Fairness in trade matters for sustainability

An impact evaluation of Fairtrade's supply chain interventions

Jan Willem Molenaar Aidenvironment), Emma Blackmore (IIED), Sally Smith, William Van Bragt (WvB Consulting), Cormac R.M. Petit dit de la Roche (Aidenvironment), Sjaak Heuvels (Aidenvironment), Bill Vorley (IIED), Andrew Fearne (University of East Anglia)

Commissioned by Fairtrade Foundation, Fairtrade Deutschland and Fairtrade International

October 2016

Contents

Executive summary

Many initiatives targeting sustainable production and trade focus their interventions at the producer or worker level. They tend to ignore the extent to which the quality of trading relationships in the supply chain affects their work. Fairtrade is a notable exception with several interventions aimed specifically at influencing trading relationships. This paper – commissioned by the Fairtrade Foundation and Fairtrade Deutschland – assesses the extent to which Fairtrade, through its supply chain interventions, improves fairness in trade including the impact on producers and workers and provides recommendations to improve its impact on fairness in trade. The research focuses on a number of key Fairtrade value chains – tea, cocoa, bananas and flowers – from specific producing countries to the UK and Germany (see Figure 1). It evaluates Fairtrade's impact *within* Fairtrade certified value chains and *beyond* Fairtrade value chains (see Figure 2). For both perspectives, the aim is to understand the various influencing factors. To distinguish the contribution by Fairtrade, the research assessed the differences between Fairtrade and non-Fairtrade value chains. For Fairtrade's impact *beyond* Fairtrade value chains, we analysed how Fairtrade influenced companies' trading practices in non-Fairtrade certified supply chains. The research focuses on Fairtrade's supply chain interventions including the Fairtrade Standards, Fairtrade Minimum Price, Fairtrade Premium, Producer Support and Fairtrade's company engagement activities. The research scope does not include the impact of Fairtrade's activities on network and alliance building, advocacy and campaigning. The findings are based upon interviews that were conducted throughout the value chain from producer to retailer and with key informants.

Figure 1: Scope of the research

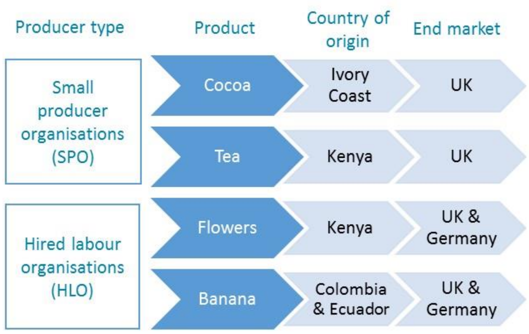
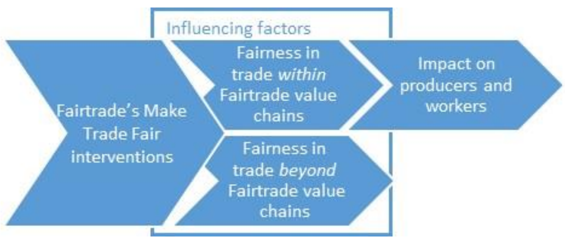


Figure 2: Evaluation focus of the research



To define and measure 'fairness in trade' we used the five aspects of fairness developed by Hornibrook et al. (2009) which are recognised as being particularly pertinent to trading relationships. They are:

- *Distributive justice*: the perceived fairness of the distribution of benefits
- *Procedural justice*: the perceived fairness of decision-making processes
- *Informational justice*: the perceived fairness of the exchange and use of information
- *Inter-personal justice*: the perceived fairness of communication between individuals
- *Commitment*: the allocation of resources – time, effort, money – to strengthen relationships and improve value chain performance.

The quality of trading relationships can have a direct influence on a producer's capacity to invest in sustainability. Examples are identified in all four sectors of how fairness in trade can contribute to increased income for farmers, more stable employment and improved benefits for workers, more viable producer organizations and investments in community development. It also identified many examples where the lack of fairness in trade seriously jeopardizes the producer's ability to invest in or maintain sustainable production practices. Examples of poor practices include long payment delays, unjustified quality claims, non-respect of contract terms and abuse of market power in price negotiations. These findings justify Fairtrade's emphasis on trade aspects. This research looked at the extent to which Fairtrade's supply chain interventions are successful in promoting fairness in trade.

Fairtrade is one of the few sustainability initiatives addressing fairness in trade. Its supply chain interventions do – to some extent, and upstream in the supply chain – positively influence capacity to trade and the awareness of good trading practices, increased transparency and safeguards for suppliers. Influence on downstream trading practices is limited. The Fairtrade Premium can, depending on Fairtrade sales, improve the financial viability of Small Producer Organisations (SPO) and improve SPOs and Hired Labour Organisations (HLO) capacity to invest in sustainability. The Fairtrade Minimum Price can protect upstream actors against low prices, though in the four commodities included in this research, this was visible only in the banana sector (in cocoa and tea the market prices have been consistently higher than the Fairtrade Minimum Price in the last five years). Fairtrade Producer Services can increase awareness of trading practices and improve producer's negotiating skills. The Trader Standard[1] ensures increased transparency and provides some additional safeguards to suppliers. However, Fairtrade has little influence on actual trading practices and does not bring fundamental changes in power balances and negotiation positions. Fairtrade influence on downstream trading practices is limited (with the exception of Premium payments).

Table 1: Main Fairtrade contributions to fairness in trade through supply chain interventions

Fairness aspect	Upstream (producer, exporter)	Downstream (importer, brand, retailer)
Distributive Justice Price, premium, profitability	• Reduced price volatility where market prices drop below the Fairtrade Minimum Prices • Fairtrade Premium allows for additional investments, Premium payments to farmers and strengthens profitability of SPOs • Fairtrade Premium allows for additional workers' benefits for HLO workers	• Few changes in trading practice – Fairtrade perceived as an additional cost • Fairtrade does bring market access and reputational benefits
Procedural justice Contract terms, pre-finance, negotiating	• Improved awareness of contracting • More safeguards against breach of contract / fewer quality claims • Some improved negotiating skills	• None
Informational justice Transparency of information	• Clarity in the Premium to be paid for volumes sold under Fairtrade conditions	• Increased knowledge with respect to prices paid upstream
Inter-personal justice Personal communication	• Improved dialogue between producers, SPOs and immediate buyers	• More visits to producers
Commitment Volumes traded, stability in trading relationship, investments	• Some improved market access • Annual commitments on volumes are standard • More stable demand throughout the year (only in bananas)	• None

Fairtrade has improved companies' awareness of sustainability issues for producers and workers, but has been less successful in raising awareness of fair trading practices. Fairtrade has had limited impact on sourcing models or trading practices in non-Fairtrade value chains. Partly as a result of the perceived

[1] Fairtrade revised its Trader Standard in 2015. The interviews with value chain actors on the Trader Standard referred to the previous version.

failure of certification to solve certain sustainability issues, companies increasingly develop their own sustainability programmes, which may or may not include certification.

This study identified some weaknesses in Fairtrade's supply chain interventions aimed at influencing fairness in trade. These are:

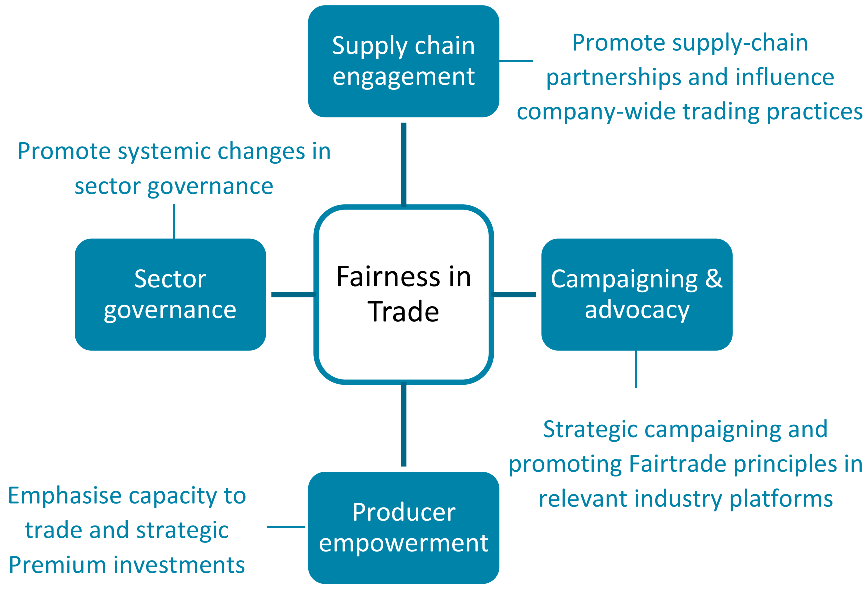
- **Flexible Premiums and Minimum Prices may result in unfair competition**; the flexible Fairtrade Premium in the flower sector reduces market uptake of Fairtrade flowers in peak periods (this issue is not applicable to other sectors which have a fixed Premium). In bananas and flowers, differences in the Fairtrade Premium between countries result – according to respondents – in trade being driven to the countries with a lower Premium.
- **Limited scope and weak enforcement of the Trader Standard may mean unfair practices**; a low level of awareness of the Fairtrade Trader Standard and perceived weak auditing result in insufficient guarantees against unfair trading practices. The fact that retailers are not bound by the Trader Standard if they are not at the same time manufacturer can also negatively influence trading practices upstream as retailers have an important influence on the whole chain.
- **Less focus on the middle segment may mean a missed opportunity**; fairness in trade requires awareness, capacity and commitments from actors throughout the value chain. Fairtrade promotes this actively by engaging with producers (mainly) and end customers. Fairtrade engagement with the middle segment (traders and packers) is less intense and focusses on verifying compliance with the Trader Standard. This ignores the importance of creating awareness, building capacities and securing commitments from these actors and the added value they can bring in promoting fairness in trade (e.g. through capacity building or supply chain management).
- **Emphasis on value distribution over value creation in the face of changing market dynamics**; Fairtrade instruments aim to increase producers' share in the distribution of value. However, across all commodities there is an increasing pressure on retail prices and margins throughout the value chain. This shifts the key challenge to fairness in trade from redistribution (i.e. ensuring a fair distribution of the 'pie') to shared value creation (i.e. ensuring the 'pie' is big enough to allow for a fair share at each stage of the value chain).

Fairness in trade is mainly determined by market dynamics and public policy. Fairtrade has insufficient leverage to influence these alone. Market dynamics that work against fairness in trade include oversupply, market concentration and strong competition on price. Such dynamics impede long-term trading relationships and put pressure on Minimum Prices and Premiums. Public policy, if properly designed and enforced, does have the potential to protect producers against unfair trading practices. On the other hand, if poorly designed or implemented, public policy can pose important constraints to fair trading practices. Fairtrade on its own has insufficient leverage to influence these dynamics.

The link between fairness in trade and sustainability for producers and workers requires more attention from companies, sustainability initiatives and public sector. Companies should become aware of the impact of their trading practices on the supply chain's capacity to invest in sustainability. Too often, their procurement practices are based upon their own short-term interest, ignoring the negative impact these could have elsewhere in the chain. They also tend to ignore the potential benefits that fair trading practices can have for them, such as improved transparency, reduced supply risks in terms of availability and quality, reduced reputational and legal risks and improved market access. Sustainability initiatives and the public sector can promote fairness in trade by raising awareness, revealing bad and good practices and developing voluntary and regulatory codes of good practice. The public sector should consider fairness in trade as an essential element in their market management instruments (e.g. price politics and export auction mechanisms).

Opportunities exist to further increase Fairtrade's impact on fairness in trade. To do so, this research proposes four building blocks for a new Fairtrade value proposition for fairness in trade. In Figure 3 the four building blocks are complementary and equally important. They build on current instruments but add new means of influencing trading relationships. Producer empowerment – Fairtrade's current focus – remains relevant but should include more emphasis on the capacity to trade and strategic use of the Fairtrade Premium (e.g. setting up pre-finance funds and strengthening of trade unions). In addition, more attention is required for building supply chain partnerships, and influencing company-wide trading practices (Supply chain engagement) and (public) sector governance (Sector governance). In this view Fairtrade seeks more presence at industry platforms and campaigns where the industry is not open to improvement. (Campaigning and Advocacy). Such an integrated approach can result in more impact on producers, workers and communities. While many companies are keen to create such an impact, they do not necessarily strive for fairness in trade. Trade is highly sensitive and companies prefer that the 'black-box' of trading practices remains closed. More emphasis by Fairtrade could alienate companies and reduce Fairtrade's impact. Therefore, a first step for Fairtrade is to identify and promote the business case for industries to improve trading practices, as well as its own business case to further engage on the topic of fairness in trade.

Figure 3: Four building blocks as basis for Fairtrade's fairness in trade strategy.



In its recently developed 2016-2020 strategies, Fairtrade International and the Fairtrade Foundation already place more emphasis on aspects such as collaboration with companies on beyond certification aspects and the strengthening the voice of farmers and workers in key policy debates and national and regional platforms. It is recommended that Fairtrade emphasizes the fairness in trade aspects in the scope of these activities.

Introduction

Trading relationships matter for sustainability. Trading practices affect the economic viability of trading partners and their ability to invest in sustainability – both social and environmental. Fairtrade was created in recognition of this – to ensure producers in developing countries get a better deal from trade, better prices, good working conditions and are better able to protect the environment.

Little is known about the impact of the Fairtrade standard on fairness in trading relationships. This paper – commissioned by the Fairtrade Foundation and Fairtrade Germany – assesses the extent to which Fairtrade improves fairness in trade including the impact on producers and workers and provides recommendations to improve its impact on fairness in trade. The research focuses on a number of key Fairtrade agro-commodity value chains – tea, cocoa, bananas and flowers – connecting a number of producer markets with UK and German markets. Respondents were guaranteed anonymity to facilitate discussions on the sensitivities inherent in trading practices and this is reflected in the presentations of the findings in this report. While commissioned by Fairtrade, this research has broader relevance for other actors working on, or interested in, sustainability. It sheds light on the nature of trading relationships in agriculture, and the impact of market dynamics and sector governance on the fairness in trade and sustainability.

This paper is structured as follows: Chapter 1 outlines the analytical framework and the methodology used. Chapter 2 presents the findings with respect to Fairtrade's impact on the fairness of trading practices. Chapter 3 discusses the impacts of fairness in trade and of Fairtrade on producers and workers. Chapter 4 describes Fairtrade's impact beyond certified value chains, for example by influencing company-wide sourcing strategies. The paper concludes in chapter 5 by summarising key findings and offering a number of recommendations.

1. Analytical framework and methodology: measuring fairness in trade and Fairtrade's contribution

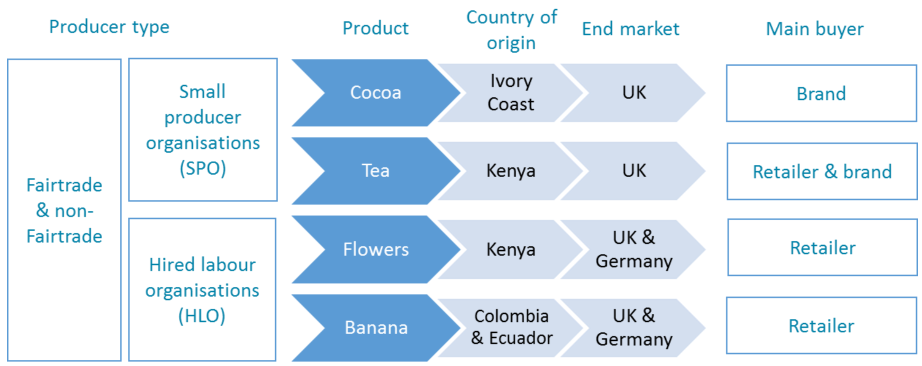
1.1 Research questions and scope

This research aimed to answer the following research questions:

- What are differences in the 'fairness in trade' and - subsequent impact on sustainability at producer and worker level - between Fairtrade and non-Fairtrade value chains?
- What is the contribution of Fairtrade to the observed differences?
- What is the potential for the Fairtrade system to further improve 'fairness in trade'?

The Fairtrade Foundation and Fairtrade Deutschland requested that this research be focussed on four commodities strategic to the UK and/or German markets - cocoa, tea, bananas and flowers – and on supply chains between specific countries of origin and the UK and German markets. Within these commodities, the focus is on the main supply chains (1) driven by consumer goods manufacturing companies (referred to as "brands" in this research) and (2) retailer-driven supply chains. For cocoa and tea, the focus is on smallholder production and in bananas and flowers on large-scale plantations. This reflects the dominant production models in developing countries for these commodities and therefore the type of Fairtrade standard applied. Fairtrade certified supply chains and non-Fairtrade certified supply chains were included in the research for all four products, in order to compare the fairness of trading relationships and to evaluate whether differences in the nature of trading relationships can be attributed to Fairtrade. In tea, the non-Fairtrade supply chains were Rainforest Alliance certified. The scope of the research is summarised in Figure 4.

Figure 4: Scope of the research



1.2 Defining fairness in trade

In order to understand and measure the differences in the fairness in trade – and its subsequent impact on sustainability – an analytical framework was developed, based on a review and adaptation of existing literature. The results of this review presented briefly here.

Many trading practices can be considered to be unfair. The European Commission (2013) identified several unfair trading practices, including: ambiguous contract terms, lack of written contracts, retroactive contract changes (e.g. demanding rebates), unfair transfer of commercial risks (e.g. long delays in payments), unfair use of information (e.g. non-respect of confidentiality), and unfair termination of a commercial relationship (e.g. without reasonable period of notice). Unfair trade is also associated with the unfair distribution of value between value chain partners (Vorley, 2003).

There are also fair trading practices. These include the payment of prices that are fair in relation to the suppliers' investments and risks or in relation to the supplier's ability to pay living wages. Other fair trading practices include making longer-term commitments on purchasing volumes, providing pre-finance, provision of price and market information, and timely communication of changes in volumes or quality requirements.

Fair buyer-supplier relationships should be collaborative and based upon trust, commitment, transparency and integrity. Fearne et al. (2012) refer to these elements in their analysis of fairness in supply chain trading relationships. They emphasise that sustainable supply chains have a more strategic and collaborative nature and are less opportunistic. Sustainable supply chains are: (1) lean – they use resources efficiently; (2) agile – they respond to market signals quickly; (3) resilient – they have the capacity to recover from external shocks; and (4) responsible – they are sensitive to social and environmental pressures (Fearne, 2009).

To evaluate the fairness in trade, this research considered five components in buyer-supplier relationships. The components were developed by Hornibrook et al. (2009) and are recognised as being particularly pertinent to trading relationships. They are:

- *Distributive justice*: the perceived fairness of the distribution of benefits
- *Procedural justice*: the perceived fairness of decision-making processes
- *Informational justice*: the perceived fairness of the exchange and use of information
- *Inter-personal justice*: the perceived fairness of communication between individuals
- *Commitment*: the allocation of resources – time, effort, money – to strengthen relationships and improve value chain performance.

For each component a series of indicators was developed, based on the 'Measuring Fairness in Supply Chain Trading Relationships Survey Tool' (Fearne et al. 2012) and Fairtrade's 'Make Trade Fair Theory of Change' (see section 1.4). More detailed information on the indicators can be found in Appendix 2.

1.3 How external and internal factors shape trading relationships

To recognise and assess the influence of contextual factors on the fairness in trade, this research analysed various influencing factors (see appendix II for an overview of the factors taken in consideration). Some of the most important are introduced in this section.

Market dynamics and public sector governance have an important influence on trading practices. Trade does not happen in a vacuum. Each value chain is embedded in socio-economic and political contexts, and is shaped by wider market dynamics, which determine trading practices. For example, the bargaining position of trading partners depends on their relative size (e.g. their market share or annual revenue) and their dependency on other supply chain players. A supplier may have no alternative market outlets, while a buyer may have alternative suppliers (or vice-versa). Competition policy may limit the size of a particular trading partner and its ability to monopolise a market. Supply and demand dynamics are also important. The perceived oversupply in the tea sector, for example, creates a very different trade dynamic to the cocoa sector where the concern is future undersupply. Government policy in producing countries is important in determining fairness. Examples of policies that matter are national standards for sustainability and quality, minimum price mechanisms, purchase guarantee schemes, and levies and taxes on production and export. In the Ivory Coast, for instance, the government has introduced guaranteed minimum prices in the cocoa sector, which apply to producers, traders and exporters. This has fundamentally changed trading practices and the distribution of margins[2]. Policies in consumer countries can also influence the fairness in trade. Examples are sustainability and quality standards, import taxes and preferential trade agreements.

Trading practices are influenced by corporate policies and sourcing models. Some companies prefer the flexibility of spot markets; others pursue more vertically integrated value chains or direct trading relationships. Different structures create different conditions in which fair trading practices can flourish - or not. These differences can be caused by both internal and external factors. For example, supply/demand imbalances may affect the choice of a company's business and sourcing model, but internal factors such as corporate/shareholder values, reputational concerns and sustainability policies may also be important drivers.

1.4 How Fairtrade aims to influence trading practices

Fairtrade is one of the few voluntary sustainability standards that aims to directly influence trading practices. An important component of Fairtrade's Theory of Change is to Make Trade Fair (Fairtrade International, 2015). The end goal is to achieve a 'fairer and more sustainable trading system' in which:
- Trade enables small producers and workers to achieve sustainable livelihoods and communities.
- Risks and rewards in supply chains are distributed transparently and equitably.
- Commitment to fair and sustainable trade is a key element of business success.
- Costs and risks of pursuing unfair trading practices outweigh any commercial benefits.
- National and international policies shape trade in ways which promote fairness and sustainability.
- Fairness and sustainability are embedded in societal norms for production and consumption.

Fairtrade aims to make an impact on trade both *within* Fairtrade certified value chains and *beyond* Fairtrade certified value chains by systemically changing the way trade is practised and regulated.

Fairtrade has designed several instruments to promote fairness in trade *within* Fairtrade value chains (which are all in the scope of this research)**:**
- The Trader Standard[3], which applies to value chain actors and contains core requirements related to:
  - Payment of the Fairtrade Minimum Price (not applicable to flowers).
  - Payment of the Fairtrade Premium.
  - Contracts, access to finance, payments terms, market information, etc.
- Producer Services to build capacity to negotiate, trade, financial management, etc.
- Engagement with supply chain businesses and citizen-consumers to build Fairtrade markets

Fairtrade also uses several instruments to promote fairness *beyond* Fairtrade value chains:
- Deeper engagement with business to encourage good practice in trade (in the scope of this research).
- Developing networks and alliances for thought leadership on the topic of fairness (out of research scope).
- Advocacy and campaigning on trade policy and practice (out of research scope).

This research focused on the evaluation of Fairtrade's impact *within* Fairtrade value chains. It looked at Fairtrade's influence on trading practices and how this influenced the ability of Small Producer Organisations' (SPO) to acquire fairer trading conditions and the ability of Hired Labour Organizations (HLO) to improve working conditions. To do so, the differences between Fairtrade and non-Fairtrade

[2] See for more detailed description of public sector governance Blackmore et al. (2015)

[3] Fairtrade revised its Trader Standard in 2015. The interviews with value chain actors on the Trader Standard referred to the previous version.

value chains were assessed – and how Fairtrade strengthened the capabilities of SPOs and HLOs (notably through capacity building).

For Fairtrade's impact *beyond* Fairtrade value chains, we analysed how Fairtrade influenced companies' trading practices in non-Fairtrade certified supply chains. The research scope does not include the impact of Fairtrade's activities on network and alliance building, advocacy and campaigning.

Figure 5: Evaluation focus of the research

1.5 Data collection methods and quality of research

The research findings presented in this report are based upon semi-structured interviews and surveys with approximately 60 companies HLOs and SPOs in selected Fairtrade and non-Fairtrade value chains. In these value chains, interviews were conducted at companies throughout the supply chain from producer to retailer or brand, and often with a number of individuals in each company (e.g. procurement staff, sales staff and CSR managers). Focus group discussions were held with small producers (in cocoa and tea) and plantation workers (in flowers and bananas). Finally, a number of key informant interviews were conducted with external experts and Fairtrade staff. See Appendix 2 for a detailed overview of the data collection methodology.

The research findings presented here offer a number of interesting insights for both Fairtrade and more broadly. However, it is important to recognise the limitations that affect the rigour of the analyses and the robustness of the acquired evidence. The main limitations are:

- This research focused on the perceptions of fairness of the people operating within the value chain. Where possible these perceptions were backed up with objective data or qualitative evidence, but the amount of such data or proof obtained was limited, especially with respect to topics considered commercially sensitive (e.g. prices, returns and contract terms).
- The number of value chains and companies or SPOs included is too small to be representative for each commodity: two to four Fairtrade value chains and two to four non-Fairtrade ones per commodity.
- There is a possible selection bias through the inclusion of Fairtrade and non-Fairtrade value chains; Fairtrade may have suggested value chains which are of strategic importance, while non-Fairtrade companies that agreed to participate are most likely those already performing better or having a certain knowledge of or relationship with Fairtrade.
- The scope did not include Fairtrade's impact on the sector (e.g. via advocacy and campaigning).
- The effect of the new Trader Standard was not felt yet in this research.

Interviews and desk research with key informants helped to offset some of the above limitations, as they provided information about sector and country level dynamics beyond the selected value chains and enabled us to gauge how 'typical' the selected chains were. In order to answer the main research questions, the research team combined the findings from the four sectors in order to identify cross-sector patterns. Where cross-sector patterns and insights reinforce each other, we have assumed the evidence to be 'plausible'. The following chapters present these cross-sectoral findings with sector-specific examples and exceptions.

2. Fairtrade's impact on the fairness in trade

In this chapter we discuss the findings of our research with respect to Fairtrade's influence on trading practices. This is structured according to five characteristics of fairness in trade outlined in the methodology: distributive justice (2.1), procedural justice (2.2), informational justice and inter-personal justice (2.3) and commitment (2.4). Figure 7 presents the topics discussed in this chapter for each component.

Figure 6: Chapter focus on Fairtrade's impact on fairness in trade within Fairtrade value chains

Figure 7: the topics discussed in this research for the five components of fairness in trade

Distributive justice	Procedural justice	Informational justice	Inter-personal justice	Commitment
• Price • Premium • Profitability	• Contract terms & pre-finance • Negotiating	• Transparency of information	• Personal communication	• Volumes traded • Stability in trading relationship • Investments

2.1 Distributive justice: Fairtrade's biggest influencer is the Fairtrade Premium

For the distributive justice component in fairness in trade – the perceived fairness of the distribution of benefits – we analysed the perception of value chain actors with regard to; price, premium and profitability. Fairtrade aims to influence these through the Fairtrade Minimum Price and Fairtrade Premium.

2.1.1 Prices

Table 2: Fairtrade influences prices in bananas, but not in cocoa and tea, and only indirectly in flowers

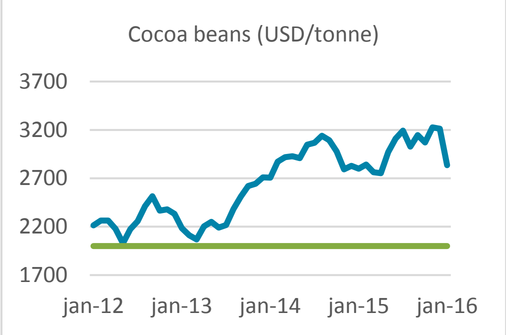
	Difference Fairtrade and non-Fairtrade	Influence of Fairtrade
Cocoa	None (in past five years)	None
Tea	None (in past five years)	None
Banana	Reduced price volatility for producers and exporters	Fairtrade Minimum Price
Flowers	Fairtrade flowers can command a higher price for producers within vertically integrated supply chains in the German markets and German retailers compensate suppliers for the costs related to the Fairtrade Premium.	Indirectly

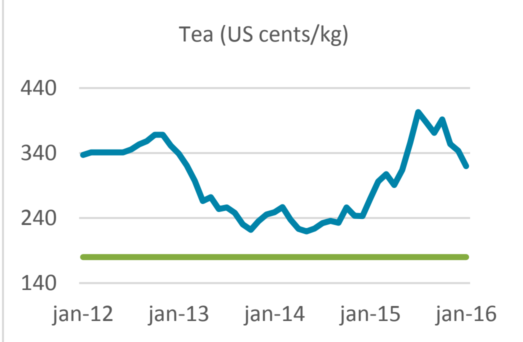
Prices fluctuate significantly across all commodities sectors. Prices within and between seasons can vary significantly in tea and cocoa (see Figure 8). International cocoa prices varied in the past three years between 2,150 USD/ton and 3,360 USD / ton and tea prices in the Mombasa tea auction between 2,190 USD/ton and 4,300 USD / ton.[4] Banana prices have been relatively more stable in recent years, but

[4] Figures derived from www.indexmundi.org

regular climatic shocks and other changes in supply and demand, as well as exchange rate fluctuations, can still create significant variations (particularly between seasons). Flower prices can increase substantially in periods of peak demand such as shortly before Valentine's day or Mother's Day. Long-term contracts provide some stability in prices, but outside these contracts prices can fluctuate significantly in line with supply and demand.

Figure 8: International prices fluctuate significantly across commodity sectors (source Index Mundi)





= Commodity price	= Fairtrade Minimum Price
Commodity prices based upon: International Cocoa Organization cash price, CIF US and European ports, deducted by 4% to approach FOB value	*Commodity prices based upon: Mombasa, Kenya, Auction Price*

Changes in price present opportunities for speculation – and therefore for some actors to make greater gains – though there is a shared recognition that too much volatility is disadvantageous for the industry. Excessively high prices make products less competitive and affect demand, while excessively low prices can result in a number of unwanted impacts on the poverty levels of producers and workers or future supply security. For example, in cocoa there are widespread concerns that low prices force producers to shift to other crops, which raises prices and jeopardises long-term security of supply.

In bananas, the Fairtrade Minimum Price has reduced price volatility but has also created new challenges to achieving fairness in trade. The Fairtrade Minimum Price has been consistently higher than world market prices for conventional (non-organic) bananas during the off-peak period (European spring and summer). This provides producers and exporters with protection from seasonal price fluctuations and from low prices when market prices are low, which was highly valued by those actors. However, the protection is not watertight as some exporters and Fairtrade certified SPOs used as key informants reported that small-scale banana producers in Ecuador are reportedly asked for rebates during the second season, which effectively means they receive less than the Fairtrade Minimum Price. These respondents also believed that SPOs are reluctant to report such practices to FLOCERT as they are concerned about the effect on their trading relationship. The Fairtrade Minimum Price in bananas has also led to new challenges: according to some respondents the differences in Fairtrade Minimum Price per country creates unfair competition as demand shifts to those countries with a lower Fairtrade Minimum Price. There are also concerns that the Fairtrade Minimum Price has become the maximum price for conventional Fairtrade bananas; importers and retailers (especially in the UK) are generally not willing to pay more.

Fairtrade has not influenced prices in cocoa and tea, however a market premium for Fairtrade flowers can exist in the German market. The Fairtrade Minimum Price is designed as a safety net in case of low market prices. For cocoa and tea, the Fairtrade Minimum Prices have been below market prices for the past five years. This made it impossible to investigate the effect of the Fairtrade Minimum Price as safety net. This research identified no other market premiums for Fairtrade cocoa or tea, other than the Fairtrade Premium. In flowers, there is no Fairtrade Minimum Price. Flower prices are the same for Fairtrade and non-Fairtrade. An exception was found in the German market, where depending on the final customer, the intermediate buyer paid slightly more for Fairtrade flowers to producers (this was in a vertically integrated chain).

The Fairtrade Minimum Price was considered to be too low to cover the cost of sustainable production. This perception was shared in the cocoa and tea value chains. While some advocated increasing the Fairtrade Minimum Price[5], others raised concerns about Fairtrade's emphasis on influencing prices. Their view is that the fundamental solution for impact at producer level is yield improvement and the transition to larger-scale and more diversified farming systems. In bananas, the Fairtrade Minimum Price was considered to be fair at the time of the field visit (end 2015), but due to the effects of exchange rates this has not always been the case. For example, in Colombia the exchange rate for the peso was strong against the dollar from 2009 to 2014, which reduced margins for producers. This led a group of Fairtrade producers to demand a price increase over the Fairtrade Minimum Price in 2011, which they achieved after refusing to supply bananas for two weeks. However, from 2014 onwards, the peso devalued strongly, which has significantly increased margins for producers being paid the FMP. This example shows how important exchange rates are in obtaining a fair price.

Supply and demand dynamics and relative market power remain fundamental drivers in price-setting along value chains. For example, in the Kenyan tea sector the Kenyan auction system is significant in determining export prices. Approximately 80 percent of Kenya's tea is traded through these auctions and auction prices are an important reference for those trading outside the system. Prices paid to producers are based upon these export prices, but are also set by the Kenyan Tea Development Agency, for those smallholders who are part of the Agency. This state-sanctioned private body comprises over 560,000 small-scale growers and 67 factories and produces the majority of Kenyan smallholder-grown tea (with plantations producing the rest – approximately 40 percent). Further downstream, factors that determine tea prices include quality, blend, and brand. There has been oversupply and commoditisation of tea (with tea becoming an 'everyday' product and retailers offering a great number of discounts – such as buy-one-get-one-free) in the past 10 to 15 years.[6] This has led to declining tea prices and has meant downstream players have greater bargaining power in setting prices. In cocoa, global future markets play an important role in determining international prices. Price differentials are determined by factors such as relative market power, mutual dependency and negotiation capacity. In the flower sector, the Dutch auction system remains important in facilitating market transactions, although the Kenyan flower sector has experienced a shift towards direct trading relationships and more vertically integrated supply chains. In bananas, most UK and German retailers are now buying through direct relationships rather than spot markets. Prices along the chain are primarily determined by direct negotiations between buyers and suppliers and are thus dependent on their relative market power. Strong demand and limited supply have led to high prices for organic Fairtrade bananas in recent years, but prices for conventional Fairtrade bananas are under pressure due to oversupply. Ability to supply high and consistent volumes and quality are a requirement for market entry, rather than a determinant of price.

Market dynamics determine where in the value chain the costs of Fairtrade are absorbed and whether they are passed on to consumers. Fairtrade certification does not necessarily lead to higher consumer prices. In bananas, the retailers that only sell Fairtrade bananas price-match their bananas to non-certified ones. Retailers selling Fairtrade and non-Fairtrade bananas generally put higher prices on the

---

[5] During the reporting phase of this research, Fairtrade commenced a review of the costs of sustainable production for cocoa.

[6] In parallel, there has also been a development de-commoditization with the emergence of many niche tea products.

Fairtrade ones. In the cocoa cases included in this research, the Fairtrade Premium and other costs faced by exporters in supporting the producers to become certified are generally invoiced to the brands. Consumer prices are not influenced by these costs. The highly competitive tea market means retailers are driven to match the Fairtrade tea price to the non-Fairtrade tea price. The strength of retailers and the imbalance of power between downstream and upstream actors in the supply chains means other supply chain players, notably tea packers, are typically obliged to absorb the additional costs of Fairtrade. It is only in flowers that Fairtrade is generally priced to consumers higher than non-Fairtrade. German retailers tend to compensate suppliers for all costs related to Fairtrade, while UK suppliers tend to compensate suppliers only partially.

Public policy has the potential to protect producers against price fluctuations, if properly designed and enforced. In the Ivory Coast, the government fixes minimum cocoa prices between farm-gate and exporters at the beginning of each season. These prices are determined on the basis of global future markets. According to respondents, this pricing system is widely enforced (although cases of non-compliance may exist in remote areas and in the low season). There is sector-wide appreciation of its benefits for farmers. It does however not mean that farmers are no longer impoverished. SPOs, middlemen and exporters, however, complain that as a result their margins are not in proportion to the risks they bear. In Ecuador, the government also introduced a minimum price to protect small producers in the banana sector. However, there is widespread malpractice in the second season with producers required to pay back a part of the official price to exporters in cash. Exporters say the official price is set too high as it is based on cost of production (COP) for inefficient small producers, and markets are unwilling to pay for it. Public policy can also influence prices through taxation. For example, taxation in the Ivorian cocoa sector is relatively high which reduces prices upstream. Another example is the EU import tariffs on bananas, which have historically enabled producers in African, Caribbean and Pacific countries (mostly former colonies) to remain competitive with bananas from large plantations in Latin America. These preferential tariffs are gradually being reduced, following complaints made to the WTO and new bilateral trade agreements between the EU and Latin American countries. But they are still an important influence on retailer and importer sourcing decisions.

2.1.2 Premiums

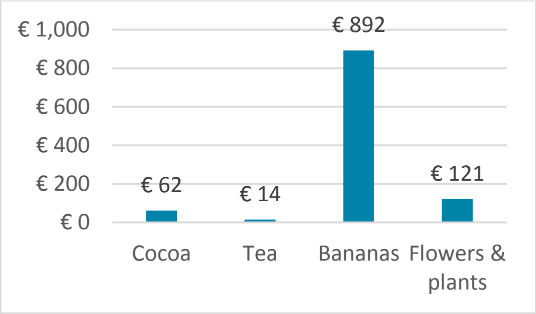
Table 3: The Fairtrade Premium is the most direct and significant benefit of Fairtrade.

	Difference Fairtrade and non-Fairtrade	Influence of Fairtrade
Cocoa	Fixed premium (200 US$ per tonne) and higher than other schemes	Fairtrade Premium
Tea	Fixed premium (500 US$ per tonne) and higher than other schemes, lower volumes	Fairtrade Premium
Banana	Fixed premium (1 US$ per box of 18.14 kg) and higher than other schemes	Fairtrade Premium
Flowers	Premium of 10% of the FOB price per stem	Fairtrade Premium

The Fairtrade Premium can make SPOs more viable trading partners through improved control over supply. The Fairtrade Premium also allows SPOs in cocoa and tea to invest in transportation, warehouses for storage of cocoa and quality management. This improves their capacity to deliver committed volumes and quality. In the Ivorian cocoa sector, the Fairtrade Premium provides an important additional contribution to the SPOs' ability to respect contracts. According to SPOs and exporters, the Fairtrade Premium reduces the risk of side-selling, because it is partly distributed in cash to members (which is not the case in tea). As premiums paid to farmers are a relatively small part of the price they receive (1 to 3 percent), they do not contribute greatly to the 'fairness of price'. It has, however, a significant impact on farmer's incentives to sell their cocoa through the SPO. It also increases the willingness of SPOs to respect commitments made to the exporter.

In the HLO context, the Fairtrade Premium may increase attractiveness of suppliers. In the HLO context, the Premium Committee decides on the use of the Fairtrade Premium. Examples of the use of Premium included financial support for education of worker's children and home improvements. The Fairtrade Premium is also used for social and community development projects. Although these do not directly affect trading relationships, farm management reported that social projects can make farms more attractive to buyers, including non-Fairtrade buyers.

Figure 9: Average Fairtrade Premium received by SPO and HLO per farmer or worker by product 2013–14 (worldwide figures, source Fairtrade)



Producers prefer the fixed nature of the Fairtrade Premium to the flexible premiums from other certification schemes and sustainability programmes. In cocoa, tea and bananas, other certification schemes exist which can include the payment of a premium. In flowers this was not the case. A number of the Fairtrade certified SPOs and HLOs included in this research had multiple certificates and some of the non-Fairtrade producers had other certifications. In all sectors corporate sustainability programmes exist that can include the payment of a premium. The Fairtrade Premium was always higher than the alternative schemes and programmes. We observed one corporate cocoa programme which resulted in higher cash payments to farmers (while the premium to the SPO was lower) when compared to Fairtrade. In general, however, producers favoured Fairtrade for the high premium amount and its stability, as the level of the premiums in alternative schemes tend to erode over time.

More strategic investments of the Fairtrade Premium could further enhance the terms of trade. In order to satisfy the many needs across SPO membership, the Premium is often divided into several smaller projects. This may impede larger investments which structurally improve the terms of trade of all members. For example, in cocoa, SPOs rely heavily on exporter pre-finance for their cocoa purchases from members. They usually do not obtain all the pre-finance they need and have no access to other credit sources (although the better performing SPOs may have access to impact lenders). According to one exporter, if SPOs decide to use part of the Premium to set up a rotating fund to complement exporter pre-finance, it could improve the SPOs' buying capacity, enable them to include more members and increase profitability. Alternatively, the Fairtrade Premium, in combination with Fairtrade Producer Services, could be used to organize producers to enable influencing of government policy. Currently, producers have little voice in policy making, while these have a major influence on the fairness in trade.

The Fairtrade Premium can also reduce competitiveness and become an obstacle to developing long-term relationships. The size of the Fairtrade Premium has proven to be a commercial challenge for many downstream actors, which is reflected in the volumes sold. These dynamics can undermine the building of long-term trade relationships. This is particularly the case when the market dynamics (and nature of the commodity) favour flexible procurement practices for the cheapest products (e.g. in tea) and when 'sustainable' alternatives exist that do not have premiums attached (as in tea, cocoa and bananas). In contrast to the other sectors included in this research, the Fairtrade Premium in the flower sector is not a fixed amount per weight, but a fixed percentage of the FOB price. This has two important consequences: firstly, variation in FOB prices between countries will result in different Fairtrade Premium amounts, something which is perceived by some as 'unfair' competition. Secondly, as prices increase during peak events such as Valentines' day, the Fairtrade Premium increases proportionally. This reduces the competiveness of Fairtrade flowers with a detrimental effect on sales under Fairtrade conditions.

2.1.3 Profitability

Table 4: Fairtrade can improve profitability of farmers, SPOs and HLOs (in bananas). For other actors in the value chain Fairtrade is a cost with benefits which are difficult to quantify.

<table>
<tr><th></th><th colspan="3">Difference Fairtrade and non-Fairtrade</th><th>Influence of Fairtrade</th></tr>
<tr><th></th><th>SPO / HLO</th><th>Traders/ packers</th><th>Brand / retail</th><th></th></tr>
<tr><td>Cocoa</td><td>Possible positive influence on profit</td><td rowspan="4">Additional cost vs. improved market access</td><td rowspan="4">Additional costs vs. reputational benefits</td><td>Fairtrade Premium</td></tr>
<tr><td>Tea</td><td>Possible positive influence on profit</td><td>Fairtrade Premium</td></tr>
<tr><td>Banana</td><td>Possible positive influence on profit</td><td>Fairtrade Premium
Fairtrade Minimum Price</td></tr>
<tr><td>Flowers</td><td>Improved market access</td><td>Fairtrade Premium</td></tr>
</table>

Producers' profit margins depend mainly on labour and input prices, yields and exchange rates. Fairtrade can make a positive contribution to profit margins for small-scale producers. In cocoa, the Fairtrade Premium resulted in additional cash payments to producers. In one certified cocoa SPO, the Fairtrade Premium was used to distribute fertilisers and provide training to its members. Farmers thought this supported their profitability more than cash payments from the Fairtrade Premium. In tea, the SPOs included in the survey had decided not to use the Fairtrade Premium for cash payments to producers. However, the services provided and paid with the Fairtrade Premium did contribute to better margins for the producers.

Fairtrade can make an important difference to the viability of SPOs. In the Ivorian cocoa sector, trading conventional cocoa is considered to have become poor business for SPOs. This is partly due to the fixed margins introduced by the government's pricing policy. This pushes SPOs to trade larger volumes to cover fixed costs. The SPO business model increasingly depends on the premiums they receive which allow them to attract new farmers (and increase volumes), to cover costs (e.g. truck repairs, extension staff) and to make investments that contribute to the profitability (e.g. transportation, storage facilities, quality management). In tea, the Fairtrade Premium allowed SPOs in the Kenyan tea sector to diversify their income sources. Some examples are investments in:

- ownership in a tea factory;
- the development of an own brand tea;
- office space to rent out.

Such investments allow the generation of increased benefits for members and improved financial viability of the SPO. This can make SPOs more reliable suppliers although in the tea sector this seems to have little influence on the terms of trade. However, Fairtrade also comes at a cost for SPOs: it requires investments in staff and transportation for administration, training and monitoring farmers as well as payments for the annual audit. Nevertheless, SPOs in cocoa and tea seem to be generally satisfied with the balance between financial benefits and the costs related to Fairtrade.

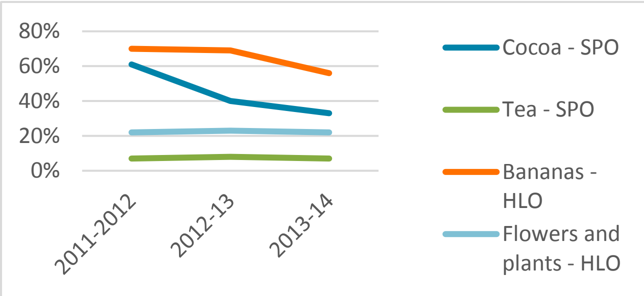
In the HLO context, the business costs related to Fairtrade certification are perceived to be equal to the benefits. In bananas, HLO managers perceived financial benefits as a result of the Fairtrade Minimum Price (for conventional bananas) and more stable sales volumes throughout the year (for conventional and organic bananas). According to the HLO managers these benefits are balanced by the additional costs for Fairtrade production. Costs include:

- costs of certification and auditing;
- administration costs (e.g. compliance officer's salary, management time in Premium Committee meetings);

- increased labour costs due to workers spending more time in meetings and trainings;
- increased labour costs due to Fairtrade standards for environmental protection and safe chemical use;
- increased expenditure on occupational health and safety (e.g. nurse and doctor on site);
- cost of internal trainings plus specialist trainings provided by Fairtrade.

In flowers, a large number of costs related to Fairtrade are shared with other certifications. Fairtrade adds to the costs notably on the audit and training by Fairtrade. As prices for flowers are similar for Fairtrade and non-Fairtrade (except for vertically integrated supply chains to the German market) and the Fairtrade Premium is for the workers, farm management does not see any direct financial benefits in the Fairtrade value chains. However, they still consider Fairtrade to be beneficial in terms of the improved market access and the benefits to the workforce, as do HLO managers in the banana sector.

Figure 10: Fairtrade global sales as a percentage of Fairtrade global production (source Fairtrade 2014-2016)



The benefits of Fairtrade to producers erode when Fairtrade products are oversupplied. There is increasing frustration among producers as a result of the lack of volumes sold under Fairtrade conditions and the consequent reduction in Premium. This is prominent in the tea sector where SPOs sell less than ten percent of their certified production under Fairtrade conditions in some years. In cocoa, the certified SPOs included in this research sold all or most of their production under Fairtrade conditions. However, this was threatened by rapid increases in membership of the SPO and supply of Fairtrade certified volumes without having secured demand for this extra supply. In flowers, the increase of Fairtrade farms in Kenya and Ethiopia has meant that the initial security in market uptake from Fairtrade certification has been eroded. In bananas, competition between Fairtrade producers within and between countries is also growing. In all sectors there is a clear need to ensure a balance between supply and demand.

For most exporters, importers, and packers, Fairtrade is an additional cost, but it is important for market access. Sourcing Fairtrade production comes with additional administrative and audit costs for exporters and importers which generally are not compensated. Supplying Fairtrade also increases risks as there may be constraints to finding alternative supply at short notice. In flowers and tea, Fairtrade can make the packer less competitive as the product becomes more expensive and they are less able to 'shop around' for the lowest price. However, these companies also reported that offering a portfolio of products, including Fairtrade, makes them more attractive supply partners. Fairtrade provides evidence of positive social impact, which buyers prefer, particularly when they can tell a story to consumers linked to this impact. For them Fairtrade is generally simply seen as a buyer requirement which they need to fulfil.

Banana exporters have differing views on the extent to which the Fairtrade Minimum Price contributes to profitability. Some exporters reported lower profitability when engaging in Fairtrade, compared to non-Fairtrade, and others reported greater profitability. Exporters and importers have more options to use price fluctuations to their advantage for non-Fairtrade conventional bananas, and so may earn greater profits for non-Fairtrade than for Fairtrade, depending on the season, market prices and producers' negotiation power.

In cocoa exporters are (partially) compensated for the services they deliver related to certification. The overall perception is that trade in conventional cocoa beans has become bad business. The exporters included in this research divested from conventional cocoa trade. Instead, they have become supply chain managers for their customers' sustainability programmes. Rather than purely buying and selling cocoa beans, they now provide many services to producer groups, including training, certification and traceability. For (part of) the costs of these services traders are compensated by their customers. This has replaced some of the trader's speculative income with more stable margins. Exporter programmes may include different certifications depending on the customers' demands, but this does not have a lot of influence on the focus or approach of the programme. Where Fairtrade has been chosen as the certification scheme, Fairtrade Liaison Officers provide some additional training to the SPOs, which is considered beneficial by exporters. In contrast to Fairtrade, the premium of other schemes can be allocated to exporters which gives them more freedom to decide on how much of the premium is used to cover the costs of the services they provide and how much is paid to farmers.

Brands and retailers regard Fairtrade as beneficial in their marketing, but costs and lack of evidence of impact are a barrier for uptake. The decision to buy Fairtrade is generally made by the marketing departments and sustainability departments. Important drivers are reputational benefits and the need to meet corporate sustainability targets on sustainable sourcing. Where alternative credible and cheaper certification systems exist, brands and retailers tend to source their largest volumes through those systems. Where brands and retailers have committed to a particular certification scheme they are hesitant to switch – even if they later see greater value in an alternative scheme – because of the extra costs involved in doing so and the previous investments made to date.

Rather than a fair distribution of value throughout the value chain, the key challenge seems to be how to ensure there is sufficient value to distribute. Some interviewees stated that there is a disproportionate share of value for the retailer. The fact that value chains manage to absorb some or all of the costs related to Fairtrade (rather than pass it on to consumers) also suggests that there is some value to redistribute in non-Fairtrade value chains. However, rather than the distribution of value, the decrease in total value in supply chains seems to become the fundamental obstacle to fairness in trade (i.e. it is the declining overall size of the pie, rather than each actor's share of the pie).[7] Respondents in the tea, banana, flowers and cocoa value chains felt that price competition between brands and retailers induces a race to the bottom which squeezes the margins throughout the supply chain. The rise of discounters is also perceived to contribute to this. Pressure on retail prices of bananas is further increased as in markets where there is intense competition between retailers (including the UK and Germany), bananas are often used for price comparisons. In addition, in the UK it is legal to sell below cost, and this occurs periodically for loose bananas in the banana price wars mentioned above. This development limits fair prices and provision of fair terms of payment and stimulates unfair trading practices to compensate (e.g. unfair quality claims). These developments make Fairtrade value chains less price competitive.

2.2 Procedural justice: Fairtrade can improve negotiating capacity, transparency and safeguards upstream

For the procedural justice component in the fairness in trade – the perceived fairness of decision-making processes – we analysed the perception of value chain actors with respect to the following indicators: contract terms and pre-finance, and negotiations. Fairtrade aims to influence these indicators via the Trader Standard and Producer Services.

---

[7] Some evidence and reflection for this statement in the cocoa sector can be found in Fountain et al. (2014).

2.2.1 Contract terms and pre-finance

Table 5: Fairtrade brings some transparency and safeguards in contracting upstream – there is no influence downstream.

	Difference Fairtrade and non-Fairtrade		Influence of Fairtrade
	Upstream	Downstream	
Cocoa	Improved awareness in contracting and more safeguards	None	Trader Standard and Producer Services
Tea	Improved awareness in contracting and more safeguards	None	Trader Standard and Producer Services
Banana	More safeguards	None	Trader Standard
Flowers	None	None	None

Fairtrade improves awareness of the value of contracts among SPOs and creates some safeguards for breach of contract for SPOs and HLOs. In cocoa and tea, Fairtrade's Producer Services helped SPOs to understand the importance of contracts in terms of rights and obligations. Fairtrade also obliges traders to make sure the contract is available to the SPO. Where contracts are not respected, producers can be more aware and vigilant about reclaiming their rights and they can receive support from Fairtrade liaison officers in doing so. For example, the Fairtrade Trader Standard and support from Fairtrade staff helped a banana HLO to ask for an independent survey in relation to a quality claim to prove that quality problems were caused by the shipping company and not by him. Fairtrade also offers guarantees for the timing of payments of the Fairtrade Premium, which was appreciated by SPOs and HLOs across all sectors. Timing and conditions of payment for products were similar for Fairtrade and non-Fairtrade value chains across all sectors; they were generally determined by the dominant value chain actor and often considered to be fair or at least 'standard' practice. Fairtrade does not seem to affect payments terms, although it may affect the content of contract, as with the Trader Standard. In practice, the impact may be limited. For example, HLO managers in flowers experienced no changes to contract terms as a result of the Trader Standard, and perceived no improved contractual safeguards as they apparently do not need additional safeguards.

Fairtrade has little or no effect on pre-finance practices in the tea, bananas and flowers value chains. Respondents reported pre-finance practices to be similar for Fairtrade and non-Fairtrade value chains. In banana and flowers, pre-finance is not requested by HLOs, given their year-round production and sales. In tea, some demand for pre-finance exists, but this is provided independently of certification. For example, the KTDA has a micro-finance scheme for smallholders and some factories offer pre-finance for fertiliser purchases.

Only in cocoa does Fairtrade provide some safeguards in pre-finance practices. Pre-finance to SPOs for cocoa purchase is common practice across the sector. Irrespective of certification, pre-finance is provided at a zero percent interest rate and generally, but not always, above the minimum threshold as defined by Fairtrade. Fairtrade provides guarantees that the minimum threshold is respected. The Fairtrade Premium may also impact pre-finance conditions: one exporter reported that if the Premium is spent in such way that it improves the commercial viability of an SPO (e.g. control over supply, transportation and quality management) then this can positively influence pre-finance conditions set by the exporter. Exporters may also pre-finance certain investments by SPOs such as trucks, salaries, audits, farm inputs, quality control materials. Such pre-finance depends on whether the SPO was included in an exporter programme, not on its certificate. Despite Fairtrade or exporter programmes, there are still many issues in pre-financing. SPOs complain that pre-finance is insufficient in size or its provision is stopped abruptly before the end of the season. Exporters complain that SPOs misuse the pre-finance to pay for open accounts or unexpected expenses. Such issues seem to be less frequent in SPOs which are part of exporter programmes, whether Fairtrade certified or not.

Few value chain actors were aware of the Trader Standard. Fairtrade's influence on contract terms is limited, although some of its requirements can make a difference. Most value chain actors across all sectors reported that Fairtrade did not change the contractual terms and conditions other than (in bananas) the price or the premium. Most interviewees in procurement or sales positions were not aware of the requirements of the Fairtrade Trader Standard regarding contracts. Some did not even know the Standard existed. In many cases the Trader Standard resulted in some minor changes to standard contracts to ensure it "included all the things Fairtrade says it has to include" without changing the terms and conditions compared with non-Fairtrade contracts. The research revealed, however, a few examples in which Fairtrade did make a difference. For example, banana producers and exporters said there were fewer unjustified quality claims for Fairtrade bananas. For non-Fairtrade bananas there are more frequent quality claims during the low-demand season, suggesting this is being used by importers and retailers as a way to control supply and avoid contracted obligations.

Fairtrade provides insufficient safeguards to prevent non-compliance with contracts. In this research, some cases of non-compliance were reported, including payment delays or the non-compliance with the obligation in the Trader Standard to provide or facilitate pre-finance when there is a demand for it. Several key informants said contracts in the banana industry are not always fully complied with, including for trade happening under Fairtrade. 'Unfair rules of the game' allegedly occur both within and outside Fairtrade certified value chains (e.g. last minute changes to orders, unjustified quality claims, requests for rebates or contributions outside of contracts). Sellers in both the banana and tea sectors (particularly the packers) feel forced to accept the conditions presented to them by downstream players, in order to retain customers. Some Fairtrade suppliers are reluctant to complain about breach of contract terms via the Fairtrade allegation process as they are concerned about how it could affect their trading relationship. Other Fairtrade suppliers may be in a better position to complain (e.g. because they have plenty of buyers).

Fairtrade audits do not identify all instances of non-compliance with the Trader Standard. Several respondents felt auditing of the Trader Standard was weak compared to auditing of the producer standards: FLOCERT seems to have a more technical approach to auditing, rather than analytical. This means that simple questions are not asked which could reveal important non-compliance. In addition, auditors do not seem to cross check information provided by exporters with the producers they source from. Strong assurance on the Trader Standard can increase trust levels along the value chain (e.g. a Fairtrade cocoa SPO reported that the audits by FLOCERT of their buyers gave them more confidence that these buyers were behaving correctly).

The Fairtrade Trader Standard does not always apply to retailers, but retailers are often a significant determinant of payment conditions throughout the value chain. In bananas, for example, the Fairtrade Trader Standard is applicable to importers but not to retailers. Exporters reported being paid seven days after shipping (the Trader Standard has set a maximum of eight days). However, UK retailers reportedly pay importers between 30 and 60 days after receiving fruit. This means a delay of up to 13.5 weeks between importers paying exporters and receiving payment themselves. This may create a disincentive to pay suppliers swiftly and favours importers with higher levels of capital or access to low cost finance. Some supply chain actors in the banana sector reported that retailers only stick to those aspects of supply agreements which are in their favour, not those which are intended to protect suppliers. Such 'unfair' practices are currently outside the scope of influence of the Fairtrade system. In tea, supply chain players argued that retailers generally determined payment terms and conditions, as typically the largest and most powerful players in the supply chain with the greatest bargaining power.

2.2.2 Negotiations

Table 6: Fairtrade has some positive influence on the negotiating capacity of SPOs.

	Difference Fairtrade and non-Fairtrade		Influence of Fairtrade
	Upstream	Downstream	
Cocoa	Improved awareness and self-confidence	None	Trader Standard and Producer Services
Tea	Improved negotiation skills and opportunity to express views	None	Trader Standard and Producer Services
Banana	None	None	None
Flowers	None	None	None

Fairtrade's Producer Services positively influenced SPO's negotiation skills but not necessarily the outcomes of negotiations. In tea, one of the Fairtrade SPOs felt Fairtrade training had improved the SPO manager's ability to negotiate with the factory. Some factories reported that Fairtrade training has encouraged them to think more about farmers' views and to see them as key decision-makers. However, this did not necessarily result in better outcomes from negotiation processes. In tea, both Fairtrade and non-Fairtrade SPOs felt there is a mismatch between the contractual rights and obligations of the SPO and farmers versus those of the factory. In cocoa, the government's price policy removes price as one of the negotiation variables. Remaining variables include volumes, timing, penalties and pre-finance conditions. Fairtrade's work to increase awareness on contractual rights has made the SPO's management feel more confident and empowered in their trading relationships with the exporter. However, the research found no difference in contract terms between Fairtrade certified SPOs and SPOs without any certification, but part of exporter programmes. One Fairtrade cocoa SPO thought they had improved their negotiation position because of Fairtrade certification, but they had in fact the same deal as a non-Fairtrade SPO supplying to the same exporter. None of the cocoa exporters interviewed perceived any effect of the Fairtrade's Producer Services on the SPOs capacity to negotiate.

SPOs in cocoa (but not in tea) expressed the need for more support in negotiations with downstream players and marketing. This applies particularly to SPOs that have increased their production volumes and need to find additional customers. It applies to SPOs who have started exporting. Becoming an exporter can be risky: for the first time the organization needs to deal with future markets, exchange rate fluctuations, complex logistics and more sophisticated quality management and contracting. In cocoa, an exporting union was well aware of these risks and was happy that its clients (the importers) took over most of these activities on their behalf. They had significant need for additional capacity to handle these risks and enter international markets. Fairtrade did not provide such support other than helping to search for new markets. In tea, there was no need for additional support as the Fairtrade certified SPOs included in this research were either shareholders in the factory or KTDA – and therefore felt negotiations were fair and they were well represented. Or they had very close and long-standing relationships with the factory and trusted its ability to negotiate prices with downstream players fairly on their behalf.

Negotiating strength in the value chain largely depends on scale and positioning in the market. In most value chains, the weaker players in the chain generally have to accept the terms that are set by the stronger players in order to maintain market access. In bananas, Fairtrade can give producers and exporters bargaining power in price negotiations with importers and retailers, due to the Fairtrade Minimum Price and because Fairtrade contributes to a portfolio of products. However, the extent to which it does so depends on scale and positioning. When producers are able to provide good volumes of high quality Fairtrade and/or organic fruit all year, they gain negotiating power. Smaller Fairtrade producers reportedly have less bargaining power, particularly if they are dependent on exporters but the exporters are not dependent on them. Because of its size, the Kenyan Tea Development Agency has the ability to negotiate prices with buyers on behalf of producers, and thus set prices for producers. However, instances of mismanagement of income by KTDA have been reported with delays of bonus payments to producers. In cocoa, the recent consolidation in the trader segment has resulted in some shifts of the balance of power between traders and brands. In flowers, vertically integrated producers have some bargaining power with end customers compared to independent packers and producers. However, where traders or buyers rely on specific producers to supply Fairtrade products, producers can use this to their advantage by obtaining a stronger bargaining position. Where there is an oversupply of Fairtrade produce, the ability to negotiate tends to be negated.

Other factors that contribute to fairer negotiations include:

- **Producer ownership of downstream entities:** In tea, some farmers have greater bargaining power and retain greater share of the value of tea because they are shareholders of the factory (for example via the KTDA). In bananas, producer-exporters and producers who have shares in an export company are in a stronger position than producers without their own export arm. Vertical integration into other parts of banana supply chains, such as input supply, port loading, shipping and imports further consolidates this advantage. However, the balance of power in vertically integrated firms can also be against producers: in the flower sector, the HLOs in vertically integrated companies included in the research reported having less bargaining power as company structures and strategy are more likely to dictate prices.
- **Producers with a relationship with the brand or retailer:** In flowers, HLO managers reported that a direct relationship with a retailer can strengthen their negotiating position compared with when there is a trader in between. In cocoa, producers thought that a direct relationship with the brand would improve their negotiating position with the exporter.
- **Duration of trading relationships and related trust levels**. As the duration of trading relationships increases, trust tends to increase and trading partners more often recognise the need for all parties to benefit from the trade.
- **Transparent pricing mechanisms:** The minimum price system in the Ivory Coast makes negotiations and potential abuse over price-setting irrelevant. Auctions – where they operate without collusion -- are more likely to be considered fair because they facilitate price discovery based on supply and demand and transparency. The auctions in the Kenyan tea sector are reported to have tempered the bargaining power of downstream players with respect to price setting.
- **Public regulatory tools**: In the UK, concerns about the abuse of the negotiating power of retailers resulted in the creation of a Grocery Supply Code of Conduct (GSCOP) by the UK Department for Business Innovation & Skills. The GSCOP and associated Groceries Code Adjudicator made retailers more mindful of trading practices with their direct suppliers. It has curtailed excessive or unfair retailer power to some extent, e.g. in retrospective rebates, because of fears of punishment via the payment of fines. However, some respondents reported that practices not allowed under the Code continue (e.g. charging for packaging design, asking for retrospective rebates) and claim it requires more thorough, and innovative, monitoring (bearing in mind suppliers are scared to report non-compliances as it may mean losing important clients). Fairtrade has campaigned for the introduction of the GSCOP and continues to campaign for the expansion of the Code to second and lower tier suppliers, which are currently not included in the scope.

Unbalanced power between SPOs and exporters does not necessarily impede partnership-based trading relationships. In cocoa, exporters have close ties with those SPOs which are part of their programmes. These relationships involve much capacity building and are based, at least initially, on exclusive trading relationships. Key informants were sceptical about whether such partnerships really benefit SPOs because of the unequal power balance. There is a risk that such relationships become captive and the SPO fully depends on the exporter, no matter what terms they impose. Both SPOs and exporters confirmed that most negotiation power is with the exporter. Exporters determine the contracted volumes, pre-financing arrangements, payment terms and the type of certificate the SPO should pursue and have significant influence on how the Fairtrade Premium is spent. This unequal power balance was not necessarily considered a problem by SPOs. They highly valued, and were dependent, on the exporter's support (e.g. for pre-finance and technical assistance). Their trading relationships, regardless of the certification scheme adopted, are based on mid- to long-term commitments and characterised by high levels of trust and a willingness to consider each other's views. SPOs that were part of a cocoa exporter programme felt they could influence certain decisions made by the exporter. Exporters also indicated that they are not necessarily against SPOs becoming stronger. Stronger SPOs are more reliable suppliers and need less capacity building – as long as they do not start to look for additional clients or engage in exporting themselves. Exporters also recognise that this can be a 'natural' development. This spirit of partnership was in sharp contrast with an SPO visited that was not part of any exporter programme: this SPO felt it did not even have the opportunity to express its views to its buyers, let alone to negotiate. An exporter programme and certification is however not a guarantee for mutual beneficial trading relationships: key informants and exporters knew of various cases where the relationship between exporters and SPOs were problematic.

2.3 Informational and inter-personal justice: Fairtrade has some influence

For the informational justice – the perceived fairness of the exchange and use of information – and inter-personal justice - the perceived fairness of communication between individuals - components in the fairness in trade we analysed the perception of value chain actors based on the following indicators: transparency of information and personal communication. Fairtrade aims to influence these via the Trader Standard and Producer Services.

2.3.1 Transparency of information

Table 7: Fairtrade increases downstream knowledge of the upstream situation but not necessarily vice-versa.

	Difference Fairtrade and non-Fairtrade		Influence of Fairtrade
	Upstream	Downstream	
Cocoa	Contracts available at SPO level Fixed Premium per kg	None	Trader Standard
Tea	Fixed Premium	None	Trader Standard
Banana	Fixed Premium and Minimum Price	Increased knowledge on upstream prices	Trader Standard
Flowers	Clarity on Premium calculation	None	Trader Standard

Some differences exist in the transparency of information between Fairtrade and non-Fairtrade value chains. Producers generally had good information about supply conditions in both Fairtrade and non-Fairtrade value chains. The exception was in cocoa, where the non-Fairtrade SPO who was not part of an exporter programme lacked any information and understanding of many trade-related topics. Public benchmarks for prices such as the Kenyan tea auction system contributed to a better understanding of price-setting. Fairtrade did influence transparency to some extent. The fixed Fairtrade Premium and its rules around payments provided more clarity to SPOs (although not all SPO members in cocoa knew the Fairtrade Premium amounts received). As previously mentioned, Fairtrade also ensures contracts are available at SPO level. In tea, Fairtrade has contributed to the awareness of how important it is to ensure a good information flow between factory and SPO.

Fairtrade increases transparency in pricing upstream - which is beneficial for brands and retailers - but there is a lack of transparency downstream which can undermine trust. Some downstream actors said that Fairtrade increased transparency in prices at exporter and producer level and generated a greater understanding of product sourcing. In contrast, Fairtrade did not contribute to producers and exporter knowledge about prices, volumes and other information at brand or retail level. This potentially undermines negotiating positions and trust levels. One producer-exporter in bananas is circumventing this lack of market information by regularly contacting Fairtrade staff in his key market. However, this is the exception rather than the rule.

Downstream actors expect more transparency on the use of the Fairtrade Premium and the Fairtrade License Fee to better justify the additional cost. A number of downstream actors have specific requirements for impacts they would like to see. They did not fully trust that Fairtrade Premium funds were being well spent. This perceived lack of transparency drives retailers and brands away from Fairtrade towards their own programmes or other certification schemes. Some companies also reported that Fairtrade or FLOCERT can be slow to communicate with players in the chain – even in situations where it is very relevant e.g. the decertification of a supplier.

2.3.2 Personal communication

Table 8: Fairtrade has some influence on personal communication upstream.

	Difference Fairtrade and non-Fairtrade		Influence of Fairtrade
	Upstream	Downstream	
Cocoa	Higher trust	None	Trader Standard
Tea	Better communication between factory and SPO	More visits to producers	Producer Services Company engagement
Banana	None	More visits to producers	None
Flowers	None	None	None

Direct relationships and communication were generally good in both Fairtrade and non-Fairtrade supply chains (e.g. producer to exporter, exporter to importer, importer to retailer). This was typically attributed to long-term relationships and professional behaviour on both sides. In tea, communication was good in Fairtrade and non-Fairtrade value chains, and Fairtrade Producer Services contributed to a further improvement in communication between SPOs and factories. In flowers and bananas, communication was perceived as good in both Fairtrade and non-Fairtrade value chains. In cocoa, the quality of communication depended more on historical ties and the intent and quality of trader programs and their staff. For example, a non-certified *traitant* (middleman) included in the research had a good and long-lasting relationship with one exporter and also with some farmer groups. The Fairtrade and non-Fairtrade SPOs which were part of an exporter program had frequent and good communication with their exporters. Fairtrade did not seem to have much influence, although one SPO mentioned that the audit of the exporter against the Fairtrade Trader Standard further raises trust levels. In contrast, another non-certified SPO had poor communication and low trust levels with exporters (e.g. no trust in weighing scales or quality controls).

Communication between producers and importers, between brands and retailers, and between exporters and retailers was less good. In bananas some producers claim exporters and importers try to prevent direct relationships with retailers because of fears they would be excluded from the chain. This is perhaps a legitimate concern, given recent moves by some supermarkets to source directly (although this trend appears to have reversed), but it undermines trust and transparency. In cocoa, a producer-exporter would like to see a stronger relationship with the brand as this could increase commitment from the buyer to the SPO. Field visits by brands or retailers were highly appreciated by all SPOs in this research. Brands and retailers also appreciated these visits as it provided them with better insight into the issues and more understanding when trading differences occur. In all of the Fairtrade tea value chains included in this research, these visits have been arranged or encouraged by Fairtrade, which was highly valued. In bananas, retailers tend to visit producers more frequently in Fairtrade supply chains, compared to non-Fairtrade supply chains.

Having good communication between value chain actors is seen as beneficial and desirable. It helps to improve transparency, trust and information exchange. Good communication is vital to facilitate trading relationships even when interests are sometimes opposed. In flowers, a fast moving product, communication is key. Sellers have daily communication with buyers to adjust volumes or discuss quality issues or potential low sales. These supply chains are transparent with close communication and relationship between all the actors in the supply chain for both Fairtrade and non-Fairtrade products. A challenge to trading relationships and communication is the fact that buyers within retailers are often moved from commodity to commodity fairly rapidly. One tea packer believed this to be a deliberate strategy in order to avoid deals being done on the basis of personal relationships and 'history' rather than on the basis of commercial factors such as price.

Personal relationships depend primarily on personalities, the length of trading relationships and national or corporate culture. Fairtrade has some influence. Good personal relationships depend on capable people, good communication skills, availability, and a willingness to listen, explain decisions and recognise each other's needs. This research identified some influence of Fairtrade on relational aspects. In tea, Fairtrade improved communication between producers and factories, producer participation in general and the way conflicts are managed. In bananas, several producers (and key expert informants) reported that Fairtrade improves dialogue and communication. Corporate culture also influences relationships, and this may be influenced by industry norms for 'doing business' in different countries. For example, some producers and key informants gave examples of particular retailers and markets which were 'good to deal with', e.g. Switzerland and Nordic countries for bananas. Companies from these countries tend to put less pressure on prices and were less demanding in terms of quality. Some countries have a less positive reputation for fairness (e.g. some UK retailers which are regarded as highly competitive and aggressive to the detriment of upstream suppliers and fairness in trade). At the same time, banana producers reported that UK retailers tend to visit more often and have more vigilance over production (i.e. they do their own audits), compared to German retailers who rarely visit and rely on certification and their importers to take care of everything.

The fear of losing Fairtrade certification can drive people to hide issues, or present an overly positive picture to visitors. A President of an HLO Worker's Committee reported that he would do anything to maintain Fairtrade certification because it was so important to workers. A number of respondents across the sector reported similar opinions. It shows that the pressure to meet standards could have the perverse effect of encouraging concealment or deception instead of openness and joint problem solving with buyers. This also echoes the view expressed by traders and brands in the cocoa sector that they do not consider certification alone sufficient to eliminate certain bad practices (e.g. child labour).

2.4 Commitment: Fairtrade is more often a consequence of long-term relationships than a driver of long-term relationships

For the commitment component in fairness in trade – the allocation of resources to strengthen relationships and improve value chain performance – we analysed the perception of value chain actors with respect to the following indicators: volumes traded, stability in trading relationships and investments. Fairtrade aims to improve commitment amongst others through market development for Fairtrade products, engagement with companies, the Trader Standard and Producer Services.

2.4.1 Volumes traded

Table 9: In all sectors Fairtrade sales are under pressure. Only in bananas did Fairtrade result in more stable sales volumes for producers throughout the year.

	Difference Fairtrade and non-Fairtrade		Influence of Fairtrade
	Upstream	Downstream	
Cocoa	Some additional market access	None	Producer Services
Tea	Some additional market access	None	Producer Services
Banana	More stable volumes throughout the year	None	Trader Standard More stable demand
Flowers	Annual commitments are standard	None	Trader Standard

Fairtrade can result in improved and more direct market access for SPOs, but there is a need for additional support. In one of the chains analysed in the tea sector, demand for Fairtrade resulted in more direct trading relationships between buyers and SPOs. In cocoa, an exporting union also experienced improved market access because they were Fairtrade certified. SPOs in cocoa and tea generally believed that Fairtrade certification (or other sustainability certification) would help them to find additional buyers, although some wanted more support in identifying and approaching them. Some SPOs preferred to increase volumes with their existing buyer rather than adding new buyers as they feared the complexity of managing trading relationships with multiple buyers.

Most Fairtrade SPOs and HLOs fear a decline of sales of their production under Fairtrade conditions. As mentioned before in tea, Fairtrade sales figures are poor. In flowers, farms perceived total volumes of Fairtrade sales to have remained constant. Nonetheless, as in the other sectors included in this research, flower farmers fear an increasing oversupply of Fairtrade production. The higher cost of Fairtrade relative to other schemes is a barrier to increased Fairtrade sourcing. This is particularly true for sectors where nominally credible and cheaper alternative certification systems exist. Emerging retail and brand-led sustainability programmes in cocoa and flowers are positioned as credible alternatives by these companies and their partners.

Increasing Fairtrade oversupply in bananas risks causing a race to the bottom in which the smaller and most progressive producers may be squeezed out. Several key informants said small producers have been forced out of conventional Fairtrade markets, because HLOs are much easier for buyers to work with to secure large volumes with consistent quality. Although SPOs can also provide high volumes and good quality, they tend to require a higher level of investment in quality control. They have turned to organic production as a way to survive, but key informants reported that competition for organic Fairtrade markets is now on the rise as increased volumes of organic Fairtrade bananas are available. There were also claims that larger HLOs are crowding out medium-sized HLOs. HLOs in Colombia also claimed that buyers are switching to countries with lower labour standards and therefore lower Fairtrade Minimum Prices, although this is also related to the influence of exchange rates on sourcing decisions. This means producers with the most progressive labour practices, and small producers, are at risk of being squeezed out of Fairtrade markets if the imbalance between supply and demand continues to grow.

In bananas, Fairtrade results in more stable sales volumes throughout the year. Increasingly contracts between producers, exporters, importers and retailers are set annually. This is particularly the case for Western and Southern Europe as supermarkets want consistent quality, volumes, timely delivery, etc. In contrast, sales to other main markets (Russia, Eastern Europe, and Middle East and North Africa) are more likely to be via spot markets. In bananas, producers and exporters reported less likelihood of last minute changes in orders for Fairtrade volumes. One exporter thought this was because consumer demand is more stable, so buyers do not need to use these tactics to control costs. Others attributed it to Fairtrade standards, as they require that at least 90 percent of volumes outlined in the contract are paid as Fairtrade. Organic markets also appear to be more stable, but a Fairtrade organic producer said Fairtrade provides additional stability. Stable volumes throughout the year do not only depend on demand as side-selling is not completely ruled out in Fairtrade value chains. An importer reported that Fairtrade producers (just like non-Fairtrade producers) can be unreliable in the face of opportunities to side sell for higher returns in first season. Side-selling is still a major risk for banana importers, because of fines for non-delivery to their customers.

In tea, cocoa and flowers, Fairtrade has limited influence on the presence of or the respect for annual buying commitments. In flowers, supply contracts for Fairtrade are based on a calendar year with the buyer being required to submit a Letter of Intent in which the buyer states the intended volumes and prices. In non-Fairtrade chains a variety of formal and less formal commitments was encountered with varying durations, including annual commitments. Commitments in both Fairtrade and non-Fairtrade systems are, however, no guarantee and may be dictated by supply and demand. The Fairtrade system does recognise this as they require buyers to purchase at least 50 percent of the Fairtrade volumes indicated in a 6-month sourcing plan. In subsequent years at least 75 percent of the Fairtrade volumes in the sourcing plan must be purchased. HLOs and importers reported that these requirements are similar to existing practice so there is no difference between Fairtrade and non-Fairtrade annual contracts.

In tea, Fairtrade has not had an influence on forward commitments: there are volume forecasts but these are mostly tentative and non-binding. In cocoa, the Fairtrade volumes indicated in annual contracts are not a guarantee for uptake. During the season some redistribution of quota may occur between SPOs delivering to the same brand following the relative speed of delivery of each SPO. Recent investments in geo-location of producers by exporters should result in more reliable estimations of production volumes and thus a better allocation of quota and pre-finance.

Fairtrade can contribute to higher conventional sales when Fairtrade supply becomes a condition for market access. All four sectors revealed cases where the ability to supply Fairtrade products enhanced overall market access to brands or retailers. Nonetheless, offering a competitive price remains the most important condition for market access. In flowers, suppliers selling a high percentage of Fairtrade products felt that being Fairtrade certified increased commitment from their buyers. However, where Fairtrade represents a small amount of total sales, being Fairtrade certified appears to give little or no extra commitment or bargaining power.

2.4.2 Stability in trading relationships

Table 10: Fairtrade is more a consequence of long-term relationships than a driver of long-term relationships

<table>
<tr><th></th><th colspan="2">Differences Fairtrade and non-Fairtrade</th><th>Influence of Fairtrade</th></tr>
<tr><th></th><th>Upstream</th><th>Downstream</th><th></th></tr>
<tr><td>Cocoa</td><td rowspan="2">More stable trading relationships between farmers, SPOs and immediate buyers</td><td>None</td><td rowspan="2">Fairtrade Premium</td></tr>
<tr><td>Tea</td><td>None</td></tr>
<tr><td>Banana</td><td>More stability within the year, not necessarily across years</td><td>None</td><td>None</td></tr>
<tr><td>Flowers</td><td>None</td><td>None</td><td>None</td></tr>
</table>

In bananas and flowers, all producers, exporters and importers in the research reported long-term relationships with onward buyers, often pre-dating Fairtrade. In bananas, Fairtrade may have affected the longevity of trading relationships for some producers (i.e. other than those in the study, which all had long-term relationships with their buyers), because there are fewer sourcing options than for conventional production. But this appears to be changing, and there are concerns about a 'race to the bottom' based on price (particularly for the UK market).

There is an overall transition to more direct and stable trade relationships. In all sectors, except for tea, trading relationships are becoming more direct. In flowers, there is a tendency towards reducing the number of first tier suppliers and seeking larger, long-term, more strategic relationships with the remaining suppliers. In bananas, German retailers increasingly develop direct relationships with importers instead of relying on wholesale markets. In cocoa, some cocoa brands have started to develop Memoranda of Understandings (MoU) with their suppliers. An MoU is, for example, set for a three-year period and includes intended volumes to be sourced and expected sustainability impacts and possible certifications. This allows traders to build and invest in their supply base. Exporters increasingly discuss multi-year planning in terms of potential volumes with the SPOs that are part of their programmes. This shift to longer-term commitments between traders and brands/retailers has been influenced by:

- the need to have a secure year-round supply of quality products (applicable to fresh products such as bananas and flowers).
- consolidation of trade and manufacturing: companies have become more dependent on each other – this drives more intense supplier relationship management and longer-term commitments.
- brand or retailer requests for traceability and specific sustainability impacts which make them more dependent on traders able to deliver.

In the SPO context, Fairtrade can contribute to increased loyalty in trading relationships between farmers and SPOs and between SPOs and their immediate buyers. The benefits from Fairtrade, whether additional training or the Fairtrade Premium, seem to increase commitment of farmers to their SPO and commitment of SPOs to their exporter (cocoa) or factory (tea). In cocoa, this reduces the risks of side-selling. In tea, producers feel a stronger commitment to their SPO and to the factory providing their Fairtrade Premiums. Key informants in cocoa also reported a risk when loyalty in trading relationships depends on a premium; SPOs may shift to other buyers if these can offer more premium. Such behaviour can be very opportunistic.

Other, non-Fairtrade related factors, which contributed to more stable trading relationships in the SPO context include:

- **Continuous demand and reliable payments:** In cocoa, for example, farmers highly value their relationship with reliable SPOs. Farmers were even prepared to wait a few days for their money rather than relying on immediate cash payments from local collectors that might not be in the neighbourhood the next time one had to sell something. Similar dynamics exist between SPOs and exporters.
- **Service delivery to SPOs by exporters:** Cocoa SPOs highly value the support they receive from exporters. This is, together with the Premium, the most important motivation to sell as much as possible to the exporter.
- **Ownership of the immediate buyer resulted in good and stable relationships.** In tea, farmer ownership in the factory resulted in a good and stable relationship between the factory and the producers. Trading relationships were based on clear commitments to required deliveries and an overall mutual understanding of what both the factory and producers required and expected from each other. Similar dynamics were found for an exporting company jointly owned by a number of producers in the banana sector and a cocoa exporting union with SPOs as members. The tea case shows that the Fairtrade Premium can facilitate the financing of producer ownership.

Stable trading relationships seem to be a better basis for fair trading relationships. They increase trust and mutual dependency. It is also a better basis for investments in the supply chain as one is more likely to gain from the benefits of these investments. But this does not necessarily mean higher profits for suppliers as annual tendering means buyers can negotiate prices based on lower costs. Whether more direct trading relationships result in fairer trading practices also depends on the business model and the ethics of the buyer. If a retailer wants to source directly from a producer only to undercut costs, then this could expose a producer or exporter to additional risks which would have otherwise been born by a trader.

There are several factors which undermine long-term trading commitments:

- **Blending:** Tea is a blended product. As such there is no need to rely on one source or producer. Consequently, there is a drive to be as flexible as possible in sourcing which negates the need for long-term trading relationships which (combined with the trends of oversupply of Fairtrade tea and declining demand) challenges the viability and incentive to pay an additional premium.
- **Annual tendering processes:** In bananas, flowers, cocoa and tea, relationships between retailers/ brands and their suppliers tend to be long term with or without Fairtrade. However, annual tendering by retailers undermines the stability of trading relationships. Suppliers may lose their business with a retailer one year, then regain it the next. Price was identified as one of the most important factors during tendering processes. This creates a race to the bottom including making sales below costs and cutting margins to get the contract. It drives a continuous pressure for economies of scale. Of course, this can have knock-on effects in the rest of the value chain. Interestingly, one buyer reported using sustainability impact metrics in their selection criteria for their suppliers. This was supposed to enable smaller suppliers to remain competitive.
- **Open markets:** while auction systems and commodity exchanges increase transparency, they can inhibit the development of more direct trading relationships.
- **Oversupply:** oversupply of (Fairtrade) products undermines long-term relationships in (Fairtrade) value chains.
- **Price wars in retail:** the pressure on margins favours shopping around for the lowest prices rather than investing in long-term relationships.

In the tea market in particular, current trends and conditions provide disincentives to (and may prohibit) the development of long-term trading relationships. Most tea is sourced indirectly (via brokers, auctions, forward contracts with KTDA) rather than directly from particular producers or estates. There is sufficient supply or even oversupply and heavy price competition at the retail level. There is a perception amongst downstream players (e.g. brands/manufacturers) that if they were to move predominantly to long-term fixed trading relationships they would be at a disadvantage relative to their competitors as they would get locked into trading relationships where producers could set prices. Some long-term trading relationships have been identified in the tea sector, but they are often based on historical relationships that predated Fairtrade or are being driven by a desire to have a few positive marketing messages and producer 'stories' to tell to consumers.

2.4.3 Investments

Table 11: Fairtrade does not influence buyers' commitment to invest in producers beyond the Fairtrade Premium

	Differences Fairtrade and non-Fairtrade HLO / SPO	Influence of Fairtrade
Cocoa	Fairtrade Premium	Fairtrade Premium
Tea	Fairtrade Premium	Fairtrade Premium
Banana	Fairtrade Premium	Fairtrade Premium
Flowers	Fairtrade Premium	Fairtrade Premium

Whereas the Trader Standard requires supply chain actors to support producers, most companies do this regardless of Fairtrade. In bananas, for example, Fairtrade and non- Fairtrade exporters and importers provide support to HLOs for quality control and market expectations by visiting farms to check systems and discuss requirements. In cocoa, brands and exporters increasingly invest in their supply base. For the majority of the Fairtrade and non-Fairtrade SPOs visited in this research, the exporter was their primary source for capacity building. Exporters have designated staff in the field who visit SPOs on a weekly basis. They provide support on quality management, planning of supply, logistics, financial management, governance, promotion of good agricultural practices and certification. Exporters can also require SPOs to hire a project assistant – usually an experienced person – who supports the SPO in becoming more professional. Exporters can propose certain staff and pre-finance their salaries. Some exporters place their own staff within SPOs. Exporters also hire service providers to deliver some training, including training needed for certification. Some retailers and brands in cocoa and flowers also give premiums not linked to any certification scheme (e.g. for community investments).

Fairtrade Producer Services can complement – and sometimes duplicate – support that SPOs receive from other actors. SPOs and HLOs can receive capacity building services from NGOs or bilateral organizations. In cocoa these organizations tend to focus their support on (possibly certified) SPOs that are part of exporter programmes. Fairtrade Liaison Officers also train SPOs on topics such as governance, gender, contracting and good agricultural practices. It can happen that an SPO receives training on the same topics from different providers. There is overlap between Fairtrade's capacity building activities and other sources, but SPOs also often consider them to be complementary.

There is a lack of communication and coordination between Fairtrade and buyers regarding capacity-building activities. This was apparent both in the tea and cocoa sector. Buyers generally have limited knowledge of what kind of capacity building activities Fairtrade organises with the SPOs supplying product to the buyer. In addition, exporters do not inform Fairtrade on the activities they undertake, which can result in duplication of capacity building efforts and impede opportunities for complementary action or synergies. Whereas Fairtrade Producer Services is generally appreciated by downstream value chain actors, some question the fact that this support has to be given by Fairtrade. They prefer an open market system where different service providers can compete for the best services. This feedback was heard most often in the cocoa sector where there is significant investment in training by the industry.

3. The impact of Fairtrade and fairness in trade on producers and workers

Fairtrade's emphasis on trading practices is based on the assumption that these make a difference to the welfare and wellbeing of producers and workers. This chapter explores whether the research supports this assumption. It focuses on a number of indicators relevant to the SPO context (e.g. income, organization and gender) and HLO context (e.g. working conditions, worker's organization, gender and community investments). This chapter also discusses the extent to which Fairtrade Producer Services contributes to the welfare and wellbeing of producers and workers.

Figure 11: Chapter focus on the impact of Fairtrade and fairness in trade on producers and workers

3.1 Fairtrade and fairness in trade can lead to improvements in farm income, community development and producer organization for SPOs

Table 12: Fairness in trade and Fairtrade can have sustainability impacts at farm and community level

<table>
<tr><th>Indicator</th><th>Influence of trading practices</th><th>Influence of Fairtrade</th></tr>
<tr><td>Farm income</td><td>• Premium allows for cash payments, improved yield and quality, and income diversification</td><td rowspan="4">• Fairtrade Premium
• Fairtrade Producer Services
• Fairtrade Standards</td></tr>
<tr><td>Community development</td><td>• Premium allows for community investments</td></tr>
<tr><td>Producer organization</td><td>• Stable sourcing relationships increase commitment within SPOs</td></tr>
<tr><td>Gender</td><td>• Premium allows for investments in women activities</td></tr>
</table>

Fairness in trade can increase farmer income through cash payments, investments in productivity and quality, and income diversification. This research identifies several ways in which the Fairtrade Premium improves farmer income. In cocoa, a part of the Fairtrade Premium (between 1 to 3 percent of the price) is distributed in cash to farmers. When paid once a year, this can be a considerable amount of money for an average household. Some SPOs in tea and cocoa use the Fairtrade Premium to finance capacity building and input supply. For example, one of the Fairtrade SPOs visited in cocoa put significant emphasis on training and input supply as part of a more strategic Fairtrade Producer Services approach which was rolled out in Ivory Coast. The members of this SPO preferred these services over cash payments from Fairtrade Premium as they considered yield improvement to be worth more. Several experts and value chain actors feel that more emphasis by Fairtrade on service delivery rather than cash payments could be more beneficial for SPOs and farmers in the long-term. This is, however, not yet a common belief among cocoa producers: in both Fairtrade and non-Fairtrade SPOs some farmers supported this view and some said they would leave if they no longer received a Premium.

The Fairtrade Premium enables SPOs to invest in community projects which improve the livelihoods of producers. Examples of social projects financed by the Fairtrade Premium include education (e.g. school buildings and school fees), health centres, access to water and sanitation, roads and income generating activities (e.g. for women). Such investments could increase the well-being of farmers and their commitment to continue farming.

Producer organizations are strengthened through more stable supply relationships and by Fairtrade Producer Services. As discussed in chapter 2, stable and fair trading relationships contribute significantly to the producer's willingness to commit to the SPO. Particularly in cocoa, the absence of such relationships, i.e. in non-Fairtrade and non-exporter programmes, makes it difficult for SPOs to retain their members and increases the risk of side-selling. The strength of SPOs is further supported by Fairtrade's Producer Services. SPOs in cocoa and tea reported that the training they receive from Fairtrade helps them to build better relationships with their members, and to improve their internal governance and planning. The Fairtrade Standard and Producer Support also contributes to more democratic decision making for use of the Fairtrade Premium, which reduces the probability of mismanagement of funds and increases the chances of the Premium being used to fulfil genuine needs. Fairtrade's Standard requirements on farmer representation can also contribute to SPO governance and internal trust levels. In Kenya, in tea, Fairtrade actively promotes having women in leadership positions through awareness raising. In cocoa, conflict management procedures are generally more formal in Fairtrade SPOs than in non-Fairtrade SPOs. Cocoa exporters recognise the value of the Fairtrade Producer Services on the governance of the group and member engagement, something which other certification systems do not offer at all or only to some extent. It does not mean that Fairtrade SPOs are by definition better organised than non-Fairtrade SPOs. We also found good governance and high trust levels in non-Fairtrade cocoa SPOs where they are part of an exporter program. Key informants also reported that democratic decision-making does not rule out a dominant influence on decision-making by leaders as members may feel obliged to follow their opinion.

Fairtrade Producer Services and the Fairtrade Standard contribute to improved performance on gender, but so did other actors. In cocoa and tea, Fairtrade has helped to make SPOs and their members aware of the need to consider the role of, and promote, women. This resulted, for example, in female representation in management/ leadership positions and in support of income generating activities for women. However, gender performance does not seem to depend upon Fairtrade certification. Both in cocoa and tea, non-certified SPOs also received training in gender issues and support for women projects. In cocoa, gender is a component of some brand/exporter programmes and some NGOs are active in this area. In the Kenyan tea sector, NGOs are active and the Kenyan government has implemented new legislation requiring female representation in management/leadership positions.

3.2 Fairtrade and fairness in trade can positively influence working conditions for HLOs, but the degree of impact varies

This section evaluates if, and how, fairness in trade and Fairtrade improves the ability of HLO management to provide fairer working conditions. It also considers how Fairtrade improves the capacity of workers to negotiate fairer working conditions. The key findings in this section are summarised in Table 13.

Fairtrade Producer Services contributes to workers' and HLO management's awareness on working conditions, although more support is needed. Fairtrade Liaison Officers train workers in Labour Codes, Fairtrade Standards and Premium management. Both workers and HLO management perceived the training to be of good quality. Some considered it insufficient in quantity (notably in flowers, e.g. on Premium management) and some stakeholders in the banana sector had concerns about the future quality of training due to the shift in responsibilities to Fairtrade regional offices. Fairtrade Producer Services also trains HLO management. Training topics include Fairtrade standards, information on changes in the Fairtrade system, market information and support in using Fairtrade standards in relation to contracts with buyers. HLO management in flowers felt that training was sometimes insufficient or untimely. HLO managers in bananas were very happy with training (in particular Fairtrade Premium management training) received to date, but expressed concern that they may be excluded in future as the regional Fairtrade Producer Network has taken over provision of Producer Support. This could deprive them of an important source of information and could create misunderstandings between workers and management in the application of Fairtrade rules.

Table 13: **Fairness in trade provides HLO management with opportunities to improve job security, offer additional worker benefits and to make community investments**

Indicator	Influence of trading practices	Influence of Fairtrade
Workers' organization	• Limited	• Fairtrade Standard and Producer Services if strong trade unions are absent
Working conditions	• Stable market access, better prices and clarity on rules of trade increase the capacity of HLOs to provide good working conditions	• Fairtrade Standards and Producer Services if strong trade unions are absent • The Trader Standard, Fairtrade Minimum Price and stable demand for certified products
Stable employment	• Stable market access results in improved job security • Additional benefits can result in a more loyal workforce	• Trader Standard and more stable demand for certified products • Fairtrade Premium
Gender	• Limited	• Producer Services and Fairtrade Standard
Community development	• Premium allows for community investments	• Fairtrade Premium and Producer Services

On Kenyan flower farms and Colombian banana farms, the added value of fairness in trade and Fairtrade on worker organizations and working conditions has been limited due to the presence of strong trade unions (and other certifications in flowers). In the Kenyan flower sector, wages and working conditions are primarily determined by law and membership of the national trade union, through which the collective bargaining agreement (CBA) is defined. Workers on both Fairtrade and non-Fairtrade farms are on a permanent contract as required by law (with the exception of workers whose employment is subject to a probationary period). The CBA ensures that workers receive related benefits such as medical care, annual leave, housing allowances, better maternity leave, breastfeeding opportunities, and respect for working hours and overtime. All union farms are bound by working hours through the CBA. The Fairtrade Standard is stricter on overtime than the CBA, but farms received permission from Fairtrade to increase overtime hours temporarily during peak events. The workers at non-unionised farms (both Fairtrade and non-Fairtrade) negotiate their working conditions through a mandatory Welfare Committee. They were less satisfied as they felt that farms with a CBA have more to offer to workers. Still, workers at Fairtrade farms felt they were in a better position because of the direct benefit of the Fairtrade Premium. All flower farms in the research also had other certification covering issues such as occupational health and safety, training and provision of protective clothing (PPE). Due to overlap and similarity of requirements differences cannot be directly attributed to Fairtrade certification.

In Colombia, the banana sector is almost 100 percent unionised. Basic wages are set at sector level and performance-based pay is set at farm level. Wages are equal to or above national minimum wages and performance-based pay means workers typically earn well above the minimum. Workers consider wages good and say they are able to save small amounts each month. On top of basic wage and legislated benefits (social security, paid leave, overtime, maternity leave, etc.), a range of extra-legal benefits are negotiated in the CBA (e.g. transport allowance, help with medical emergencies, child schooling, glasses, funeral costs, etc.). Workers are clearly empowered by having strong trade unions. Fairtrade has no impact on wages or payment of legislated benefits, but provides additional benefits via the Premium.

Fairtrade has, however, had a significant impact for workers on a banana farm in Ecuador. Labour standards in the Ecuadorian banana sector have historically been poor, with little worker organization and poor industrial relations, although this has improved under the current government. In contexts such as these, Fairtrade can make an important difference. According to both workers and HLO management, Fairtrade certification improved the ability of workers to exercise rights and negotiate conditions with their employer (as well as bringing improvements in working conditions via auditing against the Fairtrade Producer Standard). The establishment of a Workers Committee – a Fairtrade requirement – was instrumental in this. A Collective Bargaining Agreement (CBA) was agreed, and was under review at the time of the research with workers seeking additional paid holidays, increased bonus payments, and an allowance for lunch. While significant compared to non-Fairtrade farms, which rarely have any form of CBA, it is not clear to what extent negotiation between employees and employers takes place. A key difference where there are strong national trade unions such as in Colombia or Kenya, is that trade unions have a national structure beyond the farm. This means experienced worker representatives can conduct or support negotiations between workers and employers. This is typically more effective than worker representatives at farm level negotiating independently, as they often lack the knowledge and skills to negotiate well, and may feel constrained in the extent to which they can push for improvements due to their reliance on the employer.

Even in the presence of strong trade unions and CBAs, Fairtrade can increase compliance with the CBA and labour laws. This was particularly noted in the Colombian banana sector. Work clothes and PPE appear to be provided more often on Fairtrade farms than on non-Fairtrade farms. Fairtrade certification tends to result in better maintenance of infrastructure in anticipation of auditors and other visitors. Fairtrade can contribute to worker empowerment, as Fairtrade farms were found to have increased dialogue and more meetings between workers and managers. Workers were also engaged in decision making with respect to the Fairtrade Premium.

Stable market access, better prices and clarity on the rules of trade increase HLOs' capacity to provide good working conditions. For example, stable demand for Fairtrade bananas throughout the year results in more stable employment in the banana sector. Many workers on non-Fairtrade banana farms were said to be without work or were being paid weeks late in the second banana season. The reason being that plantations were having difficulties in selling their fruit and getting paid.

Premium payments bring additional benefits to workers and communities. Fairtrade sales in the banana and flower sectors have generated millions of dollars in Premiums. Preferred uses of the Premium were housing improvements and support for the education of workers' children and family members. Other uses include healthcare costs, subsidised stoves, community projects, micro-credit, sport and recreation. At flower farms, the Fairtrade Premium was also used to finance capacity building of workers, e.g. in occupational health and safety. In flowers, not all migrant workers supported the Premium Committee's focus on community help instead of direct worker's benefits as they were in these communities temporarily.

Premium payments can be empowering for workers but can also create differences of opinion between the workforce and management. In bananas, the Fairtrade Premium is well managed thanks to substantial training received from Fairtrade and professional staff being employed. HLO management reported that managing the Premium has been empowering for workers. However, some key informants raised concerns about HLO management having too much influence on Premium use. In flowers, HLO management did not always trust workers to make effective decisions on such large amounts of money. HLO management has no decision-making power over the Fairtrade Premium unless the chosen projects are detrimental for the company. They did however feel the need to 'nudge' certain decisions in the right direction. Workers reported they needed more support to give them leverage with management when it comes to setting priorities. There was also some discussion around the revised Fairtrade Standard where workers can choose to distribute up to 20 percent of the Fairtrade Premium equitably amongst the workers in cash. While workers struggle to define what is equitable, farm managers have been trying to 'educate' workers that no allowances should be made; the tax implications would make the Kenyan Revenue Authority the biggest single beneficiary of the clause.

Additional benefits and improved dialogue between HLO management and workers can result in a more loyal and committed workforce. Relationships between workers and management were generally good on both Fairtrade and non-Fairtrade farms. Workers felt that their interests are considered and are aware that not all their grievances can be resolved or addressed. HLO managers on Fairtrade farms generally thought that Fairtrade certification had improved dialogue and resulted in more benefits for workers. This creates a stronger workforce with potentially less staff turnover, as was reported in Kenya, and therefore fewer business costs (e.g. investments in training). In bananas, HLO managers also noted improved quality management by workers to prevent rejects which would impact the amount of Premium received. In Ecuador, HLO managers felt that Fairtrade contributed to a more stable workforce. Workers reported that Fairtrade motivated them to stay on their farms; they recognised that they could earn more elsewhere, but would lose the job security and important benefits related to the Fairtrade Premium. In Colombia, many workers had similar reasoning, although there is also a number who prefer to work on farms with higher performance-based pay rates, whether the farm is Fairtrade or not. This was confirmed by HLO management who reported worker turnover to be high, in spite of the Fairtrade benefits. Workers in Kenya gave mixed answers on whether Fairtrade improved their loyalty to the farm.

In flowers, Fairtrade contributed to improved gender performance, but so did other actors. In bananas, Fairtrade's attention to gender is weak. At flower farms, female representation in committees and worker's organization is in line with the proportion of female employees. There was no feeling of gender discrimination. Fairtrade has been given a lot of credit for this as it was among the first to emphasise gender issues in the Kenyan flower sector. More recently civil society and the government have also contributed to improved awareness of gender issues and gender balance in decision-making. For example, there is a policy which requires a Women's Committee on each flower farm. In the Colombian and Ecuadorian banana sectors, women form a minority of workers. Fairtrade Producer Services pay little attention to gender aspects. Women are not well represented in workplace committees, particularly in Premium Committees and Workers' Committees. Premium Committees did not develop projects specifically targeting women and/or gender issues. This was not raised as an issue by women workers, but when prompted they said they would like training and support in women's rights and empowerment.

4. Fairtrade's engagement approach and impact beyond certified value chains

This section analyses results from our research into the impact of Fairtrade on companies' approach to trading, looking beyond the impact of the Fairtrade standard itself. For example, what impact does Fairtrade's engagement with companies have on the way those companies think about sourcing, trade and fairness? Criteria examined include awareness of sustainability issues, company values, sourcing models, sourcing commitments, and investments in the supply base. The findings in this chapter are primarily based upon the interviews with companies that are engaged in Fairtrade.

Figure 12: Chapter focus on Fairtrade's impact beyond certified value chains at company level

4.1 Fairtrade's engagement with industry varies; companies call for further improvements in dialogue and transparency

Relationships between companies and Fairtrade vary from a focus on compliance with the Trader Standard to intensive partnerships. For many companies their relationships with Fairtrade is restricted to paying the Fairtrade License Fee and the costs of auditing by FLOCERT against the Fairtrade Trader Standard. With other companies, Fairtrade has more frequent dialogue on how, for example, the Fairtrade system could be improved. Such dialogue can take place with staff of Fairtrade International, the national Fairtrade offices or regional offices. In some cases, Fairtrade has developed 'strategic' partnerships, for example on joint promotion of Fairtrade products, specific projects to address certain sustainability issues, or in monitoring and evaluation.

Fairtrade ignores the value the middle segment (traders) can add in creating fairness in trade. Fairtrade focuses its engagement efforts at producer level and brand or retailer level. Its model seems to be built on the premise that trade is exploitative and that by empowering producers and engaging with brands or retailers the traders could be skipped ("cutting out the middleman"). This ignores the role traders can play in creating fairness in trade. They can aggregate supply so producers can access mainstream markets. They can absorb risks involved with international trade, which otherwise could be very detrimental to producers. And they can add value through service delivery in terms of capacity building, financing, and logistical support. Rather than only moving products, traders can add value for both producers and buyers as supply chain managers. In many contexts it is not realistic to expect them to disappear. Instead of ignoring this, Fairtrade could engage more intensively with them. By not engaging with traders they miss opportunities to further promote mutually beneficial partnerships and create the necessary systemic change.

Companies would like to see more transparency, more dialogue and closer relationships with Fairtrade. A number of companies perceived Fairtrade to be an unnecessarily large operation, at times costly and inefficient. Not everybody was convinced that it delivers value for money. To be able to better assess the value for money, companies expect more transparency in the use of the Fairtrade Premium and the Fairtrade License Fee, as well as more evidence that Fairtrade achieves things that are important to the companies. Where companies had relationships with other certification schemes, many perceived these to be more pro-active, more transparent and more flexible. Value chain actors perceived these schemes to be less bureaucratic and to act more as a business partner than Fairtrade. They would like to see Fairtrade take a similarly proactive and open approach.

Companies have seen a recent improvement in their relationships with Fairtrade because of Fairtrade's improved commercial understanding and its renewed focus on the most important issues in supply chains. Historically, many companies felt that the Fairtrade approach was based more upon campaigning and was less collaborative than it is now. Several companies felt Fairtrade was fixated on its own system – i.e. the Fairtrade Standard or Fairtrade Minimum Price – rather than looking at what is necessary to achieve impact. There is a perception that this is changing. Companies also mentioned that the quality of the relationship with Fairtrade depends a lot on the individuals they communicate with. There were some concerns about Fairtrade's staff turn-over and multiple contact points within the different offices of the organization.

4.2 Fairtrade has increased industry awareness of sustainability, but its supply chain interventions have little influence beyond Fairtrade value chains

Fairtrade has improved companies' awareness of sustainability issues at producer level, but has been less successful in raising awareness of fair trading practices. Several brands and retailers acknowledged that Fairtrade engagement and campaigning has contributed to improved awareness of sustainability issues. Supplier visits – when initiated by Fairtrade certification – further contributed to a better understanding of sustainability issues and improved knowledge of Fairtrade's impact. However, the awareness of fair trading practices is still low, and where awareness has been raised this has been attributed to actors and initiatives unconnected to Fairtrade, for example the Grocery Supply Code of Conduct (GSCOP). Respondents in the value chain were either not aware of or did not refer to Fairtrade's role in advocating for the GOSCP. Awareness of sustainability issues among traders is driven more by long-term relationships and presence in producing countries.

Industry knowledge of sustainability is increasingly gained through other initiatives and programmes. In recent years, different platforms have emerged bringing different stakeholders together, raising awareness and developing solutions to specific problems. Some companies see more value in working through such platforms than in certification. Examples of such platforms are Tea 2030, the Ethical Tea Partnership (ETP), CocoaAction and the World Banana Forum. Such platforms are also believed to be better able to deal with structural issues in the market. Fairtrade is member or participates in some of these platforms.

Sustainability has become 'mainstream' in corporate thinking in the UK and Germany, although some scepticism remains. Most downstream companies interviewed for this research appear to take sustainability seriously. In cocoa, the share of certified sourcing is increasing steadily in mainstream markets, and in bananas several retailers have shifted to 100 percent certified bananas. However, the share of Fairtrade in these certified volumes is generally small compared to other certification schemes (particularly in cocoa and tea) or there is a shift away from Fairtrade to other sustainability standards (in bananas). In the UK and German flower markets, Fairtrade is still the dominant certification and overall volumes are growing, especially through the introduction of new certified product lines. According to brands and retailers, certification does not necessarily increase sales, but can contribute to commercial success through reputational benefits. It is, however, difficult to quantify the effects. Importers and exporters see the commercial importance of Fairtrade in being able to offer a portfolio of products to their customers or being able to maintain buyers. Despite existing commitments, certain suppliers and key informants questioned the extent to which brands and retailers really care what happens on the ground or are willing to pay for social and environmental improvements. This was less relevant in the cocoa sector where some brands pursue very specific sustainability impacts and are willing to pay for those. However, a strong downward pressure on premiums also exists amongst cocoa suppliers. Some traders reported that certain buyers do not want not to know what is happening at producer level.

Certification has more broadly influenced sustainability commitments made by brands and retailers. As certification started to gain more traction, companies started make public commitments to sourcing sustainability. It incentivised them to work more intensively with suppliers to obtain the certified volumes. A number of companies, however, have felt challenged by these commitments – for example in being able to obtain sufficient supply at competitive prices or adequate quality. Some retailers have regretted making such commitments.

Fairtrade has hardly any impact on sourcing models or trading practices beyond value chains that have achieved Fairtrade certification. Almost all brands, retailers and traders said Fairtrade had not affected company-wide sourcing models and trading practices. They claim that it is their own internal values or market demand that drives their sustainable sourcing – and not Fairtrade. A weakness of product certification is its segmentation; it targets "just another product line' rather than having an impact on overall corporate sustainability performance or trading practices. There are a couple of exceptions, however: one tea brand claimed that the Fairtrade model inspired them to set the ambition to pay fair prices to all of their suppliers. There is also the more public example of Tesco's commitment to pay the Fairtrade Minimum Price for all bananas in response to the Fairtrade Foundation's campaign about banana price wars in the UK.

Partly because of the perceived failure of certification to solve certain issues, companies have developed their own sustainability programmes looking beyond certification. Certification in general, including Fairtrade, increased industry awareness of the complexity of certain issues. Fairtrade offers a third-party perspective on supplier's performance, but there is growing concern that the certificate is not enough to provide guarantees. Standards do not necessarily cover all issues which the industry thinks are a priority, e.g. low productivity in the cocoa context or product quality in tea. The failure of certification to solve these issues has contributed to the development of corporate sustainability programmes. Such programmes are particularly common amongst brands and traders in the cocoa sector and there are an increasing number of retailer-led sustainability programmes in flowers, tea and bananas. Certification is often, but not necessarily, part of these programmes; this depends mainly on marketing value and costs. Interestingly, one of the retailer's own sustainability programmes in flowers collaborated with a Fairtrade certified farm. It paid a premium for the flowers to the farm, but not as part of the Fairtrade certification system. Fairtrade certification seems to give credibility to buyers. And as the consumer value of the label diminishes with mainstream adoption, companies may no longer be willing to pay for it. Broader adoption of standards is certainly a success. However, as the driver for certification shifts from creation of a competitive advantage to a license to operate, willingness to pay is reduced and 'cheaper' systems are favoured.

5. Conclusions and recommendations

This research ends with three main conclusions based on the findings in previous chapters and with recommendations for Fairtrade to improve its impact on fairness in trade.

5.1 Trading relationships matter for sustainability

The quality of trading relationships can have a direct positive influence on producer's sustainability. For SPOs and HLOs, fairness in trade can improve their economic viability and capacity to invest in sustainability. This research identified evidence for this relationship for all four sectors.

In the banana sector in Ecuador, improved security in respect of contracted volumes enabled banana plantations to provide more stable year-round employment for their workers. Without these guarantees, plantations were often confronted with cancelations in buying orders, making it too risky to provide job security. In both the banana and flower sector, the payment of a premium above market prices enabled diverse investments in worker's benefits or community development.

In the cocoa sector in the Ivory Coast, chocolate manufacturers and exporters increasingly develop direct and longer-term trade relationships with SPOs. These trading relationships include multi-year off-take projections and the provision of capacity building, pre-finance, traceability systems, monitoring and possibly certification support. Such trading relationships allow SPOs to increase member's loyalty and become a more viable trading partner. It also enables them to create more value for their members, including better returns, capacity building and investments in community development projects. This is in sharp contrast to those cooperatives and farmers operating outside organised supply chains, which were confronted with significant insecurity in market uptake, distrust amongst farmers, cooperatives and buyers, and a lack of resources to make any investment at all. It is also in sharp contrast to the Kenyan tea sector. In this sector few long-term commitments between downstream buyers and producers exist. Buyers essentially shop around for the cheapest price – because of the nature of tea as a blended product and the market trend of oversupply. This undermines producers' income and their ability to make investments in any kind of sustainability.

However, most sustainability programmes pay little attention to the quality of trading relationships. Most existing sustainability programmes focus directly on achieving impacts at producer and worker level. These programmes aim, for example, at the improvement of yields and income, the adoption of sound social and environmental production practices and the improvement of working conditions.[8] Creating market access is generally considered an additional success factor for producer level programmes. Market access is usually the result of the creation of linkages between producers and buyers. However, little attention is paid to *how* trade is practised. This includes aspects such as: how negotiations take place; price-setting; transparency; contracting; and conflict resolution. Most sustainability programmes leave these aspects to the discretion of the trading partners, which could be a problem as there is typically an imbalance of power between trading partners.

Direct and stable trading relationships across different supply chain actors are essential elements for fair trading relationships. Stable relationships with good communication can reduce commercial risks and provide a better basis for (joint) investments in sustainability. The other most essential characteristics of fair trading relationships are the following:

---

[8] Some programmes may also focus on achieving impacts at community level (e.g. improving access to education) or landscape level (e.g. improving the management of a watershed).

- Receiving the best available ('lead') price/transparency in price setting
- Protection against price volatility
- Clear and fair payment terms
- Pre-finance (particularly in the SPO context)
- Respect of contractual obligations
- Premiums for sustainability investments

5.2 Fairtrade's supply chain interventions can have some influence on trading practices, notably upstream, but do depend on the context

Fairtrade's supply chain interventions can have some influence on awareness, transparency and safeguards (almost exclusively upstream), and on producers' capacity to trade. Influence downstream on trading practices is limited. Supply chain interventions taken into consideration in this study are Fairtrade Standards, Fairtrade Minimum Price, Fairtrade Premium, Producer Support and Fairtrade's company engagement activities. The Fairtrade Premium can, depending on Fairtrade sales, improve the financial viability of SPOs and improve SPO and HLO capacity to invest in sustainability. The Fairtrade Minimum Price can protect upstream actors against low prices, though in the four commodities included in this research, this was visible only in the banana sector. In cocoa and tea the market prices have been consistently higher than the Fairtrade Minimum Price in the last five years. Fairtrade Producer Services can increase awareness of trading practices and improve producer's negotiating skills The Fairtrade Trader Standard ensures increased transparency and provides some additional safeguards to suppliers. However, it has little influence on the actual trading practices and does not bring fundamental changes in the balance of power. Fairtrade's influence on downstream trading practices is limited, with the exception of the Premium payments.

Fairness in trade is mainly determined by market dynamics and public policy. Fairtrade has insufficient leverage to influence these alone. Market dynamics that work against fairness in trade include oversupply, market concentration and strong competition on price. Such dynamics impede long-term trading relationships and put pressure on Minimum Prices and Premiums. Public policy, if properly designed and enforced, does have the potential to protect producers against unfair trading practices. On the other hand, if poorly designed or implemented, public policy can pose important constraints to fair trading practices. Fairtrade on its own has insufficient leverage to influence these dynamics.
Other factors that influence fairness in trade, but on which Fairtrade has little influence, include:

- Historical trade relationships (these often pre-date Fairtrade)
- Corporate sustainability initiatives, other certification and development programmes
- Minimum wage levels, trade unions and collective bargaining agreements

These factors determine to a large extent the potential added value of Fairtrade. For example, in a country with poor respect of worker's rights, Fairtrade can make a big difference. However, in a country with strong trade unions and collective bargaining agreements, working conditions on Fairtrade and non-Fairtrade farms may be very similar.

Fairtrade certification seems to be weighted towards the better performing SPOs and HLOs – those which benefited from better trading relationships prior to Fairtrade certification. This research observed that many of the perceived differences between Fairtrade and non-Fairtrade SPOs and HLOs seem to pre-date Fairtrade. Fairtrade certification is initiated either by buyers or by Fairtrade staff who often target the better performing producers. This reduces the potential additional impact Fairtrade can make.

Some flaws in the design or the implementation of Fairtrade instruments can work against fairness in trade. Some examples that emerged:

- **Flexible Premiums and Minimum Prices may result in unfair competition**; the flexible Fairtrade Premium in the flower sector reduces market uptake of Fairtrade flowers in peak periods because the high flower prices in these periods significantly increase the absolute Fairtrade Premium. In flowers and bananas, differences in the Fairtrade Premium between countries result – according to respondents – in trade being driven to the countries with a lower Premium.
- **Limited scope and weak enforcement of the Trader Standard may mean unfair practices**; a low level of awareness of the Fairtrade Trader Standard and perceived weak auditing do not provide sufficient guarantees against unfair trading practices. The fact that retailers are often not bound by the Trader Standard can also negatively influence trading practices upstream as they have an important influence on the whole chain.
- **Less focus on the middle segment may mean a missed opportunity**; fairness in trade requires awareness, capacity and commitments from actors throughout the value chain. Fairtrade promotes this actively by engaging with producers and end customers. Fairtrade engagement with the middle segment (traders and packers) is less intense and focusses on verifying compliance with the Trader Standard. This ignores the importance of creating awareness, capacities and commitments with these actors and the added value they can bring in promoting fairness in trade (e.g. through capacity building or supply chain management).
- **Emphasis on value distribution over value creation in the face of changing market dynamics**; Fairtrade instruments aim to increase producer's share in the distribution of value. However, across all commodities there is an increasing pressure on retail prices and margins throughout the value chain. This shifts the key challenge to fairness in trade from redistribution (i.e. ensuring a fair distribution of the 'pie') to shared value creation (i.e. ensuring the 'pie' is big enough to allow for a fair share at each stage of the value chain).

5.3 Towards a better Fairtrade value proposition for fairness in trade

Fairness in trade matters for sustainability. This study shows clearly the importance of trading relationships and practices for producers to improve sustainability performance. Companies, but also the public sector, many NGOs and sustainability initiatives tend to ignore this. Fairer trading practices can be a valuable means to realising more sustainable production and should be included in such initiatives.

Companies should become more aware of the fairness and impact of their trading practices. In this research, we noted that trading practices are conditioned unthinkingly by historical practices ("Its always been done this way") or, where thought has been given, by short term interest. The possible resulting unfair trading practices can have important negative outcomes for the capacity of suppliers to invest in sustainability. They tend to ignore the potential benefits that fair trading practices can have, for them, especially in the longer term. This research identified several potential benefits for supply chain actors that can help build the business case for fair trading relationships. The benefits can, depending on the context, consist of:

- Improved transparency (and possibly traceability)
- Reduced supply risks in terms of availability and quality
- Reduced reputational and legal risks
- Improved market access (for the middle segment)
- Improved sustainability impact at producer, worker or community level, resulting in better story to tell to consumers for marketing purposes

While exploitative relationships may yield short term benefits, trading fairly with an eye to mutual benefit makes the most sense in the long term. Fairness in trade is also about doing the right thing because it is the right thing to do and taking responsibility for that. And that means honesty and building goodwill and stronger relationships that benefit all concerned.

Sustainability initiatives and the public sector should give more emphasis to trading aspects. Public policy, if properly designed and enforced, could address fairness in trade more directly. Regulatory codes of conduct can protect producers and value chain actors against unfair trading practices. The public sector could, and perhaps should, tackle the share of value and fairness in trade more broadly. For example, market management instruments such as minimum price policies, price stabilisation funds and mandatory quality standards can bring price discovery, price stability and protect value capture by producers (as the example of the cocoa sector in Ivory Coast shows). On the other hand, if poorly designed or implemented, public policy can pose significant constraints to fair trading practices. NGOs, and particularly member organizations such as Fairtrade, have a role to play in holding the public sector accountable and to ensuring that producer's and worker's interests are considered.

Fairtrade is one of the few sustainability initiatives already emphasizing the fairness in trade aspects and there are opportunities to further increase its impact. This research suggests that more emphasis by Fairtrade on fairness in trade would be justified in order to achieve its sustainability goals. Opportunities to improve Fairtrade impact are presented below in four building blocks. However, before engaging in these new opportunities, Fairtrade needs to consider the following two points:

1. **Fairtrade needs to create more awareness of the impact of trading practices – and understand the business case for downstream actors.** Downstream actors often take a blinkered view and are primarily interested in the impact at producer, worker or community levels. They do not necessarily strive for fairness in trade. Trade is highly sensitive and they prefer that the 'black-box' of trading practices remains closed. More emphasis by Fairtrade could alienate these actors and reduce Fairtrade's market uptake and its impact in general. Therefore, a first step for Fairtrade is to create awareness of the impact of trading practices on producers – and the knock-on influence of downstream actors. And an important part of creating awareness is to promote the business case – some of the elements of which are noted above.

2. **Fairtrade needs to define its own business case for more emphasis on fairness in trade. Several aspects require careful analysis:**
   - **Balancing the potential benefits and risks in terms of depth and scale**: balancing the positive impact Fairtrade can have at producer level and the risk of alienating the industry. Identifying the business case for the industry to improve trading practices is central.
   - **Potential value proposition**: an open look at Fairtrade's instruments and a willingness to adapt them if this can improve impact. In the HLO context, current instruments work quite well, but some tweaking of tools and additional approaches could increase impact considerably. In the SPO context current instruments seem to be less successful and should be applied differently.
   - **Potential competitive advantage compared to other schemes**: most other certification schemes do not address trade aspects. Showing the value of fairness in trade is an opportunity to strengthen Fairtrade's position vis-a-vis other schemes.
   - **Required capabilities and potential revenues**: Fairtrade needs to carefully analyse whether it can build the capabilities needed to further emphasise the fairness in trade. Fairtrade must also consider the potential impact on its own revenue streams.

This research proposes four building blocks for a new Fairtrade value proposition for fairness in trade. We propose four building blocks that build on current instruments but add new means of influencing trading relationships. Figure 13 shows the four building blocks, which are complementary to each other and equally important. The recommendations per building block include a number of existing activities which deserve continuation or greater emphasis.

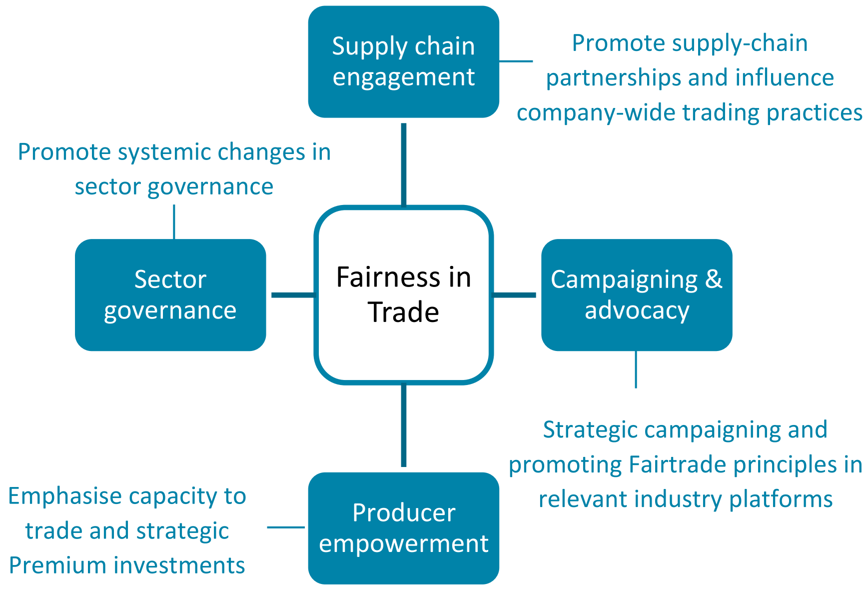
I. Supply chain engagement - Promote supply chain partnerships and influence company-wide trading practices.

This building block refers to the pro-active approach of Fairtrade towards all value chain actors. Changing trading practices requires commitment from all actors. Creating fairer trading relationships for producers is not necessarily a zero-sum game where the benefits of producers work against those of other supply chain actors. More direct and stable relationships based upon transparency and respect of contract can provide additional benefits for all actors involved.

Recommendations:

- Increase awareness and help companies to understand the business case of fairness in trade.
- Improve transparency on Fairtrade Premium use, License Fees and show Fairtrade's impact.
- Promote long-term trade relationships, for example by promoting tri-partite partnerships between brand or retailer, trader and SPO or HLO.
- Increase awareness of the Trader Standard throughout the whole value chain, and build capacity of actors to comply.
- Improve auditing of compliance with the Trader Standard, whilst facilitating dialogue among supply chain actors on how to address known unfair trading practices.
- Investigate feasibility of including retailers in the scope of Trader Standard.
- Focus engagement efforts on company-wide trading practices rather than only Fairtrade value chains; some examples of initiatives with this approach are the Fair Labor Association and the Ethical Trading Initiative.

Figure 13: Four building blocks as basis for Fairtrade's fairness in trade strategy.



II. Producer empowerment: Emphasise capacity to trade and strategic Premium investments.

In order to create fair trading relationships, Fairtrade should continue to build the capacities of producers and provide safeguards that protect trading partners against unfair practices.

Recommendations:

- Focus Producer Services on negotiation skills, marketing and development of good trading relationships.
- Change the focus of Producer Services from technical details in the Standards and compliance to practices that have impact (e.g. working conditions and child labour) or that create value (.e.g. by improving product quality, increasing productivity and promoting crop diversification – use examples of good practices within and outside the Fairtrade network).
- Place more emphasis on producer's capacity to manage the Fairtrade Premium and facilitate the dialogue on Premium use between SPOs/HLOs and supply chain actors.
- Investigate opportunities for more strategic investments without disempowering farmers and labourers or removing them from decision-making processes. Such investments should enhance producers' capacity to trade or hired labourers' ability to negotiate working conditions; examples are the development of pre-finance funds, joint marketing efforts by different producers, and support of trade unions. Pooling part of the Premiums from different producers could be instrumental in this.

III. Sector governance – promote systemic changes in sector governance.

The potential for more fair trading relationships depends greatly on market dynamics and the institutional context. Fairtrade could take measures to engage with others to influence these factors more directly in order to create a level playing field.

Recommendations:

- Reduce differences in the Fairtrade Premium and Fairtrade Minimum Price between countries to prevent a race to the bottom in Fairtrade sourcing. Ensure existing Fairtrade producers do not lose out to newly certified producers.
- Strengthen trade unions/national farmer organizations.
- Intensify collaboration with other organisations to influence relevant public policy (e.g. organising farmers to ensure they can influence policy development such as tax regimes and price-setting).
- With respect to market dynamics: ensure a balance between supply and demand of Fairtrade certified products, by promoting market demand (through advocacy and supply chain engagement) and by restricting further growth of supply when oversupply is imminent.

IV. Advocacy and Campaigning – strategic campaigning and promotion of Fairtrade principles in relevant industry platforms.

This building block seeks to ensure that Fairtrade principles are promoted at industry platforms. However, a pro-active engagement approach (advocacy) is not necessarily enough to realise more fairness in trade as not all companies will be open to dialogue and change. As reputational risks for companies are still an important driver for behavioural change, campaigns remain a very useful instrument. A dual approach is needed: engagement/advocacy and campaigning.

Recommendations:

- Strengthen existing collaboration with or start engaging with industry platforms (e.g. Tea2030, CocoaAction, GSCOP, World Banana Forum) and promote the inclusion of fairness in trade in their agendas
- Continue to develop campaigning efforts – managing strategically for conflict with engagement efforts.

The recently developed 2016-2020 strategies by Fairtrade International and the Fairtrade Foundation partially reflect these recommendations. Examples include:

- Stronger collaboration with companies on innovations in their supply chains with a wider range of services than product certification
- Strengthening the voice of farmers and workers in key policy debates

- Supporting Fairtrade producers in joining broader national and regional platforms

These strategies give little explicit attention to fairness in trade. They appear to focus on improving the conditions of producers and workers directly, rather than on how trading practices can contribute to the producers' and worker's capacity to improve. In order to promote fairness in trade throughout the supply chain, as condition for sustainability for producers and workers, Fairtrade should emphasize fairness in trade in the scope of above activities.

Appendices

Appendix I. Abbreviations & Literature

Abbreviations

- CBA Collective Bargaining Agreement
- COP Cost Of Production
- FOB Free On Board
- GSCOP Grocery Supply Code of Conduct
- HLO Hired Labour Organisation
- KTDA Kenya Tea Development Agency
- SPO Smallholder Producer Organisation
- WTO World Trade Organization

Literature

- Blackmore, E., Vorley, B., Molenaar, J.W., Gorter, J., Heilbron, L., Simons, L., Dallinger, J. 2015. Sector governance models for sustainability: How can these models drive sustainability performance in smallholder-dominated agricultural sectors? White Paper 2. Commissioned by IFC.
- European Commission 2013. Green paper: On unfair trading practices in the business-to-business food and non-food supply chain in Europe, Brussels
- Fairtrade Foundation 2016. Changing Trade, Changing Lives; Fairtrade Foundation's 2016-20 Strategy
- Fairtrade International 2014 / 2015 /2016. Monitoring the scope and benefits of Fairtrade report. Versions 2014, 2015 and 2016
- Fairtrade International 2015. Fairtrade Theory of Change. Version 2.0
- Fairtrade International 2016. Changing Trade, Changing Lives 2016-2020; Fairtrade Global Strategy
- Fearne, A. 2009. Sustainable food and wine value chains. Final Report – Adelaide Thinkers in Residence, Department of Premier and Cabinet, Government of South Australia, Adelaide.
- Fearne, A., Yawson, D., Buxton A, Tait, J. 2012. Measuring fairness in supply chain trading relationships: A methodology guide, published by Kent Business School, IIED, Oxfam and Unilever
- Fountain, A.C., Elshof, P., De Graaf, D., Hutz-Adams, F. (2014): Value Distribution in the Cocoa Supply Chain. Cocoa Barometer Think Piece.
- Gereffi G., Humphrey, J., Sturgeon, T. 2005. The governance of global value chains, Review of International Political Economy 12:1 February 2005: 78–104
- Hornibrook, S., Fearne, A., Lazzarin, M. 2009. Exploring the association between fairness and organisational outcomes in supply chain relationships, International Journal of Retail & Distribution Management, Vol. 37 Iss: 9, pp.790 – 803
- Vorley, B. 2013. Food, Inc. Corporate concentration from farm to consumer, UK Food Group

Appendix II. Research methodology

This appendix presents the research methodology of this study.

Research questions and scope

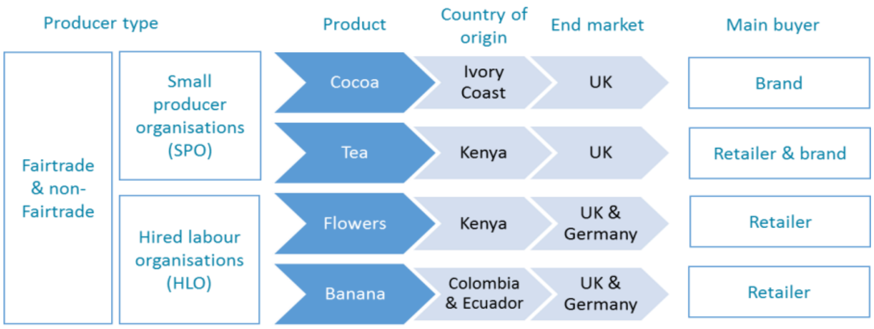
This research aimed to answer the following research questions:

- What are differences in the 'fairness in trade' and - subsequent impact on sustainability at producer and worker level - between Fairtrade and non-Fairtrade value chains?
- What is the contribution of Fairtrade's supply chains interventions to the observed differences?
- What is the potential for the Fairtrade system to further improve 'fairness in trade'?

This research focused on the evaluation of the impact of Fairtrade's supply chain's interventions *within* Fairtrade value chains as well as fairness *beyond* Fairtrade value chains (see Figure I). For both perspectives, the aim was to understand the various influencing factors. Since this is also an evaluation aimed at distinguishing the contribution by Fairtrade, the research assessed the differences between Fairtrade and non-Fairtrade value chains. We also looked at how fairness in trade and Fairtrade impact sustainability at producer and worker level. For Fairtrade's impact *beyond* Fairtrade value chains, we analysed how Fairtrade influenced companies' trading practices in non-Fairtrade certified supply chains. The research focuses on Fairtrade's supply chain interventions including the Fairtrade Standards, Fairtrade Minimum Price, Fairtrade Premium, Producer Support and Fairtrade's company engagement activities. The research scope does not include the impact of Fairtrade's activities on network and alliance building, advocacy and campaigning.

Figure I: Focus of research

Figure II: Scope of the research



The Fairtrade Foundation and Fairtrade Deutschland requested a focus for this research on four commodities strategic to the UK and/or German markets - cocoa, tea, bananas and flowers - from specific countries of origin to the UK and German market. Within these commodities, the focus was on the main supply chains of (1) consumer goods manufacturing companies (referred to as "brands" in this research) and (2) retailer-driven supply chains. In cocoa and tea, the focus was smallholder production and in bananas and flowers large-scale plantations – reflecting the dominant production model in developing countries for these commodities and therefore the type of Fairtrade standard applied.

Fairtrade certified supply chains and non-Fairtrade certified supply chains were included in the research, in order to compare the fairness of trading relationships and to evaluate whether differences in the nature of trading relationships can be attributed to Fairtrade. The resulting scope of the research is summarised in Figure II.

Analytical framework

Three areas of enquiry form the basis of the analytical framework for this research:

I. Understanding of 'fairness in trade' and how this relates to sustainability
II. Understanding how external & internal factors promote or constitute barriers
III. Understanding Fairtrade's theory of change and distinct impact pathways

I. Understanding of 'fairness in trade' and its relation to sustainability
To evaluate the fairness in trade, this research considered five components in buyer-supplier relationships. The components were developed by Hornibrook et al. (2009) and are recognised as being particularly pertinent to trading relationships. They are:

- *Distributive justice*: the perceived fairness of the distribution of benefits
- *Procedural justice*: the perceived fairness of decision-making processes
- *Informational justice*: the perceived fairness of the exchange and use of information
- *Inter-personal justice*: the perceived fairness of communication between individuals
- *Commitment*: the allocation of resources – time, effort, money – to strengthen relationships and improve value chain performance.

For each component a series of indicators was developed, based on the Measuring Fairness in Supply Chain Trading Relationships Survey Tool (Fearne et al. 2012) and Fairtrade's Make Trade Fair Theory of Change. These are presented in the following Table.

Table i: Indicators for determining fairness in trade

Fairness component	Topic	Indicator
Distributive justice	Price	• Fairness in relation to buyer requirements, risks, required investments • Degree of price volatility
	Premium	• Fairness in relation to additional investments, true costs of production • Ability to make additional investments
	Profitability	• Perception of fairness in relation to buyer requirements, risks, and required investments
Procedural justice	Contract terms and pre-finance	• Comprehension and fairness of contracting terms • Perceived fairness of timing and conditions of payment • Perceived amount, timing and conditions for reimbursement of pre-finance
	Negotiating	• Awareness of challenges trading partner • Opportunities to influence decision-making and raise grievances • Balance in negotiation power
Informational justice	Transparency of information	• Understanding of price setting • Understanding of quality requirements • Understanding of contract terms

Inter-personal justice	Personal communication	• Stability and frequency of communication • Respect in communication • Perceived degree of collaboration
Commitment	Volumes traded	• Satisfaction about volumes traded • Projections on future volumes
	Stability in trade relationships	• Duration of trading relationship • Willingness to continue trading relationship • Perceived dependency between trading partners
	Investments	• Willingness to invest in trading relationship

Fairtrade recognises there is a relationship between 'fairness in trade' and sustainability at producer and worker level. Sustainability can be interpreted in a broad sense as encompassing environmental, social and economic sustainability criteria. To assess the impact of Fairtrade 'fairness in trade', the research focused on a number of final outcomes that were elaborated as part of the impact pathways (see below). The following final outcomes are clearly associated with sustainability objectives:

- *Environmental sustainability*: e.g. improved resource efficiency, reduced pollution, reduced emissions
- *Social sustainability*: e.g. better working conditions, community development
- *Economic sustainability*: e.g. better wages, better prices, improved profitability and resilience

This research looked primarily at the social and economic impact objectives. Making the link with environmental impacts was considered too complex for this research.

II. Understanding how external & internal factors promote or constitute barriers to fairness in trade

Trade does not happen in a vacuum. Each value chain is embedded within a socio-economic and political context, and is shaped by wider market dynamics, which influence how trade is conducted. Trading practices are also influenced by factors internal to value chains, such as corporate policies and sourcing models associated with a value chain. In recognition of this, this research took into consideration the following relevant factors associated with the value chain, as they can affect trading practices.

Table ii: Factors external and internal to the value chain affecting trading practices

External to value chain	Internal to value chain

• Production and consumption trends
  • Demand vs. supply
  • Price development
  • Perishability of products
• Strength of competition at each node
  • Market concentration
  • Geographical concentration
• Consumer and B2B demand for sustainability
  • Awareness levels (consumer and business)
  • Exposure of industry
  • Voice and strength of consumer/ civil society
• Public sector governance (national & international)
  • Marketing boards, auctions
  • Trade barriers and agreements, subsidies, taxes
  • Competition policy
  • Public (quality) standards
  • Minimum prices
	• Value chain structure (derived from Gereffi et al. 2005)
	  • Market: traditional spot markets
	  • Modular: suppliers make products to buyers' specifications and are thus relatively independent;
	  • Relational: complex interactions between buyers and sellers result in mutual dependence
	  • Captive: suppliers are weak and highly dependent on much larger buyers
	  • Hierarchy: vertical integration
	• Corporate values and culture
	• Business and operating model
	• Degree of organization and capacity negotiate
	• Implementation of voluntary standards

III. Understanding Fairtrade's theory of change and impact pathways
Fairtrade has a Theory of Change with a 'Make Trade Fair' component. It provides insights at a relatively high level of abstraction. For this research and based on the Theory of Change, the research team defined distinct impact pathways in order to better understand the processes of change that Fairtrade intends to achieve. The following four impact pathways were defined to collect evidence of Fairtrade's impact in a systematic way:

1. The fairness of trading practices *within* Fairtrade certified supply chains
2. The ability of Small Producer Organisation (SPOs) to acquire fairer trade conditions
3. The ability of Hired Labour Organization (HLOs) to improve working conditions
4. Trading practices *beyond* Fairtrade certified supply chains at company level

For each impact pathway, we defined expected changes at 3 results levels:

- Output: change in knowledge, awareness and/or capacities
- Early outcome: change in practices (by application of knowledge or capacities)
- Final outcome: effects of changed practices

An example of an impact pathway is presented below in Figure III. It addresses the changes in trading practices of individual businesses operating in the Fairtrade certified supply chain as a result of Fairtrade interventions.

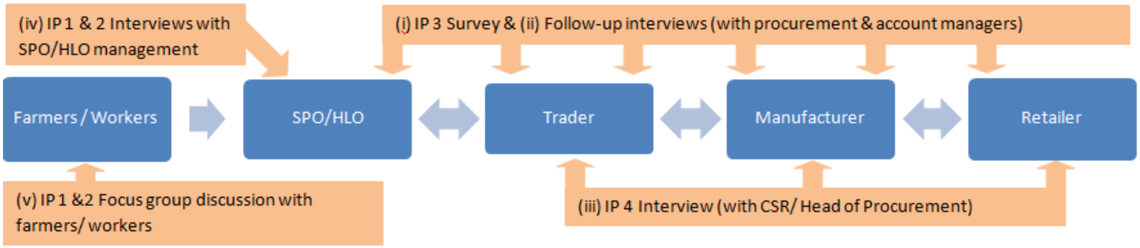
Figure III: The impact pathway 'fairness of trading practices within Fairtrade certified supply chains

INTERVENTION	OUTPUT	EARLY OUTCOME	FINAL OUTCOME
• Engagements with businesses to encourage and facilitate sourcing on Fairtrade terms • Relationships built with influential businesses (major retailers, brands and traders) in sectors within Fairtrade scope • Fairtrade Trade standard and related requirements (e.g. pre-finance, contract terms, minimum price) are proposed/discussed with businesses considering to trade or trading in Fairtrade products	• Business acknowledges trade unfairness arising from market failures, their responsibility to address it, and how engagement with Fairtrade can help • Business is incentivised to trade (buy & sell) fairly and engage with Fairtrade, are challenged on unfair practices	• Increasing proportion of total volumes traded within company is sold/sourced under Fairtrade terms • More fair conditions provided to SPOs and HLOs, including: • Terms of contract • Long-term trade commitments* • Relevant market price or minimum price if applicable • Payment of Fairtrade Premium • Timely payment • Provision / facilitation of pre-finance (if applicable) • Communication of sourcing plan and market information • Support in development or Premium plan • * New in Trader standard	• Within Fairtrade certified supply chains there are: • Better / fairer prices and trading conditions • More transparent trading relations • Longer-term trading relations • Better terms of payment • Better/fairer decision-making • Business experiences that engagement with Fairtrade contributes to achievement of commercial and/sustainability goals

Design of questionnaires

Semi-structured questionnaires and surveys were designed based upon fairness in trade components, external and internal factors that influence them and Fairtrade's impact pathways. The survey was based on a number of principles. First, the surveys were designed per impact pathway and identified indicators. Second, the research mainly aimed to collect qualitative information based on perceptions, and if possible to support the qualitative findings by quantitative data. Third, the research aimed to acquire information from all actors in the selected value chains, from producer to retailer and preferably with multiple persons per actor (see Figure IV).

Figure IV: Type of questionnaire per impact pathway and respondent.



Value chain selection

The following process has been followed in choosing the value chains for this research:

1. Fairtrade proposed two to four lead brands or retailers per sector to include in the research for the Fairtrade value chains
2. The research team identified two to four lead brands or retailers per sector to include in the research for the non-Fairtrade value chains
3. The research team discussed with lead brands/retailers which specific Fairtrade or non-Fairtrade value chain actors to be included OR the research team chose the other value chain actors independently.

The following selection criteria were observed in choosing the value chains:

- Representative for sector from a mainstream perspective
- Representative for Fairtrade in terms of market share
- Strategic importance for Fairtrade of company's involved
- Willingness of companies to participate

The research team conducted interviews with approximately 60 SPOs, HLOs and value chain actors. This was slightly less than the original ambition. For example, participation of German retailers was weak and the cocoa value chains included producer until the procurement staff of the brands. In several non-Fairtrade value chains not all downstream companies were willing to participate.

Data collection

Semi-structured interviews were conducted throughout the supply chain from producer to retailer. In most companies, we interviewed a number of individuals, focusing on commercial people (procurement and sales) and CSR managers. As a precursor and input to the interviews, the commercial people in the companies were asked to fill in a survey. At SPO and HLO level we interviewed management, commercial staff and staff responsible for sustainability programmes, including Fairtrade certification. Within each SPO and HLO, one focus group discussion was held with small producers (in cocoa and tea) and plantation workers (in flowers and bananas). Focus group discussions consisted of 8 to 10 persons reflecting gender balance. Finally, a number of key informant interviews were conducted with external experts and Fairtrade staff in each sector.

Interviews focused on perceptions. Depending on the willingness of the respondents we also collected quantitative and objective data such as price information or contract terms. All this data has been treated as confidential and is used to validate the perceptions.

For each sector a desk study has been conducted to understand the market dynamics, public sector governance, sustainability issues and initiatives.

Quality of the research

While the research findings presented here offer a number of interesting insights for both Fairtrade and more broadly, it is important to recognise that the research also has a number of limitations due to the methodological challenges faced.

The number of value chains and companies or SPOs included in the study is too small to consider the findings representative for each individual commodity (e.g. the research included only two or three Fairtrade SPOs and two or three non-Fairtrade SPOs per commodity). Furthermore, not all value chain actors in each selected value chain were willing to participate in the research.

Another limitation is a possible selection bias in the inclusion of non-Fairtrade value chains; companies that agreed to participate were more likely to be those already performing better or having a certain knowledge of or relationship with Fairtrade. The selection of Fairtrade value chains can also be biased as Fairtrade may have suggested strategically important value chains.

These limitations affected the rigour of the analyses and the robustness of the acquired evidence. Interviews and desk research with key informants helped to offset some of the above limitations, as they provided information about sector and country level dynamics beyond the selected value chains and enabled us to gauge how 'typical' the selected chains were. In order to answer the main research questions, the research team combined the findings from the four sectors in order to identify cross-sector patterns. Where cross-sector patterns and insights reinforce each other, we have assumed the evidence to be ‘plausible’.

This study focused on the perceptions of fairness of the people operating within the value chain. Where possible these perceptions were backed up with objective data or qualitative evidence, but the amount of such data or evidence obtained was limited, especially in relation to topics considered commercially sensitive (e.g. prices and profit margins). This data was used to triangulate with the respondent’s perceptions and because of confidentiality principles have not been published in this report.