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International Development Committee

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Footnotes

In the footnotes for this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by the page number as in 'Ev 12'.

Contents

Report	<i>Page</i>
Summary	3
1 Introduction	5
Why fair trade?	5
Our inquiry	6
2 Fair trade: a thriving and growing enterprise	8
Fair trade and ethical trade	8
Fair trade and conventional trade	8
Fair trade organisations	10
Fair trade in the UK	11
Growth in consumer awareness	11
Growth in UK sales	11
Growth in companies involved in fair trade	13
3 The UK Government's approach to fair trade	15
International trade policy and fair trade	15
Development Awareness Funds	17
Challenge Funds	17
Learning from experience	19
4 The impact of fair trade	20
Benefits to producers	20
Stable incomes	20
Social premiums	21
Development of capacity	21
Adding value through branding	22
Impact on consumers	23
Fair trade towns	24
Changing company practice	24
The Ethical Trading Initiative	25
5 Challenges and limits of fair trade	28
Funding, scaling-up and product coverage	28
Increasing the range of fair trade products	28
Involving more producers	30
6 The role of donors	32
Raising Awareness	32
Labelling	32
Public procurement	34
Level of funding	35
7 Conclusion	37

Recommendations	38
List of Acronyms	42
Formal minutes	43
Witnesses	44
List of written evidence	45
List of unprinted evidence	46
List of Reports from the Committee during the current Parliament	47

Summary

Fair trade has been recognised by the European Parliament as a key tool for development, helping poor producers capture more of the gains from trade and trade their way out of poverty. It does this by offering producers a price which covers the cost of production, and providing long-term contracts which assist predictable planning.

Growth in awareness of fair trade in the UK has led to increased demand for fair trade products and an increase in the number of companies and retailers offering them. Fair trade has also had an impact on raising levels of corporate social responsibility across the board. However some retailers in the UK are engaged in fierce price competition to gain a greater share of the market. This takes place amidst reports of low wages and poor working conditions for many workers and farmers supplying UK retailers and raises questions about whether the monitoring of such standards is sufficiently robust.

The costs and benefits of international trade are unevenly distributed with Africa gaining a smaller share of world trade now than it did 20 years ago. Recognising that African countries face severe supply side constraints in increasing their capacity to trade, the Commission for Africa called for increased investment to expand opportunities for developing country producers to enter fair trade markets. While fair trade is not a panacea for an international trading system which serves the interests of developing countries, it can deliver benefits in terms of access to and knowledge of international markets.

The fair trade movement has made enormous progress in recent years: growing beyond expectations in terms of product coverage as well as increasing engagement of consumers, especially in the UK. But there is still room to grow. Fair trade could expand its activities, for example by developing standards for garment manufacturing. Additionally fair trade could have a deeper impact on poverty if it were to target more consciously the poorest of the poor. Such initiatives require investment. The Government has declared its support for fair trade, and for working more closely with the private sector in development. It now needs to reassess how it can best advance both these objectives.

1 Introduction

Why fair trade?

1. In 2006 the Secretary of State for International Development, Rt Hon Hilary Benn wrote “Taking action at home to help people in the developing world is exactly what fair trade is all about. Buying a fair trade product changes lives—I’ve seen it for myself.”¹ The now annual Fair Trade Fortnight held in the UK brings fair trade into supermarkets, homes, churches and offices throughout the country. Recent surveys indicate that recognition of the FAIRTRADE mark² in the UK is now 57%. This is a significant increase from 52% in 2006 and 12% in 2000.³ The UK is also the largest single market for fairly traded products with some retailers switching entire product lines to fair trade.

2. As the latest results of the growth in awareness of fair trade were revealed, the supermarket Asda announced it was cutting the price of bananas, the most frequently consumed fruit in the UK, by 15 pence per kilogram. Tesco followed Asda with a similar price cut.⁴ While it is not known whether these recent price cuts will be borne by banana growers, suppliers or supermarket profit margins, a report by ActionAid illustrates how previous banana price wars have impacted negatively on workers’ rights, pay and conditions.⁵ A recent report on working conditions of migrant workers preparing fair trade fruit for the domestic market highlights that these issues are not restricted to developing country workers.⁶ In contrast Sainsbury’s will have converted all its bananas to fair trade by the summer of 2007.⁷ The farmers supplying them will be assured of a stable, pre-agreed price and continuity of contract whether or not Sainsbury’s decides to cut prices to consumers.

3. The international trading system provides the context in which fair trade and other ethical schemes operate. It is often said that international trade can play an important role in helping to meet the Millennium Development Goals.⁸ Yet despite general increases in trade at the international level, Africa’s share of world trade has dropped by nearly 60% over the past three decades,⁹ although recent fuel and commodity price increases in 2006 have seen a small growth in export volumes.¹⁰ Recognising that African countries face severe supply-side constraints in increasing their capacity to trade, the 2005 Report of the Commission for Africa called for increased investment to expand opportunities for

1 *The Sunday Telegraph*, 5 March 2006.

2 The FAIRTRADE mark is the label awarded by the Fairtrade Foundation in the UK to products which meet agreed fair trade standards.

3 Fairtrade Foundation, TNS Omnimas, Topline Results, April 2007.

4 On 17 April 2007. www.fairtrade.org.uk

5 ActionAid, *Who Pays? How British supermarkets are keeping women workers in poverty*, April 2007.

6 23 May 2007, www.bbc.co.uk/radio4/today

7 Ev 116 [Sainsbury’s]

8 Ev 71 [DFID]

9 G. Nankini, *Out of Africa: a needed surge of exports to spur growth and cut poverty*, 2005, www.go.worldbank.org

10 WTO, *World Trade 2006, prospects for 2007*, www.wto.org

developing country producers to enter fair trade markets.¹¹ Subsequently the G8 also acknowledged that infrastructure and supply-side weaknesses often prevent the poorest countries from exploiting their trading opportunities. The final Gleneagles communiqué welcomed the growing market for fair trade goods and its positive effect in supporting livelihoods and committed the members to increasing public awareness of the positive role of ethical trade in development.¹²

Our inquiry

4. We have previously emphasised that agreement on a development round in the World Trade Organisation (WTO) may be the most important gain for developing countries, and we continue to encourage the Government to put trade at the service of development.¹³ In the absence of a WTO agreement which prioritises the needs of developing countries we decided to begin an inquiry into fair trade to examine the contribution of fair and ethical trade to poverty reduction and sustainable development.

5. Fair trade has been recognised by the European Parliament as a key tool for development.¹⁴ In March 2006 Gareth Thomas, Parliamentary Under Secretary of State at the Department for International Development said, “fair trade can make a real contribution to helping poor people trade their way out of poverty [...] Fair trade is helping poor producers capture more of the gains from trade, which is a key objective of the Department for International Development.”¹⁵ Given the growing awareness of fair trade, and the declared commitment to fair trade by the UK Government and other donors, we decided the inquiry should examine how best donors, in particular the UK’s Department for International Development (DFID), can support fair trade in their development assistance.

6. The growth in the number of ‘ethical’ labels in the market place has created confusion for consumers. In this context a recent report by the Development Committee of the European Parliament called on the Commission and member states to “take appropriate measures to ensure that consumers have access to all the information they need in order to make informed choices.”¹⁶ Our inquiry has therefore also sought to identify examples of best practice among supermarkets and other retailers with a view to helping consumers to make those choices.

11 Commission for Africa, *Our Common Interest*, March 2005, p 273

12 G8 Gleneagles 2005 – Africa, p 11, www.fco.gov.uk

13 International Development Committee, Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730, and Fifth Report of Session 2006-07, *EU Development and Trade Policies: an update*, HC 271.

14 European Parliament, *Fair trade and development*, A6-0207/2006, 2006.

15 HC Deb, 17 March 2006, col 2570w

16 European Parliament, *Fair trade and development*.

7. We began the inquiry in February 2007 holding our first evidence session at the start of Fair Trade Fortnight. We held a total of four public sessions in which we took evidence from the Government, the Prime Minister of the Republic of Dominica, the Fair Trade Foundation, trade unions, non-governmental organisations (NGOs), fair trade organisations and companies, retailers, supermarkets and corporate organisations. We received written evidence from 31 organisations and individuals many of whom are engaged in fair trade.

8. The report is structured as follows: Chapter 2 provides an outline of what fair trade is and compares the approach of fair trade with other ethical schemes. This Chapter also looks at the growth in fair trade, in terms of the growth in the number of products being certified as fair trade and the number of producers using the fair trade label, as well as the growth in consumer awareness and sales in the UK market. Chapter 3 looks at the UK Government's approach to fair trade which it sees as a small but significant part of its international trade policy. Chapter 4 assesses the impact of fair trade on producers, consumers and companies. Chapter 5 looks at the challenges and limits of fair trade in terms of the range of products certified as well as the number of producers who benefit from it. Chapter 6 asks what the Government's response should be and whether or not donors should play a role in supporting initiatives such as fair trade.

9. The report's recommendations are primarily for the UK Government but there are also recommendations directed at the Fairtrade Foundation, supermarkets and other retailers. We also hope that consumers reading this report will be made more aware of the ways in which fair trade benefits producers in developing countries, as well as the contribution of other ethical schemes to poverty reduction.

2 Fair trade: a thriving and growing enterprise

Fair trade and ethical trade

10. Fair trade is one of many initiatives designed to engender responsible or ethical business practices between developed and developing countries. Marks & Spencer sees its commitment to fair trade as part of a wider commitment by the company to ethical trading.¹⁷ The approach most commonly compared with fair trade is ethical trade, although there are important differences between the two. Fair trade focuses on the trading terms for producers, while the emphasis of ethical trade is on the conditions of production. In terms of objectives, fair trade seeks to change unequal relationships into partnerships which benefit producers; ethical trade seeks to improve the welfare of producers in the work-place. Ethical trade is more likely to be used for multinational brands and retailers and for complex production processes, often in factories. In contrast fair trade has become known for its work with small farmers in the agricultural commodity sector, although it has become more diverse in recent years.¹⁸

Fair trade and conventional trade

11. It would be incorrect to assume that goods which do not bear a fair trade mark are produced or traded in an unfair way. Fair trade is commonly understood to be a means of giving farmers and producers in developing countries a better deal than conventional trading arrangements.¹⁹ The assumption behind fair trade is that international markets are unfairly distorted and cannot be relied upon to produce fair outcomes.²⁰ However, fair trade does not seek to avoid the market, rather to harness it in such a way as to promote improved outcomes for producers on the basis of ethical principles. It is thus a particular way of engaging with the market. However, as discussed in Chapter 5, fair trade only has standards for a limited range of products and it would be impossible to create fair trade standards for some products because of the complex manner in which they are produced. In addition some of the smallest producers cannot afford to become fair trade certified. Thus we do not expect all producers or all products to become fair trade.

12. The four main international fair trade organisations have together developed the following definition of fair trade:²¹

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

17 Ev 106 [Marks and Spencers]

18 The implications of this for fair and ethical trade are discussed in Sally Smith and Stephanie Barrientos, “Fair Trade and Ethical Trade: Are there moves towards convergence?”, *Sustainable Development* 13, 190-198, 2005.

19 Fairtrade Foundation, TNS Omnimas, Topline Results, April 2007.

20 Mayoux, L. *Impact assessment of fair trade and ethical enterprise development*, 2001.

21 The organisations are the International Fair Trade Association (IFAT), the Fairtrade Labelling Organisation (FLO), the European Fair Trade Association (EFTA) and the Network of European World Shops (NEWS).

producers and workers, especially in the South. Fair trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of international trade.”²²

13. Fair trade labelling organisations issue fair trade marks or labels to products which meet certain criteria or standards set by the labelling organisation. There are two sets of generic producer standards, one for small farmers and another for workers on plantations and in factories. In addition there are product-specific criteria for certain food and non-food products. For traders wishing to use fair trade certified products the following trading standards apply:

- A price is paid to producers which covers the cost of sustainable production
- A social premium is paid which producers can invest in community development projects
- Partial payment in advance is available if requested
- Contracts allow for long term planning.²³

A fair trade label thus tells consumers that a particular set of criteria has been met in the production and trading of a particular product. Consumers can purchase these products with confidence that they have been produced and traded in a certain way and that this has been independently verified.

14. The situation, however, is complex. There are increasing numbers of ethical initiatives, some independently verified and others which are not, which may seek to meet different sets of criteria. In coffee production, for example, there are a range of different schemes. The Rainforest Alliance’s main concern is environmental sustainability and biodiversity.²⁴ Another scheme is Utz certified coffee which has a 25–30% share of the Dutch coffee market.²⁵ Utz is not fair trade and does not pay farmers premium prices although it has similar social and environmental objectives. Starbucks coffee also has its own in-house ethical sourcing scheme, CAFÉ (coffee and farmer equity), with social and environmental objectives. Again there is no guaranteed price or social premium but Starbucks told us that they currently pay more than the world market price for coffee.²⁶ In response to the multiple schemes in the coffee industry the German Coffee Association took the initiative to create a Common Code for the Coffee Community. Nestlé, Sara Lee, Kraft and Tchibo, representing 40% of the world coffee-roasting market, have all signed the Common Code which seeks to improve working and environmental conditions on coffee farms. The Code requires producers to pay minimum wages to workers, not to use child labour, to allow union membership, and to protect the environment.²⁷

22 European Parliament, *Fair trade and development*.

23 www.fairtrade.org.uk

24 www.rainforest-alliance.org

25 Utz Certified, *Key points of value and difference*, March 2007.

26 Q 66 [Mr Burrows]

27 Ev 81 [DFID]

15. While these schemes may not share the same objectives as fair trade they do seek to raise standards in corporate purchasing practices. Moreover many of the same organisations which sell fair trade products will also sell other ethical labels, offering consumers a range of ethical products. **The rise in ethical labels demonstrates that both retailers and consumers are interested in ethical sourcing. It is important that fair trade organisations do not assume they have a monopoly on this although fair trade can be said to represent a gold standard in terms of trading relations with producers. With many different schemes pursuing different objectives it is vital that consumers are given the correct information in order to make informed choices.** Awareness-raising is one way of doing this and will be discussed in Chapter 6.

Fair trade organisations

16. The fair trade movement emerged in the 1950s and 1960s with Alternative Trading Organisations selling mainly handicrafts from developing countries.²⁸ Subsequently fair trade labelling organisations emerged and oversaw the growth of fair trade across European markets.

17. Fair trade products are still marketed by two different routes. Under the first, goods—traditionally crafts—are imported by Alternative Trading Organisations (ATOs) and distributed mainly in small ‘world’ or fair trade shops, churches, or other community organisations. Most of the ATOs and producer organisations are members of the International Fair Trade Association (IFAT). The clothing company People Tree is a member of IFAT and its fair trade clothing range is licensed by the Association.

18. The second route is the labelling route where goods are labelled by national fair trade certification organisations. In 1997 the international Fairtrade Labelling Organisation (FLO) was formed as a coordinating body for various national fair trade initiatives. FLO is now responsible for setting international fair trade standards in each product category, certifying the production of the goods, auditing trade and labelling these products.

19. In 2003 a new international fair trade certification mark was launched. The FAIRTRADE mark is jointly owned by 21 National Labelling Initiatives and three regional producer networks in Asia, Africa and Latin America. In the UK the Fairtrade Foundation is the organisation which licenses the FAIRTRADE mark.

20. The transition to fair trade labelling has been crucial for expanding fair trade out of a niche market and into the mainstream retail market. Buyers must ensure that only products purchased from registered fair trade producers are labelled as fair trade. The Fairtrade Labelling Organisation also monitors the producers regularly to ensure they are meeting fair trade criteria. This independent certification is key to the credibility of the FAIRTRADE mark. As Marks & Spencer told us, “We believe that the ground-breaking work of the Fairtrade Foundation particularly with commodities—cocoa, cotton, sugar, coffee and tea—gives huge reassurance to the consumer [...]”²⁹ **We believe that fair trade labels have helped consumers to be reassured about the way in which fair trade**

28 Anne Tallontire, “Challenges facing fair trade and ethical sourcing: which way now?”, *Social Enterprise Development*, pp12-24, September 2002.

29 Q 76 [Mr Barry]

products are traded. This is an important achievement for which the Fairtrade Foundation in the UK and the Fairtrade Labelling Organisation internationally are to be commended.

Fair trade in the UK

Growth in consumer awareness

21. There has been a significant increase in consumer recognition of the FAIRTRADE mark in the UK, from 12% in 2000 to 57% in 2007. The type of customer who purchases fair trade products is also changing. Sainsbury's told us that:

“if you look at our customers, historically this was the older customer, who bought tea and coffee [...] That customer has changed over the last 10 to 13 years and it is very much more a universal customer and younger customers who are buying into a whole breadth of products, for a number of reasons.”³⁰

Harriet Lamb of the Fairtrade Foundation told the Committee,

“what is great about fair trade is that it is something very pragmatic that you, I and everybody can do [...] I believe the key to the success is that it is an idea that appeals to the public and it is an easy and an accessible way for everyone to play their part in tackling poverty.”³¹

The Fairtrade Foundation has worked hard to achieve this level of awareness, firstly through increasing the demand for fair trade certified products by raising public awareness and understanding of fair trade, and secondly by ensuring companies and retailers are offering a range of products so that consumption of fair trade products is easy and public demand can be met.³² Fair trade organisations have also raised awareness by improving the quality of fair trade products.³³

22. However the Foundation has not achieved this alone. The Foundation is made up of a number of non-governmental organisations such as Christian Aid and CAFOD who also engage in awareness-raising activities. In addition there are NGOs directly involved in fair trade such as Traidcraft. The Fairtrade Foundation has worked with these NGOs as well as with trade unions, schools, churches and community organisations to expand awareness of the fair trade movement.

Growth in UK sales

23. Growth in awareness of fair trade has translated into growth in sales. Fair trade sales in the UK have been growing on average at 40% per year. The total value of fair trade products sold in the UK in 2006 was £284 million, up from £196 million in 2005, and

30 Q 149 [Ms Batchelor]

31 Q 7 [Ms Lamb]

32 Ev 93 [Fairtrade Foundation]

33 Q 10 [Fairtrade Foundation], Q 149 [Ms Batchelor]

signifying a growth of over 1,000% since 1998.³⁴ The Fairtrade Foundation reports that Mintel,³⁵ in its report *Attitudes to Ethical Foods in the UK*, estimated that at current trends, the sales value of fair trade products in the UK would exceed £547 million by 2011.³⁶ This growth is not restricted to the UK: the market for fair trade labelled products has been growing worldwide at 30-40% a year.³⁷

24. Some fair trade companies have become mainstream. Café Direct, for example, is the fourth largest roast and ground coffee brand in the UK.³⁸ Similarly, Divine Chocolate has become a well-known brand in a highly competitive market and has influenced the strategies and policies of other companies in the UK confectionery industry.³⁹ Evidence suggests that the market for fair trade chocolate is growing in a static market.⁴⁰

25. DFID reports that fair trade remains a very small proportion of overall retail sales in developed countries. In the UK in 2003 sales of fair trade certified goods made up only 0.17% of a total £67 billion expenditure on food and drink. Currently fair trade labelling only affects one million farmers and their dependants.⁴¹

Fair trade pricing

26. DFID predicts that the market is likely to hit a ceiling shortly because it is non-price competitive.⁴² Contesting this the Fairtrade Foundation told us that, when Sainsbury's switched all its "Kids" bananas to fair trade, sales increased by 30%. This gave Sainsbury's the confidence to decide to stock only fair trade bananas.⁴³ Similarly Marks & Spencer told us that when they switched all their coffee and tea to fair trade they saw a 6% growth in sales.⁴⁴ However the Fairtrade Foundation did acknowledge that they had to ensure that they struck the right balance between paying a fair price to the farmers and marketing the product at an acceptable price.⁴⁵ Fair trade guarantees farmers a floor price, even if the market price drops below this, and promises to pay the market price when it rises above this floor price. There will therefore always be limits to the profit margins unless fair trade products are sold at a significantly higher price than other brands. Retailers such as Marks & Spencer have not passed on any price increases to their customers as a result of switching to fair trade products, but there are obvious limits to this. For example, if the price of coffee was to fall significantly for an extended period of time it is unclear how buyers or fair trade organisations would respond. Critics of fair trade argue that this is one of the problems

34 Ev 89 [Fairtrade Foundation]

35 A consumer, media and market research company.

36 Ev 89 [Fairtrade Foundation]

37 FLO, *Strategic fair trade funding programme*, March 2007.

38 Ev 90 [Fairtrade Foundation]

39 Ev 181- 182 [The Sustainable Enterprise Research Group (SERG)]

40 Ev 146 [The Biscuit, Cake, Chocolate and Confectionery Association (BCCCA)]

41 Ev 75 [DFID]

42 Ev 75 [DFID]

43 Q 7 [Ms Lamb]

44 Q 58 [Mr Barry]

45 Q 10 [Ms Lamb]

with fair trade: it does not respond well to market signals. If the price of coffee drops too low for farmers to make a living, they believe this should be taken as a signal for farmers to move out of coffee production.⁴⁶

27. We agree that moving out of coffee production would be a rational response to continued low prices but also recognise the complexity of such decisions. On our visit to Ethiopia we met with representatives of coffee farmers who complained about the low price they were getting for their coffee. They also pointed out that many farmers were responding to this by growing the narcotic *khat* for which the returns were much better. Similarly Prime Minister Skerrit of Dominica explained to us that banana production had fallen significantly in the Windward Islands after the WTO ruling against the EU Banana Regime which had offered Caribbean bananas preferential access to the EU market. Caribbean bananas had not been price competitive without this preferential access, but the conversion to fair trade in 2000–01 had now made banana production profitable for the region.⁴⁷ The annual value of sales for Dominica had increased from US\$8 million to US\$15 million by 2006 as a result, although revenues were still below the level they were prior to the WTO ruling.⁴⁸

28. There are many possible responses to low commodity prices. Diversification, especially into higher value products or services, is an obvious one but one which depends on the viability of alternative livelihoods. It may be that, in some cases fair trade provides farmers with valuable breathing space to make such transitions.⁴⁹ It may also be the case that, given low prices for some commodities, fair trade is mistakenly encouraging production. However given the low volume of fair trade production in global production it is unlikely to have been the chief cause of low commodity prices. Nevertheless in the context of fluctuating commodity prices fair trade organisations, along with retailers, need to consider how they would respond if the price of a commodity dropped well below the fair trade floor price for an extended period of time.

Growth in companies involved in fair trade

29. The growth in sales has led to an increase in the number of retailers selling fair trade products, as well as an increased number of manufacturers making their own brand fair trade products. Sainsbury's say they are the largest single retailer of fair trade products in the UK selling £55 million worth in 2006. Sainsbury's estimate that this is set to increase to £130 million in 2007 and £200 million by 2008.⁵⁰ However it should be noted that fair trade products comprise less than 1% of total sales; for Tesco the percentage is similar.⁵¹

46 "Fair trade is booming, but is it still a fair deal?", *The Independent*, 24 February 2007.

47 Q 21 [Mr Skerrit]

48 Q 22 [Mr Skerrit]

49 Q 204 [Ms Page]

50 Q 149 [Ms Batchelar]

51 Q 149 [Ms Batchelar], Q 150 [Ms Reynolds]

30. The Co-operative Group was the first UK supermarket to convert all its own label coffee and block chocolate to fair trade in 2003.⁵² Since then other retailers have followed. From the summer of 2007 Sainsbury's will stock only fair trade bananas. Marks & Spencer has already converted all its coffee and tea to fair trade. Both companies have done this not by switching suppliers but by helping their existing suppliers to meet fair trade standards.⁵³ In addition Marks & Spencer has sought increasingly to engage directly with its suppliers and, where this is not possible, to rely on the Fairtrade Foundation to provide a level of traceability which Marks & Spencer cannot.⁵⁴ Most other UK supermarkets stock a range of fair trade products.

31. In addition companies like Nestlé and Starbucks have increased their purchasing of fair trade coffee quite significantly in recent years.⁵⁵ One of the more controversial fair trade products to be launched in recent years has been Nestlé's Partners Blend instant coffee. According to Nestlé their research showed that there were many consumers who were interested in purchasing a fair trade coffee product but were not actually doing so. Nestlé considers that the strength of its brand name has brought these consumers into the fair trade market.⁵⁶

32. It is right that questions should be asked about the engagement of big companies in fair trade. It is relatively easy for them to tick the "fair trade box" for specific products without necessarily changing the way in which they do business with most of their other developing country suppliers. Fair pricing should not be restricted to a few beneficial but limited niches for either supermarkets or multinationals.⁵⁷ We were particularly impressed with the efforts of Marks & Spencer to engage directly with its producers and to use the FAIRTRADE mark for those products where direct engagement is not possible.

33. While the fair trade brand ensures that producers receive a minimum price for their products, many UK retailers are also competing to offer cheaper products in order to capture a larger section of the market. This should not be at the expense of developing country producers. **The drive for cheaper produce is neither desirable nor sustainable if such low prices involve the exploitation of labour abroad. We accept that developing countries have a competitive advantage in cheaper labour and they should be able to take advantage of this, but we do not accept that workers should be paid less than the national minimum wage where one exists. Nor should fundamental labour rights be dependent on levels of economic development.**

52 Ev 90 [Fairtrade Foundation]

53 Q 61 [Mr Barry], Q 162-163 [Ms Batchelar]

54 Q 55 [Mr Barry]

55 Ev 129 [TUC]

56 Q 161 [Ms Parsons]

57 Ev 129 [TUC]

3 The UK Government's approach to fair trade

International trade policy and fair trade

34. DFID's written evidence to us states that trade can play an important role in meeting the Millennium Development Goals (MDGs) and that creating a fairer international trade system which improves market access and makes markets work better for the poor is the best way for trade to contribute to poverty reduction.⁵⁸ DFID considers that fair trade has made an important contribution to raising awareness of global trade relations and of the situation of poor producers in poor countries among consumers in the developed world but believes that a wider approach is needed to lift millions of small producers out of poverty in order to meet the MDGs.⁵⁹ To this end DFID supports fair trade as part of its overall policy for making international trade work for the poor.⁶⁰

35. The Department of Trade and Industry (DTI) website states that fair trade helps disadvantaged producers in developing countries and that it encourages companies to participate in fair trade practices. DTI also states that fair trade is not a solution to commodity price fluctuations, declining prices or limited market access for poor producers: these are complex problems for which there are no simple solutions.⁶¹

36. One interpretation of these statements is that fair trade is simply a way of helping a few small producers but that it does not offer a model for the organisation of international trade in general. This is probably accurate—fair trade may be limited in terms of markets and to date it has not been possible to certify many manufactured or industrial products.

37. Gareth Thomas, the Parliamentary Under-Secretary of State at DFID, described the Government's approach to fair trade as follows:

“Our strategy, for want of a better word, has been to support the various initiatives that have come forward, and there are many different initiatives that have come forward in this area. The fair trade label is perhaps the most well-known, but there are a variety of others and there are a variety of individual fair trade initiatives by different supermarket chains, for example. We have responded to various requests as they have come forward and we have specifically recognised that we need to do more to raise awareness across supply chains about their fair, ethical and sustainable trade and we are working specifically with the food industry to scope out a challenge fund to help in that purpose.”⁶²

58 Ev 71 [DFID]

59 Ev 80 [DFID]

60 Ev 71 [DFID]

61 www.dti.gov.uk

62 Q 287 [Mr Thomas]

In response to our questioning about whether the Government's approach was sufficiently proactive, his response was that they did not want to single out one approach, such as fair trade, over other approaches and initiatives such as the Ethical Trading Initiative.⁶³ DFID does however acknowledge the achievements of its funding for the Fairtrade Foundation:

“an impact assessment of DFID funding to the Fairtrade Foundation in 2005 demonstrated successes against the objectives of expanding the range of fair trade certified products, increasing consumer awareness of fair trade and reducing the reliance of the Foundation on external grant funding for its operational and promotional activities.”⁶⁴

38. Nevertheless Government support to projects specifically concerned with promoting fair trade, rather than projects promoting other initiatives associated with more ethical trade and respect for international labour standards, has been modest. Of a total of approximately £8.5 million which DFID says it has put into fair and ethical trade, only £1 million has gone directly to the Fairtrade Foundation, and another £1 million has gone toward Development Awareness Funds to promote wider awareness of fair trade. In addition some funding has been allocated to a variety of projects, some of which are fair trade. The bulk of the funding has been for fair and ethical projects under the Business Linkages Challenge Fund (£3 million) and for the Ethical Trading Initiative (£3 million). The ETI is an alliance of companies, NGOs and trade unions working to improve working conditions in supply chains (see Chapter 4).

39. The Government assured us that there was considerable discussion across Whitehall about how to work together on international trade.⁶⁵ In addition the Government is engaged in a discussion about ethical sourcing in the food industry led by the Department for Environment, Food and Rural Affairs (Defra).⁶⁶ The official responsible for fair trade in DFID is a senior agriculture and trade adviser shared between the trade and growth teams in DFID's newly created Global Development Effectiveness Division. Other growth team members cover ethical trade and corporate social responsibility. This division of responsibility in DFID does not seem to engender strong leadership from DFID or coordination within the Government around fair or ethical trade initiatives.

40. The Government has acknowledged the achievements of the fair trade movement and has made public statements in support of it. It has also provided funding for specific projects and initiatives. However, the Government's approach tends to confuse projects specifically concerned with promoting the fair trade movement with other initiatives associated with more ethical trade and respect for international labour standards. There is merit in supporting a number of different initiatives that are effective in reducing poverty. The Government could, however, do more to promote the fair trade movement specifically if it was clearer in recognising the different contributions that different kinds of initiatives can make. One way of doing this would be to assign a senior DFID official to be responsible for fair trade within Government

63 Q 288 [Mr Thomas]

64 Ev 78 [DFID]

65 Q 291 [Mr Thomas]; Q 292 [Ms Brooks]

66 Q 293 [Mr Thomas]

and for this responsibility to be properly publicised and supported. This may also help to encourage greater coordination in the promotion of fair trade through public procurement, as we recommend in Chapter 6.

Development Awareness Funds

41. Development Awareness Funds are small grants to organisations based in the UK for raising awareness of development issues, the Millennium Development Goals and efforts to reduce poverty. According to the Divine Chocolate Company, DFID's Development Awareness Fund has supported initiatives which challenge public perceptions of poverty in the developing world, and has helped raise awareness of how fair trade offers an effective and dignified solution to poverty.⁶⁷

42. Along with Comic Relief, Trading Visions and Kuapa Kokoo, Divine has successfully applied for two rounds of Development Awareness Funding since 1999. The company told us that in putting forward their successful applications they were heavily reliant on the assistance of Comic Relief who had previous experience with this. Evidence submitted by Tropical Wholefoods suggested that DFID funding was difficult to obtain and tended to be awarded to organisations with experience of working with DFID.⁶⁸ The clothing company People Tree told us they were considering applying for such funds but had not yet done so.⁶⁹ Subsequent to our oral evidence sessions Trading Vision had their application for Development Awareness Funding turned down. They commented that the process had been protracted and that no opportunity was provided to discuss the application.⁷⁰

43. **Development Awareness Funds have been extremely useful to the fair trade movement and have contributed to continuing growth in awareness of fair trade in the UK. This level of awareness will have knock-on effects in other sectors as consumers begin to demand a greater level of responsibility from companies and retailers. It could also act as a catalyst for greater support for the work of DFID in general. But Development Awareness Funds could be better publicised and the application process made less complicated, especially for those who are applying for the first time or who have no experience of working with DFID. We recommend that DFID address these two issues.**

Challenge Funds

44. One of the recommendations of the Commission for Africa was that DFID should work with the private sector to engage it in development, and to ensure that small scale farmers can access markets.⁷¹ The need to build on innovative ways to develop the private sector in Africa was emphasised in our report on Private Sector Development.⁷² One way

67 Ev 84 [Divine Chocolate]

68 Ev 183, 184 [Tropical Wholefoods]

69 Q 104-5 [Ms Minney]

70 Letter from Trading Visions, 8 May 2007.

71 Ev 82 [DFID]

72 International Development Committee, Fourth Report of Session 2005-06, *Private Sector Development*, HC 921.

in which DFID does this is through Challenge Funds. These provide finance for projects in developing countries over a limited period of time.

The Business Linkages Challenge Fund

45. The Business Linkages Challenge Fund (BLCF) was set up in 2000 for a five year period. It was designed to provide seed funding, of between £50,000 and £1,000,000, to businesses working in developing countries to help them compete in new markets, transfer technology, improve competitiveness, and address the policy and regulatory environment for business.⁷³

46. The Fund is not designed specifically for fair trade organisations although some fair trade companies have made use of it. The International Institute for Environment and Development commended two projects which the Business Linkages Challenge Fund has helped to fund—a fair trade horticultural company “Gambian is Good” which supplies high value hotels and restaurants with quality local produce and a trademark programme which recognises fair and responsible tourism practices in South Africa, benefiting local communities and giving confidence to buyers.⁷⁴

47. Café Direct also obtained funding through the BLCF to help them implement Hazard Analysis Critical Control Points (HACCP) food safety methodology. Café Direct say the programme has:

“successfully assisted all six participating factories to operate under HACCP systems and trained twelve key factory personnel. It has also developed local capacity by training four auditors to British Retail Consortium (BRC) level. Tea growers’ future international business success depends on implementing the HACCP system as it means growers are better positioned to secure additional finance and break into new markets.”⁷⁵

The Africa Enterprise Challenge Fund

48. DFID’s view is that innovations in bringing the poor into the market are hampered by a poor business environment, a lack of competitive pressure, a lack of information about the poor as consumers and producers and failure to innovate and expand companies to a size which impacts on the market.⁷⁶ We agree. As recommended by the Commission for Africa, DFID is in the process of designing an Africa Enterprise Challenge Fund (AECF). This, like previous Challenge Funds, will be a partnership between the Government and the private sector. The objective of the AECF is to improve market access for the poor, especially in rural areas. It will do so by stimulating innovation in agricultural markets and increasing access to financial services.⁷⁷ However the AECF is still in the planning stages.⁷⁸

73 Ev 82 [DFID]

74 Ev 169 [IIED]

75 Ev 153 [Café Direct]

76 DFID, *Africa Enterprise Challenge Fund, concept summary*, www.dfid.gov.uk

77 www.dfid.gov.uk

78 Q 305 [DFID]

49. The sort of capacity building supported by the Business Linkages Challenge Fund and envisaged by the Africa Enterprise Challenge Fund is extremely valuable for small businesses in developing countries. The AECF's focus on rural areas is also important as nearly 80% of the population in sub-Saharan Africa live in rural areas.⁷⁹ While neither is geared specifically for fair or ethical trade, such organisations have, in the past, been able to gain access to some funds. **We consider that Challenge Funds are a good means of supporting innovation in the private sector and believe that the Africa Enterprise Challenge Fund is a useful initiative which has the potential to improve trade capacity and competitiveness in Africa. We expect DFID to update us on progress in establishing this Fund.**

Learning from experience

50. DFID has funded a range of innovative projects in fair and ethical trade with considerable impact. For example in 2000 DFID guaranteed a loan of £400,000 for the Divine Chocolate Company as part of its programme for poverty alleviation in Ghana. The Company told us that this loan was instrumental in enabling them to expand and to ensure that cocoa farmers in Ghana could own a significant proportion of the business.⁸⁰ It has pioneered an approach which guarantees that farmers in the Kuapa Kokoo Cooperative supplying Divine receive more benefits than cocoa farmers producing for traditional companies.⁸¹ In addition to a government guaranteed price Kuapa farmers gain a social premium which in 2006 amounted to US\$171,750, producer support and dividends from their ownership of 47% of the Company. Pre-tax profits in 2006 were approximately £600,000.⁸²

51. Other more established DFID funding streams, for example the Challenge Funds and Development Awareness Funds, have had positive and perhaps unexpected outcomes. However this *ad hoc*, project-based approach to funding risks missing valuable lessons which could be learned from sharing knowledge and experience strategically. The partnership between Divine and Kuapa is an example of a pioneering business model which DFID should promote. **However the Government's approach to funding ethical and fair trade projects does not take advantage of opportunities to learn from previous experience and at present there is no formal mechanism for doing this. The lessons learned from the various individual initiatives which DFID has funded should be drawn together and best practice shared.**

79 Practical Action and PELUM, *The crisis in African agriculture*, 2005.

80 Ev 84 [Divine Chocolate]

81 The cocoa market in Ghana is controlled by the Government. All cocoa farmers in Ghana receive a fixed price for their cocoa. See Q 113-114 [Ms Kyere]

82 Ev 84 [Divine Chocolate]

4 The impact of fair trade

52. In this chapter we examine the impact of fair trade on producers, consumers and companies. We acknowledge that determining the impact of particular trade policies is difficult because causality is often indirect and, in the case of producers, no single policy will be the sole determinant of livelihoods.

53. Although a number of country-and commodity-specific impact assessments have been carried out, DFID points out that there has been limited systematic analysis of the sustainable poverty reduction impacts of fair trade.⁸³ In response, the Fairtrade Labelling Organisation (FLO) is currently considering a model for a results-based monitoring and evaluation system which will enable trends in the impact of fair trade to be analysed over time.⁸⁴ **We believe there should be increased systematic analysis of the impact of fair trade and would urge DFID to contribute to this process.**

Benefits to producers

Stable incomes

54. Fair trade organisations determine a price for each product which is based on national average costs of production. Buyers must pay this price even when the market price is below this. The fair trade price thus reduces the effect on producers of large fluctuations in commodity prices. The benefit of this is that producers are assured of a stable income, which covers the cost of production, and which should enable them to plan for the future. In Costa Rica for example fair trade coffee producers have benefited significantly because the world market price for coffee has been so low. One producer commented: “The fair trade price allows us to survive as coffee farmers—it covers our costs of production, lets us send our kids to school, buy clothes and keep a roof over our heads.”⁸⁵

55. While the Prime Minister of Dominica emphasised that the minimum fair trade price for bananas was important to farmers,⁸⁶ evidence from trade unions on Central American banana plantations suggests that banana companies claim they cannot pay basic wages because the supermarkets have lowered their prices. Similar evidence from South African farms suggests that supermarkets are pressuring farmers to lower their prices or lose their market.⁸⁷ **In the context where some supermarkets are putting pressure on suppliers to reduce prices below the cost of basic wages, or when commodity prices are low, the guaranteed fair trade price is extremely valuable for farmers.**

83 Ev 71 [DFID]

84 Fairtrade Foundation, Fair trade impact: summary of studies undertaken since 2003.

85 Ev 91 [Fairtrade Foundation]

86 Q 25 [Mr Skeritt]

87 Ev 139, 140 [ActionAid]

56. In practice the fair trade price may not be significantly above the world market price, so fair trade farmers primarily benefit when there is a slump in the market price.⁸⁸ Moreover they may not benefit exclusively since other ethical schemes may also offer above market prices. Starbucks for example paid on average a 23% premium in 2005, and 37% in 2006, over the New York commodity market price for the coffees it buys worldwide.⁸⁹

Social premiums

57. More significant than the guaranteed fair trade price is the social premium which buyers pay to the fair trade producer organisation or cooperative. This will usually be between 5–30% of the farm gate price and is intended for investment in the business or for community projects.⁹⁰ Decisions about how to spend the premium must be taken collectively by the producer organisation or, in the case of hired labour, an elected body.

58. We were told that premiums have provided significant development benefits to communities where farmers are selling a large part of their produce as fair trade. For example Monjurul Haque of Artisan Hut in Bangladesh told us about the benefits derived from the social premium including medical and education facilities, housing construction and other community development projects.⁹¹ Erica Kyere from the Kuapa Kokoo Cooperative in Ghana told us that they received a premium of US\$150 per tonne of cocoa which is invested back into the communities. This has helped to fund the drilling of about 300 boreholes, and the establishment of seven schools as well as funding links with the medical school in Ghana.⁹² In Dominica the Prime Minister described how they had used the premium for the construction of farm access roads and the purchase of school buses.⁹³ In addition he noted that fair trade had helped create more democratic community leadership and management.⁹⁴ Thus, the benefits derived from the social premiums are not restricted to members of the producer group but can extend to the whole community.⁹⁵

Development of capacity

59. One of the main benefits to producers from fair trade appears to be the development of capacity. This can include knowledge about how international markets work and increasing organisational, business and technical skills. The representative from Kuapa Kokoo told us how Twin Trading Company had helped set up the cooperative in Ghana.⁹⁶ The cooperative has grown from 1,000 members in 1993 to 45,000 in 2007.⁹⁷ Harriet Lamb

88 Ev 77 [DFID]

89 Ev 74 [DFID]

90 Ev105 [Fairtrade Foundation]. The farm gate price is the price available on the farm excluding any transport or delivery costs.

91 Q 90 [Mr Haque]

92 Q 23 [Ms Kyere]

93 Q 26 [Mr Skerrit]

94 Q 22 [Mr Skerrit]

95 Q 122 [Ms Kyere]

96 Q 115 [Ms Kyere]

97 Q 113, 120 [Ms Kyere]

of the Fairtrade Foundation emphasised the role which fair trade plays in encouraging producers to become organised:

“When farmers come together, form an organisation and are then able perhaps to export their crop or move further up the chain, perhaps doing their own coffee washing or whatever it might be, that puts them in a position to obtain pre-finance and bank loans at much more reasonable rates. They can understand the way that markets work and therefore perhaps store their coffee until the price is a bit higher or sell it direct to somebody and get a higher price, or move into organic certification and get a higher price, or move into premium coffee, or resort to different ways to add value to their crop. One can do that only if one is organised.”⁹⁸

Monjural Haque from Artisan Hut described how the retail company People Tree had taught them new skills which enabled them to switch from making local style garments for the domestic market to producing western style garments for international markets.⁹⁹ Such outcomes are consistent with the objectives of DFID’s trade-related capacity-building work, including those of aid-for-trade.¹⁰⁰

60. However the numbers of producers and workers who produce for fair trade markets remains small—approximately one million.¹⁰¹ In addition there are fair trade standards for only a limited range of products. Whilst fair trade does help some disadvantaged producers to access the market, there are many more who could be helped. Thus the overall impact of fair trade on producers is limited by the scale of fair trade in terms of the number of producers involved as well as the range of products for which fair trade standards apply.

61. The benefits of fair trade to producer groups, and often their wider communities, through the social premiums, are clear. Fair trade targets disadvantaged producers who have either been excluded from the export market or who may not be benefiting from it. Fair trade helps to build up their capacity to trade effectively in the market-place and offers a stable income. In this respect it has a positive development impact which reflects some of the objectives of the Government in relation to trade-related capacity-building.

Adding value through branding

62. Fair trade can provide a premium market for products which otherwise would not have one. The Prime Minister of Dominica explained to us how converting banana exports from the Windward Islands to fair trade has been a lifeline to their economies—it has raised standards of living and this in turn has helped maintain social stability.¹⁰² Similarly the loss of a major market for Darjeeling tea exports led many farmers to convert to organic fair trade tea which has sustained the industry.¹⁰³ Both products had previously struggled to

98 Q 6 [Ms Lamb]

99 Q 92 [Mr Haque]

100 Ev 72 [DFID]

101 Ev 76 [DFID]; Ev 133 [Traidcraft]

102 Q 21 [Mr Skeritt]

103 ‘The hottest cuppa in the world’, *The Observer*, 29 April 2007

compete against cheaper larger scale production. What fair trade has provided to Caribbean bananas and Darjeeling tea is a third party mark or brand—the FAIRTRADE mark—which adds something of value to the product.¹⁰⁴

63. We also assessed another form of branding—premium branding—in relation to the Ethiopian Intellectual Property Office’s quest to trademark three speciality coffees—Harrar, Sidamo and Yigarcheffe—produced only in Ethiopia. The application had met with opposition from the US National Coffee Association (NCA). Starbucks, a member of the NCA, also expressed its opposition to the proposal and suggested that geographical certification was a better option.¹⁰⁵ After much bad publicity Starbucks rescinded its opposition to Ethiopia’s trade-marking proposal.¹⁰⁶ Subsequently in May 2007 Starbucks signed a new licensing, distribution and marketing agreement with the Ethiopian government which “recognised the importance and integrity of Ethiopian speciality coffees.”¹⁰⁷ The details of the agreement are not yet available.

64. Starbucks insisted that in suggesting geographical certification for Ethiopian coffees they had the interests of Ethiopian coffee farmers at heart. Starbucks is a company which prides itself on its social consciousness and its collaborative relationships with farmers.¹⁰⁸ Yet when we asked Douglas Holt, Professor of Marketing at the Oxford Said Business School, if he thought Starbucks was interested in helping Ethiopian coffee farmers he commented:

“if they were, they would be supporting this trademark case because it is an innovative business strategy by the Ethiopians that has extraordinary potential if it is done right. If you are truly a champion of commodity producers, you will be helping to innovate.”¹⁰⁹

65. This type of premium branding can be extremely beneficial to producers because it allows them to capture a greater percentage of the profits from their products. **If Ethiopia is allowed to trademark its speciality coffees in the US, it would then have the potential to add significant value to its product. Such innovative strategies should be encouraged by multinational companies.**

Impact on consumers

66. DFID points out that fair trade has made an important contribution to raising awareness among consumers about development and ethical trade issues.¹¹⁰ Moreover this awareness can create pressure for changes in favour of poor countries.¹¹¹ Starbucks supported the view that the Fairtrade Foundation had done an extraordinary job in raising

104 Q 202 [Prof Holt]

105 Q 41 [Ms Taylor]

106 Q 42, 47-51, 53 [Ms Taylor]

107 “Starbucks and Ethiopia get together over coffee”, *The Guardian*, 4 May 2007.

108 Q 54 [Ms Taylor]

109 Q 201 [Mr Holt]

110 Ev 71 [DFID]

111 Ev 75 [DFID]

awareness, especially in the UK, and that consumers were increasingly inquisitive about the products they consumed.¹¹² While increased awareness of ethical issues does not always translate into changes in consumption patterns, there has been a steady increase in fair trade sales in the UK.¹¹³

67. According to the Fairtrade Foundation this demonstrates that price is not the only concern on people's minds when they go to the supermarket.¹¹⁴ Mike Barry of Marks & Spencer commented that the FAIRTRADE mark gave customers certainty about the origins of the product in the context of many different brands. He considered that there was a high level of trust in the FAIRTRADE brand.¹¹⁵

Fair trade towns

68. Shared Interest told us that there are many ways to raise awareness and commented in particular that:

“The fair trade towns campaign has proved highly successful at spreading the word among members of the UK population and the Fairtrade Foundation's counterparts in Europe have also expressed an interest in this type of campaign and are looking to roll this out themselves. The Fair Trade Scotland and Fair Trade Wales campaigns are now mobilising large numbers of fair trade consumers and support for initiatives such as these will facilitate achievement of the Fair Trade Nation criteria and hence increased awareness and sales.”¹¹⁶

The Fair Trade Towns campaign has been particularly effective in raising awareness among local communities. There are currently 222 towns that have been awarded fair trade status, with a further 250 towns working towards that goal.¹¹⁷ In addition both Wales and Scotland have plans to become fair trade countries. **The fair trade towns campaign has been extremely successful and we commend Wales and Scotland on their initiatives to become fair trade nations. That communities and nations are willing to engage with fair trade to this extent demonstrates the success of fair trade awareness-raising campaigns as well as growing interest in development issues.**

Changing company practice

69. As discussed in Chapter 2, increasing numbers of mainstream supermarkets and shops, led by the Co-operative, are now selling fair trade products. Some have transferred whole product ranges to fair trade. In making these changes retailers have invested in helping their existing suppliers become fair trade certified. These additional investment costs have not been passed on to the consumer. Sainsbury's told us that they “aim to be genuine partners with these suppliers, encouraging them to follow our best practice and supporting

112 Q 75 [Mr Burrows]

113 Fairtrade Foundation, TNS Omnimas, Topline Results, April 2007.

114 Q 10 [Ms Lamb]

115 Q 55 [Mr Barry]

116 Ev 177 [Shared Interest Society Ltd]

117 Ev 93 [Fairtrade Foundation]

them in their efforts to maintain high ethical standards.”¹¹⁸ Moreover its move in the banana sector shows a “recognition that sustainable social and environmental conditions in producer countries do not necessarily equate to decreases in profits and market share.”¹¹⁹

70. Douglas Holt, of the Said Business School, considered that UK retailers appeared to be competing to advertise their ethical credentials and out-perform their rivals.¹²⁰ However some supermarkets have gone further than many multinationals which only produce one or a limited number of fair trade products. Nestlé for example has only one fair trade coffee product. When asked if the company was prepared to offer more fair trade products Hilary Parsons, Head of Corporate Social Responsibility, explained that fair trade was one part of a larger commitment to ethical sourcing and that they also supported other schemes such as the Rainforest Alliance and Utz.¹²¹

71. Fair trade, and the success of fair trade labelling, has led companies to think about the supply chains of the wider range of products they sell. Despite the limited volume of fair trade products as a percentage of total sales, the concepts of a fair price and a fair exchange have begun to enter the mainstream. Thus an important impact of fair trade may in fact be in catalysing other traders to improve their social performance.¹²²

72. This does not mean that all is well in the UK corporate sector or that there is not more that could be done. For example supermarkets all support Fair Trade Fortnight, but the Fairtrade Foundation reports that promotional space and material is paid for by fair trade suppliers rather than the supermarkets.¹²³ Additionally, because UK supermarkets purchase a large percentage of some developing countries’ exports, their purchasing practices have the potential to impact significantly on livelihoods in these countries.¹²⁴ As discussed in the following section, we are concerned that some supermarkets may be exploiting their dominant position in developing country markets.

73. Whether or not companies are involved in fair trade, we believe that they should all be engaged in a process of ensuring their supply chains are socially sustainable. Companies need to be particularly aware of the impact of their purchasing policies on small producers. Fair trade offers an excellent means of ensuring purchasing has a positive impact in the categories where fair trade standards and products are available.

The Ethical Trading Initiative

74. In the UK, the Ethical Trading Initiative (ETI), set up in 1998, seeks to identify and promote good practice in the implementation of International Labour Organisation (ILO) core labour standards including the monitoring and independent verification of these

118 Ev 115 [Sainsbury’s plc]

119 Ev 143 [Banana Link]

120 Q 205 [Prof Holt]

121 Q 130 [Ms Parsons]

122 Anne Tallontire, “Challenges facing fair trade and ethical sourcing.”

123 Ev 86 [Divine Chocolate]

124 Ev 139 [ActionAid]

standards. DFID told us that the ETI provides a good example of how trade unions and NGOs have successfully placed pressure on UK companies to ensure decent working conditions for the people who produce the goods they sell. According to DFID the ETI is an example of “the private sector, civil society and the Government working together to improve labour standards through responsible sourcing.”¹²⁵

75. DFID provides a significant part of the running costs of the Ethical Trading Initiative and this has raised some concerns among NGOs. Traidcraft, for example, argues that, while the work of the ETI is valuable, it is the companies themselves who are benefiting from it and that the Government should not be funding the private sector to practise corporate social responsibility. Traidcraft also contends that the results of the 10 year assessment of the ETI were not outstanding and questions were raised about its impact on poverty reduction. Given the ambiguous results of the assessment, Traidcraft considers that DFID should be more demanding of the Ethical Trading Initiative.¹²⁶

76. The Trades Union Congress (TUC) comments that the ETI has become the leader in the ethical trading field, and that one of its major contributions, along with fair trade, has been the collaborative development of credible systems of workplace social auditing.¹²⁷ However the TUC also cautions that “few social auditors yet have the skill to detect indirect discrimination, many do not understand what does and does not constitute child labour.”¹²⁸ Moreover they add that only where free trade unions are present is it possible to guarantee that workers’ rights have been respected. Thus products made in China, where freedom of association is impossible, cannot be described as ethically or fairly traded.¹²⁹ Similarly it is clear to us that as yet there are insufficient guarantees in place in the cocoa industry to ensure that child and child-slave labour are not being used in the Ivory Coast.¹³⁰

77. A report from the NGO War on Want revealed poor working conditions in garment factories in Bangladesh supplying high street shops such as Primark, Asda and Tesco.¹³¹ When we questioned Tesco about War on Want’s findings they assured us these had been fully investigated with unannounced visits to the workplaces and that they “were not able to find any evidence to support the claims that were made and neither were the third party assessors.”¹³² We subsequently received a letter from War on Want stating that in fact Tesco had made no such investigations because War on Want had not revealed to Tesco, for confidentiality reasons, which factories they were referring to:

“Tesco claim they have done independent audits that give them the all clear. This is a completely disingenuous claim for Tesco to make considering we didn’t disclose

125 Ev 81, 82 [DFID]

126 Ev 137 [Traidcraft]

127 Ev 126 [TUC]

128 Ev 126 [TUC]

129 Ev 127 [TUC]

130 Q 139-144 [Ms Parsons]

131 War on Want, *Fashion Victims: the true cost of cheap clothes at Primark, Asda and Tesco*, December 2006.

132 Q 171, 178 [Ms Reynolds]

which factories we had targeted and they had refused to meet us to discuss our findings.”¹³³

78. Tesco has also refuted claims made by ActionAid in its report, *Rotten Fruit*, about the working conditions for South African fruit pickers.¹³⁴ Tesco told us they have not seen any evidence which corroborates the allegations which were made.¹³⁵ Nevertheless, as a result of the Report, Tesco has set up a forum comprising representatives of the South African Government, workers, suppliers and a partner organisation to ActionAid, to work out how best to respond to the concerns.¹³⁶ **We believe that the largest supermarkets in the UK should be leading the way in corporate social responsibility and setting an example for smaller competitors. The performance of some large retailers in this regard falls below standards we consider acceptable.**

79. If different companies understand compliance with ILO core standards differently, and social auditing guarantees are inadequate, the Ethical Trading Initiative is in danger of being seen as a weak approach to corporate social responsibility. This would be a shame since the Initiative is a good one. It is very easy for companies to advertise to the public that they are members of the Ethical Trading Initiative without the public having any knowledge of what this means in practice for workers abroad. Such disparities should be monitored. **We question whether the Government is doing all it can to make the Ethical Trading Initiative (ETI) a credible one which genuinely promotes corporate social responsibility. It should not be the responsibility only of NGOs to investigate and monitor the behaviour of UK companies abroad. As we suggested in our report on Private Sector Development, the ETI could be expanded into a monitoring mechanism that ensures more independent scrutiny of companies. The Government should encourage the Ethical Trading Initiative board to investigate the potential for the Initiative to be enhanced in this way.**

133 Ev 187 [War on Want]

134 ActionAid, *Rotten Fruit: Tesco profits as women workers pay a high price*, 2005.

135 Q 180 [Ms Reynolds]

136 Q 181 [Ms Reynolds]

5 Challenges and limits of fair trade

Funding, scaling-up and product coverage

80. At the beginning of our inquiry the Fairtrade Foundation told us that it was applying for funding from DFID and other donors, as well as from the private sector, for the period 2008–2013. The Foundation is seeking a grant of £50 million over five years. It hopes that DFID will take a lead role in this and encourage other donors and the private sector to contribute. The Fairtrade Foundation told us that it currently funds 75% of its activities through the licence fees which retailers pay to use the certification system. The Foundation wanted to maintain a degree of financial independence from retailers to preserve the public's trust in their brand and in order to be able to continue to work with disadvantaged producers.¹³⁷

81. The Fairtrade Foundation argues that fair trade is at a crossroads. While consumer demand is growing steadily, fair trade has reached a limit in terms of financial capacity. In order to meet the growing demand fair trade needs to scale up its activities. The Foundation intends to use the funding to enable an expansion in fair trade activities both in terms of increasing the range of products which are certified fair trade, and involving more producer groups in fair trade, including hard to reach poorer producers and workers.¹³⁸ The Foundation would also like to encourage new and emergent markets for fair trade products in developing countries such as South Africa, India and Mexico which would strengthen producers' capacity to trade internally.¹³⁹

82. The Fairtrade Labelling Organisation (FLO), of which the Fairtrade Foundation is a member, has also put together a funding bid for €18 million over two three-year periods. This proposal will enable FLO to become more financially independent and to scale up the activities and impact of fair trade. In particular FLO aims to double the number of disadvantaged producers and workers in the South benefiting from fair trade to three million.¹⁴⁰

Increasing the range of fair trade products

83. The Fairtrade Labelling Organisation at present has certification only for a limited range of products. These are mainly in the food sector—for example tea, coffee, honey, sugar, bananas and oranges. Non-food certification schemes also exist for products such as flowers, cotton and wine. The Fairtrade Foundation believes that there is a market for a much wider range of products. However the Foundation points out that developing product standards for fair trade is both time-consuming and expensive. They explained that if a commercial company were to develop a new sub-brand of chocolate already on the

137 Q 17 [Ms Lamb]

138 Fairtrade Foundation, *Draft concept: Investment in the future of fair trade*.

139 Q 17 [Ms Lamb]

140 FLO, *Strategic fair trade funding programme*.

market it might spend £10–15 million on marketing the product.¹⁴¹ The Foundation does not have access to this level of funds and is therefore disadvantaged.

Fair trade clothing

84. One sector where new fair trade standards could be developed is in the manufacture of clothing. While companies such as Marks & Spencer, Sainsbury's and Tesco will all sell a range of fair trade clothing by the end of 2007, in fact it is only the cotton material which is fair trade. There are currently no fair trade standards for the manufacture of garments in factories.¹⁴² The company People Tree, which is registered with the International Fair Trade Association (IFAT), does produce a range of fair trade clothing under IFAT standards using fair trade organic cotton. They ensure that labour represents a large percentage of the cost of their end product by using traditional craftspeople to spin, hand-weave, dye, embroider and otherwise embellish the products.¹⁴³ In addition companies such as Artisan Hut in Bangladesh own a share in the company People Tree. People Tree estimate that their workers earn 30–50% more than they would through conventional trade.¹⁴⁴

85. War on Want's report, *Fashion Victims*¹⁴⁵ and ActionAid's report, *Who Pays*,¹⁴⁶ both identify poor working conditions in factories supplying garments to British retailers most of whom are members of the Ethical Trading Initiative (ETI). Written evidence from ActionAid describes some of the buying practices of UK supermarkets.¹⁴⁷ As discussed in Chapter 2, the practical application of written standards often falls short. More robust ways of monitoring working conditions are needed. **The current Competition Commission inquiry into supermarkets offers an opportunity to investigate whether their business practices undermine attempts to improve ethical standards in supply chains in developing countries.**

86. According to People Tree there have been some improvements in the garment industry:

“consumer pressure has pushed conventional manufacturers into improving their standards of corporate social responsibility in an industry renowned for its abuse of health and safety standards, poor working conditions, payments below national minimums, forced overtime and trade terms and increasingly short lead times that promote exploitation of people and the environment.”¹⁴⁸

141 Q 17 [Ms Lamb]

142 Q 97 [Ms Minney]

143 Q 93 [Ms Minney]

144 Q 94 [Ms Minney]

145 War on Want, *Fashion Victims, The true cost of cheap clothes at Primark, Asda and Tesco*, 2006.

146 ActionAid, *Who Pays? How British supermarkets are keeping women workers in poverty*, 2007.

147 Ev 139 [ActionAid]

148 Ev 112-113 [People Tree]

Marks & Spencer commented that fair trade cotton certification has helped the company provide a higher degree of traceability “from the fibre mill back into the field” which it had been unable to effect alone.¹⁴⁹ However the creation of fair trade standards for the manufacture of clothing would require a high level of investment in the supply chain which would not see returns in under five years.¹⁵⁰ To date there has been little donor support for fair trade garment manufacturing, even though the clothing industry is a major employer of low-paid workers in developing countries and the creation of fair trade standards could help raise the level of corporate responsibility across the sector.¹⁵¹

87. The garment industry is one which involves large numbers of low-paid workers in developing countries and is a sector where improved standards would be particularly beneficial. The development of fair trade certification for the manufacture of fair trade cotton garments will assist in ensuring higher standards of traceability along the supply chain as well as better working conditions for garment workers. Fair trade standards will not, on their own, improve working conditions for the majority of garment workers but could provide a model of how an ethical garment industry can work and could contribute to raising standards across the wider industry. This is a specific area where we believe DFID could make a useful contribution and we recommend that it actively seeks out projects in this sector where it can support the private sector.

Involving more producers

88. In addition to investing in the development of new product standards, fair trade organisations also have to ensure that producers can meet these standards. There has been a significant increase in the number of certified fair trade groups in Africa in recent years from 42 in 2002 to 137 in 2005. However the biggest growth has taken place in South Africa, from nine in 2003 to 43 in 2005.¹⁵² In the most developed African economy with relatively good infrastructure and transport links, it is easier to establish and monitor standards with organised producer groups. Similarly in the Windward Islands, also relatively more developed, and with a long history of trade unions, 90% of banana farmers are now fair trade certified.¹⁵³ In contrast many of the poorest countries in Africa, for example Sierra Leone, do not have any fair trade certified groups, while Benin, Togo and the Democratic Republic of Congo each only have one.

89. Assessments of fair trade have shown that it has often benefited farmers who are not the poorest, who are able to become organised, and who can meet fair trade standards and pay the relevant producer fees.¹⁵⁴ The most remote, poor, small farmers in fragile economies have largely been excluded. One study comments that:

149 Q 77 [Mr Barry]

150 Q 96 [Ms Minney]

151 Ev 112 [People Tree]

152 Ev 102 [Fairtrade Foundation]

153 Ev 91 [Fairtrade Foundation]

154 Q 278 [Mr Chandler]

“whilst fair trade aims to target disadvantaged producers in accessing the market, there are evidently many deserving cases of producers that could be linked to fair trade but are not, as they have not heard of fair trade, are too remote from organisations linked to fair trade buyers, or are producing something for which there does not appear to be a fair trade market.”¹⁵⁵

Marks & Spencer suggested that there was a role for the Government in supporting fair trade organisations to work with the poorest producers and ensure they have fair opportunities.¹⁵⁶ The Fairtrade Foundation indicated that they would like to expand their work in countries such as Mozambique, Malawi and Sierra Leone.¹⁵⁷ **We believe that fair trade should become more pro-poor and help the most disadvantaged producers in the poorest countries. We recommend that this pro-poor focus becomes a key area for future Government funding for fair trade.**

155 Anne Tallontire, “Challenges facing fair trade and ethical sourcing”, p 5.

156 Q 278 [Mr Barry]

157 Q 12 [Ms Lamb]

6 The role of donors

Raising Awareness

90. DFID has provided funds for raising awareness of development issues in the UK. These are not restricted to fair trade organisations although about £1 million has so far been allocated to fair and ethical trading initiatives in this area. DFID told us that, in part as a result of such awareness-raising activities, the growth in the fair trade sector has been mirrored by a significant shift in mainstream business practices towards improved corporate social responsibility.¹⁵⁸ The Fairtrade Foundation writes that:

“Donor funding has been absolutely critical in enabling the Fairtrade Foundation to invest in creating market demand for fair trade and has thereby brought about a rapid expansion in opportunities for producer groups to sell into the UK. As a direct result of its donor grants, the Foundation has been able to mount a vigorous campaign to raise public awareness of the FAIRTRADE mark resulting in a considerable expansion in consumer demand.”¹⁵⁹

The Divine Chocolate Company told us how useful the Development Awareness Funds had been in terms of benefiting both producers in developing countries and consumers in the UK. The £200,000 they received enabled them to create an education plan, supported by BBC television, which sent education packs into schools. They also created a website for children.¹⁶⁰

91. DFID told us that its own approach was to “encourage many flowers to bloom” and to support many different initiatives as they sought to raise awareness across supply chains about fair, ethical and sustainable trade.¹⁶¹ DFID has provided considerable support to awareness-raising through its grants to the Fairtrade Foundation, support to the ETI and engagement of Ministers on fair and ethical trade issues.¹⁶² However DFID has not taken the initiative to bring together practitioners in one of its funded areas with those in another. **As part of its role in raising awareness of development DFID should consolidate its learning and create a formal mechanism to promote an exchange of information between the fair trade movement, mainstream companies and donors.**

Labelling

92. It is clear to us that consumers need to be given full information. The Development Committee of the European Parliament recommended that:

“the Commission and Member States take appropriate measures to ensure that consumers have access to all the information they need in order to make informed

158 Ev 75 [DFID]

159 Ev 89 [Fairtrade Foundation]

160 Q 108 [Ms Tranchell]; Ev 87 [Divine Chocolate]

161 Q 287 [Mr Thomas]

162 Ev 82 [DFID]

choices; and believes that consumers must have the right to access quickly product information, which must be easily comprehensible and presented in a transparent way.”¹⁶³

This call becomes more relevant as consumers become increasingly interested in reducing their carbon footprint. In a recent speech on climate change, Hilary Benn said that inadequate information for consumers on food miles risks harming agricultural exports from Africa if consumers begin to choose products made locally.¹⁶⁴ Consumers need to be able to weigh up easily the pros and cons of the different products that they purchase.

93. Statistics from the Fairtrade Foundation indicate that the FAIRTRADE mark is recognised by 57% of the population and that it is associated with a better deal for farmers.¹⁶⁵ The FLO note that recognition of the fair trade label in many European countries is over 60%.¹⁶⁶ However at the same time as fair trade is becoming widely recognised, many companies have their own private corporate responsibility schemes, while others join established schemes such as Rainforest Alliance. As noted in Chapter 2 these may not have the same objectives as fair trade, but we are not convinced that consumers can easily distinguish between them. **We agree with the European Parliament Development Committee’s recommendation that product information on the conditions of production should be displayed in such a way as to ensure that it is easily understood.**

94. The Department for Environment, Food and Rural Affairs (Defra) has carried out a study on informing consumers about different environmental labels including funding Newcastle Business School to assess the carbon footprint of a basket of groceries to help inform new eco-labelling.¹⁶⁷ Hilary Benn has expressed his hope “that we can move to products being labelled with two things—information on their carbon cost, and information about the livelihoods of poor people in developing countries who have produced them.”¹⁶⁸ **The FAIRTRADE mark has achieved a significant level of recognition in the UK but only covers a limited range of products. There are many other credible certification schemes with social and environmental objectives. Consumers should be given sufficient, and easily accessible, information about products made available under these schemes to enable them to make informed choices. We recommend that the Government commission research on the feasibility of creating a labelling scheme which gives consumers information on the share of the retail price that producers receive for a product. Supermarkets already know how much farmers are paid for each kilogram of fruit or vegetable they sell, and companies know how much they pay per kilogram of coffee, or for each tee-shirt. Passing this information on to consumers should not be a difficult task.**

163 European Parliament, *Fair trade and development*, 2006.

164 *Climate change and poverty*, Speech by Hilary Benn, Brussels, 17 April 2007

165 Fairtrade Foundation, TNS Omnimas, Topline results, April 2007.

166 FLO, *Strategic fair trade funding programme*, March 2007.

167 Q 279 [Mr Thomas] and *Defra funds carbon footprint study*, 2 April 2007, www.foodmanufacture.co.uk

168 *Climate change and poverty*, Brussels, 17 April 2007.

Public procurement

95. The principal government guidelines on ethical purchasing are contained in the Office of Government Commerce (OGC) note on '*Social Issues In Purchasing*' which outlines how to take account of social issues, including fair trade, in public procurement, while remaining within EC public procurement rules. According to DFID there are no legal reasons why public authorities should not include fair and ethical trade criteria in their procurement practices:

“Current European procurement directives allow governments to decide to include social and environmental criteria in purchasing procedures. Similarly, the UK Office of Government Commerce guidelines do not prevent public bodies such as government departments, schools or local authorities from specifying fair and ethical goods being supplied as part of a supply contract. However, it has to be recognised that a budgetary trade-off will exist where there are significant price differentials between fair and ethical trade goods and conventional alternatives.”¹⁶⁹

96. In practice it appears that some local authorities consider the OGC interpretation of EC procurement rules restrictive, and there is uncertainty about whether or not it is possible to specify fair trade products during tendering.¹⁷⁰ Evidence from the Ethical Trading Initiative claims that “far from exploring the full scope for promoting ethical public procurement, these guidelines are so cautious and negative in tone as to actively discourage meaningful initiatives.”¹⁷¹ The ETI also notes that the interpretation of EU public procurement rules is much less restrictive in France and Belgium, particularly with regard to incorporating compliance with ILO core conventions.¹⁷² DFID told us they had started a review of the guidance.¹⁷³

97. If companies and public bodies are finding it difficult to interpret the Office of Government Commerce guidance, and if other EU member states are interpreting EC procurement rules differently, there is obviously a lack of clarity which the Government must address. We are pleased that DFID has made a start on this and look forward to the review of the guidelines. We expect to be advised of the probable end date for such a review.

98. The lack of clarity in the OGC guidance may account for the fact that, according to DFID, only a few Government Departments make available a range of fair trade products.¹⁷⁴ In addition there is no collated data on the spending of Government Departments on fair trade. DFID has estimated that fair trade goods accounted for £70,000 of its total expenditure on food and drink in 2005–06. DFID has now decided to write to

¹⁶⁹ Ev 83 [DFID]

¹⁷⁰ Ev 96 [Fairtrade Foundation]

¹⁷¹ Ev 165 [Ethical Trading Initiative]

¹⁷² Ev 166 [Ethical Trading Initiative]

¹⁷³ Q 229 [Mr Thomas]

¹⁷⁴ Ev 76 [DFID]

Government Departments to see what, if anything, they are doing to increase procurement of fair trade products.¹⁷⁵

99. We are glad to note that the House of Commons Refreshment Department spent £45,000 buying-in fair trade products between April 2006 and January 2007 and a further £40,000 on souvenir products sourced under various ethical initiatives.¹⁷⁶ Both Houses of Parliament make available fair trade tea, coffee and chocolate in restaurants, bars and cafeterias.

100. **Government Departments seem to be less advanced than public authorities and the general public in the procurement of fair trade products. We believe the Government should be leading by example in this regard. We recommend that DFID be much more proactive in encouraging other Government Departments to procure fair trade goods.**

Level of funding

101. In addition to raising awareness and encouraging purchasing practices, primarily activities related to the consumption of fair trade products, the Government has a role to play in terms of encouraging the production of fair trade products. The 2005 Commission for Africa recommended that:

“Increased funding from developed countries would help increase the participation of producer groups in fair trade. The demand for products carrying the fair trade mark is growing, but investment is needed in building the capacity of producer groups in Africa to meet the rigorous demands of developed country markets.”¹⁷⁷

102. As discussed in Chapter 5, the Fairtrade Foundation and the Fairtrade Labelling Organisation are both seeking donor funding in order to develop new products and to increase the number of producers who benefit from fair trade. Both proposals envisage a number of donors making contributions along with the private sector over a five year period. The UK Government has to date invested relatively modest amounts of funds in fair trade. The returns on this investment have arguably been high. Fair trade has grown more quickly than expected in terms of product coverage and consumer demand. Supermarkets cannot keep pace with the demand for an increased variety of fair trade products.¹⁷⁸

103. The Government has invested £150 million over the past ten years to help British farmers switch to organic production. The sums requested by the Fairtrade Foundation and the Fairtrade Labelling Organisation in comparison seem small.¹⁷⁹ The decision on whether to fund one or more of these proposals is a matter for DFID after detailed consultation with the relevant organisations. We have already discussed the value of orientating fair trade to reach more of the poorest farmers. **We believe that there is a**

175 Q 330-332 [Mr Thomas]

176 HC Deb, 8 January 2007, col 22.

177 Commission for Africa, *Our Common Interest*, 2005, p 273.

178 Q 77 [Mr Barry]

179 Ev 93 [Fairtrade Foundation]

crucial role for the Government to play in helping the poorest producers access international markets and that fair trade is one means of doing this. We recommend that DFID encourage and fund proposals for the expansion of fair trade where such proposals demonstrate that the outcomes would be beneficial to the very poorest farmers.

104. DFID says it is working to encourage the private sector to invest in innovative supply chains which deliver more returns to small scale farmers and farm workers.¹⁸⁰ We regard this as a valid policy objective and one which should be vigorously pursued. The Fairtrade Foundation maintains that its private sector partners are willing to invest in the development of new product ranges but that they would like a clear signal from the Government that it recognises the value of fair trade as a tool for development. Both Marks & Spencer and Sainsbury's said that they believe the Government should complement the role of the private sector. Marks & Spencer told us that retailers were already contributing through the licence fee, the fair trade price premium and by developing markets in the UK.¹⁸¹ Sainsbury's invested over £4 million in their conversion to fair trade bananas in a single year.¹⁸² These investments demonstrate the commitment of the private sector which should be further encouraged to invest in the development of an expanded range of fair trade products with the support of the Government.

105. Given that fair trade already has the commitment of major UK companies, it provides an easy conduit for engaging the private sector in development by investing in innovative supply chains with a focus on small scale farmers and workers. We recommend that the Government regularly reassess the balance between levels of funding from the private sector and from donors to the Fairtrade Foundation to determine how Government support can best add value to the fair trade movement and its scope, in the context of a rapidly changing market-place.

180 Ev 82 [DFID]

181 Q 75 [Mr Barry]

182 Q 316 [Mr Thomas]

7 Conclusion

106. The focus on fair trade should not distract from efforts to change the way in which the international trading system operates through the WTO. We have made recommendations to the Government about this in our reports on the WTO and the Doha Development Agenda and on EU development and trade policies.¹⁸³ These recommendations still stand and we continue to hope for a favourable and pro-development outcome to the Round. However in the absence of a development agreement in the WTO, and given that the impact of any changes agreed in the WTO will take some time to take effect, fair trade offers another means of assisting poor farmers to access international markets. This objective should be a Government priority.

107. We accept that there is no single answer to making trade work for the poorest and that only a range of solutions will help. We expect the Government to continue to seek new and innovative ways of helping poor producers access international markets. We would particularly like to see a greater pro-poor focus in the Government's approach to trade and development built on a process of lesson-learning from various funding initiatives. Fair trade has a growing market, in the UK, in other EU member states, and potentially in some developing countries. The potential to help more disadvantaged producers is there and could, with some vision, be harnessed. Fair trade organisations have an important role in this regard, but will need assistance and leadership from donors, including DFID, as well as from the private sector.

108. Consumers have already shown that they are interested in development and increasingly in the ethics of production. The Government must lead the way in making information easily available to consumers. We are also encouraged by the leading role of some retailers in going beyond minimum standards and urge those lagging behind to follow suit.

¹⁸³ International Development Committee, Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730, and Fifth Report of Session 2006-07, *EU Development and Trade Policies: An update*, HC 271.

Recommendations

1. The rise in ethical labels demonstrates that both retailers and consumers are interested in ethical sourcing. It is important that fair trade organisations do not assume they have a monopoly on this although fair trade can be said to represent a gold standard in terms of trading relations with producers. With many different schemes pursuing different objectives it is vital that consumers are given the correct information in order to make informed choices. (Paragraph 15)
2. We believe that fair trade labels have helped consumers to be reassured about the way in which fair trade products are traded. This is an important achievement for which the Fairtrade Foundation in the UK and the Fairtrade Labelling Organisation internationally are to be commended. (Paragraph 20)
3. It is right that questions should be asked about the engagement of big companies in fair trade. It is relatively easy for them to tick the “fair trade box” for specific products without necessarily changing the way in which they do business with most of their other developing country suppliers. Fair pricing should not be restricted to a few beneficial but limited niches for either supermarkets or multinationals. We were particularly impressed with the efforts of Marks & Spencer to engage directly its producers and to use the FAIRTRADE mark for those products where direct engagement is not possible. (Paragraph 32)
4. The drive for cheaper produce is neither desirable nor sustainable if such low prices involve the exploitation of labour abroad. We accept that developing countries have a competitive advantage in cheaper labour and they should be able to take advantage of this, but we do not accept that workers should be paid less than the national minimum wage where one exists. Nor should fundamental labour rights be dependent on levels of economic development. (Paragraph 33)
5. The Government has acknowledged the achievements of the fair trade movement and has made public statements in support of it. It has also provided funding for specific projects and initiatives. However, the Government’s approach tends to confuse projects specifically concerned with promoting the fair trade movement with other initiatives associated with more ethical trade and respect for international labour standards. There is merit in supporting a number of different initiatives that are effective in reducing poverty. The Government could, however, do more to promote the fair trade movement specifically if it was clearer in recognising the different contributions that different kinds of initiatives can make. One way of doing this would be to assign a senior DFID official to be responsible for fair trade within Government and for this responsibility to be properly publicised and supported. This may also help to encourage greater coordination in the promotion of fair trade through public procurement, as we recommend in Chapter 6. (Paragraph 40)

6. Development Awareness Funds have been extremely useful to the fair trade movement and have contributed to continuing growth in awareness of fair trade in the UK. This level of awareness will have knock-on effects in other sectors as consumers begin to demand a greater level of responsibility from companies and retailers. It could also act as a catalyst for greater support for the work of DFID in general. But Development Awareness Funds could be better publicised and the application process made less complicated, especially for those who are applying for the first time or who have no experience of working with DFID. We recommend that DFID address these two issues. (Paragraph 43)
7. We consider that Challenge Funds are a good means of supporting innovation in the private sector and believe that the Africa Enterprise Challenge Fund is a useful initiative which has the potential to improve trade capacity and competitiveness in Africa. We expect DFID to update us on progress in establishing this Fund. (Paragraph 49)
8. The Government's approach to funding ethical and fair trade projects does not take advantage of opportunities to learn from previous experience and at present there is no formal mechanism for doing this. The lessons learned from the various individual initiatives which DFID has funded should be drawn together and best practice shared. (Paragraph 51)
9. We believe there should be increased systematic analysis of the impact of fair trade on poverty and would urge DFID to contribute to this process. (Paragraph 53)
10. In the context where some supermarkets are putting pressure on suppliers to reduce prices below the cost of basic wages, or when commodity prices are low, the guaranteed fair trade price is extremely valuable for farmers. (Paragraph 55)
11. The benefits of fair trade to producer groups, and often their wider communities, through the social premiums, are clear. Fair trade targets disadvantaged producers who have either been excluded from the export market or who may not be benefiting from it. Fair trade helps to build up their capacity to trade effectively in the market place and offers a stable income. In this respect it has a positive development impact which reflects some of the objectives of the Government in relation to trade-related capacity-building. (Paragraph 61)
12. If Ethiopia is allowed to trademark its speciality coffees in the US, it would then have the potential to add significant value to its product. Such innovative strategies should be encouraged by multinational companies. (Paragraph 65)
13. The fair trade towns campaign has been extremely successful and we commend Wales and Scotland on their initiatives to become fair trade nations. That communities and nations are willing to engage with fair trade to this extent demonstrates the success of fair trade awareness-raising campaigns as well as growing interest in development issues. (Paragraph 68)
14. Whether or not companies are involved in fair trade, we believe that they should all be engaged in a process of ensuring their supply chains are socially sustainable. Companies need to be particularly aware of the impact of their purchasing policies

on small producers. Fair trade offers an excellent means of ensuring purchasing has a positive impact in the categories where fair trade standards and products are available. (Paragraph 73)

15. We believe that the largest supermarkets in the UK should be leading the way in corporate social responsibility and setting an example for smaller competitors. The performance of some large retailers in this regard falls below standards we consider acceptable. (Paragraph 78)
16. We question whether the Government is doing all it can to make the Ethical Trading Initiative (ETI) a credible one which genuinely promotes corporate social responsibility. It should not be the responsibility only of NGOs to investigate and monitor the behaviour of UK companies abroad. As we suggested in our report on Private Sector Development, the ETI could be expanded into a monitoring mechanism that ensures more independent scrutiny of companies. The Government should encourage the Ethical Trading Initiative board to investigate the potential for the Initiative to be enhanced in this way. (Paragraph 79)
17. The current Competition Commission inquiry into supermarkets offers an opportunity to investigate whether their business practices undermine attempts to improve ethical standards in supply chains in developing countries. (Paragraph 85)
18. The garment industry is one which involves large numbers of low-paid workers in developing countries and is a sector where improved standards would be particularly beneficial. The development of fair trade certification for the manufacture of fair trade cotton garments will assist in ensuring higher standards of traceability along the supply chain as well as better working conditions for garment workers. Fair trade standards will not, on their own, improve working conditions for the majority of garment workers but could provide a model of how an ethical garment industry can work and could contribute to raising standards across the wider industry. This is a specific area where we believe DFID could make a useful contribution and we recommend that it actively seeks out projects in this sector where it can support the private sector. (Paragraph 87)
19. We believe that fair trade should become more pro-poor and help the most disadvantaged producers in the poorest countries. We recommend that this pro-poor focus becomes a key area for future Government funding for fair trade. (Paragraph 89)
20. As part of its role in raising awareness of development DFID should consolidate its learning and create a formal mechanism to promote an exchange of information between the fair trade movement, mainstream companies and donors. (Paragraph 91)
21. We agree with the European Parliament Development Committee's recommendation that product information on the conditions of production should be displayed in such a way as to ensure that it is easily understood. (Paragraph 93)

22. The FAIRTRADE mark has achieved a significant level of recognition in the UK but only covers a limited range of products. There are many other credible certification schemes with social and environmental objectives. Consumers should be given sufficient, and easily accessible, information about products made available under these schemes to enable them to make informed choices. We recommend that the Government commission research on the feasibility of creating a labelling scheme which gives consumers information on the share of the retail price that producers receive for a product. Supermarkets already know how much farmers are paid for each kilogram of fruit or vegetable they sell, and companies know how much they pay per kilogram of coffee, or for each tee-shirt. Passing this information on to consumers should not be a difficult task. (Paragraph 94)
23. If companies and public bodies are finding it difficult to interpret the Office of Government Commerce guidance, and if other EU member states are interpreting EC procurement rules differently, there is obviously a lack of clarity which the Government must address. We are pleased that DFID has made a start on this and look forward to the review of the guidelines. We expect to be advised of the probable end date for such a review. (Paragraph 97)
24. Government Departments seem to be less advanced than public authorities and the general public in the procurement of fair trade products. We believe the Government should be leading by example in this regard. We recommend that DFID be much more proactive in encouraging other Government Departments to procure fair trade goods. (Paragraph 100)
25. We believe that there is a crucial role for the Government to play in helping the poorest producers access international markets and that fair trade is one means of doing this. We recommend that DFID encourage and fund proposals for the expansion of fair trade where such proposals demonstrate that the outcomes would be beneficial to the very poorest farmers. (Paragraph 103)
26. DFID says it is working to encourage the private sector to invest in innovative supply chains which deliver more returns to small scale farmers and farm workers. We regard this as a valid policy objective and one which should be vigorously pursued. (Paragraph 104)
27. Given that fair trade already has the commitment of major UK companies, it provides an easy conduit for engaging the private sector in development by investing in innovative supply chains with a focus on small scale farmers and workers. We recommend that the Government regularly reassess the balance between levels of funding from the private sector and from donors to the Fairtrade Foundation to determine how Government support can best add value to the fair trade movement and its scope, in the context of a rapidly changing market-place. (Paragraph 105)

List of Acronyms

AECF	Africa Enterprise Challenge Fund
ATO	Alternative Trading Organisation
BLCF	Business Linkages Challenge Fund
CAFÉ	Coffee and Farmer Equity
Defra	Department for Environment, Food and Rural Affairs
DTI	Department of Trade and Industry
ETI	Ethical Trading Initiative
FLO	Fairtrade Labelling Organisation
IFAT	International Fair Trade Association
ILO	International Labour Organisation
NCA	National Coffee Association (USA)
NGO	Non-Governmental Organisation
OGC	Office of Government Commerce
TUC	Trades Union Congress
WTO	World Trade Organisation

Formal minutes

Tuesday 5 June 2007

Members present:

Malcolm Bruce, in the Chair

Hugh Bayley

John Bercow

Richard Burden

Mr Quentin Davies

Ann McKechin

Mr Marsha Singh

Sir Robert Smith

Draft Report (*Fair Trade and Development*), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 108 read and agreed to

Summary agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No 134.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

Several papers were ordered to be reported to the House.

[Adjourned till Thursday 7 June at 10.00 am.]

Witnesses

Tuesday 27 February 2007

Page

Hon Roosevelt Skerrit, Prime Minister of the Commonwealth of Dominica, and **Ms Harriet Lamb, CBE**, Executive Director, Fairtrade Foundation

Ev 1

Ms Sandra Taylor, Senior Vice President, Corporate Social Responsibility, Starbucks Coffee Company, **Mr Cliff Burrows**, Senior Vice President and President, Europe, Middle East and Africa, Starbucks Coffee Company, and **Mr Mike Barry**, Head of Corporate Social Responsibility, Marks & Spencer

Ev 12

Tuesday 13 March 2007

Mr Monjurul Haque, Artisan Hut Bangladesh, **Ms Erica Kyere**, Information and Education Officer, Kuapa Kokoo Limited, **Ms Safia Minney**, Director, People Tree, and **Ms Sophi Tranchell**, Managing Director, Divine Chocolate Limited

Ev 21

Ms Judith Batchelar, Director of Sainsbury's Own Brand, Sainsbury's, **Ms Hilary Parsons**, Head of Corporate Social Responsibility, Nestlé, and **Ms Emma Reynolds**, Government Affairs Manager, Tesco

Ev 29

Tuesday 27 March 2007

Professor Douglas Holt, Said Business School, University of Oxford, and **Ms Sheila Page**, Overseas Development Institute

Ev 40

Mr Owen Tudor, Head, European Union and International Relations Department, Trades Union Congress and **Mr Bert Schouwenburg**, Regional Organiser, GMB London Region

Ev 49

Mr Paul Chandler, Chief Executive and **Mr Michael Gidney**, Policy Director, Traidcraft

Ev 54

Tuesday 17 April 2007

Mr Gareth Thomas MP, Parliamentary Under-Secretary of State, **Mr Owen Barder**, Director, Global Development Effectiveness Division, and **Ms Laura Kelly**, Senior Agriculture and Trade Adviser, International Trade Department, Global Development Effectiveness Division, Department for International Development and **Ms Amanda Brooks**, Director, Trade Negotiations and Development, Europe and World Trade Department, Department of Trade and Industry

Ev 59

List of written evidence

Written evidence submitted by witnesses who also gave oral evidence:

1. Department for International Development	Ev 71
2. Divine Chocolate, Trading Visions, Comic Relief and Kuapa Kokoo	Ev 83; Ev 86
3. Fairtrade Foundation	Ev 88; Ev 104
4. Marks & Spencer	Ev 106
5. Nestlé	Ev 111
6. People Tree	Ev 112
7. Sainsbury's plc	Ev 115; Ev 116
8. Starbucks Coffee Company	Ev 117
9. Tesco Stores Ltd	Ev 122
10. Trades Union Congress	Ev 125
11. Traidcraft	Ev 132

Other written evidence:

12. ActionAid	Ev 138; Ev 141
13. Banana Link	Ev 142
14. Biscuit Cake Chocolate & Confectionery Association	Ev 146
15. Business Action for Africa	Ev 148
16. Cafédirect plc	Ev 153
17. Caribbean Banana Exporters Association	Ev 157
18. Co-operative Group	Ev 159
19. Co-operative Party	Ev 162
20. Ethical Trading Initiative	Ev 164
21. Simon Forster	Ev 168
22. International Institute for Environment and Development	Ev 169
23. Masterfoods UK	Ev 171
24. Progressio	Ev 172
25. Scottish Catholic International Aid Fund	Ev 174
26. Shared Interest Society Ltd	Ev 175
27. The Sustainable Enterprise Research Group	Ev 180
28. Tropical Wholefoods / FM Foods Ltd	Ev 182
29. Twin/Twin Trading	Ev 185
30. War on Want	Ev 187
31. Zaytoun	Ev 188

List of unprinted evidence

Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed. Copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Parliamentary Archives, Houses of Parliament, London SW1A 0PW. (Tel: 020 7219 3074; Fax: 020 7219 2570; Email: archives@parliament.uk). Hours of inspection are from 9.30am to 5.00pm on Mondays to Fridays.

Other papers:

Draft concept: Investment in the future of fairtrade, Fairtrade Foundation, 20 March 2007

Strategic fair trade funding programme, Fairtrade Labelling Organisation, March 2007

Fairtrade impact: summary of studies undertaken since 2003, Fairtrade Foundation, undated 2007

Letter from Trading Visions, 8 May 2007

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2006–07

First Report	DFID Departmental Report 2006	HC 71 (HC 328)
Second Report	HIV/AIDS: Marginalised groups and emerging epidemics	HC 46-I & II (HC 329)
Third Report	Work of the Committee in 2005–06	HC 228
Fourth Report	Development Assistance and the Occupied Palestinian Territories	HC 114 (HC 430)
Fifth Report	EU Development and Trade Policies: An update	HC 271 (HC 622)
Sixth Report	Sanitation and Water	HC 126

Session 2005–06

First Report	Delivering the Goods: HIV/AIDS and the Provision of Anti-Retrovirals	HC 708-I&II (HC 922)
Second Report	Darfur: The killing continues	HC 657 (HC 1017)
Third Report	The WTO Hong Kong Ministerial and the Doha Development Agenda	HC 730-I&II (HC 1425)
Fourth Report	Private Sector Development	HC 921-I&II (HC 1629)
Fifth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 (Cm 6954)
Sixth Report	Conflict and Development: Peacebuilding and post-conflict reconstruction	HC 923 (HC 172)
Seventh Report	Humanitarian response to natural disasters	HC 1188 (HC 229)