set out in the Notes to the Financial Statements.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The aim and use of each designated fund is set out in the Notes to the Financial Statements.

Unrestricted funds provide the general funds of the Foundation and arise from surpluses of income over expenditure from funds granted or donated to the charity, which may be used at the discretion of the Trustees.

2.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Assets are included where the cost price exceeds £250.

Notes to the Financial Statements

Depreciation is provided at rates calculated to write off the cost of fixed assets over four years on a straight line basis starting in the year of acquisition.

2.5 Incoming resources

Income from donations and miscellaneous income is included when received.

Grant income is accounted for on a receivable basis where the Foundation has an agreed grant contract with a donor once expenditure has been incurred. The exception is that where donors specify that grants must be used in future accounting periods then the income is deferred until those periods.

Income from the sale of promotional merchandise is included when received or when invoiced, whichever is the earlier.

Licence fee income is included in the period to which it relates – provided the amount is known with reasonable certainty and it is prudent to assume there will be no default.

Volunteers provide invaluable support to the Foundation. Volunteer supporters run local events to promote knowledge of the FAIRTRADE Mark in their communities. It is estimated that some 5,000 local events took place during Fairtrade Fortnight 2003. These events, and others throughout the year, depend heavily on the input of an unknown number of local volunteers.

In addition, nearly 100 volunteers helped in the Fairtrade office at some time during the year.

All this voluntary work is of great assistance to the Foundation, but, for accounting purposes, it is not valued within these financial statements.

2.6 Resources expended

All expenditure is included on an accruals basis. All costs have been attributed to one of the categories of resources expended in the Statement of Financial Activities (SOFA) and include a proportion of the costs of renting and running office premises, salaries for administrative staff and audit fees. The basis of apportionment of indirect expenditure is staff time spent on an activity.

Fundraising costs include all costs incurred in raising funds from, and reporting back to, government, European Commission, charitable trusts and foundations as well as other donors.

Costs of activities in pursuit of charitable objects include all costs incurred in seeking to achieve the charity's charitable purposes and incorporate the costs of administering the FAIRTRADE Mark.

Expenditure on the management and administration of the charity includes costs attributable to the management of the charity's assets, organisational administration and compliance with constitutional and statutory requirements.

2.7 Pensions

All permanent staff employed by the Foundation are eligible for membership of the defined contribution occupational pension scheme operated by the Pensions Trust. The scheme is contributory (staff paying 5% of salary and the Foundation 9% of salary (8% prior to April 2003)). Alternatively, the Foundation contributes 9% (8% prior to April 2003) of salary to approved pension schemes nominated by eligible staff provided the staff member contributes at least 5% of salary.

2.8 Value Added Tax

The charity is registered for VAT.

In common with many other registered charities, the Fairtrade Foundation is unable to fully recover input VAT. During the accounting period, the total irrecoverable VAT suffered by the charity was £15,069 (£8,406 in the previous nine month accounting period).

This irrecoverable VAT is included in the appropriate categories of expenditure within the SOFA.

2.9 Taxation

The charitable company is exempt from corporation tax on its charitable activities.

3 Donations and Miscellaneous Income

This includes voluntary donations made by individual supporters and groups as well as small amounts of miscellaneous revenue. In the 12 months to December 2003 £81,606 arose from these sources (£16,378 nine months to December 2002). The increase over the previous period is partly due to two significant donations received in the year.

4 Grants for General Charitable Purposes

4.1 Member Grants

	£	£
Oxfam	48,000	
Christian Aid	20,000	
CAFOD	20,000	
Total		<u>88,000</u>

Members are not required to make grants but normally when they do they are for unrestricted funding. In addition members may make additional grants for specific purposes which are accounted for under restricted funds.

4.2 Other unrestricted income grants

	£	£
The Rowan Charitable Trust	5,000	
Miss KM Harbinson Charitable Trust	2,000	
Beatrice Laing Trust	1,500	
C B & H H Taylor Trust	1,000	
The Paget Trust	750	
Sydney E Franklin Deceased's New Second Charity	500	
The Tisbury Telegraph Trust	400	
The Cruse Trust	300	
The Wyndham Charitable Trust	150	
Total		<u>11,600</u>
Total Grants for General Charitable Purposes		<u>99,600</u>

Notes to the Financial Statements

5 Grants Receivable to Further the Charity's Objects (Restricted Funds)

	£	£	£
Public Education and Awareness Projects			
<i>General Media and Profile Work</i>			
Allan & Nesta Ferguson Charitable Trust		45,000	
<i>Fairtrade and Women: - Making the Link</i>			
Community Fund		41,794	
<i>Fairtrade Towns programme</i>			
DFID	23,464		
The Newton-Booth Charitable Trust	500		
Andrew Bonar Charitable Trust	100	24,064	
<i>Fairtrade Fortnight</i>			
CAFOD	10,000		
Methodist Relief & Development Fund	5,000		
Miss K M Harbinson's Charitable Trust	2,500		
United Reformed Church	2,000		
W F Southall Trust	1,500		
The Souter Charitable Trust	500	21,500	
<i>Fairtrade: Promoting a Better Deal for Third World Producers</i>			
European Union		11,000	
<i>Trade Justice Movement Support Project</i>			
CAFOD	5,000		
Christian Aid	5,000	10,000	
<i>Out of Home Project</i>			
The Newton-Booth Charitable Trust		500	
<i>Other awareness grants</i>		1,400	
Total Public Awareness and Education			155,258
Producer Support & Development Projects			
DFID Regionalisation project (East Africa)		44,154	
FLO Forum (see note 5.2)		25,390	
TCGA Support		105	
Total Producer Support and Development			69,649
FAIRTRADE Mark and Product Development			
<i>Enlarging the Fairtrade Product Range</i>			
DFID (inc deferred income from 2002 of £42,665)	139,245		
Comic Relief	49,060		
Morel Trust	2,000		
Total FAIRTRADE Mark and Product Development			190,305
Total (Restricted Grants)			<u>415,212</u>

5.1 Explanatory Notes

The purpose of each of the funds is explained below in note 19.

5.2 FLO Forum

The *FLO Forum* takes place every three years and brings together representatives of all the National Initiatives (NIs) that come together in FLO with Fairtrade producers and traders from around the world. It takes place in a different place each time and is principally funded by FLO. As the host NI for the 2003 Forum the Fairtrade Foundation raised £25,390 of funds towards the event and this income and associated expenditure is contained in these accounts. In addition the Foundation handled further expenditure of £66,375 for the event on behalf of FLO who provided the financing. As the Foundation was merely acting as agent on behalf of FLO in making this further expenditure the expenditure and the funding provided by FLO has not been included within these accounts.

The funding that the Fairtrade Foundation raised was from the following organisations:

Triodos Foundation UK	14,255
Triodos Foundation Netherlands	5,000
Commonwealth Foundation	4,485
Trustient	300
Barchester Green Investment	300
Bates Wells and Braithwaite	300
Product Authentication Inspectorate	300
Worldwide Connect Limited	300
PBS Communications	150
Total	<u>25,390</u>

6 Licence Fees

Licence fees for use of the Foundation's FAIRTRADE Mark are payable by companies marketing products carrying the Mark. This is the independent consumer guarantee of a better deal for Third World producers. The fees cover the costs of monitoring and audit to ensure compliance with Fairtrade standards and contribute to the costs of public education and awareness raising work. Monitoring and audit of UK licensees is undertaken directly by the Foundation, while producer certification is the responsibility of FLO International, who receive a proportion of the Foundation's licence fee income to pay for this activity. The increase of 27% in licence fee income compared to calendar year 2002 reflects the growing sales of Fairtrade products in all categories and the increasing range of products carrying the FAIRTRADE Mark.

7 Sale of Promotional Items

To help promote Fairtrade the Foundation makes a range of items available for sale to supporters. All display the FAIRTRADE Mark prominently and help promote the Fairtrade message at supporter events around the country. As their sale contributes directly to the promotion of the Fairtrade message it is judged that the activity qualifies as primary purpose trading. These promotional items are sold on to supporters to cover the costs of production, processing and a contribution to overheads. The activity is seen not so much as a device to raise funds but rather to raise profile and awareness whilst covering costs. For this reason we have continued the practice adopted in the previous accounts of not allocating the cost of the items as a cost of generating funds in the SOFA but as part of charitable expenditure to promote public awareness.

8 Interest Received

This is interest receivable on cash deposits. £947 is attributable to restricted funds held pending disbursement. (See Note 19 for the allocation to individual funds). The Foundation holds no other investments.

9 Costs of Generating Funds

Covers the cost of staff taking part in fundraising through contacts with potential grantors including Government Departments, the European Commission, and charitable trusts and foundations. No fundraising events or other fundraising activities have been organised during the period. A proportion of office services and occupancy costs is allocated to the activity. No fundraising consultants or firms were used during the period.

	January-December 2003 12 months £	April-December 2002 9 months £
Staff costs	20,735	17,097
Direct costs	842	474
Allocation of central service costs	6,727	6,424
Total	<u>28,304</u>	<u>23,995</u>

10 Public Education and Awareness

Activities funded to promote knowledge and awareness of the FAIRTRADE Mark and the need for Fairtrade in the interests of disadvantaged producers.

	January-December 2003 12 months £	April-December 2002 9 months £
<u>Direct costs</u>		
Fairtrade Fortnight	71,407	48,228
Women's project (Community Fund)	49,602	12,518
Educating and mobilising supporters (EU funded)	30,894	17,129
Fairtrade Towns Programme	18,680	-
Launch of new Mark 2002	-	7,583
Education Pack	-	34,438
Promotional merchandise	42,411	7,287
Other communications projects	<u>42,943</u>	<u>34,313</u>
Total Direct costs	255,937	161,496
<u>Indirect costs</u>		
Staff costs on above activities	235,475	140,198
Staff recruitment costs	4,509	-
Allocation of central service costs	<u>76,391</u>	<u>52,677</u>
Total Indirect costs	316,375	192,875
Total	<u>572,312</u>	<u>354,371</u>

Fairtrade Fortnight

Most of our public awareness raising activity is focused on Fairtrade Fortnight, which takes place in March each year. Supermarkets, major development charities, churches, Women's Institutes and thousands of supporters around the country promote Fairtrade during this period. Direct grant funding for the Fortnight of £21,500 was provided by the funders listed in Note 5 above. In addition, part of the grant from the Community Fund, Fairtrade and Women : Making the Link, funded some of the materials, with the balance of funding coming from unrestricted income.

The total expenditure in the year on Fairtrade Fortnight was £135,977 which is analysed below.

	January-December 2003 £
<u>Direct costs</u>	
Materials	48,996
Fairtrade Fortnight travel including producer visits	11,937
Advertisements and events	3,942
Other costs	<u>6,532</u>
Total Direct costs	71,407
<u>Indirect costs</u>	
Staff costs	50,484
Allocation of central service costs	<u>14,086</u>
Total Indirect costs	64,570
Total Expenditure	<u>135,977</u>

In addition £48,228 of costs for Fairtrade Fortnight 2003 were incurred and charged to expenditure in the prior period.

£29,652 of direct costs relating to Fairtrade Fortnight 2004 were incurred during the period. These have been treated as a prepayment (note 17) and carried forward to 2004.

The cost of materials does not include the cost of promotional items which are sold on to supporters to promote awareness of the Mark.

11 Producer Support

This heading comprises funding of direct support for registered Fairtrade producer organisations in Belize, Eastern Africa and the Windward Isles, and part of the costs of the FLO Forum held in 2003.

	January-December 2003 12 months £	April-December 2002 9 months £
Direct support to producer groups	48,753	28,537
FLO Forum	25,390	-
Staff costs on above activities	12,214	5,699
Allocation of central service costs	4,390	2,142
Total	<u>90,747</u>	<u>36,378</u>

12 FAIRTRADE Mark Development and Monitoring

Costs of operating and developing the FAIRTRADE Mark as an independent consumer guarantee, including monitoring and audit of supply chains of products licensed to carry the Mark.

	January-December 2003 12 months £	April-December 2002 9 months £
Direct Costs		
International monitoring fees #	217,396	249,132
Developing the FAIRTRADE Mark, including developing new products	106,705	15,087
UK monitoring fees*	13,201	8,286
Other direct costs of monitoring	<u>4,845</u>	<u>2,497</u>
Total Direct Costs	<u>342,147</u>	<u>275,002</u>
Indirect Costs		
Staff costs on above activities	102,257	58,359
Allocation of central service costs	<u>33,174</u>	<u>21,927</u>
Total Indirect Costs	<u>135,431</u>	<u>80,286</u>
Total	<u>477,578</u>	<u>355,288</u>

These fees are for membership of FLO (see Note 2.2). FLO is an international organisation registered in Germany which monitors standards in producer countries on behalf of its members. The level of fee set by FLO is determined by reference to the values of sales of goods carrying the Fairtrade label in the previous year. While there is a drop between the current and previous shorter accounting period, this is a one off impact arising from the change in accounting policy for these charges in 2002.

* These fees are paid to consultants who audit licensee records and allow us to provide the assurance that goods sold with the endorsement of the FAIRTRADE Mark comply with the stated criteria.

13 Management and Administration

Activities to enable the Foundation to function as a Registered Charity and a Company registered in England and Wales.

	January-December 2003 12 months £	April-December 2002 9 months £
Direct Costs		
Audit fees	3,649	2,339
Insurance	2,404	1,449
Staff and Trustee training and development	2,086	1,922
Staff recruitment costs	1,240	61
Legal fees	1,775	15
Board costs (travel and meeting costs)	<u>556</u>	<u>447</u>
Total Direct Costs	11,710	6,233
Indirect Costs		
Staff costs	61,070	34,879
Allocation of central service costs	<u>21,944</u>	<u>13,105</u>
Total Indirect Costs	83,014	47,984
Total	<u>94,724</u>	<u>54,217</u>

The increase in staff costs and allied office services and occupancy costs, results from the strengthening of the Foundation's financial, administrative and IT capacity and is a direct consequence of the Foundation's success in recent years.

14 Net Income for the Period

Net income for the period is stated after charging.

	January-December 2003 £	April-December 2002 £
Depreciation of fixed assets	6,383	5,618
Audit fees	3,649	2,340
Other services provided by auditors	1,626	-

15 Staff Costs and Trustees Remuneration

No remuneration was paid to Trustees in the year. Actual expenses in carrying out the functions of the Foundation are reimbursed to Trustees who are not otherwise able to claim. £170 (2002 - £116) was reimbursed to one Trustee (2002 - one).

No employee earned more than £50,000 per annum.

The full staff costs were:	January-December	April-December
	2003 12 months	2002 9 months
	£	£
Wages and salaries	356,996	221,230
Social Security costs	36,196	20,752
Pension contributions	18,107	8,231
Agency staff	4,322	6,019
Staff costs	415,621	256,232
Staff recruitment costs	7,025	61

The average monthly number of full time equivalent staff employed by the Foundation during the year was as follows –

	2003	2002
Director	1	1
Marketing	3	2
Certification	1	1
Communications	7	6
Fund-raising	1	1
Administration and Support	2	2
Total	15	13

16 Tangible Fixed Assets

Office Equipment, Fixtures and Fittings

	£	£
Cost at 1 January 2003		40,486
Add – additions	7,698	
Less – disposals	(4,153)	
At 31 December 2003		44,031
Depreciation at 1 January 2003		30,613
Less – accumulated depreciation on disposals	(4,034)	
Add - charge for period	6,383	
At 31 December 2003		32,962
Net Book Value at 1 January 2003		9,873
Net Book Value at 31 December 2003		11,069

17 Debtors

Due within one year	31 December 2003	31 December 2002
	£	£
Licence fees (see Note 6)	260,520	136,395
Prepayments in relation to Fairtrade Fortnight	29,652	-
Grants receivable	16,486	-
Other prepayments	12,912	2,345
Landlord deposit & refund due	7,556	8,113
Other trade debtors	5,055	738
	<u>332,181</u>	<u>147,591</u>

18 Creditors

Amounts falling due within one year	31 December 2003	31 December 2002
	£	£
Fees due to FLO in respect of licence income	203,881	144,000
Other creditors and accruals	33,859	3,278
Trade creditors	12,956	15,917
Social Security and other taxes	10,030	8,624
Customs & Excise (VAT due)	9,856	4,258
Deferred income (see note below)	-	42,665
	<u>270,582</u>	<u>218,742</u>

Deferred income

An amount of £42,665 was received from DFID in December 2002 to fund the project to develop Fairtrade Standards and Products during 2003 and was therefore treated as deferred income in the 2002 accounts. There was no deferred income at 31 December 2003.

19 Restricted Funds

	Balance at January 2003	Incoming	Interest credited	Outgoing	Transfer from Unrestricted funds	Balance at December 2003
	£	£	£	£	£	£
Public Awareness / Education						
Media and Profile programme	-	45,000	-	33,490	3,490	15,000
Fairtrade and Women: Making the Link		41,794	-	49,602	7,808	-
Fairtrade Towns Programme	-	24,064	-	43,963	19,899	-
Fairtrade Fortnight		21,500	-	21,500	-	-
Fairtrade: Promoting a Better Deal for Third World Producers	4,819	11,000	72	42,316	26,425	-
Trade Justice Movement Support	2,072	10,000	42	9,614	-	2,500
Other		1,900	-	1,400	-	500
TOTAL Public Awareness/Education	6,891	155,258	114	201,885	57,622	18,000
Producer Support						
East Africa Regionalisation Project	-	44,154	-	44,154	-	-
FLO Forum	-	25,390	-	25,390	-	-
TCGA support	8,826	105	20	8,951	-	-
TOTAL Producer Support	8,826	69,649	20	78,495	-	-
FAIRTRADE Mark Development						
Expanding the Fairtrade Product	2,100	190,305	813	167,368	-	25,850
TOTAL Mark Development	2,100	190,305	813	167,368	-	25,850
TOTAL RESTRICTED FUNDS	17,817	415,212	947	447,748	57,622	43,850

Media and Profile Programme

The Allan & Nesta Ferguson Charitable Trust have provided funding to support two projects relating to communication programmes including visits to producers.

Fairtrade and Women: Making the Link

This project is funded by the Community Fund and aims to educate women in the UK about Fairtrade and change their perception of problems facing producers in the South. The main activities are advertising, media communications and a competition, including activities undertaken during Fairtrade Fortnight.

Fairtrade Towns Programme

This project, partly funded by DFID, The Newton-Booth Charitable Trust and the Andrew Bonar Charitable Trust, is to support the growing grass roots movement of individuals and local organisations striving to make their town "Fairtrade". The programme funds a part time co-ordinator position and resource materials.

Fairtrade Fortnight

Most of our public awareness raising activity is focused on Fairtrade Fortnight, which takes place in March each year. Supermarkets, major development charities, churches, Women's Institutes and thousands of supporters around the country promote Fairtrade during this period. Grant funding was provided by the funders listed in Note 5 above.

Fairtrade: Promoting a Better Deal for Third World Producers

This is a jointly funded project with substantial funding from the European Commission. The project aims to raise awareness of conditions faced by producers in developing countries and the effectiveness of Fairtrade in tackling the root causes of poverty.

The main activities are the major annual awareness-raising campaign of the Fairtrade Foundation, Fairtrade Fortnight, development and distribution of a video, an educational pack for schools, and production and promotion of the Foundation's newsletter Fair Comment.

Trade Justice Movement Support

Grants from CAFOD and Christian Aid were received to enable the Foundation to provide facilities for the Trade Justice Movement. This is a coalition working to redress the terms of trade in favour of producers who are disadvantaged by current rules.

East Africa Regionalisation Project

The project, funded by DFID, aims to establish a structure which will enable producers in East Africa to directly influence the formulation of policy and implementation of practice of Fairtrade labelling. The aim is to localise as much as possible the operations of Fairtrade (such as inspection) in developing countries and to involve producers in the governance of Fairtrade.

FLO Forum

The FLO Forum takes place every three years and brings together representatives of all the National Initiatives (NIs) that come together in FLO with Fairtrade Producers, traders and consumers from around the world.

TCGA Support

This fund arose from a specific appeal in 2001 to provide additional support to the Toledo Cacao Growers Association (TCGA) in Belize to help them make sustained progress towards self-sufficiency. The remaining funds have now been paid to TCGA and the fund has been closed.

Enlarging the Fairtrade Product Range

This project is to develop new Fairtrade products to extend the reach of Fairtrade labelling to new producers in the developing world and is being funded by DFID and Comic Relief. It will increase the range of Fairtrade products in the shops.

20 Designated Funds

	Balance at January 2003	Used in year allocations	New	Balance at December 2003
	£	£	£	£
EU project matching funds required for 2003	8,873	8,873	-	-
DFID project matching funds required for 2004	-	-	8,180	8,180
Office relocation and expansion	15,000	-	10,000	25,000
Non-cash assets	15,393	-	32,884	48,277
Total	39,266	8,873	51,064	81,457

EU project matching fund

Provides the resource required by the EU as a condition for their continuing to provide grant support. The amount brought forward provided the required matching funds for work to be carried out from the restricted funds held at 1 January 2003.

DFID project matching fund

Provides the resource required by DFID as the required matching funds for work to be carried out in 2004 under the Fairtrade Towns Initiative to match DFID funding received in 2003.

Office relocation / expansion fund

With the continued growth of the Foundation, the Trustees feel it prudent to designate funds to allow for the costs of a potential future office relocation, including a provision for dilapidations that would be due at the end of the lease at the current office in Baldwin Gardens.

Non-cash asset fund

This fund represents the depreciated cost of fixed assets used by the Foundation in its work, the deposit held by the landlord as a condition of our office tenancy, and prepayments for materials for Fairtrade Fortnight. These funds are therefore not available for redeployment.

21 Unrestricted Funds

Funds available are sufficient to permit the charity to continue in operation in the short term given continued grant support. The Board's reserves policy is to maintain unrestricted, undesignated funds to cover three months' core costs. At the balance sheet date this is estimated at £220,319 based on budgeted costs for 2004. The balance sheet shows that £180,078 was so held on 31 December 2003 and Trustees have set a budget for 2004 that should bring the reserves closer to this target level.

22 Analysis of Fund Balances held on 31 December 2003

	Unrestricted	Designated	Restricted	Total
	£	£	£	£
Tangible fixed assets	-	11,069	-	11,069
Current assets	431,210	70,388	63,300	564,898
Current liabilities	(251,132)	-	(19,450)	(270,582)
Balances forward	180,078	81,457	43,850	305,385

23 Financial Commitments under Operating Leases

At 31 December the charity had annual commitments under operating leases as follows:

	31 December 2003	31 December 2002
	£	£
Land & Buildings		
Expiry date between 1 and 2 years	56,336	-
Expiry date within one year	-	39,345
Computer Equipment		
Expiry date between 2 and 5 years	8,480	-

On 22 March 2004 a further unit in Baldwin's Gardens was leased and the existing leases renegotiated so that the total annual commitment increased to £61,222 with an expiry date of March 2007.

24 Share Capital

The Fairtrade Foundation is a Company limited by guarantee and with no share capital. Each member is liable to contribute a sum not exceeding £1 in the event of the company being wound up.

Comparison of Financial Activities over 12 month periods

This page does not form part of the statutory accounts but is included for the convenience of readers who wish to compare activity in the reference years.

The second column presents figures for the period January to December 2002 obtained by combining the management accounts for January to March 2002 which formed part of a previous audit, with the audited Statement of Financial Activities for April to December 2002. The first column provides the figures for the twelve months period covered by this audit.

	January-December 2003 Total £	January-December 2002 Total £
<i>Incoming Resources</i>		
<i>Donations and similar incoming resources</i>		
Donations and miscellaneous income	81,606	56,438
Grants for general charitable purposes	99,600	86,385
<i>Activities to further the charity's objects</i>		
Grants receivable	415,212	434,822
Licence fees	766,119	598,784
Sale of promotional items	48,327	14,002
Interest received	6,936	6,090
Total incoming resource	1,417,800	1,196,521
Cost of generating funds		
Fund-raising	28,304	30,208
Total cost of generating funds	28,304	30,208
Net incoming resources available for charitable application	1,389,496	1,166,313
Charitable Expenditure		
<i>Costs of activities in pursuit of charitable objects</i>		
Public education/awareness	572,312	669,103
Producer support	90,747	56,406
FAIRTRADE Mark development & monitoring	477,578	400,818
Management and administration	94,724	65,635
Total charitable expenditure	1,235,361	1,191,962
Total resources expended	1,263,665	1,222,170
Net income (expenditure)	154,135	(25,649)
Fund balances brought forward	151,250	176,899
Fund balances carried forward	305,385	151,250