

Background to Fairtrade

The Fairtrade Foundation is the independent non-profit organisation that licenses use of the FAIRTRADE Mark on products in the UK in accordance with internationally agreed Fairtrade standards defined by the 'Fairtrade Labelling Organisations International' (FLO). The Foundation was established in 1992 by a group of Civil Society organizations with an interest in international development and social justice. The Foundation is a registered charity (no. 1043886). It is also a company limited by guarantee, registered in England and Wales (no. 2733136).

The Fairtrade Foundation adheres to the definition of Fair Trade developed by the main Fair Trade networks and recognized by the European Parliament (2006), the European Economic and Social Committee and the European Commission:

“Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South”.

Through demonstration of alternatives to conventional trade and other forms of advocacy, the Fairtrade movement empowers citizens to campaign for an international trade system based on justice and fairness.

In general, does the world trading system work well? If not, why not?

The multilateral trading system is supposed to protect against the power imbalance between powerful countries and smaller nations. The WTO, now 15 years old, has failed to become what it aspires to be: a truly multilateral institution that is sensitive to both the needs and rights of small and big countries alike.

The only forum where poorer and smaller countries have a fair chance to defend their interests is in multilateral negotiations within the WTO, where they benefit from pooling their interests with other poor countries in defence against the big powers.

Trade negotiations today are based on a mercantilist approach of exchange of concessions. Such an approach is adapted for negotiations among equal partners. A “development” round, like the Doha Round, which is supposed to rebalance the trading system in favour of developing countries, cannot be based on an exchange of concessions.

‘The Great Cotton Stitch-Up’ (Fairtrade Foundation, November 2010 see www.fairtrade.org.uk/cotton) illustrates how cotton is an example of a successful (at least partially) coalition strategy amongst the Cotton 4 countries in the WTO. The cotton case was immediately and nearly unanimously seen as legitimate. The world community recognised the unfairness of OECD cotton subsidies. However, the cotton case also shows that it is not enough to convince WTO members that a case is legitimate to obtain change. Today, the West African countries rely directly on lobbying in the domestic agricultural policy making procedures of the US and the EU to effect change, despite panel rulings in the case of the US. In this sense, the cotton case, points out the potential as well as the limits of the multilateral trading system.

The cotton case embodies the pro-active emergence of developing countries’ coalitions defending common interests at the WTO. As a coalition, the C-4 countries managed to get the support from nearly all WTO members and improved significantly their efficacy within the negotiation process. It remains the embodiment of what poor developing countries could achieve through the system. Moreover, negotiating skills acquired during the whole WTO process will continue to be used to strengthen the place of poor developing countries.

The WTO has improved the representation of poor countries in the smaller negotiating groups such as the green room. Unlike in the past, today representatives of poorer countries are included in the smaller groups when issues of concerns to them are discussed. However, those representatives do not benefit from consultative mechanisms which allow them to defend concrete, commonly negotiated positions. Neither are those negotiations organised in a way that would allow “time-out” to consult those they are supposed to represent. New and more inclusive consultative mechanisms will have to be established, if decisions taken in smaller groups are supposed to take into account the positions and interests of those who do not sit at the negotiation table. The UK can address these questions directly by actively participating in the institutional reform process of the WTO.

The majority of member countries have only a limited representation in Geneva. Their delegates cover all the negotiating committees of the WTO, as well as the other UN agencies in Geneva. Many of them have also responsibilities as bilateral representations. This does not allow them to actively participate in the various negotiations, allowing the well-endowed representations to set the agenda and to make proposals pro-actively. The UK government can continue to provide financial assistance to support additional capacity in country grouping offices in Geneva.

Recommendations:

1. Continue engagement in the WTO reform process through:
 - a) In the short term, ensuring that areas of interest to all developing countries and not only the major trading economies are negotiated in the DDR
 - b) In the long term, building consensus to carry forward the institutional reform agenda.
 - c) Use Aid for Trade financing to support coalition building around concrete interests across country income groups, and to support capacity in representative offices in Geneva.

2. Adopt a bottom line position in the current negotiations on post-2013 CAP reform that EU cotton subsidies are fully decoupled from production.

What are the key challenges preventing LICs and MICs from benefiting from trade

For UK trade policy to become a fairer trade policy where the benefits of trade reach producers in developing countries, the 'import' side of trade needs to be addressed. Focusing only on the drive for UK export led growth risks the UK's trade policy being too heavily export oriented. To address the 'import' aspect in the trade policy, the UK government can look to the source of supply and demand for imports in the UK, i.e. to buying practices of UK companies and the actions of consumers, including government purchasing.

Buying Practice

Retailers which have buyer power are able to impose and pass 'excessive risks and unexpected costs' onto their suppliers (the conclusion of the UK Competition Commission), this can then result ultimately in suppliers passing risks down the supply chain onto farmers and workers in the form of poor health and safety practices, evading benefits (maternity, sickness, pension), short term/precarious contracts, forced and dangerous levels of overtime as well as poverty wages. Ultimately the risks are passed back to those individuals who are the least able to bear the risk, particularly those in developing countries who do not have social security systems which enables them to access minimum levels of healthcare, education, pensions, shelter/housing.

Allowing this trend of increasing buyer power at the retail end of the supply chain directly undermines the achievement of the UK's public policy objectives, including its commitment to achieve United Nations Millennium Development Goals and the ring-fenced aid budget.

The UK government needs to recognise that when power is imbalanced within supply chains, those with more power use it to their advantage, undermining opportunities for other businesses, farmers and workers to participate in trading activities in a manner which benefits them, as well as undermining space/potential for innovation. Fairness needs to be integrated into purchasing/sourcing practices (relating to price, accurate forecasting, specifications, payment terms & fair allocation of risk when orders are changed etc). Fairness should be a common denominator in importing/buying practices.

'Capitalism can be responsible – in fact, it is in its real interest to be responsible. Responsibility is not just some sort of badge that companies can wear to indicate that they care, but should be an intrinsic part of their strategy. Profit matters, but short term profit pursued at the expense of everything else is self-defeating.'

Vince Cable speech on responsible capitalism

Recommendations

1. **Pro-actively tackle anti-competitive practices**

We believe that establishing a strong and independent ombudsman to ensure compliance with the revised Groceries Supply Code of Practice (GSCOP) could be a significant step in helping the weakest in the supply chain, often small-scale farmers both in the UK and developing countries, sustain their businesses in a very competitive market. This is not just in the interests of farmers, but also of consumers, as it will help to ensure diversity, choice and quality.

2. **Encourage transparency across the supply chain**

Action to gather and make market-level information public should be considered a priority.

The role of consumers in UK trade policy

GlobeScan research into consumer attitudes, beliefs, awareness, and purchasing of ethical certification marks shows that recognition of the Fairtrade Mark in the UK has increased to 90%. 1 in 4 of the UK's shoppers now regularly buy several products carrying the FAIRTRADE Mark. The trend is for more people to be buying more products more regularly. This research shows that the balance of public opinion is tipping in favour of Fairtrade where Fairtrade is seen as an integral part of a sustainable global future. More and more UK shoppers see Fairtrade as a simple, highly effective way to enable producers in the developing world to work their way out of poverty with dignity, receiving a decent return for their produce and hard work.

The research shows the motivation to purchase brands with the Fairtrade label appears to come from a personal responsibility to help producers/workers because this is ethical and fair, resulting in consumers feeling good. Quality and price are rarely mentioned. And there are few differences across demographics. (See Chart 1 below for consumer segmentation data).

86% of consumers said that, when companies are dealing with poor countries it is important to pay workers fairly while 74% of the general population agrees that companies can play a positive role in reducing poverty through the way they do business. This consumer expectation is a motivation for many commercial enterprises to partner with certification schemes such as Fairtrade and to adjust their commercial practices.

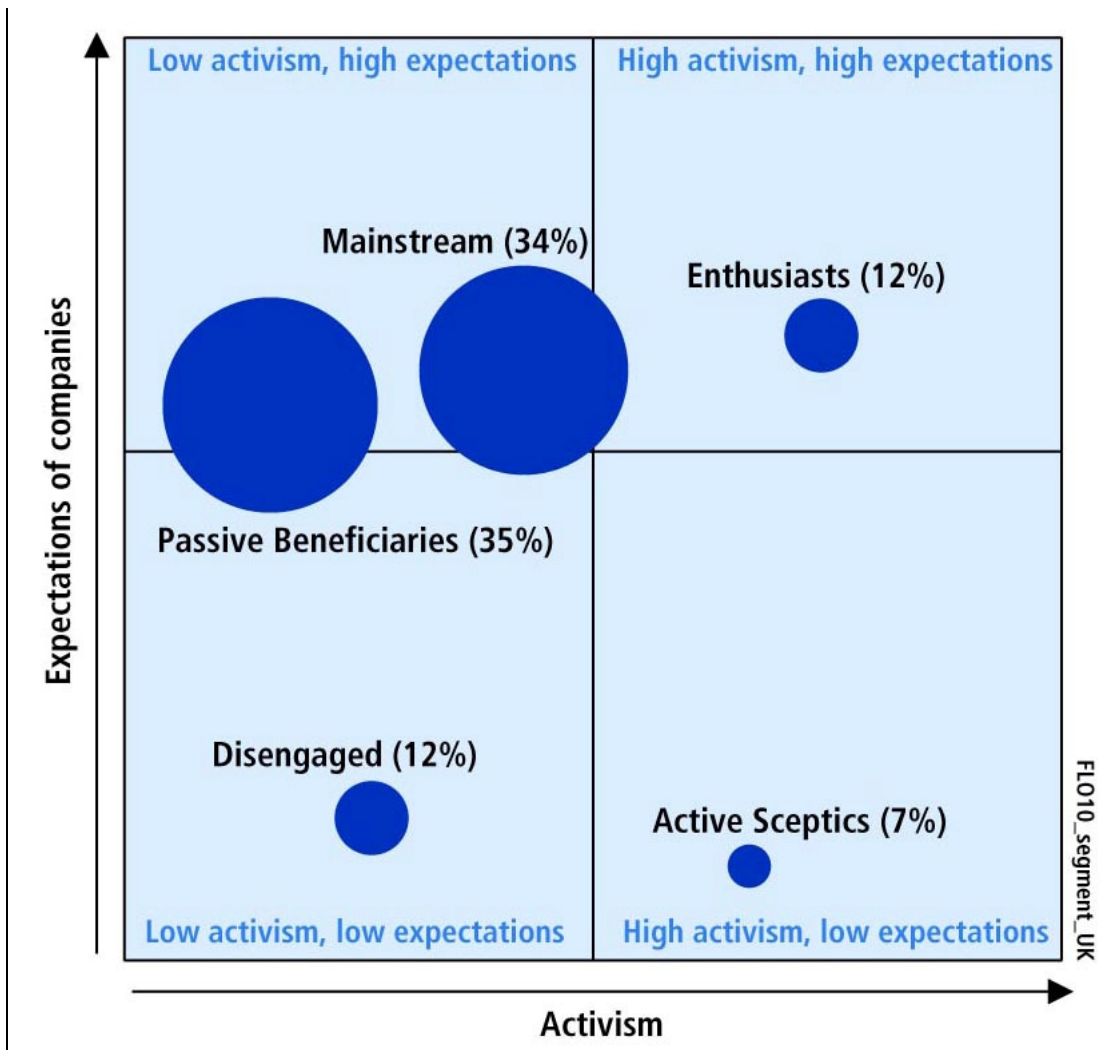
The chart below shows there is untapped potential for consumers to drive responsible capitalism. 'Mainstream' consumers and 'passive beneficiaries' make up the 69% of consumers with high expectations of companies. However, only 34% are 'somewhat likely' to punish or reward companies for failing to be environmentally and socially responsible.

Numerous existing initiatives aim at giving information to the general public on the fairness in the supply chain and empower consumers to make informed choices. The more consumers are empowered to make informed purchasing choices, the more they will drive the market towards more fairness. Investing in such initiatives avoids the need for government regulation and impacts on wider aspects of community life.

Recommendations

- 1. Actively intervene to raise awareness of UK citizens of fairness and justice in the supply chain and provide accurate information to empower consumers to make informed choices through initiatives such as the DFID funded Fairtrade in Schools education plan. This and other similar initiatives convey key messages of corporate and consumer responsibility and accountability.**

Chart 1
Consumers: Driving 'responsible capitalism'



Definitions of consumer segments

- **Enthusiasts** – are **very active** in their communities, most likely to recommend products/brands to friends or colleagues, and are most likely to punish or reward companies based on their environmental or social performance. Enthusiasts also have **high expectations** of companies in terms of their economic, environmental and social performance.
- **Mainstream** – are **moderately active** in their communities, tend to express opinions about products/brands to friends and colleagues, and are somewhat likely to punish or reward companies. The Mainstream has **relatively high expectations** of companies.
- **Active Sceptics** – are **active** in their communities, tend to express opinions about products/brands to friends and colleagues, and are somewhat likely to punish or reward companies. However, they tend to have **low expectations** of companies.
- **Passive Beneficiaries** – are **not very active** in their communities and are less likely to recommend products/brands to friends and colleagues or take direct action against companies. However they have **moderately high expectations** of companies.
- **Disengaged** – are **not very active** in their communities, are not likely to recommend products/brands to friends and colleagues or take direct action against companies. The Disengaged have **low expectations** of companies.

Government Purchasing

More and more public authorities are playing an active part in sustainable development through their daily decision-making, including their purchasing decisions. £220 billion a year is spent on government procurement in the UK today.

The Fairtrade Foundation welcomes the revision of buying standards for textile and clothing, as well as food and catering and participated in the DEFRA consultation process. In acting to improve the verification of the ethical standards, the Government is aligning its purchasing practices to its international development policy aims. Specifically, purchasing more ethically sourced goods contributes to meeting the Government's coalition agreement commitments to support action that achieves the Millennium Development Goals and the development of enterprise in developing countries (Coalition agreement p.22).

As well as introducing environmental and social considerations into their procurement procedures, an increasing number of public authorities are going one step further towards supporting sustainable development by promoting Fair Trade in those procedures. Their purchasing decisions will not only have an impact on the lives of producers in developing countries, but will also set an example for others.

Thus, like the concept of "green procurement", "Fair Trade Public Procurement", i.e. introducing Fair Trade considerations into the different stages of public procurement procedures, while respecting the fundamental principles of EU law, is a legitimate means of contributing to sustainable development and eradicating poverty.

The Fair Trade movement (under the EFTA Public Affairs project) has prepared a Fair Trade Public Procurement model that gives practical advice and takes also into account the rather restrictive interpretation by the EC put forward in the EC guide, but also proposes other more progressive but yet legally-sound ways to engage in Fair Trade Public Procurement. The model can be obtained from www.european-fair-trade-association.org/observatory.

The Government should not undervalue significant additional benefits of purchasing Fairtrade goods. In particular, Fairtrade products helps the Government minimise the potential reputational risk from goods produced to poor ethical standards, such as child labour. Also, selling Fairtrade products in vending machines and cafeterias can act as a powerful and cost-effective marketing tool, increasing sales and improving image.

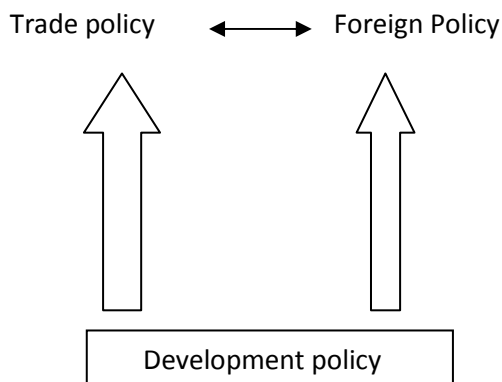
Recommendation

1. We urge the UK's government procurement policy to consider the contribution of its buying practices to fair and ethical trade, and to include this as a criterion of purchasing that delivers on trade and development objectives.

How should the relationship between trade policy, foreign policy and trade promotion operate? To what extent could and should trade agreements be used as tools to encourage other policy goals?

Trade promotion

A balanced approach to promoting both exports and imports is needed. In the promotion of imports and exports, trade policy and foreign policy are closely linked, and it is right to examine how they can mutually reinforce each other. But neither can be isolated from the central objective of the UK's development policy – that of poverty reduction. Poverty reduction needs to be at the foundation of trade and foreign policy priority setting. Not integrating development into trade and foreign policy risks results of development spending being undermined and the ring-fenced development budget open to attack.



The Fairtrade Foundation works with five FTSE 100 companies to invest in increasing the productive capacity of small-holder farmers in developing countries. The Fairtrade principles form the basis of the commercial relations.

Whether dealing with imports or exports, the Fairtrade Foundation welcomes the UK government's emphasis on getting UK business working to develop the private sector in developing countries. However, implementation of this policy comes with a responsibility to monitor the development impact of UK business actions on the communities where they are operating, and it is of concern that monitoring and evaluation are not being discussed. Here BIS and DFID and FCO can work hand in hand to facilitate adoption of ethical and transparent legal requirements and operating principles, pro-poor business models and sharing best practice among businesses, and monitoring of the impacts.

Best Practice

The Fairtrade Foundation has extensive experience working in conflict zones and shows how significant an import focus is in trade promotion to achieve development and foreign policy objectives.

There are two complementary Fair Trade routes used as best practice. The traditional or integrated Fair Trade supply chain route is where goods are produced, imported and/or distributed by specialized Fair Trade Organizations (FTOs) who have Fair Trade at the core of their mission and activities. The other route to market is through Fairtrade labelling and certification of products. In this case, goods (mainly food products) are Fairtrade certified by an independent third party verification body to guarantee that their production chains respect Fairtrade standards. The importers and traders can be traditional commercial companies, and the distribution channels can be regular retail outlets.

Box 1: Examples of Fairtrade in conflict zones

Afghanistan: Fairly traded raisins from the Shomali Plains, north of Kabul, have been imported by Tropical Wholefoods (FTO).

Colombia: Fairtrade certified roses: Although not in conflict zones, JE Page Distributors buys from farms which house and employ refugees.

Congo: gourmet coffee (FTO), shortly to be sold in Sainsburys, is being sourced from war-torn regions on the border with Rwanda where until now most coffee has been smuggled across Lake Kivu, resulting in up to a thousand deaths a year.

Pakistan: Tropical Wholefoods (FTO) sells Fairtrade certified dried apricots and roasted kernels from the precarious North. Apricot kernel shells and oil also appear in Boots Fairtrade and Neal's Yard beauty products.

Palestine (West Bank): olive oil and olives were first imported by Zaytoun (FTO) in 2004 and sold through solidarity groups and churches. Now they have Fairtrade certification and can be found in selected branches of the Co-op and Sainsburys, as well as independent food shops nationwide, and in Visionary Soap Company soaps and body butters.

The advantage of the integrated supply chain route set up by FTOs is that it shows that pro-poor business models exist, can be profitable, innovative, and contribute to achieving development objectives across the world. Throughout the supply chain, operators have chosen to work according to the Charter of Fair Trade Principles. This integrated supply chain route can be used as a leading best practice example using their expertise and experiences with regards to private sector development overseas. The model allows businesses to meaningfully respond to the different realities and conditions of poverty in communities around the world. All information about the integrated supply chain can be found on the World Fair Trade Organization's website www.wfto.com

Recommendations

1. Integrate development objectives into the core of trade and foreign policy
2. Adopt a balanced approach to promoting both UK exports and imports into the UK to achieve development and foreign policy objectives.
3. Ensure UK companies act ethically and transparently in their transactions and business practices overseas by a) sharing best practice (e.g from wfto work) and developing a legal framework and b) monitoring how UK business has contributed to achieving the national development objectives of the host country.
4. Seek routes to proactively support examples of fully integrated pro-poor business models, ensuring that they are able to compete and grow effectively alongside purely profit driven enterprise

Trade Agreements

Foreign policy priorities such as security, human rights and migration can be addressed through trade agreements, but the UK should respect national development plans of negotiating partners in developing countries, and not push the UK foreign policy agenda through its trade agreements. The new European External Action Service is a route to implement the UK's foreign policy and maximum effort should be placed into shaping this new institution to the UK's interest.

Trade agreements can be used to advance objectives of the UK's development policy where these are shared with the negotiating partner. The stalled EPA negotiations have exposed a vast chasm between EU trade and development policy, and important lessons can be learned.

The question of the 'Singapore issues' is a classic example. Although there may be benefits for the UK and EU businesses in concluding negotiations on the Singapore issues, so long as partner countries do not see the benefit, negotiations cannot be forced. Prising open markets of third countries has not worked where it is contrary to national development objectives. Likewise with the MFN principle that the EU committed to applying in its trade negotiations. It undermines South-South trade which is a development objective as well as a key driver of growth in trade and investment in emerging markets. Developing a long-term strategy, the UK government is better off supporting growth in trade and investment in emerging markets through facilitating South-South trade and dropping the MFN principle for from agreements.

Recommendation

Although increased market access and status as preferred trading partner is demanded by UK business, Government has the responsibility to ensure policy coherence for development and respond to the development needs of negotiating partners as well as domestic commercial interests in all trade negotiations.

What can donors and LICs and MICs do to improve the effectiveness of Aid for Trade?

Aid for Trade is a useful framework to support private sector development (PSD) and to encourage public-private partnerships to this end. Donors have reached a consensus that PSD is good, but take a wide range of approaches to supporting PSD. Interventions at the micro, meso and macro level are all relevant, and from donor interventions across the world, it is safe to conclude that one 'size' does not fit all.

The Fair trade movement has extensive experience primarily working at the micro and meso level, with small-holder farmers as primary stakeholders. Examples include through;

- o Technical assistance (for instance to meet the European SPS standards and rules of origin);
- o Management capacity building and empowerment programmes;
- o Providing pre-financing for producers;
- o Assistance in the distribution of Fair Trade products on local markets.

Case Study: Banana farmers in Ecuador

Solidaridad was involved in the initial set up of the SPO in Ecuador, and had helped with funding for various projects and studies related to certification, quality, infrastructure, irrigation and business development. Support for improving quality, as well as advance credit, also came from the Fairtrade importer, and, since becoming a well established exporter, various linkages had been made with national and international institutions for further development of the organisation (e.g. funds from GTZ, IICA and FOMRENA for production of organic inputs). These kinds of support were invaluable for development of the organisations, and facilitated a continual process of improvement and growth. As their success grew, it had become easier to attract financial support from a wider group of institutions, and this was allowing them to develop new areas of work to extend the benefits to small producers. Fairtrade had played a central role in this sequence of events, from being the target market in the original conception of the SPOs, to allowing the investments in production, organisational development and community development that underpinned their success.

Size Matters

Many small-holder farmers are of the view that their group are not taken into account in aid for trade policy making. For example, aid for trade-funded roads will not serve isolated areas and farmers remain cut off

from their markets.

According to Jeune. H 2009, 'Aid for Trade: Is the EU helping small producers to trade their way out of poverty?', (published by the Fair Trade Advocacy Office), 50% of UK aid for trade funding 2001-2006 was open to small producers to benefit from, but only a small number of projects had an explicit focus on poverty. 2% (\$7 million) of these projects directly targeted small producers, but because there was no rationale of focussing on these groups in the rest, in practice, small producers were not able to benefit from aid for trade funding in a meaningful way.

To make aid for trade more effective, aid for trade needs to have an explicit poverty focus, and needs to explicitly target small and marginalised producers.

The DfID funded project 'Micro Enterprise Development Programme' (MEDEP) in Nepal is an example of an extremely successful PSD project. The project matches with pro-poor policy measures for aid for trade in the following ways: The programme gives small producers access to pre-finances and grants; it has given producers access to training and capacity building to develop products for value addition; has provided technological transfers to producers and runs Participatory Action Research to test potential appropriate technologies and provides innovation opportunities; Phase II includes strategies for developing marketing skills through business plan preparations, marketing management training, business counselling and market surveys. The project also includes an advocacy component to influence national policy and regulatory frameworks for MSEs in Nepal. (Jeune 2009)

Rolling out Micro Enterprise Development Programmes such as MEDEP Nepal will make aid for trade more effective, and at the same time will contribute to 'operationalising' trade agreements with developing countries such as the signed Economic Partnership Agreements. To deliver on their primary objective of poverty reduction and integration into the global economy, aid for trade and development assistance needs to focus on integrating those traders which are currently excluded from trade, see Ramdoo. I and A. Walker, 2010, 'Implementing the Economic Partnership Agreement in the East African Community and the CARIFORUM regions: What is in it for the private sector?', ECDPM discussion paper 104, for a full discussion.

If aid for trade is focussed on existing traders that can easily access development assistance, there is a risk that the status quo will be perpetuated and the EPAs will not meet their central objectives: Trade will not significantly increase because those currently trading will continue to trade because preferential market access for 'traditional' exports is secured, and those currently excluded from trade will not be integrated into the global economy because they cannot access development assistance or benefit from aid for trade funded projects.

There is also a danger that the UK government's policy of using UK business to participate in private sector development in developing countries, results in the benefits of trade being accrued by UK companies and not by traders in the country of origin. This makes for unsustainable supply chains (see Dutch government funded 'Private Sector Investment programme' which ran from 1998-2009).

Recommendations

1. Aid for trade policy making should include a specific focus on small and marginalised producers
2. Share best practice principles with traders and put frameworks in place to ensure that benefits of trade accrue in both the UK and in the country of origin.

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