



Briefing paper: Fair Trade in an Unfair World?

December 2004



Fair Trade in an Unfair World?

When we open a bottle of wine, enjoy the taste of canned fruit, delight in the beautiful flowers we see in many homes in South Africa, we rarely consider what happens when these products leave our shores – when they become part of an export chain which is determined by trade agreements and policies. We assume that trade is ‘good’ for our economy and therefore ‘good for us’.

In this briefing paper we ask ‘Do poor people and developing countries really benefit from international trade?’ and how do ‘poor friendly’ initiatives such as ‘ethical trade’ and ‘fair trade’ address the imbalance of power and wealth between countries and within countries?

Why should we be concerned about trade policy?

The South African government’s **trade policy** (guidelines for the way trade operates) can make an impact on poverty through the way it influences **growth** (of the country’s wealth) and **income distribution** (how much of this wealth is shared and with whom).

Is it really growth for developing countries?

Many argue that countries that have more **open trade regimes** (allow trade without too much protection), together with good financial management and accountability, have enjoyed higher growth rates than those countries that try and restrict trade.

However, the situation in South Africa is more typical of the experience of developing countries. Negotiations on trade agreements between South Africa and the European Union (EU) were started shortly after South Africa’s

transition to democracy. South African negotiators had to deal with the powerful EU agricultural lobby and expected better concessions because it was the financially weaker party in the agreement. South Africa has had **to liberalise** (open up) more to imports from the EU than it has achieved space for South African exports. The agreement concluded was not what SA had hoped for. Covering about 74% of SA agricultural exports to the EU, it includes products such as certain canned fruits and flowers, cheeses, juices and wines.¹

The problem with liberalisation is that although a developing country can control how fast it opens up to imports it cannot determine by itself how fast its exports grow. This means that South African producers face more foreign competition for local markets yet struggle to achieve their own targets for exports.

Does it improve income distribution?

In fact only a few countries have enjoyed moderate or high growth rates while astonishing numbers have actually suffered declines in living standards. The top fifth of the world’s people – those who live in the richest countries – enjoy 82% of the expanding export trade, while the bottom fifth see barely more than 1%.² Clearly, current trade practices are unfair and skewed to benefit the already rich and powerful nations and their *elites* (privileged).

For improved income distribution and for poor people to benefit from relaxed trade protection there must be **additional support** through more access to land, credit, primary education and easier access to markets.

1. International agreements impacting on South African agriculture – unpublished report 2000.

2. ‘Rethinking liberalization and reshaping WTO’ by Martin Khor. Africa economic analysis 2000.

What is the difference between 'Fair Trade' and 'Ethical Trade'?

Fair trade

Fairtrade labelling originated in the Netherlands in the late 1980s and originally applied only to coffee. It was a specific response to the collapse of the world coffee price, which fell below the cost of production, leading to much suffering for coffee farmers and their families.

UK charities also set up a Fairtrade Foundation, which shares internationally recognised Fairtrade standards with initiatives in 19 countries working together as Fairtrade Labelling International (FLO).

Fairtrade addresses the issue of low prices by guaranteeing that producers receive fair terms and fair prices – however unfair the normal market is. They do this by using the FAIRTRADE mark (label) which applies to specific products that have been purchased by companies for a fair price.

Principles of Fairtrade

Fairtrade's objective is **to increase the income of disadvantaged communities and to increase the choices available to them in relation to food, education, welfare and work.**

Principles followed by Fairtrade organisations are:

- Paying a price that is agreed by the producer and the Fairtrade organisation to be fair – this covers the cost of raw materials and production. When it is the individual's full-time employment, ensuring that a 'living wage' is paid.
- Working with organisations and employers

that explicitly aim to provide benefits for their workers.

- Making a commitment to a long-term partnership with producers, with openness and transparency as part of that relationship.
- Making advance payments and facilitating credit where requested and paying the agreed price at the agreed time.
- Providing assistance to producers to develop new products and gain access to mainstream markets in the north.
- Seeking to ensure that production and trading cause the least possible environmental damage.
- Raising awareness among consumers in the north about the injustice of international trade.

Target groups

Fairtrade works with two main groups. The first is smallholders organised in co-operatives or other organisations with a democratic, participative structure. The second group applies to organised workers whose employers pay decent wages, guarantee the right to join trade unions and provide decent housing where relevant.

At present, 800 000 workers and farmers in the developing world benefit from the better deal that the FAIRTRADE mark guarantees.

Overall approach

Fairtrade works by awarding a 'certification' label to products that meet internationally recognised standards of fair trade.

How it works on the ground

Through an investment fund for development empowering communities and individuals to manage organisations, deal with mainstream business and cope with social circumstances

(strengthening the position of women or working with people with HIV).

Fairtrade also researches and provides export opportunities for groups that would otherwise find it difficult to engage in international trade and comply with the demands of northern producers, e.g. in terms of quantity and quality of goods, timing of deliveries etc.

Market share

Fairtrade can only work if commercial companies are willing to buy from the current 422 Fairtrade certified producers. The Fairtrade Foundation receives regular audit reports from the companies which detail the producers they buy from and the prices paid for products.

Consumers (shoppers) from the north select Fairtrade products in the supermarkets and shops by recognising the label. Label recognition rose by 5% in one year (2002-2003)³ but that does not guarantee increased purchases.

Currently Fairtrade labelling operates in 19 countries, where the 250 products have gained between 1% and 14% of the market share. Sales across the countries that license the FAIRTRADE mark are growing at 20% every year.

Advantages and challenges in this model

- The major advantage of this model is that it addresses the issue of income distribution rather than merely looking at trade growth.
- It also looks at the reality of access to opportunity and creates support for small producers who would otherwise be unable to negotiate a fair price.
- It looks at broader social issues such as gender and HIV/Aids.

Probably the greatest challenges for Fairtrade are that:

- § Many companies producing for the market would prefer to work with a system that improves farm worker conditions but does not increase prices.
- § Consumers are still reluctant to pay higher prices for goods – therefore, the market share remains relatively small.
- § It is dependent on the slow and steady development of worker organisations and a close capacity building partnership with producer groups.

Ethical Trade

The Ethical Trading Initiative (ETI) is a partnership of chain stores/supermarkets, trade unions and non-governmental organisations (NGOs), supported by the UK government.

Principles of ETI

ETI's aim is to ensure that internationally recognised labour standards, in particular fundamental human rights in the workplace, are observed at all stages in the production of chain store goods sold in the UK.

ETI's work is based on standards laid down in conventions agreed under the International Labour Organisation, which have the force of international law once they have been ratified by governments.

These standards are:

- employment is freely chosen: no forced or bonded labour is allowed
- freedom of association and the right to collective bargaining are respected
- working conditions are safe and hygienic

3. Website 'Fairtrade facts and figures' Fairtrade.org.za, April 2004.

- no child labour is allowed
- living wages are paid to all workers
- working hours are not excessive
- no discrimination is practised under any working conditions
- regular employment is provided through formal contracts
- no harsh or inhuman treatment is allowed.⁴

How ETI works on the ground

The ETI promotes the implementation of **codes of conduct**, backed up by monitoring through independent farm and workplace audits.

In the late 1990s research was conducted by **'Women Working Worldwide'** in five developing countries in Asia to find out what workers know about codes of conduct.

Workers were very sceptical about codes being implemented properly, and believe that the main motive of companies in introducing codes is not to protect workers but to protect their corporate image. Their experience has also been that independent strong worker organisations must exist before codes can be effectively implemented.⁵

In 'Gender and Ethical Trade: a mapping of the issues in African Horticulture' Barrientos, Dolan and Tallontire (2001) state that if codes of conduct are to improve employment conditions for the majority female labour force in horticulture, the issues of gender discrimination need to be addressed in the hiring process, as well as unequal pay for equivalent work, lack of access to employment benefits due to the insecure nature of their contracts, sexual harassment, equal opportunities and access to training. Failing this, the potential benefits of codes will be limited to a smaller elite of the permanent and mainly male section of the labour force.⁶

How Ethical Trade has been working in South Africa

An example of an ETI in South Africa is the Wine Industry Ethical Trade Association (WIETA). The association arose out of an ETI pilot project in the wine industry. It is a voluntary association of the many stakeholders in the South African wine industry.

How the members contribute to the initiative

Producers are encouraged voluntarily to embrace these codes of conduct and trade unions are asked to play an important role in creating awareness of the code among their members. Additionally NGOs provide a valuable resource in terms of their expertise, training capacity and research capabilities. The South African government is also a member in ensuring more effective service delivery in under-resourced rural areas.⁷

In South Africa, through WIETA, there has been additional provision in the code to include workers' housing and security of tenure rights.

Progress in SA so far

To date WIETA has conducted 35 audits and received four improvement plans from voluntarily audited cellars, growers and bottling plants. The audits were conducted by South Africans familiar with life in the rural areas. HIV/Aids and gender issues were raised in their recommendations.

The advantages **and challenges of this model:**

- Ethical trade works within existing mainstream trade and aims to improve working conditions for workers already involved in producing goods for sale in the stores of the north. **It does not try to**

4. 'Fair-trade and ethical trade: distinct but complementary' www.ifat.org.

5. 'Company codes of conduct'. An education pack for worker activists. 1998.

6. *Gender and ethical trade*. Barrientos, Dolan, Tallontire, April 2001.

7. WIETA background paper. Website www.wieta.org.za.

change the imbalance of power in the bigger trade picture of prices or distribution of profit.

- Website 'Fairtrade facts and figures' Fairtrade.org.za, April 2004.
- Ethical trade is dependent on an alliance of interests between all the stakeholders in an industry. This is a new and innovative work practice but equal numbers on a board does not translate as equal power in terms of skills and resources. **If the previously disadvantaged partners do not have access to capacity building and training the 'partnership' could end up as window dressing.**
- The base codes underpinning the audits are limited in relation to gender justice and redress.
- Because it depends on voluntary membership of employers it may reach only a small minority.

When Considering a Partnership with Trading Initiatives

Before organisations choose whether to be involved in fair trade or ethical trade initiatives perhaps the following checklist would facilitate making that choice:

Trade or development – who is really benefiting?

- What is the goal of the initiative – liberalisation of trade, or development?
- Will the initiative promote increase in trade for employers, or increase in income and better working conditions for farm workers – or both?

- Is any improvement in the 'market share' reflected in an improvement of workers' income and conditions?

Standards

- Does the initiative ask for more than the minimal labour standards?
- Were workers involved in setting the standards?
- Do the operational plan and the monitoring process address the issues of gender justice and redress?
- Is there an articulated plan of how the monitoring process will be maintained?

Capacity building and access

- Are there strong enough worker organisations to support voluntary acceptance and maintenance of codes?
- Will these worker organisations be strengthened in any way through this process?

Sustainability

- Does the initiative have a sustainability plan?
- Who currently provides funds and does this reflect co-operation or conflict of interest in the outcome of inspections/audits?

Centre for Rural Legal Studies, 2004.