



A Bold Experiment in Ethical Clothing:

Fair Trade Certified Apparel & Linens Pilot Lessons Learned 2010-2012

Report by the Multi-Stakeholder Group (MSG) Convened for the
Fair Trade USA Apparel Pilot
November 2012





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Executive Summary

The Fair Trade USA (FTUSA) Pilot Program for Fair Trade Certified Apparel is the first global program to certify facilities making clothing, accessories, and linens with a consumer label to signal social and environmental sustainability. It is also the first time that a Fair Trade program is attempting to deliver direct economic benefit in the form of a Fair Trade Premium at two different levels of the supply chain – to cotton farmers and to cut-and-sew workers. Launched in fall 2010 after an extensive feasibility study and stakeholder consultation, the pilot project has run through the fall 2012. This report outlines findings to date and paths forward based on learning from the program during the pilot phase.

The fashion supply chain is known to have a high incidence of labor exploitation and environmental degradation. Consumers are greatly concerned with sweatshop issues but have few avenues to express it or to support alternatives. Complementing advocacy pressure to improve working conditions, Fair Trade certification translates consumer awareness into an economic incentive to brands and facilities that can prove ethical practices through third-party verification. In the 24 months of the Fair Trade Apparel and Linens pilot, over 400 workers in eight facilities received training on labor rights and Fair Trade, over \$28,353 in premiums was paid to worker committees and another \$7,846 to cotton producers. As of fall 2012, another four facilities have applied for certification.

The market recession over the last several years has limited the scale of the project, alongside new industry-led programs such as the Sustainable Apparel Coalition. Eighteen pioneering U.S. brands have been engaged in the pilot, primarily mission-driven companies who are at the forefront of ethical sourcing. Many are also leaders in the organic movement and members of Textile Exchange. While the volumes under the Apparel Pilot have been limited, the pilot has proven that the Fair Trade model can be applied to the factory setting and can translate into concrete benefits to workers even at small volumes.

This report, authored by an advisory body called the Multi-Stakeholder Group (MSG), presents results of the two-year pilot, and shares lessons learned in the spirit of transparency and to encourage other efforts that share the aim of improving workers' lives. The full report profiles some of the participants, and includes data on the results of the pilot and rationale for changes made during the pilot. Additional documents are available on the [FTUSA website](http://FTUSAwebsite) and we welcome inquiries about the project (garments@fairtradeusa.org). We thank the farmers and workers, brand partners and NGOs, ethical consumers, and members of the Multi-Stakeholder Group for their time and commitment to this project.

Summary of Pilot Components and Recommendations of the Multi-Stakeholder Group

The following chart summarizes key components of the model and the corresponding recommendations made by the MSG, the stakeholder advisory group convened for this pilot. (See Appendix for member list.)

Pilot Component	Core Principles	Findings & Recommended Changes
Auditing and Certification against Best-in-Class Standards	The Fair Trade Certified apparel standards include several core principles: 1) Labor protections on ILO conventions 2) Progress over time toward living wages 3) Fair Trade Premium that workers control 4) Environmental standards 5) Training to promote worker education and empowerment around labor conditions and Fair Trade principles. The program assesses each applicant facility before certification for performance against these standards, and conducts follow-up audits to verify ongoing compliance.	Alignment with SA8000¹ : FTUSA found that many apparel facilities applying for Fair Trade Certification also comply with the SA8000 standard, which focuses on compliance with conventions of the ILO, UN and national laws. “SA8000 plus Fair Trade Premium and Worker Empowerment” is a simple way to describe the content of the Fair Trade Apparel standard. To make the Fair Trade standards more clear and streamline the audit process, the MSG recommended reformatting the apparel standards to align with SA8000 and call out any additional Fair Trade requirements.
Wage Benchmarking & Progress	The standards require compliance with local wage laws and other worker protection. In addition, the Fair Trade apparel project assesses wages paid by the facility in comparison to living wages as determined by a market basket formula using local food cost, government minimum wage, Asia Floor Wage benchmarks, and other tools as appropriate such as the Fair Wage Guide.	Approved facilities during the pilot phase pay workers 15% above minimum wage on average, and up to double minimum wage in one facility. The pilot duration has not been long enough, nor volumes high enough, to really assess progress toward a living wage based on Fair Trade sales.
Fair Trade Premium on a Sliding Scale	The Fair Trade Premium is set based on the labor cost percentage of the total cost of the product, with an aim to double the return to labor on certified products. The initial premium for apparel was set as a flat rate across countries. Based on feedback that this unintentionally penalized higher-wage countries and/or higher-wage facilities, it was changed to a sliding scale: 1%-10% premium based on Free/ Freight on Board (FOB or export) price, with the premium rate set based on the wage scale at the particular facility. For example, the labor cost on Apparel products is typically around 10%; a 10% premium doubles the income on that product.	The average premium to date has been 5% on the FOB price paid to the local Fair Trade Committees for distribution or investment. Use of the premiums has varied. One facility paid out cash bonuses equivalent to one week’s wages. At another factory, the premium was invested in a school in war-torn Monrovia, Liberia. For the Linens category, e.g. sheets and towels, the MSG recommends a sliding scale of 1%-5% FOB to reflect the lower proportion of labor costs in that line of products.

¹ The SA8000 Standard is one of the world's first auditable social certification standards for decent workplaces, based on conventions of the ILO, UN and national laws. It seeks to protect the basic human rights of workers and to promote management systems that support sustainable implementation of the principles.

Fair Trade Committee Manages use of Premium Funds	Fair Trade promotes empowerment by establishing a worker-controlled Fair Trade Committee in each facility that decides how to use the premium. The Committee may decide to pay out premiums as cash to workers, or to community-benefit projects, or both. The cash option is innovative in Fair Trade, and was introduced to account for high turnover and migrant labor in the garment sector.	During the course of the pilot, guidelines for Fair Trade Committees in all Fair Trade Certified categories were updated to make clear that management representatives on the Fair Trade Committees do not have a vote on the use of the premiums funds, and may only object in a case of the premium being designated for uses outside the Fair Trade program or for illegal purposes.
Worker Training and Empowerment	Local NGO partners provide worker training which includes orientation to Fair Trade, labor rights, and grievance processes. Training is conducted in local language, with locally appropriate materials, through a Training of Trainers (TOT) model that promotes workers' own leadership and presentation skills.	The training curriculum and preparation of trainers and auditors was enhanced to improve clarity and consistency in explaining Fair Trade and the premium model. Some Fair Trade apparel supply chains are experimenting with Good World Solutions on worker surveys via cell phone technology to provide direct worker engagement and oversight of working conditions between audits.
Consumer Labeling	The initial program design had a single consumer label and required that all Fair Trade Certified apparel and linens be made from Fair Trade cotton and produced in a Fair Trade facility, to direct benefits to the two parts of the supply chain with the majority labor input. In the course of the pilot it became clear that there are legitimate supply chain reasons why a product may not be certified for both. Examples include: 1) Cut-and-sew in the U.S. or made with U.S. cotton 2) Non-cotton products such as recycled polyester 3) Artisan products in quantities too small to source Fair Trade cotton 4) No Fair Trade cotton supply in the sourcing region	Adding Fair Trade requirements up the chain has limited sales of Fair Trade cotton, as compared with sales in Europe of clothing made with Fair Trade cotton. Due to the complexity of the supply chain and the negative implications for cotton producers, the MSG approved three distinct labels: 1) Fair Trade Certified (indicates that both cotton and cut-and-sew are certified) 2) Fair Trade Cotton 3) Fair Trade Sewing Thus the label will specify which aspect of the product is certified, with explanations on the FTUSA website, to give maximum transparency to the consumer.
Accessibility for Artisans	The pilot standards were intended to apply to handcrafted apparel and accessories, but some workplace and wage standards are not easily met by home-based and other small production facilities. The high cost of audits and complexity of standards has been an obstacle to certifying artisan apparel products.	To simplify and keep costs low for artisans, the MSG recommends the following guidelines for FTUSA to explore with artisan producers: 1) Identify strong candidates for certification through pre-qualification by referrals and due diligence documentation from third parties such as development NGOs and social investors 2) Consider a sampling method to reduce the cost and time of audits 3) Extend expiration of Certificates to a minimum of 2 years to reduce the cost of frequent auditing 4) Consider the applicability of FTUSA Independent Smallholder Standards (ISS) to the artisan setting once those standards are approved

Why Fair Trade Certified Apparel?

Since the 1990s with globalization and growing Western consumer awareness of the poor conditions under which foods and consumer goods are produced, there has been pressure to change corporate business practices to improve labor and environmental conditions in producer countries. The fashion supply chain in particular has high incidence of labor exploitation and environmental degradation. Child labor and low-wage conditions are common as factories seek the lowest cost countries to produce in, and textile production has environmental and health impacts from high-pesticide use in conventional cotton fields, to water contamination from toxic dyes used in fabrics. Recent cases of fatal fire accidents in Bangladeshi and Pakistani sewing units, toxic chemicals poisoning water supplies from dyeing house effluents, and bonded labor of young women in South Indian spinning units have raised the profile of problems in the industry.

Today, there continues to be a need for advocacy pressure and market incentives – a combination of carrots and sticks – to improve this industry to make systemic changes. In addition to long-standing promotion of Fair Trade handcrafts, advocacy groups and consumers have been pushing large corporations in consumer goods industries to take responsibility for issues like child labor, forced labor and pollution. The industry has responded with voluntary codes of conduct for ensuring their contract factories comply with local laws. However, implementation of voluntary codes, together with lax regulatory enforcement, has allowed abuses to continue.

The authors believe that certification is a valuable tool to engage consumers in the fight for higher standards and better working conditions. Parallel to voluntary codes of conduct, Fair Trade certification emerged in Europe and the United States to increase transparency through independent third-party auditing, and to improve market incentives for those producers and buyers practicing better labor and environmental standards, primarily in agricultural products. Fair Trade certification is now a widely supported strategy to inform consumers of the impact of their choices, and to incentivize buyers to improve working conditions in their supply chains. First focused on benefiting the small farmer and cooperative sector, over time Fair Trade products have become available from hired-labor settings such as tea and banana plantations. Over one million small-scale farmers and farm workers have earned \$77 million in community development premiums from Fair Trade sales in the United States since 1998, mainly from food products. Consumer awareness is growing and even through the recession, Fair Trade sales have continued to grow in many products.

As compared to food products, there had been little or no experimentation in consumer-facing certification of factory-made products. The Fair Trade USA Pilot Program for Fair Trade Certified Apparel is the first global program to certify facilities making clothing, accessories, and linens with a consumer label to signal social and environmental sustainability. It is also the first time in the history of Fair Trade certification that a product has attempted to deliver direct economic benefit, in the form of a Fair Trade Premium, to two different groups in the supply chain – to cotton farmers and to cut-and-sew workers.

Fair Trade USA's Apparel Pilot was designed to be comprehensive and incorporate the historical pillars of Fair Trade certification – Income and Empowerment – and to be backed by third-party verification of rigorous standards. Stakeholder input was integral to the pilot design and development at every stage.

² Fair Trade USA 2011 Almanac. <http://fairtradeusa.org/sites/default/files/Almanac%202011.pdf>

The aim of the pilot was to learn a) whether such a comprehensive model was feasible, affordable, impactful, and attractive to brands and consumers, and b) if not, how could it be adapted to achieve those goals? The pilot has explored questions related to the cost-benefit of Fair Trade for actors along the supply chain:

- For consumers, how strong is the demand and how much more are they willing to pay for apparel and linens labeled Fair Trade Certified? Moreover is there a certain type of consumer who is most attracted to such a product?
- For companies, is there a model for Fair Trade Certified apparel that can shift the purchasing practices of mainstream, global brands while also recognizing and rewarding smaller, mission-driven companies that have demonstrated a commitment to Fair Trade values and to sourcing from higher-wage factories where working conditions are relatively better?
- For cut-and-sew workers, how can Fair Trade have a meaningful impact, particularly on core Fair Trade pillars of income and empowerment, areas in which existing labor code of conduct initiatives have conspicuously failed?
- For artisan producers, what is the scope for sewing cooperatives and artisan apparel producers to participate in Fair Trade and what challenges are unique to their production environment?
- Lastly, for cotton farmers, can certification extend up the chain to cut-and-sew facilities, and still maintain the economic, environmental and community benefits to them?

The hope of this project, and more broadly the vision of Fair Trade, has been to move the mainstream market to deliver financial benefits and a voice to workers. The market recession over the last several years has limited the scale of the project, alongside new industry-led programs such as the Sustainable Apparel Coalition. It has been challenging for mainstream brands to experiment with a new sourcing strategy in this context.

In the 24 months of the pilot from mid-2010 to June 2012, over 400 workers in eight facilities received training on labor rights and Fair Trade, and over \$28,353 in premiums was paid to worker committees – the equivalent of an extra week of wages in one factory – and another \$7,846 to cotton producers for community investment. As of fall 2012, another four facilities are in the certification process, but one of the initially certified facilities has since closed its doors due to the highly competitive clothing market. Eighteen U.S. retail brands have been engaged in the pilot, mostly mission-driven companies with a commitment to ethical sourcing. (Full details of the standards and participating companies are available on the [FTUSA Apparel webpage](#).)

Innovation is always a process of learning and adjusting, and the model has been refined based on field learning during the pilot. We have learned a great deal about how to apply Fair Trade certification to factory and artisan settings and believe that the model is scalable in concept, with the changes recommended in this report. As the pilot phase ends, it remains to be seen whether mainstream brands will step up to grow the volume of certified products and achieve greater benefits to workers and offer more choice to consumers.

The goal of this report is to share the maximum learning from the pilot and to outline paths forward that maximize opportunities for impact based on the lessons learned. The report includes findings on the core elements of the model as well as how the program evolved over time.

Fair Trade Apparel Pilot Components

Development of the Fair Trade Apparel Pilot

A Feasibility Study of Fair Trade garments conducted in 2006 identified an opportunity for the market-based tool of certification to improve workers' lives by verifying conditions and engaging consumers. During the feasibility study period, Fair Trade USA invited stakeholders including Fair Trade cotton producers, factory owners, US brands doing ethical sourcing, and a range of advocates to give input into the standards. Fair Trade USA then developed the standards, policies and tools for the program from 2007 through March 2010, when the pilot standards were published on the Fair Trade USA website.

Once the pilot phase of implementation was launched, some stakeholders formalized their commitment into the Multi-Stakeholder Group (MSG) and have met quarterly for over two years serving as a sounding board, monitors and co-designers of the pilot program changes. (See Appendix for a list of MSG members, who have reviewed and approved this report.)

Income Model: Wage Benchmarking and Sliding Scale Fair Trade Premium

To address the wage gap and promote social development for workers, the program creates a sliding scale premium on top of the price of the garment, paid by the buyer into a separate Fair Trade Premium bank account managed by the worker-controlled Fair Trade Committee. The Fair Trade Committee is responsible for managing the funds according to input from workers³. During the feasibility phase, Fair Trade USA modeled different premium levels and their potential impact to workers. Based on input and available data, a sliding scale premium between 1-10% of FOB price (freight on board) was proposed.

Wage Benchmarking – The premium for each facility is set based on an assessment of the wage level in each factory or cooperative, using living wage benchmarks and a market basket methodology. Wage assessments are conducted by independent third-party organizations in the country of manufacture using benchmarks such as the [Asia Floor Wage](#) and other [wage ladders](#) established in each country or region.

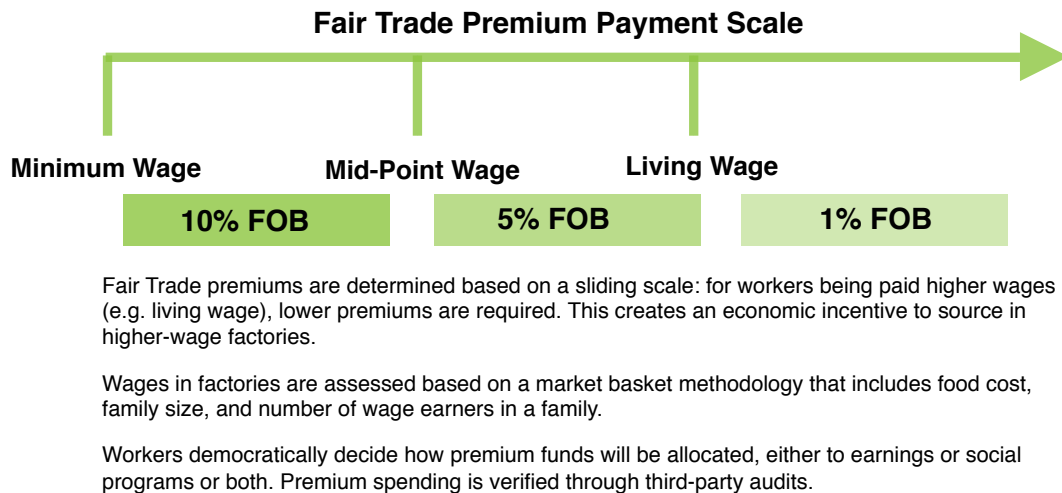
Sliding Scale Premium – The aim of the Fair Trade premium is to achieve a product that pays a living wage, so that incrementally we can reach a facility that pays a living wage. The Fair Trade Premium is set based on the labor cost percentage of the total cost of the product, with an aim to double the return to labor on each certified product.

After initially proposing a flat Fair Trade premium of 10%, FTUSA got feedback that this approach actually disadvantaged products made in higher-wage countries or higher-wage factories that already face a higher cost structure, making them less competitive. Through consultation with the MSG, FTUSA introduced a sliding scale for the Fair Trade Premium to range from 1% to 10% of FOB. As shown in the graphic, this sliding scale is intended to offer brands a financial incentive to source in higher-wage factories and to eliminate the perverse incentive that a flat premium could unintentionally reinforce the race to the bottom. In other words, if the buyer chooses a certified facility that pays above minimum wage, they face a lower premium.

³ For more information on the rationale for various aspects of the program, especially wages and premiums, see the paper by Heather Franzese forthcoming in Bair, Jennifer, Marsha Dickson and Doug Miller (2013, forthcoming). *Workers' Rights and Labor Compliance in Global Supply Chains: Is a Social Label the Answer*. New York: Routledge.

What's a Fair Trade Premium?

Fair Trade certification standards for apparel require that buyers pay a premium on the factory price (FOB) to benefit workers. Workers decide how to invest these funds, either as a cash bonus or for social investment programs.



For Apparel and Accessories: If the wages in the particular factory meet the living wage benchmark, the Fair Trade Premium is set at 1%. If the wages assessed are closer to the living wage benchmark than to the minimum wage, the Fair Trade Premium is set at 5%. If the wages assessed are closer to the minimum wage than to the living wage, the Fair Trade Premium is set at 10%. For Linens, e.g. sheets and towels: the MSG recommends a premium sliding scale of 1%-5% to reflect the lower proportion of labor costs in that line of products.

Use of Premiums – To account for migrant labor and high turnover in apparel and ensure that the workers making the product would be the same workers benefiting from the product, workers can decide whether to distribute the premium as a cash bonus or invest it collectively in community development. This is a first in Fair Trade certification, which has required premium funds to be invested in community development projects. The sliding scale and cash distribution option were policies that emerged from the first phase of stakeholder engagement with sweatfree advocates in 2009.

Fair Trade Committees – Premiums are managed by a Fair Trade Committee. In pilot facilities, a Fair Trade Committee is elected by all workers and receives training on its responsibilities. Committees are composed of workers from the various departments in each facility, including union representatives where relevant, and non-voting management representatives. Committee members are the signatories on a separate bank account where the buyers deposit the Fair Trade premiums, and the Fair Trade Committee makes decisions about how to use the premiums. Management representatives on the Committee do not vote on use of the funds, and only provide administrative and financial support.

Empowerment Model: Worker Training & Grievance/ Complaints Channels

Fair Trade USA reviewed strategies and tools for worker empowerment employed in textile facilities, including union membership and collective bargaining, worker committees, worker training, and grievance channels such as confidential hotlines. Worker training on rights and freedom of association was found to be lacking, aside from isolated programs. Fair Trade USA partnered with

Fair Trade Standards - Beyond Codes of Conduct



- Prohibited Forced Labor
- Prohibited Child Labor
- Freedom from Discrimination & Abuse
- Freedom of Association
- Legally Required Wages & Benefits
- Health & Safety Protections
- Standard Work Hours & Mandatory Breaks



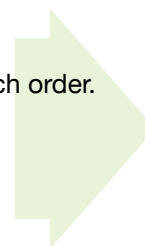
- **Fair Price:** Fair Trade minimum price for cotton covers cost of production.
- **Community Premium:** Farmers invest in social projects like education and health care.
- **Environmental Protection:** Use non-genetically modified cotton seeds. Environmental Plan to reduce soil erosion, agrochemicals and increase fertility of soil.



- **Higher Earnings:**
Fair Trade premium: 1-10% FOB for bonus or social investment.
- **Empowerment:**
Worker training, grievance procedures, and Fair Trade Committee that manages social projects.
- **Women's Rights:** Equal pay and rights for women.
- **Environmental Management:**
Targets to reduce water, waste and energy usage.



- **Direct impact on livelihoods & community development:**
Payment of Fair Trade premium to farmers and workers with each order.
- **Responsible purchasing practices:**
Establish long-term relationship and set fair prices with supplier



ASK India to develop a curriculum for worker training with modules of increasing sophistication that could be delivered over time. The Fair Trade training component contributes both to individual skills and knowledge, as well as broader capacity-building and empowerment of the workers.

Training Modules include: 1.1 Fair Trade Introduction, 2.1 Fair Trade USA Pilot Standards, 2.2 Fair Trade Premium & Fair Trade Committee, 2.3 Grievances & Complaints, 3.1 Fair Trade Labeling Globally, and 4.1 Cotton & Apparel Supply Chain. The training is conducted by local trainers, with local language materials, and a “training of trainers” approach where a subset of workers are trained and then are responsible disseminating the information to their peers, thereby also developing their leadership skills. Fair Trade training is institutionalized at the facility over time and incorporated into regular training programs to avoid problems seen with other worker training programs, where training is an isolated event conducted by outside parties.

Standards & Certification

Through extensive consultation with stakeholders and support from The Cahn Group, a Corporate Social Responsibility consultancy, Fair Trade USA developed pilot standards for cut-make-trim (CMT) facilities and for buyers that would layer on top of existing Fair Trade standards for cotton and its associated labor requirements for the supply chain.

Draft standards incorporated the highest standards from both agriculture and manufacturing standards, including Fair Trade Hired Labor standards for agriculture, the [ETI Base Code](#), the [SA8000 Standard](#), the [Jo-In Code](#), and others. Draft standards were vetted through a 45-day public comment period wherein comments were received and incorporated from 55 organizations in 15 countries. [Verité](#) was contracted to develop audit tools and auditing protocols for the program and conduct the first audits under the pilot. Based on feedback received

during the public comment period, FTUSA upgraded a significant number of standards elements to raise the bar for applicant factories including requirements related to women's rights, worker representation, health and safety, overtime, and environmental management.

In addition to requirements regarding the cut-and-sew facilities, the Fair Trade standards also include requirements on the brands that buy the Fair Trade Certified products. The program requires buyers to pay a fair price and to commit to a set of responsible purchasing practices, by which buyers are expected to set targets for Fair Trade sales and where product sales are successful, to commit to continuing to work with the existing suppliers and to repeat and/or increase Fair Trade orders, consistent with demand for the product. The aim is to demonstrate that brands can remain competitive and also adhere to Fair Trade practices by making a commitment in orders over a period to factories as an incentive to continue positive labor standards practices. These long-term commitments between buyers and suppliers are one of the most powerful benefits of Fair Trade in a volatile market.

Third-Party Verification – To avoid contributing to the problem of audit fatigue at apparel factories, Fair Trade USA formed a partnership with Social Accountability International (SAI) and its certifier Social Accountability Accreditation Systems (SAAS) to combine audits and streamline Fair Trade certification for SA8000-certified facilities. Fair Trade USA conducted a gap analysis between the SA8000 standard and its own pilot standards, and trained SAAS-accredited Certification Bodies to be able to audit against Fair Trade elements, in addition to the core labor standards shared between SA8000 and Fair Trade standards.

Stakeholder Engagement and Public Communications

The pilot has featured an unprecedented level of stakeholder involvement at every stage, including new structures and processes that may be carried forward as a model for other Fair Trade Certified product categories. For instance:

- The pilot included wide consultation regarding pilot design during the initial Feasibility Study in 2006 and a public comment period in 2009 to develop the standards.
- A Multi-stakeholder Group (MSG) has established that has served two years as a sounding board and monitor of pilot progress.
- The MSG established core values to frame communications about the apparel pilot: PEER (Participatory, Experimental, Entrepreneurial, Representative).
- The pilot program shared results publicly through periodic newsletters, public presentations and communications to a list of 200+ key stakeholders interested in following developments related to the apparel pilot.
- FTUSA organized a field delegation to visit apparel pilot sites in India, as well as other stakeholders such as Fair Trade artisan groups (see details below).
- The MSG has reviewed annual scorecards on the agreed upon Key Performance Indicators, and has reviewed and approved this report for publication.

The stakeholder engagement process was rich and sometimes contentious. Some stakeholders who gave early input withdrew before the launch because they objected to some aspects of the model, or objected that the Multi-Stakeholder Group mandate was an advisory body rather than a decision-making body. A particular point of debate was whether to make living wage a pre-requisite to certification. Instead, the pilot supports facilities to reach living wage as a progress requirement over time and builds that incentive into the sliding scale premium formula. Some stakeholders recommended union presence in a facility as a condition of certification, while others encouraged a variety of worker representation structures.

The mandate of the MSG has been to continue to dialogue on these difficult issues, and to monitor the pilot implementation. (See Appendix C for project timeline.)

Implementation and Pilot Participants

Meet some of the people behind the pilot:

Aurora Doyon, Entrepreneur and Founder of HAE

Now – Aurora is President & CEO of HAE Now, which stands for Humans, Animals & Environment ... NOW! The company name is a symbol of its commitment to human and worker rights, and to environmental sustainability. Aurora's company was one of the first to join the pilot and sources Fair Trade, organic blank tees from the first facility approved in the apparel pilot in Calcutta, India.

Tenneh Bakana from Liberian Women's Sewing Project (LWSP)

Tenneh Bakana was one of the first women hired at LWSP three years ago in Monrovia, Liberia. She went to work to support her family and to test the idea that women from their local community could be trained to sew garments for export, and with those earnings and stable jobs, they could help rebuild their country after 13 years of war. In 2010, CNN profiled Tenneh and her journey from being a victim of abuse during the war, to being a self-sufficient and skilled professional woman producing Fair Trade clothing.



Chetna Organic Agriculture Producers' Company (India)

Over 15,000 organic cotton farmers belong to Chetna. When the Pilot Delegation visited in September 2011, the farmers explained the impact of the Fair Trade and organic cotton projects. "We get a big impact in improved health and soil fertility from organic methods. We also get more done as a cooperative – we are able to get loans more easily and the Fair Trade premium has allowed us to build a warehouse where we can store and market all our crops, lentils and other foods, in addition to the cotton."



Monica Ramesh, Lead Auditor & Trainer from ASK India – Monica conducted worker training and in-depth audits with off-site interviews for several applicant facilities in India during the course of the pilot. She leads the Corporate Social Accountability Division of the Association for Stimulating Know-How (ASK) India, based in Delhi. ASK functions as the regional office of workers' rights NGO Verité and has deep experience across supply chains, from small artisan workshops to large, vertically integrated factories.

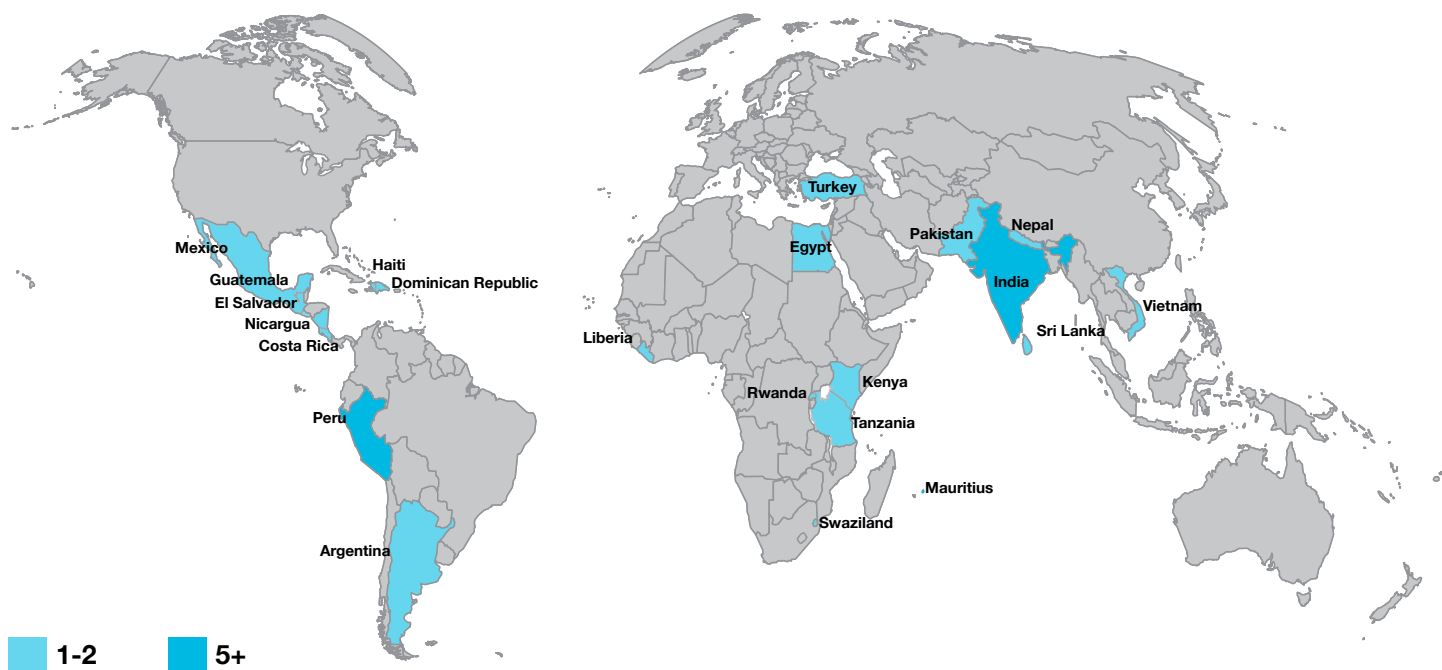


Rochelle Zaid, Director of Social Accountability Accreditation Systems (SAAS) – Rochelle led the partnership between FTUSA and SAI/SAAS to streamline Fair Trade certification for SA8000-certified factories in India. Her team helped train SAAS-accredited Certification Bodies to incorporate Fair Trade standards into their SA8000 audits at facilities interested in Fair Trade certification. Rochelle is the Executive Director of SAAS, with prior experience at several apparel brands. While at Eileen Fisher, for example, she helped develop and implement the social accountability program for suppliers.



Jackie DeCarlo, MSG member and Fair Trade Advocate from Catholic Relief Services – Jackie was involved in the apparel pilot since very early days, embracing the project after Catholic Relief Services participated in the Feasibility Study in 2006. Jackie first encountered Fair Trade while traveling in Mexico in 1999 and became determined to help educate other consumers about Fair Trade's power and potential. Ever since, she has been an advocate for Fair Trade as a sustainable and empowering framework for understanding consumption and commerce. She is the author of *Fair Trade: A Beginner's Guide*, and former director of Fair Trade Resource Network. At CRS Jackie manages economic justice programs, particularly the Fair Trade crafts, coffee, and chocolate projects.

Facilities Interested

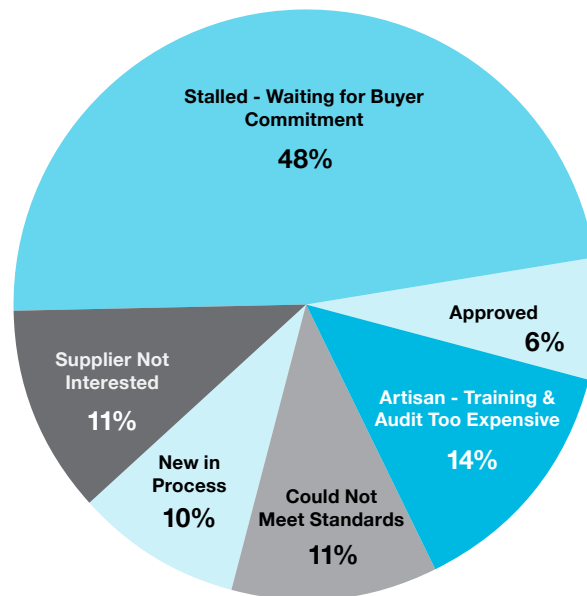


Argentina	1	Mauritius	2
Costa Rica	1	Mexico	1
Dominican Republic	1	Nepal	2
Egypt	1	Pakistan	2
El Salvador	1	Peru	5
Guatemala	2	Rwanda	1
Haiti	1	Sri Lanka	1
Honduras, Nicaragua	1	Swaziland	1
India	14	Tanzania	1
Kenya	2	Turkey	1
Liberia	1	Vietnam	1

Facilities Interested in Certification (2010-2012)

- Applicants for Fair Trade certification came from around the world. As of June 2012, 55 facilities from 23 countries inquired about or applied for certification. Many are located in India thanks to supply of Fair Trade cotton and vertical supply chain integration.
- In March 2010, the first audit was conducted against pilot standards at Rajlakshmi Cotton Mills Pvt Ltd in Calcutta, India.
- Eight facilities in India, Costa Rica, Peru, and Liberia were trained and/or audited against the pilot standards.
- Four facilities in 3 countries completed certification as of June 30, 2012 – [Rajlakshmi](#) and [Esteam](#) in India, [Liberian Women's Sewing Project](#), and CIA Textile in Costa Rica. This 6% success rate for factory certification is a testament to the rigor of the standards, and also to the challenges for even best-in-class facilities that affirm Fair Trade values (already a very small group of apparel manufacturers) of meeting stakeholder expectations of what it means to be a Fair Trade facility.
- There are four additional applicants for certification as of October 2012.
- At least 25% of facilities – all self-identified 'ethical factories' – were unable to meet the standards. Many others “stalled” in the process due to lack of buyer commitment.

Facilities: Reasons Not Approved



The graphic shows outcomes of facilities that inquired about certification during the pilot: Over half of facilities that entered the certification process did not completed the process due to “lack of customer demand”, in other words, they approached existing and potential customers but found insufficient interest in labeling the products as Fair Trade.

Profile of the Liberian Women's Sewing Project

In 2003, Liberia emerged from 13 years of civil war. In Liberia's weak and struggling economy, women are excluded from the most productive sectors of the economy: rubber, timber and diamonds. In this dire economic, social and political situation, 30 women set out to prove themselves as anything but helpless. They are the Liberian Women's Sewing Project (LWSP).

The LWSP fosters a safe and progressive environment for its workers. In a hot climate, these women work in air-conditioning. In a country where 80 percent of people are unemployed, these women earn 30 percent more than a government employee in the country. Each has her own matched savings account with the factory. For every dollar she saves, the factory contributes that same amount to her savings account, investing in her future. The women receive medical insurance and a 50-kilo bag of rice every month. These benefits enable women to support their families, which range in size from four to 16 people who depend on their income.

LWSP works to create sustainable livelihoods for the people of Liberia, and Fair Trade can offer a means to achieve this. For each Fair Trade Certified garment sold, the women earn a Fair Trade premium to be invested in a worker-controlled fund. The women have expressed a desire to invest their Fair Trade earnings in various social programs: computer training, literacy classes, scholarships for primary and high school, childcare and nursery school, health clinics and emergency care, clean drinking water, toilets, sewers and sanitation, a trade school to offer business training and micro-loans for other rural women and finally, repairing roads in the community.



Audit Findings – At facilities that *were* approved under the pilot, most non-compliances found during the audits related to new Fair Trade standards rather than core labor standards; for example, incomplete understanding by workers of the Fair Trade premium or complaints channels.

At facilities that *were not* approved, but seemed confident that they could meet the standards, some serious issues were found regarding core labor standards; for example late payment of wages, no overtime payment, no social security payments, and verbal abuse by supervisors. Four facilities were denied certification due to these problems, and many more dropped out before or after the audit, recognizing that they could not meet the standards.

Reversing the Race to the Bottom

Another testament to the difficulties faced by facilities that comply with higher standards is that mid-way through the project, one of the pilot facilities closed its doors. This facility in Costa Rica had survived over five decades in a relatively high wage country with strong labor conditions by developing vertical manufacturing and by repeatedly changing focus to adapt to market niches. In the end, they were not able to benefit from international trade agreements in time to overcome increasing market pressures that moved most sewing facilities from Central America to Asia. The 2008 recession was the last straw for this company and it was de-certified before closing because it could not catch up with back pay of Social Security payments it owed to the government on behalf of its workers.

Fair Trade Apparel Retailers / Brand Partners – Fair Trade USA reached out to nearly 200 brands from 2009-2012 (one year pre-launch and one and a half years post-launch). Eighteen companies signed on as Fair Trade USA brand partners under the pilot – all small, mission-driven brands with relatively low volumes. Of these, six companies were able to launch certified products in the first year of the pilot, or a 3% conversion rate. This low figure speaks to the challenges for all types of companies. Mainstream brands with strong CSR commitments were generally interested to engage but not ready to commit to higher standards. Smaller companies found the verification costs high, especially in a high-price cotton market.

All approved suppliers had strong engagement by their buyers to encourage and motivate them to achieve certification. Several brands also covered costs or shared costs for certification and audit. Without this support, suppliers were far less timely in completing the certification process.

Several of the participating brands made positive adjustments to their sourcing policies and practices. Examples include longer lead times and payment terms more favorable to suppliers, both of which enable brands and suppliers to share risk more equitably.

Factors cited in brands decisions not to test a Fair Trade Apparel program include:

- Weak economy and record high cotton costs. Margins are tight in the economic downturn and the combined cost of a cotton + factory Fair Trade program was seen as prohibitive. Some suggested a lower premium for higher volume orders, to maintain impact to workers while achieving greater scale.
- Prior commitments to other Corporate Social Responsibility (CSR) and sustainability initiatives such as [Fair Labor Association](#), [Textile Exchange](#), Better Cotton Initiative, and [Sustainable Apparel Coalition](#). Fair Trade USA has tried to leverage smart collaboration with initiatives such as Textile Exchange and [Social Accountability International \(SAI\)](#).
- Fear that new public claims of social responsibility to consumers will invite attack from labor campaigners. Companies are hesitant to make claims about social responsibility or “sweatfree” in the face of vocal activist organizations, who went as far as to threaten boycotts of some brands that participated in the pilot.

prAna, a yoga clothing brand influential in the outdoor industry and one of the most committed brand partners in the pilot, is launching new FTC styles each season and promoting Fair Trade through interactive marketing channels. In year one of the pilot, prAna introduced one Fair Trade shirt sourced from the Liberian Women's Sewing Project. They began promoting their approach to their customers through educational videos and other creative marketing. In 2012 "Fair Trade" is one of the most frequently searched items on their website. In Fall 2012, they are offering 13 Fair Trade Certified items.



"We're proud to put the Fair Trade Certified label on our clothes. It indicates quality products that improve lives and protect the environment."

– Nicole Bassett, Director of Sustainability, prAna, shown here with the heads of Chetna Organic Agriculture Producers' Company and Rajlakshmi Cotton Mills, at a Textile Exchange event in Hong Kong.

Consumer Response – Consumers responded well to Fair Trade Certified apparel products on the shelf, and participating companies reported strong sales of labeled products. A [study issued by Harvard/MIT](#) during the pilot found a 14% sales lift on clothing labeled as socially conscious in Banana Republic outlet stores. This indicates strong latent demand by consumers for ethical alternatives to sweatshop clothing.

Investments in Program Development – Fair Trade USA received grant funds in the three years of feasibility and pilot planning, and dedicated two full-time staff to the Apparel program, in addition to staff time of the Certification department. The organization has supported the program since 2010 when grant funding ended, as service fees from products bearing the label do not yet cover the costs of offering the certification.

Impacts: Pilot Results Fall 2010-Fall 2012

Impact Tracking – The Multi-Stakeholder Group agreed on Key Performance Indicators (KPIs) related to income, empowerment, and environment to track on scorecards for cotton and for cut-and-sew facilities. Key data is pulled from audit reports and other available sources.

Wages – Approved facilities on average pay workers 15% above minimum wage and up to double minimum wage (in Liberia). Not for Sale recognized pilot brands and facilities for best practices on wages and workers' rights in their report on Apparel Industry Trends 2012. Pilot facilities are rare in their commitments to compensate workers at a higher rate than competitors. In the garment sector generally, factory managers have little incentive to pay above minimum wage, claiming that higher wages mean higher prices to customers that would put them at a competitive disadvantage. The Fair Trade standards call for progress over time toward a living wage, as tied to wage benchmarks such as the [Fair Wage Guide](#) and the [Asia Floor Wage](#) methodology. (See Appendix D: Living Wage Vision of the FTC Apparel program.)

The currently certified facilities are 'best-in-class' companies that distinguish themselves through competitive pricing, high quality, and social responsibility. They are able to keep costs competitive by keeping worker turnover low through good working conditions and investments in worker benefits and training. Such skills training and upward mobility can be effective strategies to raise wages. These factories serve as examples in the industry that ethical practices can be a competitive advantage.

Meet Kalyan...Cutting Master

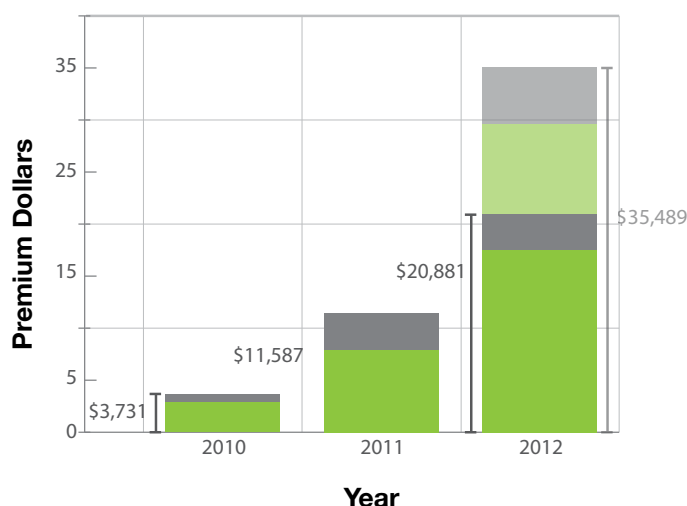
Kalyan Saha, 38, was born in a village near New Delhi, India as the son of a poor tailor. His education was interrupted at age 14 when he started working to help make ends meet. As helper at his uncle's factory, he earned a dismal monthly salary of Rs. 300 (about \$5 US). He picked up skills quickly and in six years was making Rs.2,800 month as a cutting master at another garment factory. However, there were many months in the year when he did not receive pay if the factory did not have enough work. With no benefits or health coverage it was difficult to make ends meet. In 2000 he joined the Rajlakshmi mill as cutting master in the stitching department at a salary of Rs.3,200 month. For the first time he started to receive a guaranteed wage and benefits that allowed him to support his wife and two school going children. He now makes Rs.6,825 month (about \$125 US). 'Life is so much better', says Kalyan, 'I can support my family. My parents live with me six months in a year. My children are in school and I am glad they will get a good education'. Kalyan was recently elected by his co-workers to serve on the Fair Trade Committee at Rajlakshmi.



Fair Trade Premium

In the 24 months of the pilot from mid-2010 to June 2012, \$28,353 in premiums was paid to worker committees – in one factory the cash bonus was the equivalent of an extra week of wages– and another \$7,846 to cotton producers for community investment.

Imports of Fair Trade Certified Garments in the United States 2010-2012



- Premium Dollars to Factories
- Premium Dollars to Cotton Producers
- Premium Dollars to Factories (Projected)
- Premium Dollars to Cotton Producers (Projected)

In the first six months of 2012, the volume of individual garments certified dropped slightly when compared to the same period the prior year. This was due to the decertification and closure of one pilot factory and dormant status of another factory that suspended production while moving to a new, larger facility. Nevertheless, premiums increased significantly from 2011 to 2012 because products sold were of higher value and styles came inline the second half of 2012 .

Impact of Premiums

In one of the India facilities, Rajlakshmi, in the first year of the pilot the Fair Trade Committee decided to pay out the first year's premium as individual bonuses, averaging the equivalent of one week's wages. They also discussed investing the premium collectively in a computer center at the factory or in clean drinking water facilities in the village where workers stay during the week. (Their home villages, where they return on weekends, are 3-4 hours away.) The goal of workers and management over the next year is to generate enough Fair Trade sales to achieve a Fair Trade premium bonus equivalent to an extra month of pay for each of the workers.



Worker Empowerment

Training – Worker training was conducted by local community-based or government organizations in each country/region: Coverco in Latin America, Verité's affiliate ASK in India, and the UN/Liberia Office of Gender and Development in West Africa. Training materials were developed in each local language and tailored to the needs and context of those workers. Approximately 400 workers received training in five countries (India, Liberia, Swaziland, Costa Rica, and Peru).

Freedom of Association – Approved facilities have various forms of worker representation: one unionized, one with a worker-ownership model, and two with worker committees. The wide variety of labor standards and enforcement in each country makes promoting freedom of association distinct across regions. One of the foundational elements of the Fair Trade Apparel program globally is that worker rights information is included in the training curriculum, and worker grievance procedures are publicized to the workers and verified in the auditing process.

Critiques from Some Labor Rights Advocates

During and since the feasibility study in 2006, Fair Trade USA engaged labor rights advocates and international trade unions to seek input on key elements of the program, connect with local affiliates in pilot countries, and explore how the program could support the shared goals of mature industrial relations and an empowered workforce.

In India, for example, MSG members and Fair Trade USA engaged with ITGLWF and its local affiliates (including HMS and Garment Workers' Union of India in Bangalore), New Trade Union Initiative, SAI's Tirupur Steering Group (which includes representatives of INTUC and HMS unions), and Workers Rights Consortium (WRC), a US-based labor rights advocacy group focused on collegiate licensed apparel production. Less than 1% of the garment sector in India is unionized, and where unions are present they are often vehicles for electoral politics as much as advocates in the workplace. Thus the mere presence of unions is not universally sufficient evidence of worker empowerment. There was some agreement that the Fair Trade model could contribute to collective empowerment through worker training and third-party verification. Dialogue with labor advocates enhanced the program in important ways, including reference to the Asia Floor Wage and stronger standards around freedom of association and wages. (See Appendix D regarding Living Wage.)

Despite this active dialogue and many positive contributions from advocates, the apparel pilot received strong push back from labor rights groups while the standards were being developed. At the root of the disagreement lie two distinct theories of change. One posits that labor standards improvements come from campaigning to put pressure on companies and governments. The other promotes the model that consumers can leverage their purchasing power to support better working conditions via third-party labeled products. Both agree that worker voice is central to achieving the desired outcome, but disagree over timeframes and strategies to achieve it. As a result of this disagreement, some labor advocates withdrew from the pilot at the launch and others went so far as to threaten to boycott the brands that piloted Fair Trade certification.

The MSG remained committed to full transparency and invited 'critical friends' such as WRC on a Learning Delegation to India to visit pilot facilities. Although the visit was not an audit and the delegation did not review any factory records or documentation, the WRC issued a public report denouncing one of the certified facilities and the Fair Trade Apparel pilot. The negative role played by advocates has intimidated some brands otherwise interested in following Fair Trade standards in their supply chains and increasing transparency to consumers. They report fearing the commitment and investment would not be recognized or, worse, would be criticized.

MSG Recommendations and Changes

Through its quarterly meetings over the last two years, the MSG has made recommendations to enhance the efficiency and effectiveness of the program, many of which have already been implemented in the following areas and are detailed throughout this report. The group has also articulated several key recommendations and “paths forward” for the apparel work, detailed below.



Worker Training & Monitoring

Over the course of the pilot, the MSG recommended and FTUSA implemented the following changes to the training model, and additional orientation was given to the training partner organizations to make their work more effective:

- Enhanced training for approved training organizations to ensure that the Fair Trade premium is represented appropriately and that training does not inadvertently raise unrealistic expectations by workers. FTUSA has updated the training curriculum and will continue to share lessons learned among training providers.
- Standardized the pre-and post-test training evaluation form to be used across continents – Latin America, Africa and Asia.
- Enhanced the Complaints Process for the apparel pilot and developed specific training materials to communicate this appropriately to workers, including the designation of a local-language channel to receive complaints (typically an NGO in the country or region).
- Experimented with mobile phone surveys, especially of home-based workers where traditional factory auditing is not an appropriate model to monitor working conditions.
- Re-organized the factory standards to more clearly articulate which aspects of the requirements are shared with other standards and codes (such as SA8000) and which aspects are distinctive to Fair Trade (namely around income and empowerment).

Responsible Sourcing Practices

- Enhanced the Responsible Sourcing Principles document and incorporated it into the contract that brands sign with FTUSA.
- Developed a core set of discovery questions to assess compliance with the “fair pricing” requirement.
- Several of the brands made positive adjustments to their sourcing policies and practices. Examples include longer lead times and payment terms more favorable to suppliers, both of which enable brands and suppliers to share risk more equitably.
- The MSG also recommended a structural change to the way companies source Fair Trade apparel products, separating raw material and sewing processes in the labeling options (see right.)

Fair Trade Labeling

The Fair Trade Certified Apparel & Linens pilot is the first time that Fair Trade certification has attempted to deliver direct economic benefit through premiums at two different levels of the supply chain: to cotton farmers and to cut-and-sew workers. The pilot did not attract the volume of commitments and purchases of Fair Trade Certified apparel expected, and the MSG has had repeated discussions about why. The most limiting factor was the requirement that products be certified at both the raw material and cut-and-sew stage. Many apparel products are not made of cotton, and there is a limited supply of Fair Trade cotton. Brands sourcing decisions for raw material and finished items often reside with different departments, making it difficult to align commitments around both.

To address this complexity in the textile supply chain, the MSG recommends to essentially decouple the two programs – cotton and sewing – into separate product certifications. While it is still ideal that FTC apparel be made from Fair Trade cotton, decoupling the certification will enable companies to focus the benefit on either cotton farmers or factory workers.



Due to the complexity of the supply chain, the MSG approved three distinct labels:

1. Fair Trade Certified (indicates that both cotton and cut-and-sew are certified)
2. Fair Trade Cotton
3. Fair Trade Sewing

The label will specify which aspect of the product is certified and give maximum transparency to the consumer.

India Learning Delegation - Fall 2011

During the pilot, FTUSA staff, participants in the Multi-Stakeholder group and other allies took fact-finding trips to India, Liberia, Rwanda, Nepal and Peru. The goals of these trips was to engage producers and labor advocates to learn about local labor conditions, identify suppliers meeting the highest labor standards, and dialogue about ways that Fair Trade certification could support improvements in working conditions and wages.

In September 2011, the Multi-stakeholder Group organized an educational delegation to learn more about conditions in India and impact to date, and meet with cotton producers, certified facilities, artisan producers and labor right advocates to discuss their experience with Fair Trade and how to make the Fair Trade apparel program more relevant and effective. The delegation included MSG members as well as other US-based Fair Trade advocates and academic researchers. The delegation visited the whole supply chain from cotton farm to spinning mill to cut-and-sew factories. The group made a special effort to meet with WFTO members and artisan producers that sell to members of Fair Trade Federation in the US, to understand their distinctive needs, their experience with Fair Trade, and their perspective on certification.



Visits and Meetings by the MSG delegation in India

- **Handcraft Exporters:** Creative Handicrafts, Craft Resource Centre, Freeset, Marketplace India, Asha Handicrafts
- **Pilot Participants:** Chetna Organic Agriculture Producers' Company, Rajlakshmi Cotton Mills, Esteam Apparel Services
- **Grassroots Allies:** Chethana Producers Village Cooperative, Catholic Relief Services India, Shop for Change
- **Labor Rights Advocates:** Garment Fashion Workers' Union, Workers Rights Consortium





The main MSG recommendations for paths forward come directly from observations and discussions on this trip, especially the artisan recommendations and decoupled labeling. Here are some additional lessons from the India trip about benefits and challenges of Fair Trade certification:

- **Need to Build Demand** – Workers in certified facilities invariably asked, “How can we get more Fair Trade orders?” They were excited about the additional earnings through this program and the potential impact on their families and communities.

- **Intangible Benefits of Fair Trade** – A Fair Trade advocate in India said, “We feel the other benefits of the supportive supply chain are as important or more important than the Fair Trade minimum price or premium to guarantee benefits to the farmers and factories (i.e., access, long-term relationships, credit and payment terms). The deeper relationships mean customers that are committed and more directly engaged.”

- **Race to the Top** – Another Fair Trade advocate expressed, “The main suppliers that benefit from Fair Trade will be those who are already ‘best in the industry’ given how high the abuses are in most of the textile industry. Perhaps a side benefit of the pilot is that by identifying that these suppliers are complying with the laws and being ethical, it may generate more business for them.”

- **Challenges for artisans in achieving certification** –

A women’s artisan network in Mumbai said, “The issue is that even if we meet Fair Trade standards in each workshop, we may likely exclude those our program was established to help. For example, set work hours [are] not appealing to women that we serve. They want freedom to choose their own hours and spend time with their families when it works for them.”

- **The value of non-cash benefits** – Both factories and artisan networks brought up the issue that Fair Trade standards do not track non-cash benefits to workers, such as transportation, meal subsidies, child care, scholarships, medical services or legal services provided by the employer. In the case of producer workshops with community development and women’s empowerment goals, social benefits are often seen as important as the income goals. One NGO representative told the India delegation that “Fair Trade wages can sustain a family but it is the child getting an education that makes lives change and yet scholarships are not counted in the wage formula. So yes we would get certified if it means we get more orders, but we need to keep in mind the bigger development goals of the movement.”



Accessibility for Artisans

The pilot intended to be as inclusive as possible to artisans and other smaller scale apparel supply chains, based on input from stakeholders and on Fair Trade's historical commitment to marginalized producers. One explicit question from the Fair Trade garments feasibility study conducted in 2006 was "How can we ensure that small artisanal producers also benefit from a Fair Trade label?" During the public comment period on draft apparel standards in 2009, 30% of comments received were from artisan groups or their buyers – often members of Fair Trade Federation (FTF) or World Fair Trade Organization (WFTO). To be clear, not all of them want or support certification. Nonetheless, the certification should be accessible to those who want it.

Recent MSG discussions have concluded that the pilot has de facto excluded artisans, sewing cooperatives, and other non-industrial supply chains. Artisans and other non-factory workshops represented the second largest group of facilities that applied but did not achieve certification (14%). Some reported that they felt the program was inaccessible because the standards were too complex or the verification process was too expensive, or both. (The average cost of training and monitoring at pilot facilities was \$2,300 and \$3,300, respectively.)

On the MSG Delegation to India in September 2011, artisan networks explained why an audit model of certification doesn't work for them. Reasons cited include:

a. **Organizational Structure:** There is a wide variety of structures, including legal structures, and more variety in roles with different definitions than worker/manager. Structures include cooperatives and other worker ownership models, small sewing workshops, hybrid situations with some factory work and some home-based work, and strictly village-based / home-based settings.

b. **Record-Keeping and Administration:** Many do not have the management systems, resources, or knowledge to keep detailed records of policies and procedures, human resource management, and payroll that would be found in most factories.

c. **Physical Structure:** Many are spread over multiple locations, and sometimes multiple towns or villages. With some artisans working from their homes, the workplace may be indistinguishable from the home.

Certification is seen as valuable by artisans trying to reach a bigger market, especially to mainstream buyers less connected to alternative trade outlets in the U.S. However there was no consensus among artisans on the fair/living wage issue. Some said living wage would price artisans out of the market, that the goal should be employment of marginalized producers, especially women and rural artisan communities. Others said that a living wage, measured with tools such as the Fair Wage Guide, is a necessary starting point.

Determined to meet these challenges, the MSG Artisan Subcommittee reviewed a variety of paths forward that FTUSA could take to promote artisan participation without diluting the standards for working conditions, income and empowerment in this sector. The MSG recommends to:

1. Not develop new standards for these settings. Revisions to the monitoring protocols and additional guidance for auditors can make the program more accessible and relevant to these workers.
2. Recognize other standards or certifications as "pre-qualifiers" to Fair Trade certification, in order to simplify the certification process and fast track initial due diligence on artisan applicants. FTUSA should conduct a gap analysis on pre-qualifiers including WFTO membership, national Fair Trade initiatives (e.g. PromPeru), data available from technology platforms such as Fair Wage Guide and Labor Link, investor due diligence and information from related technical assistance providers (e.g. [Root Capital](#), [GIIRS](#)) and determine which pre-qualifiers would be relevant and acceptable to identify candidates for certification.

3. Establish a sampling method to reduce the costs of audit process. After pre-qualifiers and self-assessment, auditors should conduct a physical site visit of 30%-35% (or other percentage based on relevant benchmarks) of the workers / workplaces, rather than auditing 100% of the certified facilities as is done in the factory setting.

4. Extend the Fair Trade Certificate timeframe to a minimum of 2 years for artisan producers before re-audit is required. Fair Trade certificates are currently issued for 18 months in Apparel. A 2-3 year period for artisans would limit cost and allow for longer production and delivery timelines typical in their sales cycle.

5. Explore applying the new “Independent Small-Holders Standard” (ISS) for unaffiliated small farmers to home-based or village-based artisan workshops. The new ISS standard includes the concept of a “Market Access Partner” e.g., an identified NGO, exporter or importer who could work with local producer groups/home based artisans to support them through certification and monitoring.

Paths Forward

Based on the learning over the full five years of this project from feasibility study through pilot phase, the Multi-Stakeholder Group (MSG) has identified several paths forward. While the overall volumes sold under the FTC label were limited, income premiums continue to grow year over year. The pilot demonstrated the viability of the program for committed producers and buyers, and generated benefits to the workers involved.

Specific changes, including the separate labeling options and other recommendations listed above, could enhance the scalability and potential impact of the apparel certification program. The MSG recommends that FTUSA:

- Continue to support certified farms and factories, as well as new applicants. Promote their products by building supply chains and connecting them to buyers, measuring and reporting on impact, and building consumer awareness and grassroots support.
- Improve market access for cotton producers by offering three label options for Fair Trade Apparel and Linens, corresponding to separate certification for items made with Fair Trade cotton or made in certified cut-and-sew facilities.
- Improve accessibility for Artisan producers by streamlining the application and auditing process to reduce cost through pre-qualification, sampling methods, and extending the certificate term.
- Partner with Fair Trade advocates and NGOs with shared goals of sustainable development and poverty alleviation to encourage bulk purchasing of FTC apparel and accessories for their merchandise needs and for events such as World Fair Trade Day, conferences and other promotional opportunities.
- Continue to share lessons learned with other ethical sourcing programs. This report can be useful for groups wishing to learn from the pilot, especially for industry leaders and advocates of Fair Trade to build on this experience toward the goal of true worker empowerment and sustainable livelihoods.
- Consider similar MSG structures to promote greater stakeholder engagement in other emerging product categories. There were significant benefits to the wide participation of stakeholders in the program design from the feasibility study to the ongoing guidance of the Multi-Stakeholder Group.

Acknowledgements



The Fair Trade Apparel and Linens Project honors the hard work of thousands of cotton farmers and factory workers who work day in and day out to offer high quality textile products to the market. We are grateful to the farmers and workers, factories and brand partners for experimenting with this new approach and for sharing their experience and insights with us. We thank the thousands of consumers that voted with their dollars to support an alternative to sweatshops. We thank the members of the Multi-Stakeholder Group for their diligence and thoughtfulness, as well as all the advocates and Fair Trade movement participants who gave input through the public comment process and other consultations. We also recognize non-MSG participants in the India delegation, including Melanie Hardison of Presbyterian Hunger Program, Damani Partridge of University of Michigan, and Thomas J. Watson Fellow Julia Wilber. We thank FTUSA staff Heather Franzese and Tierra Forte for their creativity, persistence and grace in designing and promoting the program, and MSG facilitator Margi Clarke for her support throughout the pilot and leadership in writing this report. Special thanks to Theresa Fay-Bustillos in her capacity at the Levi Strauss Foundation, and to Jackie DeCarlo in her capacity as an advisor to the Catholic Relief Services (CRS) Fair Trade Fund; both of these women and their organizations provided funding that was instrumental in being able to conduct this bold experiment.

Photo Credits:

Simon Rawles and Fair Trade USA staff

Appendix A

List of Multi-Stakeholder Group participants Type of Stakeholder

Type of Stakeholder	Representative	Organization or Company
Sewing Facilities	Rajat Jaipuria	Rajlakshmi, Cotton Mills Pvt. Ltd., Calcutta India
	Chid Liberty	Liberian Women's Sewing Project
Cotton Producers	Ayan Bannerjee	Chetna Organic Agriculture Producers' Company, India
Retail Brands	Scott Leonard	Indigenous Designs
	Bena Burda	Maggie's Organics
Training /Technical Assistance	Homero Fuentes	COVERCO, Guatemala
	Aqueel Kahn	ASK, Delhi India
Advocates	Jackie DeCarlo	Catholic Relief Services, Washington DC
	Liz O'Connell	Green America, Washington DC
	Patricia Jurewicz	As You Sow / Responsible Sourcing Network, California
CSR Advisors	Doug Cahn	The Cahn Group, LLC, Boston
	Joe Falcone	CounterSourcing, Bangladesh
Facilitator	Margi Clarke	Independent consultant, Oakland
Fair Trade USA staff	Heather Franzese	FTUSA Apparel & Linens
Former Members	Audrey Seagraves	World of Good Development Organization
	Ashutosh Deshpande	Chetna Organic Agriculture Producers' Company, India
	Tierra Forte	FTUSA Apparel & Linens

Appendix B

MSG Framework – July 2010

Multi-Stakeholder Group (MSG) Purpose and Mandate

A legitimate pilot that will result in measurable, significant change in the lives of workers and farmers is the core goal of all involved. This pilot effort can additionally serve to increase the credibility of the Fair Trade USA label within the U.S. marketplace (i.e. among conscious consumers, NGOs, and socially responsible brands). In pursuit of these dual and mutually reinforcing aims, the multi-stakeholder group (MSG) will regularly engage with FTUSA to offer knowledge, skills and expertise related to the pilot's implementation, monitoring and evaluation.

Topics

The group will review and validate the pilot implementation plan. High-priority issues that will be considered in this context include:

Wages: A strong position on wages that moves measurably and progressively toward a living wage for workers is key. Critical to these standards is the requirement of a living wage as a progress requirement using a clear market basket formula, benchmarking wages, and by channeling a direct economic benefit to all workers in the form of a Fair Trade premium.

Key Performance Indicators (KPIs): The group will agree on targets to be tracked and approve a process for collection and tracking of baseline data. Targets will include income (wages and premiums), freedom of association, and other key targets.

FTC label and point-of-purchase material: While the label will accompany any product that comes from a certified factory at the start of the pilot, the MSG will have input into the language utilized in POP materials (including hang tags).

Responsible Sourcing and Buyer Commitment: Terms of trade between buyers and suppliers that support good working conditions, long-term commitment by buyers.

Communication strategy: The MSG will contribute to the creation of a pilot launch and closure strategy, as well as regular process for the public reporting of performance against KPIs. FTUSA will share KPI data with the MSG on a regular schedule as it becomes available, depending how and when the data is collected.

Recommendations from the group on how to address these and other issues will influence the evolution of the approach (monitoring model, training model, etc.) throughout the pilot testing. At the end of the pilot, a final set of recommendations will emerge from the MSG. Fair Trade USA must respond in writing to all recommendations of the group within 30 days and state whether and how the recommendations can be incorporated into the program. This information should be shared publicly and broadly via its website and other channels.

Appendix C

Chronology of Partnerships & Stakeholder Engagement

- 2006** Feasibility Study by Fair Trade USA on Fair Trade Apparel for US Market. Study consulted 60 organizations in North and South, concluded that US NGOs expect Fair Trade to have strong factory standards on wages and freedom of association.
- 2007** Received grant funding from Levi Strauss Foundation and other donors to develop draft standard for Fair Trade Apparel that would add core Fair Trade elements to the textile supply chain: 1) higher wages & social premium, 2) empowerment and freedom of association.
- 2008** Several rounds of consultation on draft standard for Fair Trade Apparel facilitated by corporate responsibility consultancy The Cahn Group.
- Partnership with labor rights NGO Verité to develop audit tools and conduct first factory monitoring.
- 2009** Hired 2 full-time staff to manage Fair Trade Apparel program and solicit input from stakeholders.
- Engagement with US-based labor rights groups over draft Fair Trade apparel standards, especially provisions on wages and freedom of association.
- Visited India & Rwanda to solicit input directly from workers, grassroots NGOs, trade unions, and facility managers.
- Posted two-part draft standards for 45-day Public Comment Period – Obligations of Buyers and Obligations of Cut-Make-Trim Facilities.
- 2010** Strengthened standards based on stakeholder input, especially in the areas of women's rights, worker representation, health and safety, and environmental management.
- Invited nominations for and formed Multi-Stakeholder Group (MSG) – buyers, suppliers, NGOs, and other interested parties – to guide pilot implementation through 2012.
- LAUNCH - Pilot Testing Season 1 (Fall 2010) with values-based companies and first approved cut-make-trim facilities.
- 2011** Pilot Testing Season 2 (Spring 2011) and Season 3 (Fall 2011) with additional partners.
- MSG delegation to India (see pp. 24-25)
- Quarterly calls of Multi-Stakeholder Group (MSG) with four subcommittees: Income, Empowerment, Sourcing, and Reporting.
- 2012** Pilot Testing Season 4 (Spring 2012) with additional partners.
- Quarterly calls of Multi-Stakeholder Group (MSG) with subcommittees. MSG evaluation of pilot success and lessons learned, and recommendations going forward.
- Disseminated pilot learning publically to inform paths forward for Fair Trade apparel and inspire similar efforts to promote workers' rights and sustainable livelihoods.

Appendix D

Fair Trade Certified Apparel & Linens Vision to Achieve Living Wage

Philosophy

- **Our goal is a living wage** for workers. This pilot directly improves people's lives from day one through strong labor standards and a Fair Trade premium. It lays the foundation for a path to get to living wage by engaging with buyers and suppliers in a market-based model that supports continuous improvement.

Fair Trade Certified™ Products

- In the Fair Trade model, **the product is a fair wage giver**, not the facility. The ability to pay higher wages in the entire facility increases as the percentage of Fair Trade production grows. This is a market-based and demand-driven approach.
- Factories pay wages, not brands or Fair Trade USA. So **the potential to increase wages is also related to the size and leverage of companies sourcing in the factory**, and to the percentage of Fair Trade Certified™ production. In factories where one brand fills 100% of the factory's production capacity – as with Knights Apparel's Alta Gracia factory in the Dominican Republic – wages can increase quickly. For factories with multiple customers (nearly all factories), a continuous improvement model is necessary.

Ethical Trade & Multi-Stakeholder Initiatives (MSI)

- **Fair Trade is raising the bar on leading labor codes and factory certifications** by requiring a living wage as a progress requirement, using a clear market basket formula, benchmarking wages against the Asia Floor Wage, and by channeling a direct economic benefit to all workers in the form of a Fair Trade premium. No other MSI or ethical trade initiative has set such a standard.

MSI	"Living wage" requirement	Formula for "living wage"	Benchmark to Asia Floor Wage	Premium directly to workers
Fair Trade Certified	X	X	X	X
SAI / SA8000	X	X		
WRC	X	X		
ETI Base Code	X			
Fair Wear Foundation	X			
Fair Labor Association				
WRAP				

Continuous Improvement

- Living wage is a progress requirement in the pilot standard (10.10). All factories in the pilot already pay above minimum wage and all are committed to continuous improvement. Wages will be benchmarked over time with the “wage ladder” developed by Joint Initiative on Corporate Accountability and Workers Rights (Jo-In).
- We are working with the Asia Floor Wage Alliance in India to co-create a wage benchmarking tool to use with pilot factories. Modeled on the Jo-In Wage Ladder, it will provide a detailed analysis of wage trends and a basis for setting wage targets at individual factories. Without baseline data to know where factories are starting, any universal timeframe for reaching a living wage would be arbitrary.

Pilot is Experimental

The pilot monitoring and evaluation (M&E) process will track the impact of the pilot in key areas such as earnings. In 2012, data from the pilot will be reviewed by an external Multi-Stakeholder Group and will inform a wage approach for Fair Trade apparel that maximizes the impact to workers and farmers.

- We reward and promote companies that are testing different approaches to raise wages, especially during the pilot. We cannot be prescriptive about the different ways a company might achieve this. Instead, we need to encourage experimentation by companies using the Fair Trade Certified™ label.

Worker Voice

- **Fair Trade gives workers a voice to bargain for higher wages.** Pilot standards help workers find their voice and their power in the workplace, something that most other factory certifications and codes of conduct fail to do. Fair Trade certification promotes worker-owned cooperatives and protects workers’ right to organize:
 - o Workers must be democratically organized
 - o Workers must receive training on their rights, in particular the right to join a union
 - o Facilities must have channels for workers to communicate concerns to management.

Fair Trade Premium

- **Fair Trade premium, 10% of FOB at the upper end of a sliding scale, can double workers’ income on a per-product basis**, as labor costs are typically less than 10% of the cost of a garment.
- In India (where the first group of pilot facilities are located), this would exceed a living wage, as the Asia Floor Wage in India is less than two times the legal minimum wage (R7967 and 4238 Rupees, respectively)
- With Fair Trade, **the premium is guaranteed to benefit workers because it’s paid directly to a worker-controlled fund.** Some retailers have experimented with paying a higher price to the factory management in an effort to channel additional benefit to workers. In most of these examples, the additional funds paid by the buyer to the supplier intended to benefit workers did not actually reach workers and were instead used for raw materials or other costs at the factory.

Consumer Demand

- The success of the pilot in increasing worker earnings is contingent on U.S. consumers buying Fair Trade products. It’s also contingent on U.S. companies making a commitment to Fair Trade.
- **The best way to support higher wages for workers making Fair Trade Certified™ products is to buy and promote Fair Trade Certified™ apparel.**



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