

EXPLANATORY NOTE FOR SECONDARY PRODUCTS

Definition of main and secondary products and their derivatives¹

Product means any certified product that has been produced and traded according to both the specific requirements for that product and the requirements in the relevant Fairtrade generic standards. A product can be considered a main or secondary product. A main product is the principal product that comes out of a production process. The term “production process” applies to both agricultural production and agro-industrial processing. The Fairtrade minimum price and/or premium are paid on the main product.

A secondary product is a product that comes out of a production process in addition to the main product. A secondary product can be directly consumed, used as an input in another production process, disposed of or recycled. A secondary product can be a by-product, a co-product or a residue.

A derivative of a secondary product is a processed secondary product.

Pricing rules for Secondary Products

Pricing rules for secondary products have been included in Fairtrade product standards². Fairtrade product standards and Generic Fairtrade Trade Standard apply for secondary products and their derivatives.

There are no Fairtrade Minimum Prices defined for secondary products and their derivatives. Prices for secondary products and their derivatives produced in the country of origin are negotiated between the Fairtrade producer and its next buyer (Fairtrade payer). A default Fairtrade premium of 15% of the negotiated price for the secondary product and/or its derivatives must be paid in addition to the negotiated price.

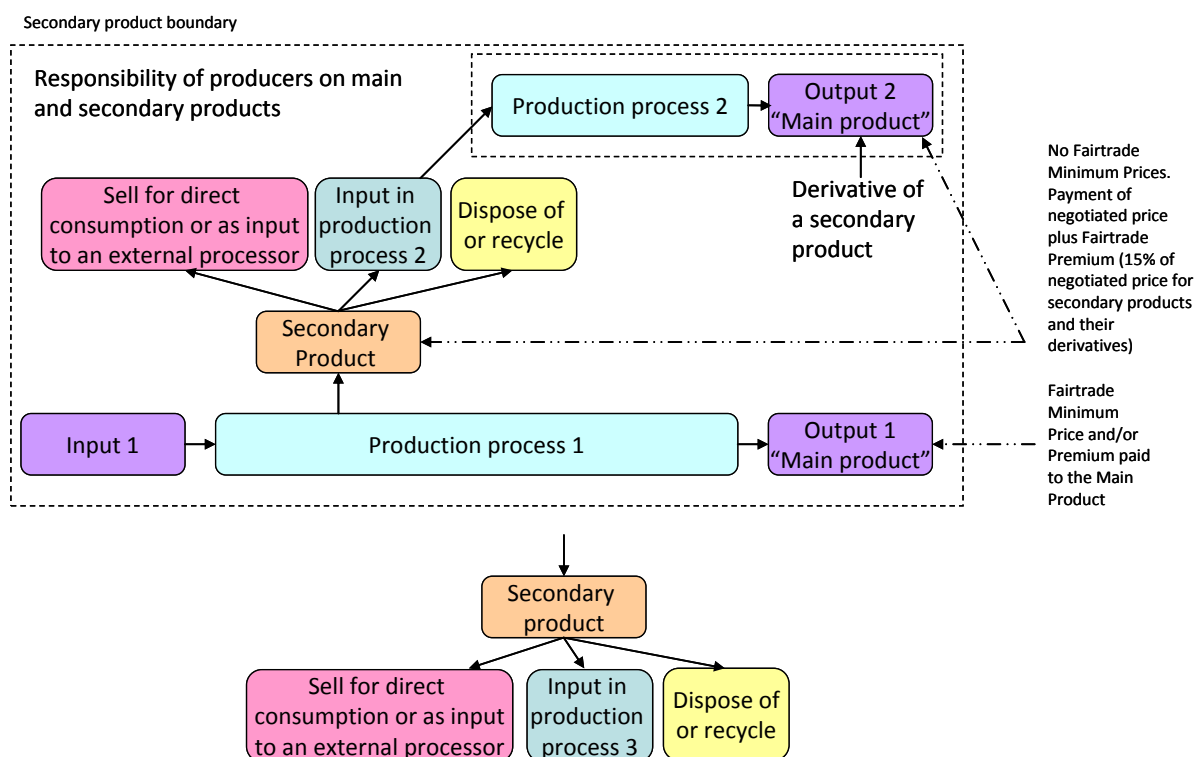
¹ Definitions of main and secondary products and their derivatives are included in Annex 1 of the Generic Trade Standards.

² Section 1. General Requirement, Intent and scope of each Fairtrade product standards indicates the coverage the purchase and sale of main and secondary products and their derivatives; Section 4. Business and Development, 4.3 Pricing refers to the pricing rules applying to main and secondary products and their derivatives.

If there is a need and requested by stakeholders, Fairtrade International reserves the right to set a Fairtrade Minimum Prices for secondary products and its derivatives in the future.

Figure 1 presents a diagram of the different components of a production process and the boundaries of secondary products pricing rules.

Figure 1. Boundaries of secondary product pricing rules application



List of secondary products and their derivatives

A non-exhaustive list of products "Fairtrade Secondary Products list" fitting the definition of secondary products and their derivatives is published on the Fairtrade International website (http://www.fairtrade.net/product_standards_smallproducers.html?&L=0 for Small Producer Organizations and http://www.fairtrade.net/product_standards_hiredlabour0.html?&L=0 for Hired Labour situations). FLO Cert can start certifying producers and traders who apply for any secondary products and their derivatives included in the list. The Fairtrade Secondary Products list will be updated regularly after new secondary products are approved to be included in the Fairtrade scope.

Procedure for including new secondary products into the Fairtrade Secondary Products list

For any secondary product that is not in the list, the following procedure for incorporating it in the Fairtrade scope applies:

Producer Networks, Producer Services and Relations Unit and other Fairtrade International units, Labelling Initiatives or also other Fairtrade stakeholders accepted by the Standards Unit are entitled to request the inclusion of a secondary product into the Fairtrade Scope. They should fill the Secondary Products Request Form (see “Forms to participate in the standards setting process” in the following link: http://www.fairtrade.net/setting_the_standards.html?&L=0) and send it to standards@fairtrade.net.

The Standards Unit will evaluate the request and will communicate the decision to the requesting party. The Fairtrade Secondary Products list will be updated and uploaded on the web page. Changes will be communicated to FLO Cert.

Please note that secondary products and their derivatives are not indicated in the Pricing Database.

Secondary products produced and traded further in the supply chain

Buyers of secondary products and their derivatives produced further in the supply chain after Fairtrade Minimum Prices and/or Premiums for main products have been paid are not required to pay a Fairtrade Premium to Fairtrade producers.

Transition phase for existing secondary products

There is a transition phase valid until 31 December 2012 for all existing secondary products to pay the Fairtrade Premium of 15% of negotiated price. The transition phase applies for sales of secondary products sold without a Fairtrade Premium being paid and for sales of



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derivatives of secondary products (i.e. finished products that use secondary products as ingredients).

If you have any question related to Secondary Products please contact Ricardo Guimaraes r.guimaraes@fairtrade.net.