

International Development Committee Inquiry into Fair Trade and Development

Submission by the Fairtrade Foundation

February 2007

Executive Summary

The Fairtrade Foundation has received institutional funding from a range of donors which has provided vital support in driving forward the Fairtrade movement both in the UK and internationally. It has enabled the Fairtrade Foundation to invest in creating a unique partnership with producers, NGOs, companies and retailers in order to create more opportunities for more farmers and workers in more developing countries to participate in Fairtrade.

With even the comparatively modest amounts of donor funding that it has received, the Fairtrade Foundation has been able to lift Fairtrade to a new level in the UK market, outperforming all its agreed objectives. Fifty percent of the public now recognise the FAIRTRADE Mark and sales are growing by over 40% year-on-year. Currently the international Fairtrade Labelling system spans almost 80 countries, working with 580 producer partners, representing over 5 million people - farmers, workers and their families - from 58 countries and across 21 Fairtrade markets in Europe, North America, Australia, New Zealand, Japan and Mexico. The Foundation is working with over 262 licensees, covering all of the major supermarkets, many independent stores, wholesalers and catering companies, offering over 2,500 products to the public in the UK alone.

Following the pioneering work of the 100% Fairtrade companies, more and more companies and retailers are deepening their engagement with and commitment to Fairtrade. The Foundation encourages all retailers to: incorporate Fairtrade into their core strategies and invest in staff training to support this; stock as many Fairtrade certified products as possible; switch as many of their product lines to 100% Fairtrade as possible; and resource sufficient marketing materials, from advertising to 'point of sale' to inform consumers about their Fairtrade offering. Beyond this, retailers and companies should also do more to promote and market the vision and the mission which underpin the Fairtrade movement.

Independent academic studies as well as mountains of anecdotal evidence demonstrate that Fairtrade is having a positive developmental effect for farmers, workers and their families, for their organisations and their communities too. What they have in common is that Fairtrade has supported their organisational democracy and transparency and personal participation and empowerment. To give just one example from thousands, cotton producers from the Dougroukoroni cooperative in Mali chose to spend their first Fairtrade premium payment on building a small two-room schoolhouse. The new sense of empowerment amongst members engendered by their engagement in Fairtrade meant that they then felt confident enough to negotiate with the local government to ensure that they lived up to their responsibilities. The result – a brand new school for approximately 160 pupils funded jointly by the local government and the cooperative.

The developments of recent years are in line with the Foundation's vision of making Fairtrade the 'norm', and it believes that in 2007 Fairtrade is at a watershed. With major strategic funding, the Foundation has the opportunity to mainstream Fairtrade on a major scale. What is needed at this crucial turning point is substantial and strategic donor investment in order to ensure that the significant market development opportunities achieved in the North can be maximised for the benefit of producers and workers in developing countries. The Foundation believes that the scale of the global investment needs to be in the order of £50m over 5 years, particularly in order to develop the infrastructure for Fairtrade in the South so that more farmers in more countries can benefit from Fairtrade. One option would be to extend DfID's programme of long-term Partnership Programme Agreements to the Fairtrade Foundation to enable us to work strategically together to achieve our shared objectives of promoting greater participation in, and benefit from, international trade by poor people and countries.

About the Fairtrade Foundation

The Fairtrade Foundation is Britain's leading independent authority on Fairtrade. It was set up in 1992 by five of the country's leading international development NGOs – CAFOD, Christian Aid, Oxfam, Traidcraft Exchange and the World Development Movement – which were later joined by the National Federation of Women's Institutes. Membership has now expanded to include 13 civil society organisations¹ that support the Foundation's mission and can contribute to its work in promoting Fairtrade to the public.

The Foundation is a registered not-for-profit organisation, with a mission to improve the lives of poor and marginalised farmers and workers in developing countries by promoting fairer forms of trade. The Foundation is the UK member of Fairtrade Labelling Organisations International (FLO) that sets global Fairtrade standards with the participation of key stakeholders including producers and commercial partners and monitors against these standards. Currently FLO spans almost 80 countries, working with 580 producer partners from 58 countries and across 21 Fairtrade markets in Europe, North America, Australia, New Zealand, Mexico and Japan.

The Foundation licenses the FAIRTRADE Mark, an independent certification label, to products that meet the international FLO standards set for producers, their organizations and the traders who deal with Fairtrade products. It also builds awareness of Fairtrade amongst consumers so they can make informed decisions about their purchasing practices, and engages with retailers and other companies to enable them to offer their customers a wide choice of Fairtrade labelled products. Currently the Foundation is working with over 262 licensees, covering all of the major supermarket retailers, many independent stores, wholesalers and catering companies, offering over 2,500 products to the public.

1. What has been the impact of donor funding for Fairtrade?

1.1 Over its twelve-year history, the Fairtrade Foundation has received institutional funding from a range of donors, which has provided vital support in driving forward the Fairtrade movement both in the UK and internationally. These donors (see Appendix 1 for further details) include:

- **DfID** – has provided grants since 1999 totalling approximately £1.8m for a variety of activities including public awareness-raising through the Fairtrade Towns initiative and in schools, new product development and promoting Fairtrade in the 'out of home' sector
- **Comic Relief** – has provided funding of £250,000 over three years specifically to extend the benefits of Fairtrade to African producer organizations and to expand the range of Fairtrade products from Africa
- **European Commission** – the Fairtrade Foundation, along with its partners Max Havelaar France and Max Havelaar Belgium, received €355,683 to raise awareness and deepen understanding of Fairtrade amongst new audiences across Europe between 2006 and 2009.

1.2 The Foundation has also received additional funding from a range of Trusts and Foundations. The impact of this funding has been seen in three core areas as described below.

¹ The 13 members of the Fairtrade Foundation are currently Banana Link, CAFOD, Christian Aid, Methodist Relief and Development Fund, National Federation of Women's Institutes, Nicaragua Solidarity Campaign, Oxfam, People & Planet, Shared Interest Foundation, Scottish Catholic International Aid Fund, Traidcraft Exchange, United Reform Church and the World Development Movement

1.3 Impact on the public: Donor funding has been absolutely critical in enabling the Fairtrade Foundation to invest in creating market demand for Fairtrade and has thereby brought about a rapid expansion in opportunities for producer groups to sell into the UK. As a direct result of its donor grants, the Foundation has been able to mount a vigorous campaign to raise public awareness of the FAIRTRADE Mark resulting in a considerable expansion in consumer demand. Annual poll findings demonstrate that 52% of the public now recognise the FAIRTRADE Mark (see Appendix 2). For those who buy Fairtrade products, over 80% rated the independent guarantee of the FAIRTRADE Mark as 'fairly' or 'very' important to them. Independent research commissioned by the NGO network BOND in February 2006² also found that 87% of the public were aware of Fair Trade (see question 7 for further details).

1.4 This awareness has translated into a sales value of £196m for Fairtrade products in the UK in 2005, signifying growth of over 1,000% since 1998. Since 2003, the rate of growth in sales has been 40% year-on-year, and MINTEL estimated in their 2006 report 'Attitudes to Ethical Foods in the UK' that at current trends, the sales value of Fairtrade products in the UK would exceed £230m by the end of 2006. It described Fairtrade as the 'king of the crop' in terms of sales growth in the ethical foods market. What is more, MINTEL predicted that Fairtrade will see a further 138% growth over the next five years in the UK alone, with sales crashing through the half billion pound mark (£547m) by 2011.

1.5 The market penetration of Fairtrade is also high: in 2005, 42% of all households purchased a Fairtrade certified product at least once, and this figure is rising rapidly. Fairtrade sales now account for a stunning 20% of the roast and ground coffee market in the UK, although reaching only around 5% of the overall coffee market to date. This snapshot of the coffee market demonstrates how much the Fairtrade movement has achieved to date, its potential to transform markets if the opportunities that exist can be grasped and also how far the movement still has to go to take Fairtrade to the next level. Hence the vital importance of continuing to generate significant amounts of strategic funding.

1.6 The growth in public awareness of Fairtrade has enabled the Foundation to take the complex, distant issues of trade, development and poverty outside of their usual audience and into the mass market. Fairtrade makes these issues accessible and empowering for the general public because they can do something in their everyday lives to create positive change. Fairtrade provides an alternative, open to everyone, which goes beyond dropping pennies in collecting tins.

1.7 Impact on business: The growth in public awareness and consumer demand for Fairtrade certified products, and consequent rising expectations, has led to an explosion of commercial interest in Fairtrade. Fairtrade labelling with independent verification offers a structure with rules by which companies can engage in the complex tasks of making trade work for the poor. The Foundation has strategically targeted and worked with businesses keen to enter into Fairtrade to ensure that they too understand its developmental objectives, in terms of improving the position of marginalised farmers and workers and their ability to compete more effectively in international markets. Again, the Foundation's capacity to respond to this business interest has been facilitated by the grant funding it has received. However, the Foundation is unable to ensure that all the current opportunities emerging in the business sector are fulfilled without additional funding.

1.8 The number of companies licensed to sell products with the FAIRTRADE Mark currently stands at 262, an increase of 24% since 2005. The pioneering 100% Fairtrade companies and alternative trading organisations have led the way in growing the Fairtrade market and as a result have seen a massive increase in their sales. Many of these companies can now be considered mainstream, for example, Cafedirect is 4th largest roast & ground coffee brand in the UK. These companies are now joined by a wide and expanding range of companies from across the food and non-food sectors many of whom are, every year, increasing the proportion of products they sell as Fairtrade.

² http://www.bond.org.uk/pubs/campaign/mph/ad_mph_notes.pdf

1.9 The Foundation has also worked to ensure strategic engagement in Fairtrade from across the retail sector covering the small independents, catering and wholesale sectors. This has led to a number of long-term and significant commitments by major retailers to Fairtrade:

- In 2003, in a groundbreaking move, the Co-op switched all its own-label coffee and block chocolate to Fairtrade
- In March 2006, Marks & Spencer switched all of its coffee and tea to Fairtrade, enabling over 30 new producer organisations to enter into Fairtrade and making significant changes to volumes, values and positioning of Fairtrade
- Sainsbury's announced in December 2006 its commitment to switch all of its bananas to Fairtrade. This move, when completed will more than double the volume of Fairtrade bananas bought by Britain's shoppers, increasing the Fairtrade share of the banana market to some 16%. It is expected to generate an estimated £4m a year in Fairtrade premiums for the growers and their communities
- All Caribbean bananas at Waitrose carry the FAIRTRADE Mark and it has also committed to converting their entire banana offering to Fairtrade
- Approximately a quarter of Brazil nuts in Tesco supermarkets are now sourced from Fairtrade certified producers in Bolivia for whom the market access has been a lifeline, while Asda has been driving forward the market for Fairtrade fresh fruit such as pineapples from smallholders in Ghana.

1.10 These switches are in line with the Foundation's strategic plan to engage with companies to create new opportunities and consolidate markets for more and more producers, and its vision of making Fairtrade the 'norm'. They demonstrate that the Foundation can encourage companies to move increasingly from statutory compliance with Fairtrade standards to a deeper commitment to the spirit of Fairtrade.

1.11 The Grocer noted recently: *'2006 will go down in history as a time when the importance of price waned and healthy and ethically sound food became the battle ground.'* The rise of Fairtrade is also having a wider impact upon public expectations of how companies should trade with their partners in developing countries - it is no longer acceptable for companies to turn a blind eye to poor practice.

1.12 In 2001, the Foundation also took a strategic decision, enabled by donor funding, to expand the product range and so allow more producers to enter the system. The range of Fairtrade certified products available has grown significantly - in 2003 there were around 150 products certified by the Foundation; in 2007 over 2,500 products are available across a range of food and non-food categories, from Fairtrade cotton, nuts and rice to vanilla and grapes. Again these figures underline the Foundation's ability to deliver remarkable results from small amounts of donor finance – with long-term impacts for the farmers groups involved.

1.13 These impacts on business simply would not have been possible without the external funding that the Fairtrade Foundation has received. It should be further noted that to lever these changes and retain its current position and momentum, the Foundation has had to work on a very small cost-base in very competitive environments. As a point of comparison, any major brand launching even a new sub-brand would expect to spend £10-15m in advertising and marketing to the public. The Fairtrade Foundation believes that recent developments represent a turning point in the growth of the Fairtrade movement and that with additional strategic funding in place, the opportunity to mainstream Fairtrade on a major scale is within reach.

1.14 **Impact on producers:** The dramatic market expansion of Fairtrade has drawn an enormous number of new producers into the system, particularly over the past five years, with the current total now standing at 580 certified producer organizations representing over 5 million people – farmers, workers and their families - from 58 producing countries. There are now over 350 groups supplying the UK market alone – many representing thousands of farmers, for example in the Windwards, 3,600 farmers are Fairtrade certified, 90% of all banana farmers in the islands.

1.15 The targeted donor funding that the Fairtrade Foundation has received has particularly enabled it to make a radical difference to the ability of producer groups from Africa to access Fairtrade markets. The number of African Fairtrade certified organisations rose from 42 in 12 countries in 2002 to 164 organisations from 23 countries by the end of 2006 – an increase of 290%. The opportunities for different African producers able to access the Fairtrade system have also widened considerably. In 2002, producers were largely based in coffee and tea, the major traditional agricultural commodity crops. Now, African producers of flowers, dried and fresh fruit, nuts, cotton and wine, to name just a few, are able to benefit from their access to Fairtrade markets (see Appendix 3).

1.16 This rate of growth in the number of FLO certified producers globally is expected to continue, with FLO expecting at least 100 new groups to enter Fairtrade annually, reaching a total of over 1,100 certified groups by 2012. However, the demand from producers is of course increasing and the Foundation would like to scale up further.

1.17 Independent academic studies as well as anecdotal evidence have demonstrated that Fairtrade is indeed having a positive developmental impact upon producer partners in developing countries. There are thousands of impact stories from thousands of Fairtrade producers, each of them with a different focus depending on the needs and requirements of the producer and their organisation group. What they have in common is that Fairtrade has supported them to develop their democracy, transparency, participation and empowerment.

1.18 Independent research has proposed that the direct and indirect impacts of Fairtrade are mediated in four ways:

- Through the trading standards (via the minimum price, Fairtrade premium, pre-financing and long-term trading relationships). FLO estimates that in 2005, the Fairtrade benefits to producers amounting to around €80m in terms of the Fairtrade minimum price and premium
- Through access to markets to sell their products and the organisational support that is often provided by companies engaging in Fairtrade
- Through the organisation that is at the heart of the producer standards (via organisational change made to meet minimum standards for certification and progress standards for continuous improvement). The strengthening of farmers' organisations is a key means for farmers to change their position in the supply chain and for workers to organise into trades unions. For example, in Kenya, the Kenyan Plantation and Agricultural Workers Union (KPAWU) was able to work with flower farms to organise workers and negotiate a collective bargaining agreement directly as a result of the decision to engage with Fairtrade
- Through the networking opportunities that involvement in Fairtrade can bring such as the Africa Fairtrade Network, the Network of Asian Producers and the Coordinadora of Latin American and Caribbean producers.

1.19 The impacts of Fairtrade for small holders and workers are experienced at three levels, examples of which are described below:

- **Producer and family** – In Costa Rica, the collapse in coffee prices in the late 1990s forced many smallholders to sell up and move to the cities in search of work. Many of these farmers can be seen in the cities sleeping rough or living in ghettos, their children sucked into drugs, gangs, crime and prostitution. This has not been the case for members of the Coocafé cooperative. According to Gerado Camacho, a Coocafé member, *'The Fairtrade price allows us to survive as coffee farmers. It covers our costs of production, lets us send our kids to school, buy clothes and keep a roof over our heads.'* Empowerment is at the heart of the Fairtrade system and both producer organisations as well as individual farmers reap the benefit. Arturo Gomez, a banana farmer from the Costa Rican organisation, Cooptrabatur noted: *'Before I was someone that took a box*

and loaded it onto a train. That was my only responsibility. I was just a farmer, who was an intermediary. In this new system I have become an international business man.'

- **Producer organisation** – The reputation of Ugandan coffee suffered following liberalisation of the coffee industry. The Gumutindo Co-operative, supported by Fairtrade and in particular its relationship with Cafédirect, has invested in agricultural training, organic conversion and improved processing methods to raise the quality of its coffee. Buyers are now knocking on the cooperative's door and farmers are queuing up to join the organisation. Cotton producers from the Dougoroukoroni cooperative in Mali chose to spend their first Fairtrade premium payment on building a small two-room schoolhouse. The new sense of empowerment amongst members engendered by their engagement in Fairtrade meant that they then felt confident enough to negotiate with the local government to ensure that they lived up to their responsibilities. The result – a brand new school for approximately 160 pupils funded jointly by the local government and the cooperative.
- **Community** – The Fairtrade premium is often invested in schools, hospitals and clinics and in environmental projects decided by the farmers democratically. These projects contribute towards efforts to meet the internationally agreed Millennium Development Goals in health, education and environmental sustainability. For example in the Windward Islands, the Fairtrade premium has been used to build three nursery schools which means older children don't have to miss school to look after their younger siblings whilst their mothers are harvesting bananas.

1.20 An early study of coffee producers in Uganda and Tanzania³ found that Fairtrade had brought a range of benefits including opening the gates for the cooperatives to access export markets and has improved access to coffee market information. The same study also found that it was only because of the higher Fairtrade price and Fairtrade premium that some cooperatives were able to survive the collapse in coffee market prices in 2001 (see Appendix 4).

1.21 Another study of the Ghanaian cocoa-producing group, Kuapa Kokoo,⁴ found that the community projects funded through the Fairtrade premium were having a development impact upon the wider community as well as Kuapa members. For example, over 100,000 people in the community benefited from free medical attention and prescriptions, and a school building project funded by the premium had 'emphatically improved pupil attendance and health and the quality of education.'

1.22 A more recent study of the Heiveld Rooibus Tea Cooperative in South Africa⁵ found that Fairtrade was playing a critical role in its success by providing it with access to a high value market and supportive relationships with a network of buyers as well as direct financial assistance for infrastructure and business development. As a result, Heiveld was a stronger and more sustainable business and organisation that in turn provided a range of benefits to the local community. These ranged from increased incomes and employment opportunities, to the development of a greater sense of community and individual self-worth.

1.23 Ongoing monitoring and evaluation of the developmental impact of Fairtrade is crucial to both improving the operational effectiveness of the FLO system as well as ensuring the credibility of Fairtrade in the eyes of the public. The Fairtrade Foundation would welcome donor funding that enables it to invest effectively in this activity.

1.24 The evidence above demonstrates that, even with the comparatively modest amounts of donor funding that it has received, the Foundation has been able to lift Fairtrade to a new level in the UK market, outperforming all key performance indicators and demonstrating the

³ Tallontire, A., Greenhalgh, P., Bee, F, and J. Kyamanywa. 2001. Diagnostic Study of FLO Registered Coffee Producers in Tanzania and Uganda.

⁴ Ronchi, L. 2002. Monitoring impact of Fairtrade Initiatives: A Case Study of Kuapa Kokoo and the Day Chocolate Company.

⁵ Smith, S. 2006. Fairtrade Foundation Reflect and Review.

Foundation's effectiveness. The success of Fairtrade in meeting its aims of going from a niche market to the mainstream could not have been imagined even five years ago and it simply would not have been possible without the donor funding that the Foundation has received, particularly in its early years. However, such rapid growth, the increased demand for more and new products, the desire of millions more farmers to join Fairtrade, and the need to strengthen Fairtrade systems have brought with them many challenges for the Fairtrade movement which need to be further resourced and tackled effectively in order to ensure continued success.

1.25 The Fairtrade Foundation, and indeed the wider FLO network, is committed to financial sustainability, which is achievable given the licence fee mechanism (the charge paid by companies for use of the Mark) that is inbuilt into the system. In the UK, the Foundation has already reached its target of 75% of income derived from licence fees. However, the Foundation does not believe that the international system should ever become entirely reliant upon income from companies: it must maintain its independence; it must maintain its focus on working with the most disadvantaged producers and not just those who can bring in finance; it needs to be able to make the substantial investments into new products areas required. It would not be commercially feasible to ask companies already selling Fairtrade certified products, and so paying a higher commodity price as well paying for certification costs, to also contribute to future investment costs especially ones which may be irrelevant to their own commercial interests. For example, Fairtrade coffee companies competing in a cut-throat market could not also be expected to pay for work on, for example, Fairtrade lemon grass or cinnamon, or for the development of Fairtrade in a new country such as Sierra Leone – even though both those initiatives would indeed be priorities in terms of the Foundation's goals of poverty reduction.

1.26 Aid for Fairtrade is entirely consistent with DfID's stated aims of promoting greater participation in international trade by poor people and countries, increasing the benefits and minimising the costs of international trade to the poor, and building producers' capacity to participate in trade.⁶ It therefore seems anomalous that there has been pressure from DfID for the Fairtrade Foundation to be financially sustainable after just 12 years. DFID's programme of long-term Partnership Programme Agreements (PPA) with a number of civil society organizations provide a successful model of how the government and the Fairtrade Foundation, together with its international partners, could work together to achieve our common objectives. A PPA would allow future funding to be based on a long-term shared strategic vision and ensure the right level of investment in developing countries.

1.27 As a comparison, Government investment in enabling UK farmers to switch to organic production has been in the region of £150m over the last 10 years. Poor farmers in developing countries likewise need support to overcome the obstacles to selling export-quality products and meeting Fairtrade standards in order to switch to Fairtrade and gain the market access and many other opportunities Fairtrade offers.

1.28 What is needed at this crucial turning point is substantial and strategic donor investment in order to ensure that the significant market development opportunities achieved in the North can be maximised for the benefit of producers and workers in developing countries. The Foundation believes that the scale of the global investment needs to be in the order of £50m over 5 years, particularly in order to develop the infrastructure in the South. It is currently engaged in discussions with DfID and other national governments for a major strategic funding package to support this effort, either through a PPA or some other mechanism.

⁶ DfID. (2000). White Paper: 'Eliminating Poverty – Making Globalisation Work for the Poor.'

2. How best can donors help to develop fair trade consumer markets in both developed and developing countries?

2.1 Developing Northern markets: The strategy pursued by the Fairtrade Foundation in developing the UK consumer market has had two key elements: firstly increasing the demand for Fairtrade certified products by raising public awareness and understanding of Fairtrade and the issues surrounding poor farmers and their dependence on commodity crops; and secondly ensuring companies and retailers are offering a range of products so that public demand can be successfully met and that producers can sell more.

2.2 The success of this awareness-raising strategy is rooted in the way the Foundation has sought to connect with consumers through a wide coalition of like-minded organisations. Working with its 13 members, along with trade unions, universities, schools and faith groups as well as companies and retailers offering Fairtrade, the Foundation has been able to develop what has been described by journalist John Vidal as 'one of the fastest growing grassroots social movements in Britain,' reaching out to a wide cross-section of the public.

2.3 The Fairtrade Towns campaign has particularly caught the imagination of the public and generated its own momentum, successfully taking awareness of Fairtrade to the heart of local communities. It involves local activists engaging with all sectors of their community – from the local mayor to the local mosque, from the local hotel to the local hairdresser - to spread awareness and understanding of Fairtrade, in order to raise local business awareness and retail sales and influence procurement by public and private sector organisations. The Towns campaign has also proved to be a successful way of generating interest in and debate of development issues. As of February 2007, there are 222 towns that have been awarded Fairtrade status, with at least a further 250 Towns working towards that goal. There are also Fairtrade Universities (41 so far declared), Faith Groups (over 3000 churches, mosques and synagogues) and Schools campaigns.

2.4 These campaigns and activities have been supplemented with key press and media activity as well as production of direct consumer-facing information. As already stated, donor funding has been critical in this effort and has been important in leveraging significant additional funds from other sources such as local government and business.

2.5 The success of the UK model in growing a consumer market for Fairtrade is wholly replicable – indeed Labelling Initiatives across the world such as Sweden, Denmark and Australia are frequently visiting the UK to see what lessons they can take back to their own countries. There are currently 20 Northern-based Labelling Initiatives including in the US, Canada, France and Belgium. However there is scope and interest to develop further markets, particularly in countries which have either recently joined the EU, and/or where Fairtrade does not currently exist, for example Estonia. It will, of course, require significant support to ensure that nascent Labelling Initiatives are resourced appropriately and thus able to realise their potential.

2.6 Developing Southern markets: While the trend for rapid rates of growth of Fairtrade in the consumer market is significant, in global terms the market share of Fairtrade is still small. It is clear that for the impact of Fairtrade to be significant in absolute terms, the market for Fairtrade needs to grow substantially. Much of this may remain South-to-North trade. However, a key driver of sustainability will also be South-to-South sales and therefore the development of Southern markets is a strategic goal. The Foundation strongly recommends that this should also be a funding priority for donors looking to invest in the South. There is already considerable interest in many developing countries but the clearest potential for success lies in the larger economies with a growing middle-class demographic such as Brazil, South Africa, India, the Philippines and Thailand.

2.7 In some countries – Brazil, India and South Africa – the momentum to start Fairtrade Labelling Initiatives is well underway but finance is proving a major obstacle. Those involved in building initiatives in South Africa and India welcomed the Select Committee's lines of inquiry and noted the importance of supporting civil society efforts to promote Fairtrade in

their own countries, and of including specific resources to support Fairtrade in multilateral and bilateral aid packages.

2.8 Noel Oettle, the Chair of Fairtrade South Africa established in 2005 to develop and promote Fairtrade labelling in that country, noted that *'Developing consumer markets is highly dependent on sound practice at the level of local businesses and production systems in developing countries. If this is significantly absent the marketing effort will eventually fail. Our experience demonstrates that donors can provide very significant support to enable Southern organisations to develop their entrepreneurial and commercial capacities.'* He also noted that *'this can include developing the capacity of producers and workers to become effective entrepreneurs and to develop and maintain direct links to national, regional and international markets. By focusing on the development of collectively owned enterprises such as co-operatives, donors can spread the benefit amongst the weaker economic sections of the local communities, and mitigate against the "capture" of finance, markets and opportunities by the elites in local communities, to the exclusion of the poor.'*

2.9 Southern based Labelling Initiatives face unique challenges in establishing systems to enable them to licence Fairtrade products for local consumption. The markets that they need to target are, at least initially, small and generally unaware of fair trade as a concept. Again, this will therefore require major investment in consumer awareness raising campaigns including on: the impact of Fairtrade Labelling including social and economic benefits to producers, benefits to consumers, and traceability. As highlighted previously, millions of pounds have been spent in the UK to bring awareness of Fairtrade to its current position and similar levels of investment will also be needed to build markets in developing countries. Such activity will also require building links with consumer organisations and other potential networks prepared to raise awareness of Fairtrade as in the UK model.

2.10 The Labelling Initiatives themselves will require technical skills of a high standard, so that they are able to establish and administer rigorous and efficient systems. Providing both initial technical support and the capacity to review and adapt systems once experience has been gained will be vital. Investment will also need to focus on building trade audit experience, management systems and leadership development. It will also need to support the establishment of certification systems. In many cases current FLO standards including pricing may need to be adapted for the Southern context. For example, FLO sets FOB prices, while farm-gate prices will be needed for local markets.

2.11 **Supporting producers:** The creation of a significantly increased 'mainstream' market for Fairtrade where the demands for predictable quantity and quality of products are high also raises additional challenges for the Fairtrade system. As the Report of the Commission for Africa in 2005 noted: *'Increased funding from developed countries would help increase the participation of producer groups in "fairtrade". The demand for products carrying the "fairtrade" mark is growing, but investment is needed in building the capacity of producer groups in Africa to meet the rigorous demands of developed country markets.'*

2.12 For some products, the market demand for Fairtrade is running significantly ahead of the system's ability to ensure supply. For example, the initial supplies of Fairtrade certified cotton sold out within three months. There are thousands of smallholders that would like to sell Fairtrade certified cotton but producers need to have a greater understanding of increasingly challenging market requirements, need timely support and assistance to deliver to this changing market and need support to meet the Fairtrade organisational standards. Arun Raste of the Indian Fairtrade initiative noted the need for: *'production-related support for producers including upgrades in technology and the key availability of working capital.'* For other products, many producer groups are selling just a small proportion of their crop into Fairtrade markets and need more support to take advantage of the growing market opportunities that currently exist.

2.13 Donor support also needs to focus on the requirements for sustainable agricultural production: producers are under increasing pressure to meet higher environmental standards for the organic and Fairtrade markets, as well as to meet supermarket standards such as EUREPGAP. In most developing countries climate change is already having a significant

negative effect on production, and the long-term sustainability of production systems and the human communities that they support is under threat. For this reason it is important to ensure that the capacity of producers to sustain production at least matches their abilities to market their products at viable prices.

2.14 Another opportunity to increase producers' access to export markets is by extending Fairtrade certification into new product areas. The Foundation's strategic plan involves preliminary investigations of a range of areas including additional food products such as soya and seafood, non-food products such as jute and mining and tourism and other service industries. The development of new product standards is a multi-stakeholder and resource-intensive one, taking between one and three years before a product finally reaches the market and any returns are seen.

2.15 The Fairtrade Foundation recognises that within the context of increasing market demands on producers, maintaining the development focus of Fairtrade is both challenging and essential. That is why the role of FLO's Southern-based Liaison Officers is so vital in supporting producer organisations to assist producers in complying with Fairtrade standards and progress their development plans. Donor funding from Dutch organisation SNV has been instrumental in increasing the number of officers to 25. However, even with this support, the Liaison Officers in the South can only provide an estimated one day of service per group per year, compared with the required level of some 10-20 days per group per year. The current level of assistance is clearly therefore inadequate. Support for producers is mainly limited to fire fighting, such as following up on problems identified during Fairtrade inspections. In fact Liaison Officers need the time and resources to identify and introduce new producer groups to Fairtrade. Having certified new producer organisations and enabled them to trade, a key challenge for Fairtrade is to enable them to overcome the multiple problems they encounter and assist them in deepening the benefits of Fairtrade.

2.16 As already stressed in the response to Question 1, substantial international funding is now urgently required to build the infrastructure of Fairtrade in the South and capitalise on the significant market opportunities that currently exist for producers. The Fairtrade Foundation, with its partners in FLO, believe that such an investment could potentially enable up to 45 million additional people – smallholders, workers and their families – to benefit from the establishment of successful and sustainable small- and medium-scale businesses.

3. How can aid be more effectively mobilised to help producers improve the quality of their produce in order to access fair trade markets?

3.1 Quality improvement is a key factor in improving the success of small producers in selling into export markets. Improvement in quality can be facilitated in a number of ways – education to prevent poor agricultural practices, improvements in packing at farm level and improving processing and storage facilities, to name but a few. Producers also require technical assistance and the infrastructure to enable them to monitor their product quality to ensure consistent delivery of high quality product to the market. Fairtrade certified smallholder groups often democratically decide to invest their Fairtrade premium in such improvements but the amounts are insufficient to solve the problems.

3.2 Producer organisations also require support in developing their administrative and business skills and capabilities – key factors in ensuring their continued economic success and sustainability. Producers also require assistance in order to meet the requirements of Fairtrade certification on an on-going basis. Many of the 100% fair trade and alternative trading organisations⁷ have a great deal of experience and success in supporting producer organisations to access export markets and the Fairtrade Foundation would urge donors to support them further in this work.

3.3 The key for donors is to ensure that all efforts to provide technical assistance are channelled through an experienced, and preferably locally-based, partner organisation which

⁷ These include Cafédirect, Traidcraft, Twin Trading, Agrofair, Equal Exchange, Day Chocolate Company, Hug, Gossypium, Bishopston Trading and People Tree.

is specifically focused on promoting economic opportunities for cooperatives, enterprises and communities through the application of sound business and agricultural practice. The Foundation also recommends that there is increased support to enable producers to capture as much of the value of their product as possible and move into processing wherever feasible.

4. How does the international trade system impact on ethical and fair trade production (for example, the impact of changes in the EU tariff regime for bananas on small developing country producers)?

4.1 It is widely recognised that one of the most effective ways of eradicating poverty in developing countries is to establish successful and sustainable economic activity. Fairtrade has proved to be an extremely successful model of how people-centred development can effectively reduce poverty and improve livelihoods. But the Foundation believes that trade is only a 'means to an end', rather than an 'end in itself', and if the trade system is to benefit all on a long-term basis, governments have to manage trade effectively, and intervene where appropriate to mitigate any negative social and environmental impacts and ensure that trade is tackling poverty and facilitating sustainable development.

4.2 Unfortunately these impacts are very often unconsidered if not completely ignored. The last round of WTO negotiations, the so-called Development Round, appears to have sidelined the most important priorities of developing countries. It has failed to deliver on promises to reduce tariff and non-tariff barriers, or to reduce subsidies to developed country farmers. The global trading regime also fails to act upon the principle of special and differential treatment for developing countries to allow them the space and flexibility to develop appropriate trade and development policies. Time and again developing countries have been pushed into inappropriate liberalisation leading to increased poverty. The cases of bananas and rice are just two examples where developing country producers have been negatively impacted by the unequal playing field that is the global trading system.

4.3 **Rice:** Rice producers in developing countries are negatively impacted by the unfair trading practices of rich nations that distort the market. The US Government provides \$1.3bn in subsidies to support a crop that costs \$1.8bn to grow – effectively paying 72% of the cost of production. As a result the US dumps 4.7 million tonnes of rice on world markets at 34% below the cost of production. This has a devastating effect on the millions of smallholders in developing countries who are dependent upon rice for their livelihoods. Further, there are moves at the WTO to force poor countries to reduce their tariffs on rice imports meaning they will not be able to protect themselves from being further flooded with cheap, dumped imports. In addition developing countries also face barriers to exporting rice as a result of the escalating tariffs that the EU imposed upon processed rice imports. Efforts to introduce Fairtrade certified rice in 2002 were unsuccessful simply because it was not an economically viable proposition to sell rice bought at a Fairtrade price and milled in-country because of the tariffs that this attracted. One small step in the right direction was the EU decision in 2004 to introduce zero duty for six varieties of long-grain basmati rice from India and Pakistan and a reduced tariff of €175 on polished basmati rice. As a result, a Fairtrade polished basmati rice originating from India was successfully introduced to the UK market in June 2005.

4.4 **Bananas:** The fate of the Windward Islands' banana farmers has been under threat since the World Trade Organisation ruled in the late 1990s that the preferential trade arrangements set up by the European Union were illegal. The outcome means that as preferences are gradually stripped away between now and 2008, the island farmers will increasingly struggle to compete with lower cost plantation bananas. There is growing evidence to suggest that it is only access to Fairtrade markets that is enabling the Windward Islands industry to continue to survive. Latest figures for banana shipments from St Lucia, St Vincent and Dominica demonstrate that while in the first quarter of 2005, the average proportion of Fairtrade bananas was 29%, this had risen to 72% by the second quarter of 2006.

4.5 Dr Kenny D Anthony, Prime Minister of Saint Lucia, has noted that: *'In this era of competitive global trade, small-scale farmers like ours have little or no chance of survival without the kind of market intervention that is provided through Fairtrade. Not only does Fairtrade guarantee a fair price to our farmers, but the social premium that is generated*

through the Fairtrade sales provides invaluable support for projects in rural communities throughout the Windward Islands.'

4.6 In addition, the Prime Minister of Dominica, Roosevelt Skerrit, is very clear that without Fairtrade, the island economies would be in ruins. *'Fairtrade is providing a vital livelihood for small farmers.... It is giving people a legal way of earning a living and maintaining stability,'* he has said. *'Confidence has been returned to the farmers through access to the Fairtrade market and continued employment is promoting peace and stability,'* he added. Not only is the Fairtrade market providing a lifeline to farmers, but the Fairtrade premium is also providing them with their only possibility of having sufficient resources for diversification into other areas such as fruits, avocados and even tourism, as they seek to develop sustainable livelihoods for themselves and their children in the future.

4.7 In Latin American countries such as Nicaragua and Colombia, the EU banana regime has accelerated the race to the bottom as companies drive down prices to remain competitive, which has resulted in lower labour conditions, wages and environmental standards.

4.8 The lesson from Fairtrade is that trade will only work for the poor if it takes place within a policy framework which has development as its aim rather than the maximisation of trade *per se*. The Fairtrade model is a blueprint, showing in microcosm that trade can be successfully regulated and still be commercially viable. That is why the Fairtrade Foundation, along with its partners in the Trade Justice Movement believe that the UK Government must do more, at the EU and global level, to create the macro-economic environment necessary to enable producers in developing countries to have genuinely fair market access. That means that tariff and non-tariff barriers to EU markets are removed, that developed countries deliver on their commitment to eliminate export subsidies and ensure that that global trade policies and practices do not undercut internationally agreed social and environmental standards, in particular core labour standards, and to ensure that the principle of special and differential treatment is upheld throughout trade policy to allow developing countries to protect their own markets. The strong public commitment to Fairtrade and their willingness to purchase Fairtrade products gives a mandate for the Government to deliver a fairer international trade deal for developing countries.

5. Do existing government guidelines on procurement of ethical and fair trade products provide an enabling environment for the development of this market and the opportunities for producers?

5.1 The consumer market for Fairtrade products demonstrates the extent to which the public is showing leadership in its purchasing practices and the Fairtrade Foundation calls on Government at the national and local level to reflect this in public sector procurement. The public sector spends 13% of national GDP on procurement and the supply of food and catering services in England accounts for more than £1.8bn annually. The existing OGC guidance of 2002 is designed to help public authorities incorporate fair trade principles into their sourcing whilst remaining within EC public procurement rules. However some local authorities interviewed for Fairtrade Foundation research into the 'out of home' sector have been frustrated by both the EC procurement rules and the OGC interpretation of them, as to how they relate to the procurement of Fairtrade certified products. Bristol City Council has labelled them "too restrictive" and Croydon City Council has aired similar concerns. There still appears, at European level, too much legal uncertainty about integrating fair trade principles into procurement and this is undermining efforts to promote it.

5.2 The problem seems to be that the guidelines take a very narrow and technical approach to quality that does not appear to include social and environmental production methods in the same way that technical quality issues, for example health and safety, are included. This has been legally interpreted by some as a barrier to the procurement of ethical and fair trade products.

5.3 Some councils have found their ability to negotiate on Fairtrade products weakened because they have been advised that they are legally unable to specify Fairtrade at the tendering stage. It can be requested once a contract has been awarded but by then councils

have much less authority to ensure that it is procured because if suppliers cannot find Fairtrade or it is more costly the contractor has an easy way to avoid supplying it.

5.4 There has however been a recent relaxation of EC public procurement rules in some areas such as the environment with public bodies now permitted to ask for products with environmentally friendly production methods or to award extra points for them in the contract. In July 2006 the European Parliament called on “public authorities in Europe to integrate Fair Trade Criteria into their public tenders and purchasing policies...” The Foundation believes that in order for government guidelines to remain consistent with stated EU policy, there needs to be a re-writing of the OGC guidance to clarify that the FAIRTRADE Mark is an acceptable form of specifying during the tendering process, as part of a wider tender bid. The International Council of Local Environmental Initiatives (ICLEI) has produced advice for European public authorities wishing to purchase Fairtrade products and minimise legal uncertainties⁸. The Foundation recommends this to those seeking to incorporate Fairtrade certified products into their procurement policies and practices. The Fairtrade Foundation would welcome the opportunity to participate in any process of re-writing and clarifying the OGC guidance in respect of Fairtrade.

5.5 London 2012 has set out to achieve the first sustainable Olympic Games and Paralympic Games. It has outlined some of the actions and strategies in the document Towards a One Planet Olympics, which includes a section on Ethics and Fair Trade. This is consistent with the GLA and Mayor Ken Livingstone’s aim to establish London as a Fairtrade city and represents a fantastic opportunity to establish London and the UK as the foremost Fairtrade market in the world.

5.6 Sustainable procurement is central to the delivery of a One Planet Olympics, and the independent FAIRTRADE Mark which is already recognized in 21 consumer markets offers the opportunity to source food & drink, flowers, sports balls and cotton products that have already met internationally agreed Fairtrade criteria.

5.7 The Fairtrade Foundation would welcome working with the 2012 team to integrate Fairtrade into its overall sustainable procurement strategy. The Foundation hopes that there will be scope for the engagement of entrepreneurial small ethical businesses as well as for the global brands. It would be keen to participate in discussions as to how the Foundation might contribute to the overall policy, guidelines for tendering, publicizing the opportunities available and overall messaging on sustainability, ethics and fair trade. The Foundation is also keen to advise its business partners - large companies as well as small and medium enterprises - on how and when there will be opportunities to tender for supply contracts or sponsorship opportunities as they arise, and practical ways to achieve this.

6. What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

6.1 Fairtrade can only work for producers and begin to play its part in tackling poverty if more companies engage more deeply with Fairtrade. Alternative trading organisations have played a pioneering role in developing and supporting Fairtrade. The Co-op has also led the way for high street supermarkets in ‘responsible retailing’ with Fairtrade at the heart of its strategy. Increasingly, major supermarkets and retailers have taken up the challenge presented by consumers and are demonstrating how business can put Fairtrade and ethical issues at the heart of what they are doing. As highlighted in Question 1, a number of the major UK supermarkets have recently made decisions to switch significant proportions, and in many cases 100%, of certain product lines to Fairtrade. It is worth noting that retailers have to date moved more quickly on Fairtrade than most multinationals which have so far done little more than dip a toe in the water, while all too many companies have yet to engage with Fairtrade at all.

6.2 The Foundation urges all retailers (both large multiples and small independents) and companies (including multinationals, wholesalers and catering companies) to invest

⁸ www.buyfair.org

substantial efforts and resources in their supply chains to support their producers to meet quality requirements, as well as to try and leverage as much change in supply chain practices as possible, for example in extending their lead ordering times. Evidence from Marks & Spencer indicates that their engagement with Fairtrade has created a positive momentum across their business including driving the development of labour standards, treating farmers fairly, working with suppliers as focal points for development and helping disadvantaged groups.

6.3 The Foundation also encourages all retailers to: incorporate Fairtrade into their core strategies and invest in staff training to support this; stock as many Fairtrade certified products as possible; switch as many of their product lines to 100% Fairtrade as possible; and resource sufficient marketing materials, from advertising to 'point of sale' to inform consumers about their Fairtrade offering. Beyond this, retailers and companies should also do more to promote and market the vision and the mission which underpin the Fairtrade movement. The Foundation would welcome working with them to make this a reality. This is not an easy process and requires intensive work and commitment from all companies to ensure success but the benefits for producers and also for companies makes it a target worth striving for. The Foundation also urges companies to invest in the future of Fairtrade and to work cooperatively with the Foundation and producers on developing new products.

6.4 The Fairtrade Foundation also encourages all retailers and businesses to become a member of the Ethical Trading Initiative, which exists to promote and improve the implementation of corporate codes of practice that cover supply chain working conditions and aims to ensure that the working conditions of workers supplying the UK market meet or exceed international labour standards.

7. How can Trade Unions help to ensure that the drive for cheaper produce does not undermine social and environmental standards in developing countries?

7.1 FLO has two core generic standards for certification of producer organisations: one for small farmer organisations and one for hired labour situations. The hired labour standard applies to plantations and is only applicable to a limited number of products. The standard incorporates the core ILO conventions on freedom of labour, freedom from discrimination and freedom of association and collective bargaining⁹ and considers independent trade unions the best means for achieving this.

7.2 Too often, workers on plantations supplying the UK and European markets face an uphill battle to earn a living wage and enjoy decent working conditions. The relentless race to the bottom engendered by price wars between large retailers driving down the costs of primary products has caused enormous social and environmental damage in developing countries. Fairtrade certification has the potential to be a valuable tool in the struggle to ensure that labour standards are not undermined and that unions are able to organise more workers. For example the local General Agricultural Workers Union (GAWU) in Ghana was able to work with a pineapple plantation applying for Fairtrade certification to organise workers and negotiate a collective bargaining agreement. In Kenya, the Kenyan Plantation and Agricultural Workers Union (KPAWU) was able to work with flower farms to achieve the same thing directly as a result of the decision to engage with Fairtrade.

7.3 Labour unions and Fairtrade labelling share the same goals and objectives - to strengthen workers' rights, improve their working and economic conditions and increase their participation in decision-making processes. FLO has historically had limited capacity to commit resources to building more effective relationships with trade unions locally and internationally, or to supporting workers on plantations. The onward momentum of the Fairtrade movement will require increased engagement with hired labour and that in turn will need improved cooperation with trade unions to ensure continued success. Increased donor funding is required to achieve strengthened and structured cooperation between labour unions and the Fairtrade labelling system in order to strengthen worker representation and participation in Fairtrade-certified hired labour settings.

⁹ The complete FLO standards can be downloaded from www.fairtrade.net

8. In an increasingly crowded ethical marketplace, how can consumers be supported to distinguish between different fair trade brands, labels and codes?

8.1 It is important to be clear about the very different roles that codes, brands and labels play. **Brands** offer the public Fairtrade products and the 100% Fairtrade pioneering brands differentiate themselves by focusing on their long term and equitable relations with their producer partners, as well as on the quality of the products.

8.2 **Codes** are generally about ensuring adherence to core minimums and can be effective in ensuring compliance of suppliers and businesses with minimum international labour standards. However, the Foundation believes strongly that these codes should not be positioned on products as consumers rightly expect all their purchases to have been produced according to recognised social norms such as the absence of child labour.

8.3 **Independent labels** are tools to assist consumers make informed decisions about their purchases. Indeed the key to the success of the Foundation's strategy has been to focus on raising awareness and understanding of the FAIRTRADE Mark amongst the public. It has also worked to distinguish the FAIRTRADE Mark as a product certification label rather than an endorsement of any companies' wider practices. As the only certifier of Fairtrade in the UK, the Foundation believes that the issue of consumer confusion while a threat is not yet a reality. A TNS Omnimas poll showed that over half the public (52%) now recognise the FAIRTRADE Mark and that for those who buy Fairtrade products, over 80% rated the independent guarantee of the FAIRTRADE Mark as important to them (see Appendix 2).

8.4 The fact that there is one single trusted Mark is central to Fairtrade Foundation's ongoing success. Without that, there is a risk of consumer confusion and ultimately cynicism or a retreat into apathy. This indicates that there is still a need for ongoing awareness raising activities. Firstly, to reach out to those consumers who are not yet aware of Fairtrade; secondly, to consolidate and deepen the grasp of Fairtrade amongst already sensitised consumers so that they have a more sophisticated understanding and level of engagement with Fairtrade and the issues of poverty reduction and alleviation.

8.5 The Foundation is convinced that there is a growing interest in development issues amongst the public and the part that fair trade is playing in this is highlighted in the research carried out by BOND following the Make Poverty History campaign (see Question 1). The research specifically noted that only fair trade achieved equally high levels of public awareness as the MPH campaign in 2005 and that these high levels remained static into 2006. Further the research notes that: 'fair trade was found to be the only way into discussions on trade which included all types of members of the public'. This is borne out by the Foundation's own observation, supported by a wide range of NGOs and Trade Unions, that fair trade offers an easy entry point for the public into wider trade and development issues. The Foundation is seeing awareness of the FAIRTRADE Mark penetrating younger age groups which is very encouraging (in 2005, 56% of 25 to 34 year olds were aware of the FAIRTRADE Mark). The Foundation believes that with additional funding to support towns, schools, faith group and other awareness raising campaigns and activities this will contribute to a new generation of people in tune with the North's development responsibilities and the part they can play in reducing poverty in the South. Fairtrade is very clearly only one part of the complex range of measures needed if trade is to tackle poverty – but it is working and growing and, we believe, deserves wholehearted Government support.