Fairness in Trade matters for sustainability: an impact evaluation of Fairtrade's supply chain interventions

Study summary and response from the commissioning agencies, the Fairtrade Foundation, Fairtrade International and Fairtrade Germany, to an independent study of Fairtrade's supply chain interventions.

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The study at a glance

This study was carried out and co-authored by UK and Dutch sustainable development researchers and policy specialists of Aidenvironment and the Institute for Environment and Development (IIED), with the support of Sally Smith, William van Bragt and Andrew Fearne.

This evaluation aims to explore how fairness in trade contributes to sustainability comparing Fairtrade and non-Fairtrade value chains. Specifically, the study focuses on tea, cocoa, flowers and bananas supply chains from Kenya, Ivory Coast, Colombia and Ecuador (supplying the UK and German markets). The study collected data from small producer organisations (SPOs) for tea and cocoa, and hired labour organisations (HLOs) for flowers and bananas.

The study is organised around three main research questions – defined by the researches as follows:

1) 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?
2) What is the contribution of Fairtrade to the observed differences?
3) What is the potential for the Fairtrade system to further improve 'fairness in trade'?

To define and measure 'fairness in trade' the researchers used the five aspects of buyer-supplier relationships developed by Hornibrook et al. (2009):

- *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 the purpose of this analysis, these aspects were then associated to specific dimensions of the Fairtrade approach. Price, premium and profitability were used as proxies for distributive justice; contract terms, pre-finance and negotiating for procedural justice; transparency of information for informational justice; personal communication for inter-personal justice; and volume traded, stability in trading relationships and investments for commitment.

The researchers conducted interviews and surveys with individuals from 60 organisations from SPOs and HLOs, retailers and brands. They also conducted focus groups with SPOs and HLOs and interviewed external experts and Fairtrade staff with special knowledge in these sectors.

The main results

The research shows there is a direct correlation between the quality of trading relationships and the ability of producers to invest in sustainability. Across the four product categories examined, the researchers found examples of how fairness in trade leads to increased income for farmers, improved employment terms for workers, more viable producer organisations and investments in community development. They identified examples of how a lack of fairness in trade threatened producer's capacity to undertake sustainable production practices. Poor trading behaviours included long payment delays, unjustified quality claim, lack of respect for contract terms and abuse of market power in price negotiation.

Fairtrade's impact on fairness in trade upstream

The study begins by examining how Fairtrade's interventions in the supply chain influence the trading experience for producers upstream in the value chain, i.e. for producers (SPOs and HLOs) and exporters.

The *Fairtrade minimum price* had an impact to reduce price volatility for the bananas market. On the other hand, no significant differences were found of Fairtrade having an impact on consumer prices for cocoa and tea in the last five years. Whilst there is no a minimum price set up for flowers, the generation of a market premium contributed to the higher prices for flowers sold on the German market.

The *Fairtrade Premium* is consistently higher than other schemes and directly benefiting actors working on all four commodities object of the study. Specifically, the premium can strengthen SPOs viability through improved control over supply and increased attractiveness of suppliers in the HLO sector. One challenge has been identified in the flower markets, where the existence of differences in the fixed premium per country contribute to trade being driven to countries with a lower Premium.

There is some indication that the Fairtrade Premium have a positive contribution to *profitability* in the cocoa, tea and banana value chains. In the flowers value chain, while the evidence of direct positive influence on profitability seems weaker, the study finds the value to be in improved access to markets. We believe this difference is directly linked to the fact that premium can be spent on productivity in small producer organisations, but cannot be spent on productivity in hired labour organisations.

The premium on the other hand seems to be generally posing a burden in terms of higher costs for exporters. However, the premium also enables producers to invest in sustainable production. Which is what retailers should value, as it makes their suppliers more resilient, and also contributes to SDG12 Sustainable production and consumption. This is perhaps unsurprising, given the intent of Fairtrade to deliver additional value for producer organisations. The question, which the finding poses, is what these higher costs deliver for different stakeholders?

Fairtrade's impact on fairness in trade downstream

The focus of the research then moves to assess the impact of Fairtrade on trading practices and experience downstream in the value chain, i.e. for importers, brands and retailers.

While Fairtrade has improved brand and retailer awareness of sustainability issues for producers and workers, the researchers found limited influence in engaging companies in fair trading practices beyond the payment of the Fairtrade Minimum Price (FMP) and Fairtrade Premium in Fairtrade certified chains[1].

Prevailing opinion amongst downstream supply chain actors consulted was that fairness in trade is largely determined by public policy and market dynamics such as market concentration, oversupply and price competition and that Fairtrade certification tools alone are not at present delivering sufficient leverage over these forces. The same actors highlighted the challenge of ensuring there is sufficient value to distribute, rather than a fair distribution of value *per se*. Some highlighted the key role that public policy should play to protect producers against unfair trading practices. These perceptions were confirmed by the systematic analysis that found that the Fairtrade model is not currently set to change power balances between upstream and downstream actors in the value chain.

On the positive side, the research found that Fairtrade has played a role, which can be strengthened, to bring about transparency on companies' trading practices and to highlight the link between fair trading practices and socioeconomic benefits and productive sustainability in the long term.

Conclusions

The research concludes that, because it is clear fairness in trade improves sustainability for farmers and workers, there is a need for more effort across the board. It shows that Governments, in countries producing and countries receiving produce, have a role to play in overseeing public sector policy to ensure good practice – for example price regulation and mandatory codes of conduct. It shows that civil society organisations have a role to play in lobbying government for policy change and business to improve behaviours. And it shows, finally and most crucially, that business has a role to play in becoming aware of how all in the supply chain can cooperate to enhance the experience for all.

The study then argues that Fairtrade has an important role to play in raising this awareness with companies and also through membership of civil society organisations' forums lobbying government and business.

Most importantly for Fairtrade, it ends by recommending Fairtrade upscale its own business case for more emphasis on fairness in trade and communicate the impact that Fairtrade has in achieving sustainability for producers more clearly to companies throughout the supply chain. To this end, the research proposes four building blocks for a new Fairtrade value proposition for fairness in trade around: Supply Chain Engagement, Producer Empowerment, Sector Governance and Advocacy and Campaigning.

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[1] This finding is consistent with 'Does Fairtrade Change Society?' (Bäthge, 2016) carried out by CEval(Centre for evaluation) in Germany. This research examines changes, trends and effects of fair trade in Germany between 2000 and 2015.

Limitations of the study

Whilst we welcome the findings of this study, which we are using to inform the implementation of our 2016-2020 strategies, it is necessary to note where the scope of this study has limitations.

As noted by the study authors, the sample of value chains and organisations object of the study is too small to make the findings fully representative of each of the four commodity supply chains.

Not all value chain representatives were willing to participate, which leads to possible selection bias. Namely, companies that were willing to take part, both within the Fairtrade system and outside, may have done so in part because they are confident of their performance in terms of sustainability and poverty reduction. That brings us to conclude `that a full comparison with value chain actors working outside Fairtrade has not been possible.

The researchers were only able to access small amounts of financial and other such factual material, due to commercial confidentiality and/or a lack of willingness by most companies to disclose any hard figures. This means that findings are in large part a reflection of the perceptions of supply chain actors, who may place a higher priority on cost than on social impact, or who may not fully understand the impact taking place at producer level as a result of increased costs.

The study did not review and test the impact of Fairtrade's advocacy or public policy work, which the researchers found is critical to securing improved fairness in the value chain, or its work in building consumer demand for Fairtrade purchase. It is also less likely that interviewees within the value chain would be aware of Fairtrade's work in these areas.

In addition, different supply chain contexts have their own dynamics, and the exact nature of the Fairtrade certification relationship can accordingly vary in significant ways – something worth exploring further in the future.

The study takes a historical perspective for an approximately three year period before the date of field work. A full assessment of Fairtrade's comparative impact within the value chain would ideally consider a longer timescale, as business sustainability practices and market prices have changed substantially over the past 10-15 years.

Thought piece: The Case for Fairness in Trade

The study authors are also publishing a complementary "thought piece" paper which makes the case for how fair trading practices throughout the supply chain can allow producers to invest in sustainability and benefit all supply chain actors in the process; that there should be more emphasis on trading practices that promote sustainable production and trade; and that they should also seek to define more broadly what is meant by fairness in trade.

They start by outlining the great diversity of trading relationships studied, from annual contracts for cocoa in the Ivory Coast to spot transactions via auction for tea from Kenya. They look at how many trading relations aim to influence sustainability focus directly at improving the social, environmental and economic performance at producer and worker level in cocoa, tea, bananas and flowers. These are designed to achieve change through improving yields and income, adopting sound social and environment production practices and so on. Some promote market access by creating linkages between producers and buyers. The research team make the point that most pay little attention, however, to how trade is practiced – for example: how negotiations take place, price-setting, transparency, contracting and conflict resolution. The authors argue that their research show this is unfortunate because the quality of trading relationship throughout the supply chain can have a direct influence on sustainability at producer level.

As in the main report, the team define 'fairness in trade' according to the statement of Fearne et al. (2012)[2] that fair trading relationships are collaborative and based on trust, commitment, transparency and integrity. The authors add a fifth dimension to these four conditions – namely 'fairness' as they conclude that fairness is a necessary element of sustainability.

The paper goes on to argue that supply chain dynamics do not influence fairness in trade alone but alongside market dynamics and broader policy. These three drivers work together to create factors that either work towards or hamper fairness in trade. Factors in favour are: Need to secure supply traceability and impact; Duration of trading relationship and trust; Producer ownership in downstream entities; Price stabilisation mechanisms; Mandatory Codes of Conduct; Transparent Pricing Mechanisms and Market concentration. Factors against are: Oversupply; Tendering processes; Price wars in retail; Open markets; and Market concentration. They elaborate on each of these factors, particularly finding the price wars in retail are squeezing margins throughout the supply chain and, according to some interviewees, stimulate unfair trading practices to compensate for losses. The paper shows that the challenge is to ensure there is sufficient total value for a fair share at each stage of the supply chain.

The piece then examines Fairtrade specifically, summarising the analysis from the main report. The authors call for Fairtrade to show leadership in influencing business more broadly. They would like to see Fairtrade achieve its aim by promoting partnership based supply chain partnerships from retailers to producers and by ensuring compliance to fair trading practices. They summarise some recommendations from the main report to this end, including the suggestion that Fairtrade campaign for more effective public policy change and Industry best practice.

The paper ends acknowledging that the Fairtrade global strategies 2016-2020 are already working towards this shift of direction with plans for collaboration with companies, on sustainability beyond certification and on the strengthening of the voices of farmers and workers in policy debates. It encourages Fairtrade to reinforce its work in this direction. The paper argues that, ultimately, commercial companies bear responsibility for fairness in the whole supply chain, alongside important roles for policy makers, civil society actors, and organisations such as Fairtrade. "Fairness in trade is also about doing the right thing and taking responsibility for the sustainability of the whole supply chain. And that means honesty, building goodwill and building stronger relationships that are beneficial to all concerned", it concludes.

[2] 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

Fairtrade's Response to main findings.

The research finds that trading relations matter for sustainability and specifically that:

- The quality of trading relations can have a direct positive influence on producers' sustainability.
- Most sustainability programmes pay little attention to the quality of trading relationships.
- Direct and stable trade relationships across different supply chain actors are essential elements for fair trading relationships.

We welcome the overarching finding that fairness in trade matters for sustainability, and that the quality of trading relationships, and the economic and power relationships within them, can and do have a direct influence on a producer's viability, on their ability to invest in sustainability and address social and poverty concerns.

This finding should be a wake-up call for all actors – traders, retailers and brands - in the supply chain. Intractable poverty, environment and human rights issues remain within many value chains. While the issues are complex in a competitive environment, we would urge sector-wide collaboration to address them for the benefit of all. Such collaboration could lead to a commitment to engage with the underlying dynamics of fairness and power between value chain actors. It is also, of course, a challenge for Fairtrade, to actively consider how we can strengthen our work in this area and actively support our commercial partners and producers in challenging the status quo and finding new ways of doing business. Our 2016-20 strategy is already seeking better collaboration with commercial partners to address systemic issues such as child-labour, gender inequality and low wages.

The research finds that Fairtrade Supply Chain Interventions can have some influence on trading practices, notably upstream, and depending on the context and specifically that:

- Fairtrade's supply chain interventions can have some influence on awareness, transparency and safeguards upstream and on producers' capacity to trade. Influence on downstream trading practice is limited.
- Fairness in trade is mainly determined by market dynamics and public policy. Fairtrade has insufficient leverage to influence these alone.

We welcome the finding that, across the four categories, fairness in trade through Fairtrade is seen to be impacting on farmers' income, leading to more stable employment and improved benefits for workers and creating producer organisations with more capacity to invest in development projects to enhance the quality of life of their communities and improve their businesses. These are important affirmations of the value of Fairtrade certification for producers. They support Fairtrade's emphasis on the importance of fair trading practices as a way of creating sustainable livelihoods for producers who will also act as guardians of their environment.

It also represents a fundamental challenge to models of action on sustainability. Certification schemes which do not address value back to producers and power relationships within the chain will not be able to deliver fairer trading practices and therefore will have limited impact on producer organisations.

On the other hand, we appreciate that Fairtrade has to do more to influence just trading practices downstream. For Fairtrade there is important learnings about our attention to our effectiveness, relationships and tools within the value chain, alongside maintaining efforts with producers. If we are to make the next step in changing the lives of producers a concerted effort is now needed to work with all supply chain actors in new ways so the balance of power in trading relationships is more equitable. This direction is already mapped in our 2016-2020 strategy which has partnerships programmes as a key focus to achieve more impact.

The new Trader Standard is a useful tool in responding to the recommendations made by the research team, and the findings are an encouragement to increase awareness and effective use of the standard, as part of a stronger dialogue with our commercial partners on trading practices.

Moving forward will also require galvanising our supporter base further to influence public policy and market dynamics on behalf of producers. Alongside our work to build a market for Fairtrade products, we will deepen our work to campaign for greater justice in trade – for the principles of equality, inclusiveness and transparency, along with respect for human and environmental rights and commitment to fair pay, to be embedded in the way business is practiced and, as appropriate, legislated for.

In addition to the general lessons for Fairtrade and the sector, we have taken note of the specific recommendations emerging from the study, including the detailed findings relating to the specific contexts and commodities studied, and will be working on these in the context of individual product strategies and other programmatic work. For instance, Fairtrade has to deal with the challenge of living wages in various product sectors – which is an issue Fairtrade alone cannot resolve. Only if all supply chain actors contribute to the resources necessary to pay living wages, can it realistically be achieved over time. Therefore, Fairtrade is part of several supply chain initiatives needed to address the matter.