



Guidance for Determining Scope Under the Factory Production Standard

Fair Trade USA®

DRAFT Version 2.0.0

Introduction

Factory production supply chains are often highly complex, with components sourced in multiple countries and unfinished product traveling among different facilities for cutting, assembly, embellishment, and other processing steps. The Fair Trade USA Factory Production Standard (FPS) covers these diverse supply chains under one set of requirements that apply to all of these manufacturing set-ups. A Fair Trade Certificate defines the site(s) which have been audited and approved for Fair Trade production. The scope of a Certificate can range from a single site (for instance a cut-make-trim factory), to multiple sites of different sizes owned and controlled by one party (e.g., multiple production units performing substantial production processes on the same product).

Since the FPS can be applied to one or more sites of varying structures, the scope of an individual Certificate can vary widely between different Certificates. It is therefore very important to ensure that scope requirements are followed so that all applicable requirements within each site can be evaluated for compliance during the audit.

Purpose

This guidance document provides step-by-step assistance in determining the scope of a Certificate under the FPS. The full requirements for which sites must and can be included in the scope are included in a separate policy, *Requirements for Certificate Scope under the Factory Production Standard*, which can be downloaded on the Fair Trade USA [website](#). This guidance document further explains this policy, with greater detail and examples, and is intended to help readers understand which sites within a supply chain must or can be included in the Certificate and which requirements are applicable for each site affiliated with the Certificate.

The scope is determined during the application process and approved by Fair Trade USA before the initial audit to ensure the proposed scope is eligible for certification. All applicable requirements are evaluated for compliance during the audit. Any time a new site is added to the Certificate, the scope must be reviewed and determined.

Scope and Applicability

This guidance document applies to all applicants for certification and all Certificate Holders certified under Fair Trade USA's Factory Production Standard.



Related Documents

- Factory Production Standard, version 2.0.0 and subsequent minor revisions
- Requirements for the Scope of the Certificate Under the Factory Production Standard

Definitions

- **Certificate Holder:** The legal, certified entity holding the Fair Trade USA producer certificate. The producer Certificate Holder is responsible for ensuring compliance with production standards, and cannot be a person, but rather a company or legal entity.
- **site:** The physical location(s) where activities related to the Fair Trade Certified™ product occur, including production and sales of product. A site is made up of a natural grouping of one or more buildings where production of Fair Trade Certified products takes place, with a common workforce which might work at different places on different tasks, or where workers might cross paths during the day, even if they do not work together. It includes, for instance, buildings within the same compound with a common entrance.
- **vendor:** Sites that are managing sales and transactions of Fair Trade product but are not performing final substantial production processes.
- **worker:** Refers to personnel working in or for entities included in the scope of the Certificate, regardless of whether they are temporary or permanent, work full-time or part-time, production or non-production workers, or are hired directly or indirectly via a labor contractor. It excludes middle and senior management, and normally only includes personnel who are eligible to join unions.

1. Certificate Holder Roles and Responsibilities

1.1. Role of the Certificate Holder

The Certificate Holder is the legal entity that holds the Certificate on behalf of one or more sites in its supply chain. The Certificate Holder is responsible for ensuring compliance with the FPS for all sites included in the scope of the Certificate, as well as compliance with relevant requirements for subcontractors, vendors, and other legal entities handling Fair Trade product or managing documentation of Fair Trade purchases and sales.

The Certificate Holder cannot be a person but must be a company or other legal entity.

The Certificate Holder also cooperates with brands and Fair Trade USA in the operation of the Factory program.

1.2. Identifying the Certificate Holder

The Certificate Holder is the legal entity that represents and manages the factory site(s) where final substantial production processes of Fair Trade product occur. Final substantial production processes are those activities which are labor intensive and critical to the value of the product (see description of final substantial production process in section 2.2.1).



The simplest model for a Certificate is a single site, for instance Factory A in Figure 1 below where cutting, assembly, embellishing, labelling, and packing are completed within the same legal entity. Factory A can be the Certificate Holder.

Sells Fair Trade Product

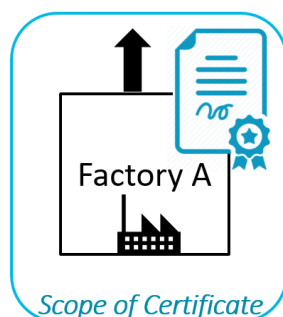


Figure 1

Where production activities are split between multiple independent factories, the factory that is performing the most substantial final production processes is the Certificate Holder. For example, production processes related to Fair Trade jeans are split across three different factories. Factory C performs spinning and dyeing of the fabric, Factory B cuts and sews the fabric together to create the basic jean structure, and Factory A performs washing and labelling. For apparel products, cutting and sewing represents the most substantial and final production processes (see description in section 2.2.1). Factory B is, thus, the Certificate Holder and the factory included within scope of the Certificate.

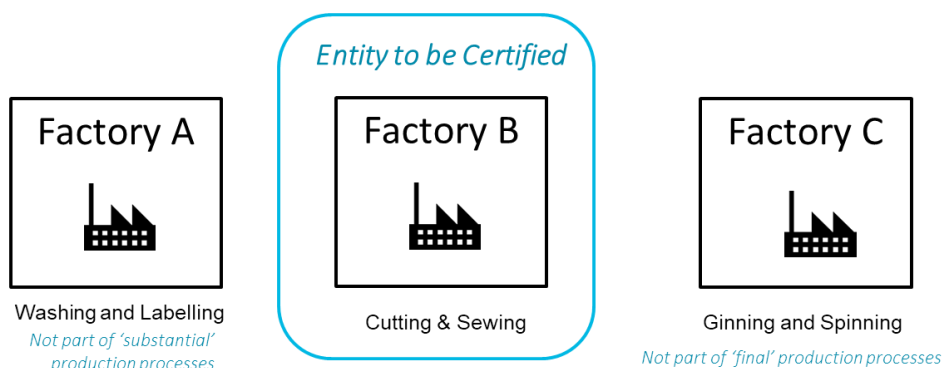


Figure 2

In limited cases, it is possible for a Certificate Holder to represent multiple factories located at different addresses and for these to be included under the same Certificate (Figure 3). For example, a parent company owns three business units that are engaged in production activities. Unit C and Unit B perform substantial production activities on the same Fair Trade product. The parent company may be the Certificate Holder for a Certificate that contains both factory Unit C and Unit B.

This may only occur when the separate factories are:

- 1) Located in the same country;
- 2) Have either a shared product flow or management systems and operational procedures; and
- 3) Are linked to the Certificate Holder through common ownership or the shared management system.



This model ensures that the Certificate Holder has the authority to ensure compliance at all sites and that compliance at one site mutually reinforces compliance of the other (either based on a shared product flow or a shared management system).

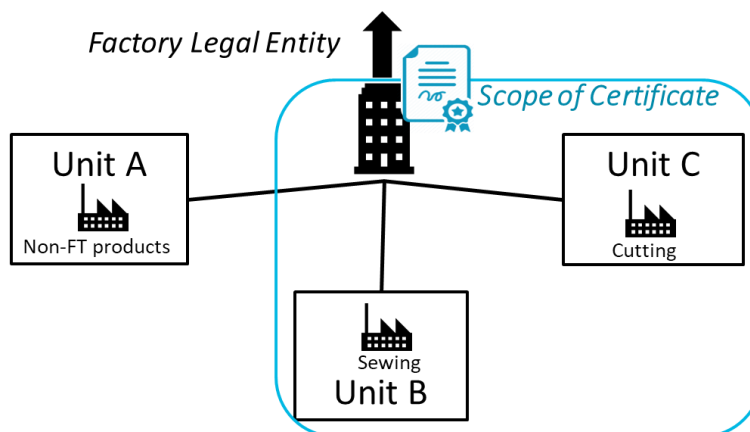


Figure 3

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

A Fair Trade Certificate is held by a company or legal entity. Not all operations owned or managed by the Certificate Holder, though, must be included in the scope of the Certificate. This section explains which sites and activities must be included and be in full compliance with the FPS for the Certificate to be granted.

2.1. Defining a Site

A *site* is a physical location(s) where activities related to the Fair Trade Certified product occur, including production and sales of product. A site is made up of a natural grouping of one or more buildings where production of Fair Trade Certified products takes place, has a common workforce which might work at different places on different tasks, and/or where workers might cross paths during the day even if they do not work together. It includes, for instance, buildings within the same compound with a common entrance.

Any factory-provided living or communal areas utilized by workers (including workers from facilities not producing Fair Trade product) are considered part of the site, even when shared areas are located elsewhere. This means that the production facilities producing Fair Trade product as well as worker housing, eating, and rest areas, whether on or off-site of the factory complex, are considered part of the site, included in scope of the Certificate, and required to be in compliance with the FPS.

The sites included in the Certificate must be in compliance with the FPS at all times, even when not producing Fair Trade product.



Examples

The simplest model for a Certificate Holder is a single site. For instance, Factory A in Figure 1 where cutting, assembly, labelling, and packing are completed within the same legal entity and no living areas are provided. Factory A constitutes the site in full scope of the FPS.

In cases where a larger complex houses multiple production facilities, only the buildings handling Fair Trade product must be included as long as the workforce at each building is distinct (Figure 4). If workers move between two buildings to support changes in production activities, then both buildings and all workers in those two buildings must be included in scope, regardless of whether Fair Trade product only moves through one building. Where there is a likelihood that production processes will change and move through additional buildings, it is recommended that all relevant buildings be included at the outset. If not, a change in Certificate scope will have to be approved before Fair Trade product moves through a new building.

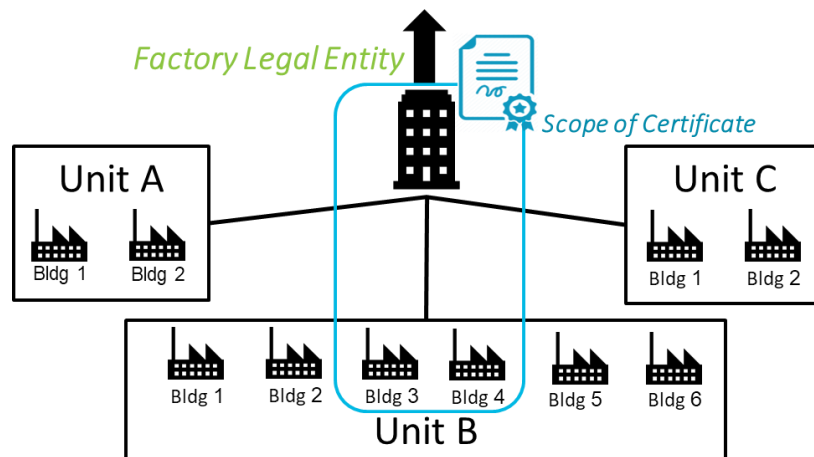


Figure 4

All spaces that are shared by workers (e.g., living and common areas) within a larger complex must be included in scope in addition to the buildings where Fair Trade production occurs (Figure 5). For example, in a complex of six production buildings with a common entrance, only two buildings (Units 5 and 6) handle Fair Trade production. Though workers do not move between production buildings, they all use common housing and eating areas. In this scenario, the two buildings handling Fair Trade production, as well as the dormitories and canteen must be included in the scope of the Certificate and audit. The four production buildings not handling Fair Trade production can be excluded from the scope.



Sells Fair Trade Product from Factory A, Units 5-6

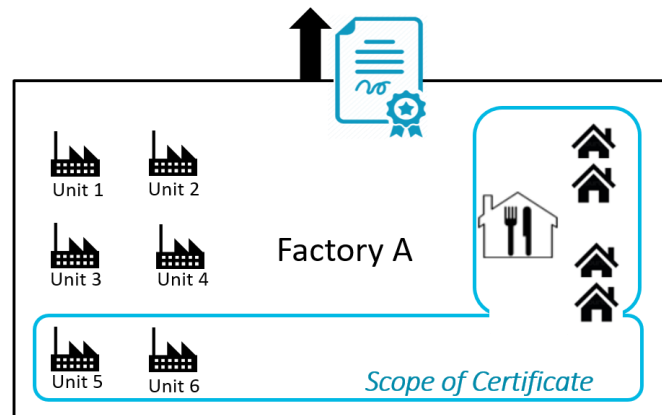


Figure 5

2.2. Determining Which Sites and Activities Must be Included in the Certificate

2.2.1. Final Substantial Production Processes

Final substantial production processes are those that are most labor intensive, universal to similar products, and critical to the value of the product. The site performing the most significant portion of final substantial production processes must be in scope of the Certificate, and this defines who the Certificate Holder will be (see section 1.2). The intent of this requirement is that – as long as a single legal entity represents a significant portion of production activities – only one legal entity is required to be included in the scope of a Factory Certificate. What constitutes final substantial production processes can vary significantly by product and supply chain. This section provides general guidance on the production activities that make up final substantial processes.

Apparel and Footwear

While production processes for apparel and footwear vary, each has a basic framework that is followed to produce the end product. In apparel supply chains, cutting and sewing are the production activities considered to be part of final substantial production processes (see Figure 6). For footwear, lasting is the most critical stage along with sewing and assembly.

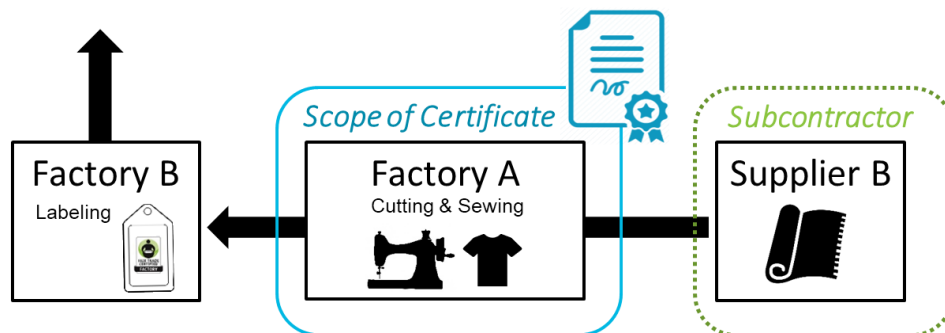


Figure 6



Home Goods

For products like home goods, there is a much broader spectrum of production processes. Generally, the scope of Certification for such products is based on final assembly; however, this final assembly must represent a substantial portion of the labor and value of the product, and this must be evaluated for each product supply chain (see Figure 7).

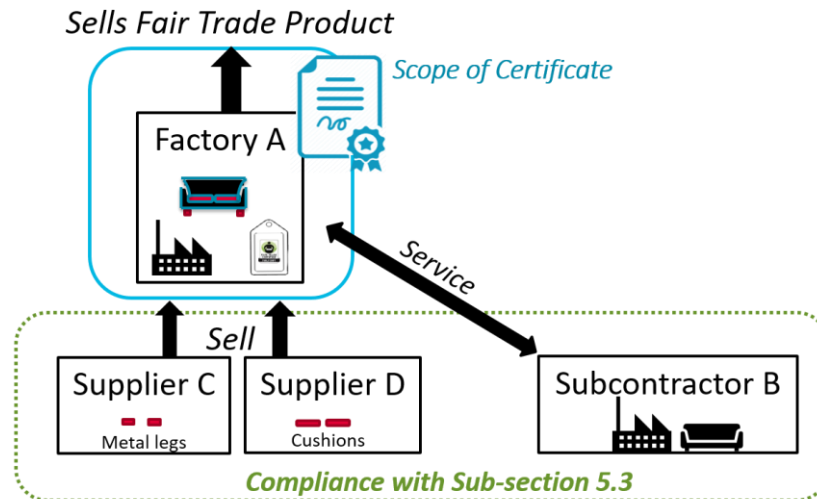


Figure 7

Rugs

An exception to final assembly for home goods products is rugs. The most labor-intensive activity and process, which is most critical to the existence and value of the product, is weaving. Even though finishing of a rug often occurs at a separate factory, the weaving facility is considered the final substantial production process that must be included in the scope of the Certificate (see Figure 7). Activities such as embellishing, washing, finishing, quality inspection, packing, labeling, etc. are considered neither final nor substantial production processes and, subsequently, do not need to be included in the scope of the Certificate when they are conducted at a separate site.

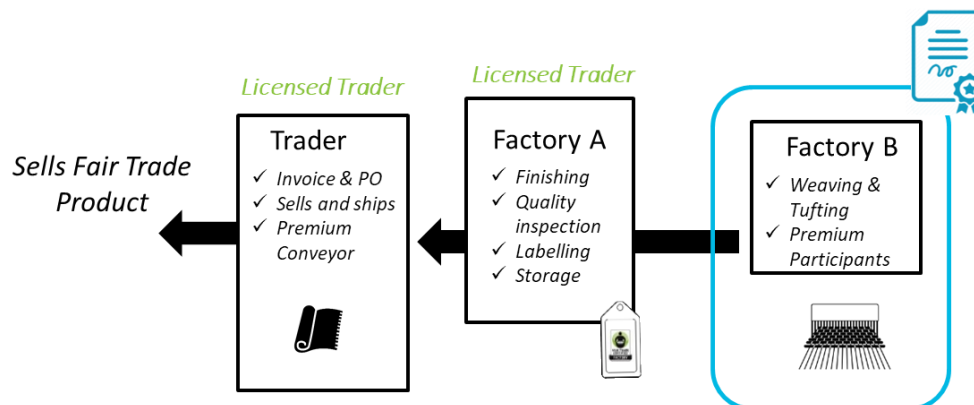


Figure 8

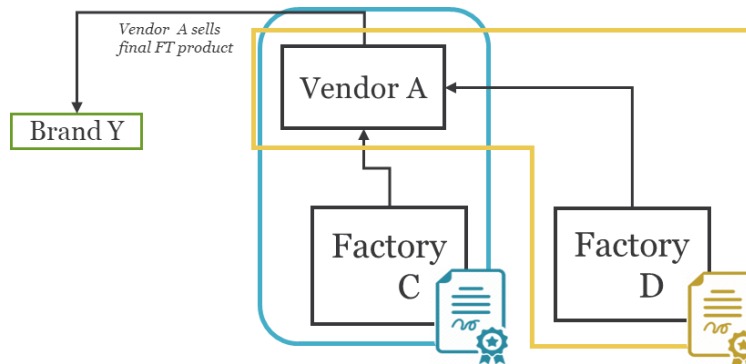


2.2.2. Vendors

Vendors are separate sites that manage sales and transactions of Fair Trade product but do not perform final substantial production processes.

Vendors are only included in scope of Factory Certificate if they have a direct legal connection to the Certificate Holder, such as being managed directly by the Certificate Holder or owned by the same parent company. Vendors are considered a 'site' within the Factory Certificate. They are the only sites that may be included in multiple certificates, because vendors may be sourcing from multiple factories for a variety of products; however, each factory or product must have its own Certificate (see Figure 9).

Vendors must comply with trade and traceability requirements as outlined in Module 6 of the FPS for each Certificate of which they are a part. This is necessary to maintain product/Premium traceability and keep reporting clear for each individual product supply chain or factory.



Vendor and Factories have shared parent company

Figure 9

If there is no legal relationship between a vendor and the Certificate Holder, then the vendor may not be included in the scope of the FPS Certificate and must be licensed as a trader with Fair Trade USA in compliance with requirements outlined in the Trade Standard (see Figure 10). This is because the ability of a Factory Certificate Holder to ensure compliance by a vendor is limited when they do not share a legal relationship. Fair Trade USA's Trade Standard also provides greater protections for factories in trade relationships with unrelated entities.

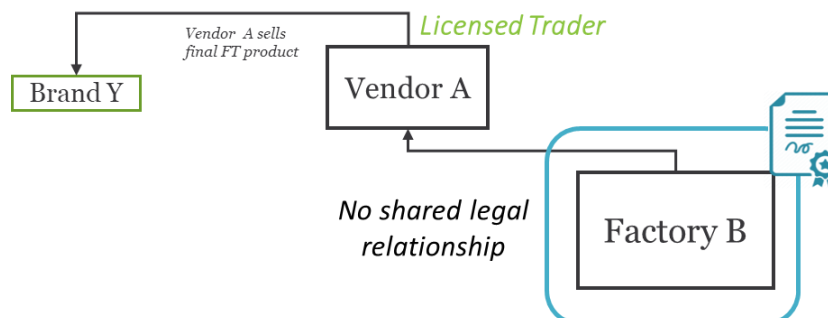


Figure 10



3.1. Sites not required to be included in the Scope of the Certificate

3.1.1. Non-Substantial Production

Production processes that can be considered non-substantial to the making of a final product include embellishment, washing, packing, and labeling of Fair Trade product. Where these activities occur at a separate site, those sites do not need to be included in the scope of the Certificate. This includes the production of components by suppliers or minor processes by subcontractors.

3.1.2. Subcontractors

The Certificate Holder must have written agreements with all subcontractors (including homeworkers) that handle Fair Trade product, as required in Sub-Module 7.6 of the FPS. Subcontractors must commit to not violate Fair Trade USA's Policy on Zero Tolerance Issues. Fair Trade USA may require inspection of the subcontractors to evaluate their compliance status. It is also best practice for factories to have a broader engagement policy for suppliers, subcontractors, and homeworkers to encourage such business partners to uphold all of the factory's social compliance policies, as well as implementing a subcontractor monitoring system.

Figure 11 shows an example where a pillow is sewn, stuffed, packaged, and labelled at Factory A and is sent to Subcontractor C for embellishment (embroidery). Subcontractor C is not required to be included in the scope of the Certificate but must comply with requirements for subcontractors outlined in Sub-Module 7.6 of the FPS.

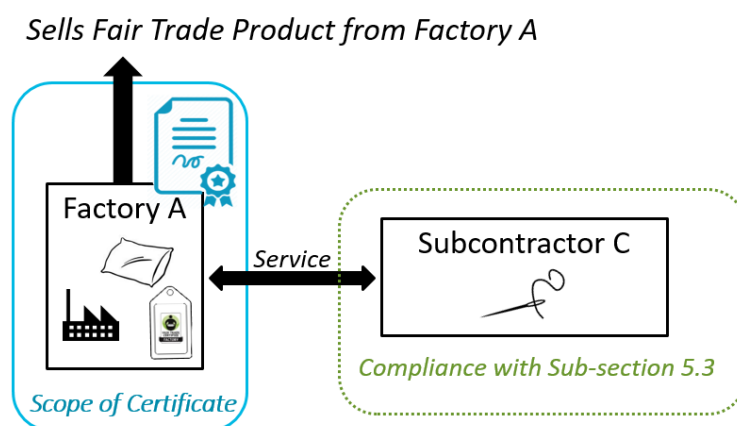


Figure 11

3.1.3. Inclusion of Non-Required Sites

The Certificate Holder may request inclusion of non-required sites, but they must be located in the same country, be linked to the Certificate Holder through common ownership or a management agreement, and have either shared product flow (i.e., they are part of the supply chain for the same product) or shared management systems and operational procedures with the Certificate Holder.

