



# Exceptions Policy – Product Compensation

## Fairtrade Australia & New Zealand

### Product Compensation Exceptions

#### *Definition:*

*Product compensation is when a conventional material is used in the manufacture of a Fairtrade certified product and an equivalent quantity of Fairtrade certified material is then used to make a non-Fairtrade certified product. This will ensure that the producer organisation is compensated for the loss of product that would have otherwise been used in the Fairtrade Certified™ product.*

#### 1. Purpose and Scope

- 1.1 In exceptional circumstances Fairtrade ANZ will consider granting a Product Compensation Exception to Fairtrade ANZ requirements to one of its Licensees or Certified Importers.

#### 2. General Principles

- 2.1 Product compensation exceptions are only granted as a last resort.
- 2.2 Product compensation exceptions are only granted where the exception does not contravene FLO Fairtrade Standards and the Fairtrade ANZ Licence Agreement in an absolute way.
- 2.2 Product Compensation will generally not be permitted unless it would be impossible to make the FLO Fairtrade Product without it.
- 2.3 When deciding whether to grant a Product Compensation, Fairtrade ANZ shall take the following criteria into consideration:
  - whether it was possible to use FLO Fairtrade Product;
  - whether it will be possible within a reasonable time to source the product as Fairtrade certified in sufficient quantities not only to make compensation but also to fulfil the ongoing product needs;
  - whether it will be impossible to produce the product without it;
  - whether allowing the exception will undermine the credibility of FLO Fairtrade Products;
  - whether the quality of the product used as Compensation is at least as good as the FLO Fairtrade Product;
  - whether there will be a substantial benefit to FLO Certified Producers;
  - whether it is a temporary measure related to starting a new product;
  - whether the Licensee or Certified Importer has previously requested Product Compensation;

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- whether the Licensee or Certified Importer agrees to follow the FLO Product Compensation procedure outlined below;
  - whether the problem can be solved by Retroactive product Certification;
  - whether the non-Fairtrade Product was purchased from a FLO Certified Producer;
  - whether the non-Fairtrade Product was purchased from an ethical source ideally with a recognised certification (e.g. organic, Rainforest Alliance, Utz Certified);
  - whether the Licensee or Certified Importer is up-to-date in their Flow of Goods reporting and payment of fees;
  - whether the Licensee or Certified Importer's plan for completing the compensation requirements include clear and achievable timeframes and quantities;
  - whether the minimum thresholds for Fairtrade ingredient content as set out in Paragraph 7.5 and Appendix I of the Licence Agreement are still met.
- 2.4 Product Compensation of Fresh Fruits and other such perishable products is never permitted unless specifically permitted in FLO Fairtrade Standards. See FLO Standards for Bananas and Fresh Fruits Part C.
- 2.5 Product Compensation exceptions, including the rationale for them, shall be noted and maintained within an Exceptions Register and reviewed within the period of their lifespan.

### 3. Application for Exception

- 3.1 Applications for Product Compensation Exceptions shall be made in writing.
- 3.2 In their application, the Licensee or Certified Importer shall be required to:
- Name the ingredient(s) for which the compensation is required;
  - Name the quantity of the ingredient(s) to be used during the period of the exception;
  - Give details of why it is not possible to source the product as Fairtrade-Certified;
  - Confirm why it would be impossible to produce the product without this;
  - Confirm that the quality of the non-Fairtrade product used is at least as good as the Fairtrade-certified products;
  - Confirm there is a substantial benefit to producers;
  - Explain why the problem cannot be resolved through retro-certification;
  - Submit a detailed plan of how they will, within clear timeframes, source the product as Fairtrade Certified in sufficient quantities not only to make compensation but also to fulfil the ongoing product needs;



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### 4. Granting Exceptions

4.1 Where Product Compensation exceptions are granted, such permission will be subject to the following conditions:

- Permission to use the non-FLO Fairtrade product as FLO Fairtrade is valid for a limited period as defined and communicated in writing by Fairtrade ANZ;
- A compensating quantity, equal to the amount sold or used, of FLO Fairtrade Product is purchased under FLO Fairtrade conditions before the deadline set out by Fairtrade ANZ. This compensating purchase or purchases should be done as soon as reasonably possible. The compensating quantity must be sold or used as ordinary (non-FLO Fairtrade) product. If the compensating purchase is not completed before the deadline then Fairtrade ANZ must be informed in writing;
- That the purchaser is informed in writing that the sale is a substitution granted by Fairtrade ANZ that will be compensated for at a later date;
- The purchaser is to be informed in writing if the quality or origin delivered to the purchaser is different from that ordered as FLO Fairtrade Certified;
- Fairtrade ANZ is provided with a copy of the contract and invoice of the substituted FLO Fairtrade Certified sale or sales;
- Fairtrade ANZ is provided with a copy of the contract, bill of lading and invoice of the compensating purchase or purchases;
- Full documentary records are kept and made available on request to enable auditing of the product compensation transactions and to demonstrate the traceability so that product lots can be identified;