

# 2009

The Fair Trade Federation

## [FAIR TRADE GLOSSARY]

This glossary was made to be used as a reference tool for Fair Trade Federation members and affiliates, as well as any persons looking to learn more about the Fair Trade movement

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## **Major Fair Trade Bodies:**

**World Fair Trade Organization (WFTO)** [formerly the International Fair Trade Association (IFAT)]: a global network of approximately 300 members in 60 countries who are 100% committed to Fair Trade, including producer cooperatives, companies, networks, importers and retailers.

**Fair Trade Federation (FTF)**: the trade association that strengthens and promotes North American organizations fully committed to Fair Trade. The Federation is part of the global Fair Trade movement, building equitable and sustainable trading partnerships and creating opportunities to alleviate poverty. FTF is a member of the WFTO.

**WFTO-Asia**: Representing more than 70 social enterprises in nine countries, a regional network of WFTO which caters to the particular needs of the Asian continent.

**WFTO-Europe**: an association of 11 Fair Trade importers in nine European countries, WFTO-Europe facilitates the exchange of information and networking and identifies and develops joint projects.

**International Fair Trade Association of Latin America/ La Asociacion Latinoamericana de Comercio Justo (IFAT-LA)**: a regional branch of the International Fair Trade Association which is comprised of 40 members in the Latin America region.

**The British Association of FairTrade Shops (BAFTS)**: an association of retailers in the UK who work to bring about fundamental changes in the status of producers through Fair Trade retailing and campaigning. The association is made up of retailers who buy at least 70% of their stock from recognized Fair Trade sources.

**Cooperation for Fair Trade in Africa (COFTA)**: a network of 70 Fair Trade producer organizations in 20 different African countries. Founded in 2004, COFTA advocates for greater market access for Fair Trade and seeks to promote Fair Trade at the continental, national, and regional levels.

**Fairtrade Labelling Organizations International (FLO)**: a global non-profit organization of 19 national affiliates, three producer networks, and two associate members. FLO develops Fairtrade Certified Product Standards, provides support to Fairtrade Certified producers, and facilitates the development of Fairtrade Certified markets.

**FLO-CERT GMBH**: ensures that producers and traders comply with the FLO Fairtrade Certified Product Standards and that producers invest the Fairtrade Certified in their development. Operating independently from other interests, it follows ISO 65, the international standards for certification bodies.

**TransFair USA:** TransFair USA: the American affiliate of FLO, the third-party certifier of Fair Trade Certified products in the US. They conduct audits and evaluations for Fair Trade Certified commodities in their country

**TransFair Canada:** the Canadian affiliate FLO, the third-party certifier of Fair Trade Certified products in Canada. They conduct audits and evaluations for Fair Trade Certified commodities in their country.

**Comercio Justo Mexico:** an associate member of FLO; coordinator in third-party certifier of commodities in their country.

**Fair Trade Association of Australia & New Zealand:** the Australian and New Zealand affiliate of FLO; the third-party certifier of Fair Trade products in the two countries, conducting audits and evaluations of Fair Trade Certified commodities in their region.

**Fair Trade Foundation:** the UK affiliate of FLO, the third-party certifier of Fair Trade Certified products in the UK. They are the acting body which conducts audits and evaluations for Fair Trade Certified commodities in their country.

**Max Havelaar/ Stichting Max Havelaar:** the Netherlands affiliate of FLO; the first to create a Fair Trade certification mark in 1988, they are the third-party certifier of Fair Trade products in the Netherlands and conduct audits and evaluations for Fair Trade commodities in their country. Max Havelaar originally refers to a Dutch novel of the 19<sup>th</sup> century based around the protagonists' encountering of corrupt trade and governance in the Dutch colony, Java. Today, there are six FLO affiliates that bear the name in Europe.

**Fair Trade Resource Network (FTRN):** a network which works to gather, develop, and disseminate educational resources to people and organizations interested in the Fair Trade movement.

### **Other Organizations You May Encounter:**

**Green America (formerly Co-Op America):** a nonprofit membership organization in the US that promotes ethical consumerism. They award their Seal of Approval to businesses that have passed their screening process as socially and environmentally responsible businesses.

**Institute for Marketecology (IMO):** an international agency for inspection, certification, and quality assurance of eco-friendly products. They operate in the fields of organic certification, natural textiles, sustainable forestry, and social accountability monitoring.

**Rainforest Alliance:** a nongovernmental organization founded in 1987 that works to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behavior.

***Utz Certified (formerly Utz Kapeh)***: an industry-led coffee certification program launched in 2002 that approves cooperatives, estate farms, and producer groups that follow their criteria.

## General Terms:

**Commodities:** a good that is supplied without qualitative differentiation. Often a product of agriculture, commodities are goods that, no matter who produces them, are essentially the same, such as milk or sugar. In the Fair Trade context, a Fair Trade commodity typically refers to goods like coffee, cocoa, fruits, nuts, sugar which can be certified by the Fairtrade Labelling Organizations International (FLO)

**Cooperative:** specific to the Fair Trade context, a producer or worker organization that engages in commercial activities that is based on voluntary membership and is democratically controlled.

**Cost Analysis:** a detailed look at the production process which considers the cost of materials, labor time, transportation, and other factors that might contribute to overall product cost. Also, a discussion point to help set a fair price.

**Fair Trade:** a strategy for poverty alleviation and sustainable development; a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South.

**Fair Trade Certification (FTC):** the standards for and audits of specific products as determined by the Fairtrade Labelling Organizations International (FLO). Certification is focused on the transactions around an individual product as examined by an audit of the process of exchange for that product. Products are characteristically commodities, which are first inspected through production in order to certify producers in the FLO registry. Products are then licensed for sale in North America by the appropriate national body. In Canada, bananas, cocoa products (such as chocolate, syrups, baked goods, frozen desserts and drinks), coffee, cotton, flowers, honey, quinoa, rice, shea butter, sugar, tea, spices, sports balls, and wine can be licensed as certified products. In the United States, certified bananas, cocoa, coffee, flowers, fruits and vegetables, honey, juices, mangoes, nuts, olive oil, pineapple, rice, seed cotton, sports balls, spices and herbs, sugar, tea, vanilla, wine and other items are available.

**Fair Trade Federation (FTF) Membership:** businesses and organizations that have been rigorously evaluated for and accepted as those with a full commitment to nine principles of Fair Trade: creating opportunities for socially and economically marginalized producers, building capacity, paying promptly and fairly, developing transparent and accountable relationships, promoting Fair Trade, ensuring the rights of children, cultivating environmental stewardship, supporting safe and empowering working conditions, and respecting cultural identity.

**Fair Trade Premium/Social premium:** in the FLO system, an additional payment to certified cooperatives above the Fair Trade Certified minimum price. The Premium is paid directly to producer groups by importers of Fair Trade Certified products for investment in economic and social development in their communities.

**Fair Trade Certified Minimum Prices:** set by FLO for specific products, Fair Trade Certified minimums are the minimum amounts that must be paid per unit to have a product licensed as Fair Trade Certified. To date, the **Fair Trade Certified Minimum price per** pound of coffee Arabica is 1.25 USD; **per** pound of organic coffee is 1.41 USD.

**National Minimum Wage:** the minimum hourly/daily/monthly wage that an employer may legally pay to employees or workers in their particular country

**Living Wage:** used to describe the minimum wage per unit necessary to cover the costs of shelter, nutrition, basic needs, and incidentals for a person for an extended period of time.

**Advance Payment:** part of a contractually due sum paid in advance for goods or services. In the context of Fair Trade, organizations like the Fair Trade Labelling Organization, World Fair Trade Organization, and Fair Trade Federation require that those working with producer groups offer producers access to capital in advance of production.

## Business Terms:

**Accrual Basis Accounting:** an accounting method that reports income when it is earned, but not necessarily received, and expenses when they incur no matter if they are paid or not.

**Cash Basis Accounting:** an accounting method in which income is recorded when cash is received and expenses are recorded when cash is paid out

**Corporation:** a body that is granted a charter recognizing it as a separate legal entity having rights, privileges, and liabilities distinct from those of its members.

**Cost of Goods Sold (COGS):** Cost of goods sold; includes the direct costs attributable to the production of the goods sold by a company. This amount includes the materials cost used in creating the goods along with the direct labor costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. COGS appears on the income statement and can be deducted from revenue to calculate a company's gross margin.

**Duty:** a tax on imports, exports, or consumption goods

**Gross Income/Margin:** a company's total sales revenue, minus its COGS, divided by the total sales revenue, and expressed as a percentage. The gross margin the percent of total sales revenue that the company retains after incurring the direct costs associated with producing the goods and services sold by a company.

**Limited Liability Company (LLC):** a business structure that combines the limited personal liability of a corporation structure with the single taxation feature of a partnership or sole-proprietorship firm. Its profits and tax benefits are split any way the shareholders (whether individuals or other firms) choose.

**Net Income:** a company's total earnings, reflecting revenues adjusted for costs of doing business, depreciation, interest, taxes and other expenses.

**Profit & Loss Statement (P&L):** a statement documents profits from sales and expenses from business transactions over a finance period (ex. over a calendar year)

**Sole Proprietorship:** business structure in which only one individual acquires all the benefits and risks of running an enterprise. In a sole-proprietorship, there is no legal distinction between the assets and liabilities of a business and those of its owner.

**Single taxation:** a taxation principle referring to a tax that is paid once on one thing or income, unlike double taxation (which is experienced by corporations and other legal bodies) that are taxed twice on the same source of income

## Import and Export Terms

*(terms are in reference to international commercial terms (Incoterms), published by the International Chamber of Commerce (ICC) and widely used in international commercial transactions. They are used to divide transaction costs and responsibilities between producers and suppliers)*

**Ex Works (EXW):** in the transportation of goods between seller and buyer, a trade agreement which incurs the least amount of responsibility of the transportation to the seller and almost all to the buyer. The seller makes the goods available at his production facility and all transfers from the facility to port of origin, port of destination, insurance, and other transfers are done on behalf of the buyer.

**Free Carrier (FCA):** the agreement between seller and buyer in which the seller makes the goods available to a carrier, chosen by the buyer, which will deliver the goods for export. This term can refer to all modes of transportation including air, rail, road, and sea. Once the carrier receives the goods, the buyer is responsible for all fees, insurance costs, and so on.

**Free Alongside Ship (FAS):** an agreement in which the supplier/seller incurs the partial costs of transportation, shipping and the clearing of goods for pre-carriage. Sellers are required to make all arrangements for delivery to export port; typically unloading goods alongside ship and from thereafter the buyer incurs responsibility for all fees and insurance. (Maritime transport only)

**Pre-carriage:** freight charges for port or airport delivery arising before the principal international carriage

**Carriage:** the act/vehicle of transporting goods from one place to another

**Free on Board (FOB):** an agreement in which the supplier/seller incurs the costs of transportation, shipping and the clearing of goods for pre-carriage. All responsibility for the goods is reliant on the seller until the goods have been loaded on ship at the port of export, after being loaded on ship – all responsibilities for delivery of goods is passed to the buyer. The seller does not typically provide insurance for the goods. (Maritime transport only)

**Cost and Freight (CFR):** transactions whereas sellers are not only responsible for delivery of goods to the port of export, but also pay the freight for the goods passage to the port of import. Sellers are not responsible for risk or insurance once the goods are on ship. (Maritime transport only)

**Cost, Insurance and Freight (CIF):** an agreement similar to Cost and Freight (CFR), except sellers are responsible for all transportation and fees from point of origin to the destination of import, as well as covering risk/insurance for the goods until they are handed over to next carrier. (Maritime only)

**Carriage Paid To (CPT):** equivalent to Cost and Freight (CFR) for all other modes of transport, in which the seller is responsible for fees and delivery to place of import/point of destination, but CPT does not require the seller to cover the cost of risk/insurance.

**Carriage and Insurance Paid (CIP):** equivalent to Cost, Insurance, and Freight (CIF) for all other modes of transport, in which the seller is responsible for fees and delivery to place of import/point of destination, and, in addition, covers the cost of risk/insurance.

**Delivered At Frontier (DAF):** used when the goods are transported by rail and road. The seller pays for transportation to the named place of delivery. The buyer arranges for customs clearance and is responsible for risk and paying transport from named place of delivery to his destination.

**Delivered Ex Ship (DES):** similar to Cost, Insurance and Freight (CIF), the seller pays all the freight and insurance costs and is liable for risk until the goods have arrived at the port of destination, the difference is that the seller is required to purchase Risk and Title up until port arrival (Maritime transport only)

**Delivered Ex Quay (DEQ):** similar to CIF and DES, except the seller pays all freight, insurance, risk and, title costs but is also liable for risk until the goods have been unloaded at the port of destination.

**Delivered Duty Unpaid (DDU):** a trade agreement that makes the seller liable for almost all transportation costs, risk, and delivery. Seller is responsible for everything from transport to export destination, main carrier, landing charges, insurance, arrival to import destination, final destination and any other fees excluding entry-customs and entry-taxes.

**Delivered Duty Paid (DDP):** the most comprehensive agreement, whereas all responsibilities are incurred to sellers. Sellers are responsible for all the same terms of agreement at Delivered Duty Unpaid (DDU) but, in addition, are required to pay entry-customs and entry-taxes

**Free On Rail (FOR):** much like Free on Board (FOB), this agreement allots costs of transportation, shipping, and clearing of goods for pre-carriage to the seller, making them reliable for the goods until they are loaded on rail. Thereafter, the buyer incurs all costs and responsibilities from point of export to final destination.

**Free on Truck (FOT):** much like Free on Board (FOB), this agreement allots costs of transportation, shipping and clearing of goods for pre-carriage to the seller, making them reliable for the goods until they are loaded on truck. Thereafter, the buyer incurs all costs and responsibilities from point of export to final destination.