



## Theo IMO Fair Trade Certification Frequently Asked Questions

Theo Chocolate, Inc. is the first certified Organic and Fair Trade Chocolate Maker in North America. Theo operates on the fundamental belief that all life on our planet is interconnected. Theo's business depends on the health and vitality of the farmers who supply us and the ecosystems these farmers steward. To educate our consumers and build trust with them, Theo retains a third party to inspect and certify our trading and environmental practices.

Since its inception, Theo has relied on Transfair-USA, a member of the international organization Fairtrade Label Organization (FLO), to provide a third party certification of our trading practices for cocoa, sugar and other certifiable ingredients. With the objective of maintaining high standards and increasing consumer confidence, Theo recently changed primary certification from Transfair-USA to **IMO Fair for Life**. Beyond simply certifying trading practices, IMO also certifies Theo as a socially responsible manufacturer and business.

### *Why is third party Fair Trade certification important?*

Many consumers do not know where the ingredients in their food originate. Many consumers are unaware of the labor, trading and environmental conditions farmers endure in the cultivation of the ingredients in their food. Concerned consumers check labels for established seals such as "Fair Trade" or "Organic", and now see new claims with terms such as "Direct Trade". At Theo, we believe it is important for an experienced, independent third party to inspect the manufacturer's operation and the conditions of its suppliers in order to ensure such claims are both valid and meaningful. The lack of third party oversight of trade or environmental claims both dilutes the value of any seal on the label and erodes the trust of consumers. Theo Chocolate embraces the process of having independent parties inspect our supply chain and production practices, and values the assurance this offers our customers.

### *Why did Theo switch to IMO certification from Transfair USA? The short answer:*

Theo views the IMO process as more rigorous and believes an IMO certification provides a more transparent, more comprehensive, and better system for farmers, manufacturers and consumers. A key difference: the IMO process subjects Theo – as a manufacturer and employer – to the same scrutiny as its suppliers. Also, IMO allows Theo to allocate more of its resources directly to farmers.

### *What is "IMO"?*

IMO (Institute of Marketecology), an independent, non-profit certifying body, was founded in 1990 and has a reputation for high quality, stringent standard development and inspection in 90 countries with core expertise in smallholder agricultural systems. They certify all organic programs (e.g., USDA organic, EU organic, JAS – Japanese Agricultural Standard) along with certification for textiles, sustainable forestry and Good Agricultural Practices. IMO joined with the Swiss Bio-Foundations to create the Social & Fair Trade Certification Program in 2006 to address the limitations of previously established certification programs. Based in Switzerland, IMO has offices around the globe.

### *What is the meaning of the two different fair trade certifications that IMO issues?*

**"For Life"** is the social responsibility certification and ensures compliance with labor rights issues as detailed in the ILO conventions, including;

- Absence of child labor
- Non discrimination
- Good working conditions
- Remuneration, health and safety

**Note: Theo has undergone this certification at the factory level, and is now the first fair trade certified factory in the US, in addition to being the first fair trade certified chocolate maker.**

**"Fair for Life"** incorporates the "For Life" criteria and also verifies fair trading practices including;

- Payment

- Use of the fair trade premium
- Long term mutually beneficial trade relations
- **Note: this is the seal that Theo products will carry.**

## Certification Details

*IMO allows premiums to be determined on a case-by-case basis. How does this work?*

The buyer and supplier negotiate the purchase price. The fair-trade premium paid will reflect factors such as cost of living, plus an adequate amount for saving/investing (this typically averages 10%, but is flexible based on region-specific needs). The agreed-upon amount is then approved and audited by IMO. Buyer and supplier also determine any funds going to local development projects.

*How does the IMO model of determining premiums on a case-by-case basis differ from TransFair/FLO?*

Essentially, the FLO minimum price system originated from experience with volatile commodity markets that follow boom and bust cycles. FLO wanted to keep small growers insulated from the bust cycle and so instituted a system of minimum prices and set premiums. Many argue, however, that these set prices cannot be fair and appropriate for all cocoa farmers in all situations. IMO decided that the concept of a fair price, along with a social premium with transparent price negotiation would achieve the goal of equity for smallholders more effectively, while preserving the freedom of business parties to negotiate a price that suits their particular situation. The price that farmers receive from selling their cocoa to Theo is based on the quality of the cocoa sold. Therefore, there is an additional incentive for Theo suppliers to improve quality, which in turn strengthens the overall trading relationship.

*Does IMO approve of the premium and social project before it goes into effect?*

No, premiums and projects are both certified after the fact in annual audits. These audits examine prices and experienced auditors can question any price that appears 'unfair' (too low or negotiated without full transparency). The use of the premium is discussed and agreed upon by all stakeholders in the process.

*What is the Internal Control System (or ICS) that must be set up by farmer groups?*

Under the IMO system, farmer groups must set up "Internal Control Systems" (ICS). The structure of ICS, modeled after those used in organic certification processes, is a bookkeeping documentation system for small scale farmers. The records of the farmer groups are audited to ensure farmers are in compliance with certification standards. As fair trade or organic inspectors cannot visit all farms, they rely on documents filed at the farmer organization level including farm maps, volumes of product sold, number of trainings attended, seedlings or materials received, etc. An internal staff of field agents (these are usually paid employees of the coop, many are former farmers that have been trained as extensionists) organize and keep good records. IMO annually audits samples of farms. As an IMO certified factory, Theo Chocolate has an ICS as well. The independent IMO inspector can review our operations, audit documents of our purchases, and examine how we pay and compensate our employees.

*Will farmer groups be asked to take on yet another certification with IMO?*

Small scale farmer cooperatives that are currently certified by FLO will be accepted by IMO through a document review process and will not be required by Theo to get separate IMO certification. However those suppliers who currently have no access to the FLO system will be assisted by Theo to achieve IMO producer certification. This will significantly expand the benefits of fair trade to hundreds of additional producers in Theo's supply chain.

*Is there a difference in how small and large farms are certified?*

No, IMO certifies cooperatives, small holder farms, large holder farms and plantations that are not part of a cooperative system all within the same basic guidelines. Under FLO only cooperatives with small-holder farms (under 12 hectares) can be certified Fair Trade. IMO allows Theo to extend the benefits of fair trade to a wider population of farmers.

*How are IMO's requirements different from FLO's certification requirements?*

IMO offers a transparent "rating" system, publically posting the scores of certified farmers, companies and other organizations involved on the IMO website. The website presents a series of criteria and rates performance on a scale of 0 to 4. To be certified, the company/farm/etc. must earn a minimum rating of "2" on 90% of all criteria, and earn a "2" on 100% of those criteria identified as "must". Beyond the initial evaluation, IMO expects participants to improve each year, and earn specific numerical goals. The scale recognizes companies that go above and beyond the defined certification requirements. The web site also presents and explains the premiums paid to farmers, and assesses the company's social impact. IMO requires annual certification of producers, importers and manufacturers. This annual certification is similar to the process used to certify organic products.

By contrast, on the producer side, FLO assesses various aspects of a farmer cooperative and grades each criteria through linking it to a specific timeline which indicates when it needs to be fulfilled (0, 3 or 6 years). A Compliance Criteria identified as "major" is linked to a major Fairtrade Principle and needs to be complied with at all times, thus weighing as a pass/fail criteria. In other words, if any one "major" criteria is not met, a cooperative is not certifiable. On the product side, Transfair USA certification governs the importing and manufacturing stage and requires that all ingredients in a given product that can be Fair Trade Certified are certified, and the FTC ingredient(s) constitutes more than 50% of the dry weight of the product. Transfair USA does not require annual physical inspections of traders or manufacturers, but rather reviews documents and does occasional spot inspections.

*What does the scale (0-4) mean in the IMO system?*

Deliverables for different producer groups is divided into various categories including; working conditions on producer farms, basic rights of all workers, environmental conditions, obligations for fair trade producer companies, etc. Within each deliverable, each number from 0-4 is described as it relates to the requirements. Most requirements have a minimum number an operation must meet. Ratings over 2 usually indicate a voluntary commitment on the part of the operation to exceed the requirements. For example, within the 'basic rights of all workers section', section 2.2.4 details requirements for 'social benefits':

Control Points: Social Benefits	MAX	Score
Compliance with national legislation in regards to social benefits (sickness, retirement, maternity) is (0) not at all achieved, (1) not fully, but almost, <b>(2=M)</b> fully achieved	2 <b>M=2</b>	
Medical insurance (independent from legislation) is covered; (0) no health insurance nor minimal support from employer in case of non work related sickness; (2) at least basic medical insurance for permanent workers; (3) for all workers OR coverage higher than normal and employer contributes toward insurance costs; (4) exceptionally high coverage with unusually high contributions from employer in local context	4	
Records on social benefits payments by employer and deductions from worker wages; (0) no/very poor records; <b>(2=M)</b> adequate records	2 <b>M=2</b>	
<u>Additional points for voluntary commitment:</u> Extra social benefits such as free child care, death insurance, membership to a private retirement fund, educational funds, etc. – rate extra benefits (beyond above) from 0-4. <i>No norm requirement</i>	4	

(Note: This is a partial list that illustrates examples of required scores as well as opportunities for an organization to demonstrate their commitment above and beyond the minimum requirements.)

\*\* For certification, an operation must meet the following percentages of Total Norm Points per chapter; First year: 90%, Second year: 95%, Third year: 100%. Continuous improvement is expected. All M=Must requirements must be fulfilled in the first year of certification.\*\*

*What happens if participants do not show year-over-year improvement on their certification's minimum criteria?*

If a participant fails to show improvement on minimum criteria, they are given a corrective action report after inspection with a specified time-frame to remedy the infraction. If remedied, the participant keeps their certification. If not remedied, the participant is delisted (decertified).

*Why does TransFair USA charge product licensing fees along with annual certification fees?*

Transfair USA explains that they use the money to build the brand value of the TransFair seal and demand for their certified products in the marketplace. Theo believes that this creates a conflict of interest, and is one of the key reasons Theo has made the transition to IMO.

*If the IMO body does not make money on the certification of products, how do they sustain themselves?*

IMO operates on an annual certification fee for the physical inspection service and administration they provide. IMO's fee structure is identical to that of organic certifying agencies.

*The IMO certification means that more organizations are eligible to apply for fair trade certification. Does this mean that the standards have been diluted?*

The ability of more organizations to apply for fair trade certification means that the fair trade model is gaining traction and the standards are being expanded to accommodate cultural differences and diverse business models. For example, the Transfair /FLO system requires farmers be organized in a cooperative, and the IMO model is applicable to single family farms as well as organizations that employ hired labor. For example, with IMO, our Madagascan cocoa farmer, a high quality, conscientious single family cocoa producer, excluded from the TransFair model, is eligible. All organizations are still subject to the same stringent evaluation.

## What this change means for Theo Chocolate

*Another difference between TransFair and IMO is that IMO does not charge product licensing fees. Does saving money on a fair trade logo alter the way Theo does business?*

Transfair's current licensing fee, the amount paid to Transfair in addition to the amount paid to farmer cooperatives, ranges from \$500 per ton to \$1,400 per ton of cocoa beans. Currently cocoa farmer cooperatives are guaranteed a premium, over conventional prices, ranging from \$150 per ton to \$300 per ton. Theo believes that it can increase its global impact by increasing its direct support of farmer suppliers versus paying Transfer licensing fees. Theo's commitment to changing the way the cocoa industry does business, from the farm to our factory, remains steadfast, and is augmented by this certification change. In simple terms, it means we can take the money we would have spent on licensing fees and use it to directly develop farmer production quality, education, and social programs. Otherwise, the Theo business model remains unchanged. For example, Theo just made an \$8000 investment in an extensionist for our Costa Rican supplier, APPTA. The extensionist will enable the cooperative to increase their cocoa yields and income 8x over a seven year period. APPTA matched Theo's investment and bought both a motorcycle for the extensionist to enable him to travel from farm to farm, as well as a chainsaw to prune overgrown and unproductive trees.

*What, if any, changes have occurred with Theo products as a result of the certification?*

All of our labels will now carry the IMO Fair for Life seal rather than the TransFair logo, but our ingredients sourcing and quality will remain the same. IMO requires that 95% of all ingredients which are 'typically fair trade certifiable' be used in order to use the logo. 'Typically fair trade certifiable' means the product is produced in developing or emerging countries.

*Why do I still see the TransFair logo on Theo chocolate bars?*

IMO recognizes and incorporates the existing Trans Fair system – there is no inherent conflict in the two standards. We will transition away from the Transfair logo organically, as we move through our already printed label inventory. By early fall 2010 the IMO logo should be making its way into the market on our packaging.

*Does Theo plan to implement the sourcing of Fair Trade certified, domestic, US produced ingredients?*

Yes, sourcing FairTrade certified US produced ingredients is a long term goal for Theo. Starting next year IMO will institute domestic Fair Trade standards, which will have a similar internal control system. Anyone who gets certified will need an ICS (see certification details section).

*What is considered domestic and what is currently being certified Fair Trade?*

The Global South (Latin America, Africa, South-East Asia) is considered international and certified Fair Trade. Countries that have an established legal system and are signatories to the International Labor Organization (ILO) are generally seen as more developed and do not need Fair Trade certification (this includes Europe, US, Canada, Japan, etc.).

*Should I still support TransFair when I see this on a product?*

Yes, Theo is proud of its past affiliation with Transfair, but views the move to IMO as an important step in our ability to have greater positive impact in the developing countries where we source. IMO certification will also allow Theo consumers to feel confident that across all facets of our business operation, Theo holds itself to the highest standards of behavior.

*What else does Theo prefer about IMO?*

In the IMO Preamble, they state that "continued comments from stakeholders are highly welcomed to further improve and adapt the programme to common fair trade principles as well as to the practical needs of the companies that are implementing the programme." This inclusive approach is another key reason Theo has made the transition to IMO. We believe collaboration is necessary as we work to improve the practical realities of and meaning behind fair trade certification.