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Does Fair Trade contribute to sustainable development?

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Does Fair Trade contribute to sustainable development?

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1. Introduction

Rationale

The term “Fair Trade” (FT) has various meanings. In this Reader, it is used to indicate the “Fair Trade movement”, represented in particular by Fairtrade Labelling Organisations International (FLO) and its associate organisations (and hence the use of “Fair Trade” in this note is with capital letters). These groups aim to provide an alternative business which attempts to redistribute returns to factors of production in a manner that is “fairer” for developing-country producers. In this sense, conventional trading relations involving developing country producers are deemed “unfair” insofar as the returns to those producers are abnormally low in an economic, environmental and/or social sense. Hence, Fair Trade seeks to secure higher earnings for developing country small-producers that will allow them to cover production costs, earn higher returns and address potential market failures such as environmental degradation and/or low labour standards¹. Fair Trade, therefore, seeks to connect low-income producers and consumers in large markets in more equitable and sustainable ways. It originates in a growing interest among consumers in large markets in the development of socially responsible traders, that would allow for a “social value added” in their commercial transactions. This value added is generated when the purchase of a product, besides its intrinsic value, gives the final consumer the benefit of knowing that it contributes to improve the quality of life of a group of low-income producers².

In addition to the question of Fair Trade, this Reader will also explore the additional dimension of “Equitable Trade (ET)/ Equitable Sourcing (ES)”, and non-trade concerns in international trade. The range and functions of standards and certification methods have changed, to cover new areas of commerce beyond those traditionally concerned with FT, for example public procurement or services. This necessitates a broader analysis of the trading regime between developing and developed countries further to the activities of the FLO and its associate organisations. In this regard, equitable trade is not in and of itself a specific standard framework, but rather encompasses all the principles of a more balanced, fairer and sustainable trade commercial relationship between producers and consumers, the former largely constituting farmers or other service providers from developing countries. More importantly, trade rules at the national, regional and international levels, many of which are covered in instruments such as Free Trade Agreements (FTAs) or are agreed in fora such as the World Trade Organization, are also considered to fall within the ambit of ET. This is evidenced in the emphasis which many stakeholders and international institutions within and outside of the FT system placed on ET in the context of WTO negotiations during the Doha Development Round and the Bali Round³.

Recognition of the interrelatedness between FT and ET is increasingly gaining tract. Traditionally, these two dimensions in the relationship between producers and consumers

in developing and developed countries were often not considered jointly – as Fairtrade represents private standards which are often not the purview of government regulation or intervention, and equitable trading often also concerns public policy on trade covering issues such as public or international standards as well as trade rules. In this sense, FT was promoted as a means to fill the gap in the public rules on trade that were silent on issues such as the health, education, labour rules and other social issues relevant to producers from trading partners, or else only the minimum rules were stipulated. This has changed, and there is a growing recognition and validation in the EU at least, that considerations that are not purely about trade can be taken into account in commercial activities, regulation and partnerships⁴.

Historical background

The fair trade concept has been developing in western nations throughout the past 40 years or so, in response to a growing recognition that benefits accruing from trading and trade growth are not necessarily shared by all countries and all layers of the population within each country in a comparable manner.

Fair or equitable trading has its roots in the Italian and British cooperative movement of the 19th Century, which was then followed by religious and political movements in the 1950s and 60s in Britain and the US, seeking alternative trade models. Religious organisations and development agencies were also involved in actively working to support

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producers in the Global South to reduce inequality and poverty in their livelihoods.⁵

The commercialisation of fair trade started in the United States, where Ten Thousand Villages (formerly Self Help Crafts) began buying needlework from Puerto Rico in 1946, and SERRV began to trade with poor communities in the South in the late 1940s. The first formal “Fair Trade” shop which sold these and other items opened in 1958 in the USA.

The retail development of Fair Trade in Europe dates from the late 1950s when Oxfam UK started to sell crafts made by Chinese refugees in Oxfam shops. In 1964 it created the first Fair Trade Organization. Parallel initiatives were taking place in the Netherlands and in 1967 the importing organization, Fair Trade Original, was established. At the same time, Dutch third world groups began to sell cane sugar with the message “by buying cane sugar you give people in poor countries a place in the sun of prosperity”. These groups went on to sell handicrafts from the South, and in 1969 the first “Third World Shop” opened. World Shops, or Fair Trade shops as they are called in other parts in the world, have played (and still play) a crucial role in the Fair Trade movement. They constitute not only points of sales but are also very active in campaigning and awareness-raising.

During the 1960s and 1970s, NGOs and socially motivated individuals in many countries in Asia, Africa and Latin America perceived the need for fair marketing organizations which would provide advice, assistance and support to disadvantaged producers. Many such Southern Fair Trade Organizations were established, and links were made with the new organizations in the North. These relationships were based on partnership, dialogue, transparency

and respect. The goal was greater equity in international trade.

Parallel to this citizens’ movement, the developing countries were addressing international political fora such as the second UNCTAD conference (United Nations Conference on Trade and Development) in Delhi in 1968, to communicate the message “Trade not Aid”. This approach put the emphasis on the establishment of equitable trade relations with the South, instead of seeing the North appropriate all the benefits and only returning a small part of these benefits in the form of development aid.

The growth of Fair Trade (or alternative trade as it was called in the early days) from the late 60s onwards grew as a response to poverty and sometimes disaster in the South and focused on the marketing of craft products. Its founders were often NGOs, working with their counterparts in countries in the South, assisting them to establish Southern Fair Trade Organizations that organize producers and production, provide social services to producers, and export to the North. Alongside the development trade there was also a branch of solidarity trade. Organizations were set up to import goods from progressive countries in the South that were both politically and economically marginalised⁶.

As its name indicates, Fair Trade has always been closely linked to developments in international trade, and the need to respond to changing global commodity prices and trade regimes. In this regard, severe price volatility and instability in coffee trade which led to the dismantling of the International Coffee Agreement 1989, necessitated a rethink in coffee marketing and retail. In this context, Solidaridad, the Dutch development agency, spearheaded the foundation of the first ever Fair Trade label and

FT organisation, Max Havelaar in 1988, whose first FT labelled product was coffee.

Fair Trade in the ACP-EU context

Fair Trade has repeatedly been recognized by the European Commission and EU member governments for its contribution to poverty reduction and sustainable development. In 1998, the European Parliament adopted the “Resolution on Fair Trade”⁷, which was followed in 1999 by the “Communication from the Commission to the Council on “Fair Trade”⁸. In 2000, the ACP-EU Cotonou Agreement made specific reference to the promotion of Fair Trade⁹. In 2001 and 2002, several other EU documents explicitly mentioned Fair Trade, most notably the 2001 Green Paper on Corporate Social Responsibility and the 2002 Communication on Trade and Development. In 2004, the EU adopted the “Agricultural Commodity Chains, Dependence and Poverty – A proposal for an EU Action Plan”, with a specific reference to the Fair Trade movement which has “been setting the trend for a more socio-economically responsible trade.”¹⁰ In 2005, in the EC communication “Policy Coherence for Development – Accelerating progress towards attaining the Millennium Development Goals”¹¹, Fair Trade is mentioned as “a tool for poverty reduction and sustainable development”. Finally, in 2006, the European Parliament unanimously adopted a resolution on Fair Trade, recognizing the benefits achieved by the Fair Trade movement, suggesting the development of an EU-wide policy on Fair Trade¹².

Two very notable developments in the ACP-EU trade relations took place between 2010 and 2014. Firstly,

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the second revision of the Cotonou Agreement, which was concluded in 2010, saw significant revisions and new provisions being made for economic and trade provision between the ACP and the EU (title II Cotonou Agreement, 2010), which amongst other things now recognises the dependence of ACP countries on “commodities and a few key products, including value-added agro-industry products”. Furthermore, agriculture has for the first time been inserted as a target policy area for EU support under the economic sector development article.¹³ Lastly, Policy Coherence for Development (PDC) was also made a legal obligation for ACP-EU cooperation under Article 12, which also states that “the [European] Union acknowledges that Union policies, other than development policy, can support the development priorities of ACP States in line with the objectives of this Agreement”. The Economic Partnership Agreements which the EU has concluded with the Caribbean Region (EU-CARIFORUM EPA) and more recently, with a number of African regions (EU-Central Africa, EU-Eastern and Southern Africa, EU-ECOWAS, EU-SADC, EU-EAC EPAs) seek to liberalise trade between ACP countries and the EU, and were mandated under the Cotonou Agreement. In the texts of the agreements which have been published (CARIFORUM, Central Africa and EAC), no explicit reference is made to fair or equitable trade, and the extent to which the EPAs are bound by the reference in the Cotonou Agreement to fair trade is arguable. A key area of concern in this context has been the policy space which ACP and EU Member States will have to exercise if they wish to legislate to promote or secure provisions which concern certain policy issues

associated with fair or equitable trade, such as labour, health, environment, education and so on. As FT and ET are inherently and essentially concerned with exports, and therefore also secure access to export markets (in this case, the EU market for ACP goods) it is arguable that the EPAs present an attractive proposition for ACP producers insofar as they ensure as stable and long-term market access regime.

Furthermore, 2010 also saw changes to the EU's trade and development legal regime through the Lisbon Treaty, which for example granted the EU exclusive competency with regards foreign direct investment and for the first time made an explicit link between trade and development in EU external action. A key provision is Article 3(1) which states that in its relations with the wider world, the EU shall contribute to sustainable development, free and fair trade and the eradication of poverty. In this sense, the EU and its Member States are therefore obliged to contribute to greater fairness in EU-ACP trade. In this case, it is arguable that fairness can be taken to signify both trade that is fairer for EU partners, including developing countries and their producers, as well as trade that is fairer in the sense that it reduces trade distortion and measures which promote unfair trading practices. According to some analysis, “[a] careful reading of these provisions indicates that the general trade objectives are not only limited to trade liberalization, which is the only objective provided in Article 206 TFEU [Treaty on the Functioning of the EU] but include other trade-related objectives.”¹⁴

Notwithstanding these developments, preference erosion continues to be a longstanding area of concern for ACP producers,

especially those exporting produce that is already subject to a substantial amount of FT certification such as banana or sugar. Whereas there is considerable recognition in the revised Cotonou Agreement of the risks of preference erosion, and furthermore, obligations are in place for it to be addressed in the context of ACP-EU cooperation, it is still a topic which creates a high degree of uncertainty, notably in the agricultural sector, as it can undermine one of the key tenets of FT certification, namely the guaranteed price which producers get based on FT premium.

The positive trajectory of FT and its recognition in the EU context suffered a blow as a result of the 2008 financial crisis, the subsequent global economic recession and the resulting euro-crisis.¹⁵ The general drop in consumer demand and shift in policy perspective, made it imperative for the Fairtrade institutions and commercial regime to re-state their value-added for consumers as well as producers in a context where generally EU institutions, Member States and governments were arguing for a decrease in support to developing countries. Strong responses from FT stakeholders in some Member States, notably the Netherlands, Belgium and the UK meant that not only did sales in FT certified products recover since the crisis, but with certain products the growth in sales is higher than at pre-crisis levels. Furthermore, certain Member States, such as Belgium, maintain a strong engagement within their development cooperation portfolio to support FT, for example the Trade for Development Centre, which is part of the Belgian Development Agency (BTC) programme, and promotes fair trade, sustainable trade and organic farming in partner countries.

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2. What is Fair Trade?

2.1 Definition and definitional issues

Fair Trade is a particular type of relationship between 'ethical consumers' and low-income producer households through international trade. The accepted definition of FT makes it clear:

"Fair Trade is a trading partnership based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised 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 conventional international trade."¹⁶

Equity lies at the core of what FT seeks to achieve, and which responds directly to the fact that notwithstanding the contribution made by producers in developing countries to global trade in goods, and particularly smallholder farmers in regards to agricultural produce, the benefits they derive from this volume of trade in pecuniary and developmental terms has historically always been marginal in both absolute and relative terms.

FT, Ethical trade and environmentally-driven trade

It is important to relate definitions

of FT to other alternative trade approaches.

Fair Trade may be viewed as one part along a continuum of related non-governmental activities, which aim at promoting "sustainable trade" and "ethical trade"¹⁷.

What distinguishes Fair Trade is that this movement focuses on producer groups and involves paying participating producers a pre-determined price for their labelled products. "Ethical trade" focuses on production methods and results, and has a corporate focus in that it attempts to ensure that labour, environmental, and human rights standards are upheld within a corporation's supply chain. In particular, ethical trade promotes adherence to core labour standards for employees and currently has no specific concern with the terms of trade or seeking to overcome the marginalisation of producers¹⁸. As noted by the European Commission¹⁹, the FT concept could be taken as applying to trading situations and commodities where social and environmental standards are not, or cannot be (because of the way in which production is organised), enshrined in law. Environmentally-driven trade is concerned with ensuring that traded products are produced using environmentally sustainable techniques.

There is a considerable overlap of issues and attitudes between different types of alternative trade. On the demand side, individuals and organisations sensitive to environmental issues are also likely to be concerned about social justice. On the supply side, there is a significant level of overlap between the standards

of different parts of the alternative trade movement. In particular, FT labelling criteria relating to agricultural commodities produced on plantations (particularly tea) include stipulations regarding labour standards. About two-thirds of FT product lines are also certified as organic²⁰.

2.2 Key players in Fair Trade

The Fair Trade scheme involves the following three categories of actors:

- Fair Trade producers usually represent co-operatives or associations in developing countries. To participate in the Fair Trade scheme, they have to join their regional Fair Trade network. The three producer networks are: Fairtrade Africa, Coordinator of Fairtrade Latin America and the Caribbean (CLAC) and Network of Asia and Pacific Producers (NAPP). These producer networks generally constitute the first point of contact between smallholder farmers and producers, and the FT system. Producer networks are in turn part of the international Fairtrade system, e.g. their producers are certified by the Fairtrade Labelling Organisation (FLO/FLOCERT), and are also part of the Fair Trade Federation (FTF) and the World Fair Trade Organization (WFTO). Participation commits producers to abide by Fair Trade standards, pay annual fees and supply products at pre-determined prices.
- Traders are importers, exporters or processors who deal in Fair Trade products, replacing so

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called middlemen. They are associated with Fair Trade membership organisations and subject to the standards, predetermined prices and monitoring requirements of the organisations which they join. Prime traders include Solidar'Monde (France), Oxfam (UK), Oxfam Wereldwinkels (Belgium) and Claro (Switzerland), to mention a few.

- Retailers interface with the end consumers of Fair Trade products. World Shops represent the most common outlets for Fair Trade products. Recently, however, Fair Trade products have begun to make their way into general retailers, such as supermarket chains²¹.

Presently, (2014), the international Fairtrade system includes three producer networks, 25 Fairtrade organizations, Fairtrade International, and FLOCERT, the independent certification body of the global Fairtrade system.

Moreover, there are *five key networking or membership organizations* that seek to bring Fair Trade organizations together. Each services a different group of Fair Trade organizations and therefore takes a different perspective on the nature of Fair Trade.

WFTO—World Fair Trade Organisation (formerly IFAT – International Federation for Alternative Trade then International Fair Trade Association)

WFTO is the only worldwide Fair Trade networking organization that

brings producers and Alternative Trade Organizations (ATOs) together in a single organization. The WFTO has three goals: market development, advocacy and building trust. WFTO aims to improve the livelihood of disadvantaged people in developing countries by linking and strengthening organizations that offer “just” alternatives to unfair trade structures and practices. It is a federation to promote Fair Trade and a forum for exchanging information to help members increase benefit to producers. From the mid-1970s onwards, a group of 30 ATOs met regularly to support each other and share ideas. A meeting of that group in 1989 decided to formalize the grouping and create an inclusive global network. It is the largest International Fair Trade Association for fair trade organizations with over 300 members. Southern organisations began joining after the 1991 biennial IFAT conference, and now represent more 60 per cent of the membership of the WFTO. It allows accredited members to use its FTO Mark—which it emphasises is distinct from the FLO product label. The WFTO Fair Trade Organization Mark was launched in January 2004. The Mark is available to member organizations that meet the requirements of the WFTO monitoring system and identifies them as registered Fair Trade Organizations. WFTO is working with FLO on a Quality Management System for Fair Trade.

FLO/FLO-Cert—The Fairtrade Labelling Organisation

Following on from the successful launch of Max Havelaar coffees in 1988, a number of independent

Fairtrade certification bodies were created. To coordinate the monitoring and standards of these National labelling Initiatives (NIs), a common approach to monitoring producers was agreed. Each agency would monitor a list of producers and share that information across Europe. In 1997 this cooperation was formalized through the creation of FLO. There are now 20 NIs that use the shared monitoring and standard setting service that FLO offers. The NI then licence a local FLO endorsed mark to businesses in their geographic area²².

Currently, FLO takes a very rigorous product-by-product approach to register development. The criteria are complex to develop for each sub-sector and the registers expensive to maintain—worth noting that Fairtrade labelling is the only labelling scheme in the world where the consumer pays for the monitoring of the producers.

From May 25th 2007, the Producer Networks CLAC (Coordinadora Latinoamericana y del Caribe de Comercio Justo), AFN (African Fairtrade Network) and NAP (Network of Asian Producers) officially became full members of FLO too²³.

NEWS—The Network of World Shops

NEWS coordinates the cooperation between World Shops all over Western Europe. The network consists of 15 national World Shops associations in 13 different countries and in total represents 2,500 World Shops. NEWS was established in 1994 and much of its focus is around maximizing the campaigning

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voice of the shops and their customers. The European World Shops day is held in May every year and focuses on shop-based activities ranging from product-tasting to campaigns.

EFTA—The European Fair Trade Association

EFTA was set up in 1990 as a trade association to enable cooperation between the European ATOs to be coordinated and effective. EFTA has 13 members who pay a significant membership fee (around \$10,000) to resource a small secretariat headquartered in Maastricht (Netherlands) with other staff based elsewhere in Europe. There are three key ways that the cooperation has developed. First, EFTA acting as trade association represents the European ATOs in various fora and seeks to agree a common line on issues external to the movement. Through a small advocacy office in Brussels, EFTA has raised the profile significantly of Fair Trade with the European Parliament and Commission. Second, through creating an environment for working together, particularly in the food sectors, the EFTA members share manufacturing and importing of key commodities. For example, the Swiss Fair Trade organization, Claro, coordinates the production of chocolate for all of the EFTA members. The economies of scale derived from this make the product reasonably successful in all of the European markets. Finally, because FLO only monitors against the seven agricultural commodities that it has registers for, EFTA has developed a system called Fair Data that shares monitoring information among all of the participants. This covers hundreds of non-FLO producers enabling the cost of monitoring Fair Trade suppliers to be shared.

FINE

In an effort to unite standards and approaches the four key Fair Trade networking organizations began to meet together in an effort to unite the movement around the things that could be readily agreed on. The FINE—FLO, IFAT, NEWS and EFTA—group was established to build relationships and common approaches. The key success so far is the FINE definition of Fair Trade that was agreed by all of the participants in 1999. This definition has been revised further and is to be agreed among all the members during 2001. Although short on radical action, FINE has created an environment of trust and cooperation. As common approaches are coordinated among the members, some bilateral arrangements will help to pull the Fair Trade players more closely together. For example, the WFTO has a self-monitoring scheme to prove you are a Fair Trade organization. The next step would be introduce external monitoring—a role that FLO could play. Although by no means certain that these steps will be taken, if they are then FINE may need to become more of institution to support this increased cooperation²⁴.

2.3 Other fair trade certification schemes

With the increase in popularity of the fair trade approach, there has been a replication of the approach operated by non-FLO organisations.

EcoCert Fair Trade

The most well-known are EcoCert Fair Trade, which provides certification through auditing and vouching for fair trade operators. The ESR standard which it enforces and

owns concerns Fairness, Solidarity, Responsibility (Equitable, Solidaire, Responsable in French). This is the standard against which operators are certified. It applies its certification services broadly, covering foodstuffs as well as cosmetics and detergents and home perfumes. EcoCert does not work exclusively on Fair Trade, but is also provides other certification services based on sustainable agriculture and production, including organic certification.

Fair for Life

The Fair for Life Social & Fair Trade Certification Programme is engaged with producers in developing countries to provide a range of certification services under three broad themes: For Life - Social Responsibility Certification, Fair for Life - Social & Fair Trade Certification and Individual Performance Rating. The Social & Fair Trade Certification, which is supported by a Fair Trade Development Fund, is concerned with the typical Fair Trade values, such as fair trade relationships, fair prices and direct support of marginalised groups and also audits according to Social Responsibility standards like fair working conditions, environmental performance and community relations.

UTZ

Founded in 2002, UTZ Certified is a multistakeholder initiative operating in the food and agriculture sector across 33 countries. Originally an idea of a Guatemalan coffee grower and a Dutch coffee roaster, UTZ Certified has grown into an independent, nongovernmental, not-for-profit organization dedicated to creating a world where sustainable farming is the norm. Farmers who work with UTZ Certified in the global marketplace receive a premium for their crop and they don't have to pay for taking part in the program.



2.4 The routes of commercialisation of Fair Trade products

Fair Trade products are commercialised under two different routes. The traditional or integrated route is the route where products (mainly crafts) are produced, imported and/or distributed by a Fair Trade Organisation. Another marketing route is through Fair Trade labelling initiatives and certification. In this case, goods are labelled by specialised Fair Trade certification agencies to testify that their production chains respect Fair Trade standards. The importers and traders can be traditional commercial companies, and the distribution channels can be regular retail outlets.

The integrated route

Fair Trade products are made available to consumers through Fair Trade Organisations which identify and source products directly from small producers and co-operatives, and import and market them in specialised outlets such as Worldshops.

All aspects of their commercial operations are based on a Fair Trade ethos, and as much of the final price as possible is passed back to the producers. In many cases profits generated are devoted to development causes. The majority of products marketed through Worldshops are not labelled as such; the purchase is done on the basis of confidence. The “brand names” or Fair Trade Mark of these organisations are in themselves a signal to consumers that the products and business practices are in accordance with Fair Trade principles. Most of the Fair Trade Organisations and producer

organisations are members of the World Fair Trade Organization (WFTO, formerly IFAT). The use of a Fair Trade Organisation (FTO) Mark is granted to a Fair Trade Organisation which has successfully met the requirements of the WFTO Standards and Monitoring system²⁵.

The Fair Trade labelling route

Under this route, national labelling initiatives monitor the compliance with Fair Trade standards by producers or traders against a set of internationally harmonized standards.

The objective here is to follow normal distribution patterns in order to facilitate greater access to fair trade products. There is therefore, no longer the confidence of the close link between producer and outlet as with the traditional fair trade movement. Here, the importers and traders are normal commercial companies, and the goods are sold through normal retail outlets, but a fair trade label, awarded by a fair trade certification agency, signifies to the consumer that the goods and the marketing chain respect fair trade principles. The four fair trade labels used within the EU are “Max Havelaar”, “Transfair”, the “Fairtrade Mark” and “Rättvisemärkt”.

A fair trade symbol is displayed on the packaging, certifying that the production and marketing processes respect fair trade criteria. The label is additional to other labelling information requirements, such as quality classification and origin, which are governed by the normal statutory rules²⁶.

In 1997, the various national FT labelling initiatives formed an umbrella organization called Fairtrade Labelling Organizations International (FLO). FLO is responsible for certifying and monitoring producers,

accrediting a single organization to certify FT practices in each country and coordinating work among its members.

Under the FLO system, producers do not pay for their certification. Distinct from other schemes, the consumer pays for the Fair Trade system. Traders pass on to consumers the higher FT price and premium that they pay producers. The financial resources flow all the way back from the consumer who buys the product, to the producer. The national entity in each country charges the Licensee a fee for using the Fair Trade label. This pays for all of FLO’s certification and monitoring costs and for the National Initiatives marketing expenses. So the cost of the system is included in the retail price, making Fair Trade labelling sustainable²⁷. These organisations are all members of FLO (Fairtrade Labelling Organisations International), the Fair Trade standard-setting and certification organisation. The International Fairtrade Standards are developed and regularly reviewed and monitored independently²⁸.

2.5 The role of retailers

Retailers will point to a commitment to FAIRTRADE labelled (FT) goods that are certified against Fairtrade standards as a sign of commitment to fairness and justice in their trading relationships.

‘Getting’ Fairtrade has been part of a trend since the mid-1990s in which supermarkets and food companies have sought to de-commodify their mainstream lines, with organic, Fairtrade and ‘local’ branding offering both reputational and profit benefits. Major supermarket chains not only stock Fairtrade products but have introduced Fairtrade

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lines amongst their own brands in products such as coffee, tea and chocolate, contributing to both the growth in sales and increased public awareness of the concept of Fairtrade. Similarly, some major branded food companies, both processors and food service, offer the consumer a fair trade choice.

In northern Europe the range of fair trade products available continues to expand and more conventional companies offer a product with a fair trade label²⁹.

Fair Trade and the mainstream market

Fair Trade is engaged in the mainstream market both in terms of actively marketing products through mainstream outlets and encouraging conventional companies to use the Fair Trade label and thereby adopt Fair Trade practices. Whilst this is becoming an increasingly important strategy for Fair Trade in some markets, it should be recognised that not all Fair Trade products are appropriate for the mainstream market. To date, Fair Trade products in the mainstream have largely been commodity-based food products such as tea and coffee. This is largely because of the supermarket demand for large volumes and guarantee year-round availability, which can only be accommodated by sourcing from a relatively large number of producers that are well organised. Crafts have faced many difficulties in accessing the mainstream home-ware and interiors market, partly because of the short life-span of products (due to changing fashions) and the high up-front costs of professional design. Many products are likely to remain in a Fair Trade niche.

There is a complex inter-relationship between the positive influence of Fair Trade on the behaviour of

conventional companies on the one hand, and the impact of the new ethical approaches on the profile of Fair Trade itself. It is frequently argued that a major contribution of Fair Trade has been to influence the behaviour of mainstream companies (e.g. Ethical Trading Initiative, adoption of "responsible business" practices and codes of conduct). Whilst the more empowering elements of the Fair Trade approach are not always taken on board, the different needs of smallholders in terms of meeting ethical standards is increasingly being considered.

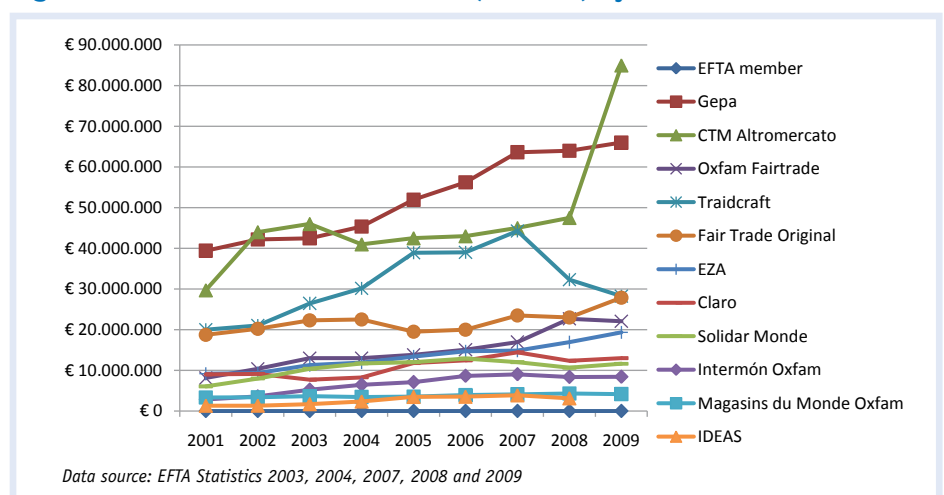
However, the increasing trend for conventional companies to espouse ethical principles --from ethical sourcing of supermarkets to cause-related marketing whereby companies donate a percentage of the consumer price to a charity or environmental group -- has also created increased competition for Fair Trade products. The increasing number of ethical claims in the market place may cloud the Fair Trade message to consumers.

At the same time, many mainstream brands have been reluctant (and even hostile) to support Fair Trade values and activities – it is invariably smaller scale companies that have a Fair Trade labelled product as

part of a wider product range. An independently verified label offers smaller manufacturers a relatively easy way of demonstrating responsible practice which may be less attractive to a larger company that has invested more in its own brand profile and consumer message.

Some argue that competition between an increasing number of Fair Trade brands and the adoption of more ethical practices on the part of conventional companies can only be a good thing. The competitive process may encourage more firms to adopt ethical practices, or even Fair Trade practices. However, as we noted above, the complex decision-making processes that lead to ethical consumption and the influence that this has on the sourcing strategies of companies is as yet incompletely understood. Moreover, it is not clear if there is in practice a competitive process between ethical and conventional lines, which would drive non-Fair Trade companies to consider ethical approaches. Supermarkets tend not to stock more than one or two 'ethical lines' so that the whole range of Fair Trade brands are not necessarily on offer in particular chains or localities. This can make it less easy for the consumer to consistently choose a Fair Trade product³⁰.

Figure 1: Total Fair Trade retail value* (in Euros) by individual EFTA member

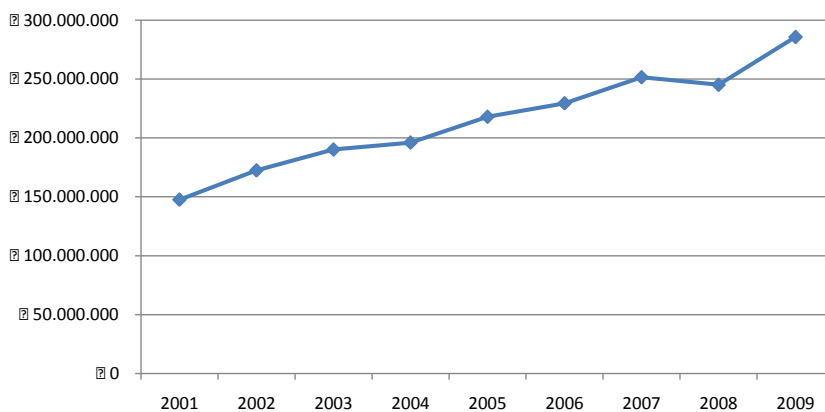


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Figure 2: Total Fair Trade retail value* (in euro's) of all goods sold by EFTA

Figure 2.5: Total Fair Trade retail value* (in euros) by all EFTA members jointly



The Case of Fairtrade Bananas in the UK (Alvarez, A (2014) *The inclusion of market-driven supermarkets in Fairtrade: concerns and implications for farmers*)³¹

A person in the UK on average consumes about 100 bananas a year and the market for bananas in the UK is about £700 million (Fairtrade Foundation 2014), and the UK is the second largest market for FT bananas after Switzerland (Raynolds 2007). Fairtrade bananas make one-third of all bananas consumed in the UK (Fairtrade Foundation 2014).

Highly concentrated food retailing industry

The point of sale of food in the UK is highly concentrated in a handful of supermarkets. Four supermarkets dominate the banana chain: Tesco, Asda, Sainsbury's, and Morrison, which combined account for 76% of the UK grocery retail market (Kantar Web 2014). This puts supermarkets in

a better bargaining position relative to the suppliers, and makes the suppliers dependent on them for sales since there are very few places to sell their products other than supermarkets. According to Smith (2010), suppliers are forced to accept terms of supply that include last minute changes to orders, giving retrospective rebates, and paying for in-store promotions, as well as sudden change in payment terms.

Supermarkets pass the responsibilities of production to category managers (a small number of first tier suppliers), which are responsible of ensuring that FT standards are met as well as any other demands of the supermarkets (Barrientos and Smith 2007). At the same time supermarkets add their store brand to the bananas, and therefore keep all the reputational benefits (ibid). Supermarkets do not give FT banana producers long-term contracts or any other sort of guarantee which can result

in some FT bananas being sold in conventional markets and without the FT benefits to the producers.

Special pricing of Fairtrade bananas

The minimum guaranteed price for FT banana differs from other FT products in that it is not constant across regions. The added premium of \$1 USD per 18.14 kilo-box is constant for all producers, but the minimum guaranteed price for bananas varies by region and is "based on the cost of sustainable production" (Fairtrade International). The price variation can result in supermarkets sourcing their bananas from the cheapest place and leaving out those producers whose production costs are higher, causing a race to the bottom (Smith 2010). For example, bananas produced in the Windward Islands, the Dominican Republic and Costa Rica have a minimum price for every box of 18.14kg set at \$9.65 USD, \$9.60 and \$9.25 respectively, while Ghana and Cameroon's minimum price is \$8.30 and \$8.50 respectively (Fairtrade International 2013).

Furthermore, the four super markets engaged in a 'banana price wars,' with ASDA lowering their price of bananas in 2002 and the other three responded by lowering their prices as well, and then sending the costs down the production chain to the producers (Robinson 2009). In 2002 a kilo of conventional bananas cost £1.08, but today a kilo of both conventional and FT bananas costs a mere 68p in Tesco, Asda and Sainsbury's (Blythman 2014). Suppliers still get a guaranteed minimum price and supermarkets

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paid the difference, but the problem is the extent of supermarkets willing to continue to absorb this loss before demanding a lower minimum price, as well as consumers perceiving that that 68p/kg is the actual "fair" price of bananas (Balch 2013).

A different approach to Fairtrade bananas

But not all supermarkets approaches to FT are bleak. Sainsbury's, Waitrose and the Co-Op are good example of supermarkets taking FT ideals more seriously. Sainsbury's and Waitrose became the first supermarkets in the UK to replace all their bananas with FT bananas in 2007 (Sainsbury's). Furthermore in 2007, Sainsbury's established a £1 million Development Fund managed by the Comic Relief charity, with the aim of helping marginalized producers enter the FT system (ibid). The Co-Op was the first supermarket to sell FT bananas in 2000 and since 2012 all of their bananas are 100% FT, and it also offer support to co-operatives in Panama and Dominican Republic (The Co-Operative). These supermarkets investment in selling only FT bananas means that they will promote and create awareness of FT ideals in order to ensure that the bananas sells and it also makes it harder for them to go back to selling conventional bananas (Smith 2010). These supermarkets' commitment to FT bananas, symbolizes the potential of FT to transform the trading system in a way that is fair to the poor and marginalized workers in the South.

The European Commission has recognised the specific role played by retailers in the Fair Trade system, in the Communication Retail market monitoring report "Towards more efficient and fairer retail services in the internal market for 2020":

An internal market in retail services which is more efficient and fairer for future generations must also fully account for its environmental impacts. It must be a gateway to the offer of a wide range of more environmentally-friendly and/or fair trade products, allowing "fair" firms, including those based in non-EU countries, to gain access to the internal market. It must also be based on lower energy consumption and on efficient logistics and waste collection and recycling systems. Competition within the sector must not only be gauged on economic factors but also on social, ethical and environmental ones.³²

The Commission Staff Working Document (SWD) accompanying the Communication also recognises the diversity and asymmetry at the retail end of Fair Trade in the EU, whereby the Northern and Western European retailers are more strongly integrated into the value chain for Fair Trade and ethically sourced produce than those in other parts of Europe.³³ In addition to variations in consumer expectations, the SWD notes that civil society and NGOs have also played a strong role in pressuring supermarkets and large retailers to address their ethical or environmental records when it comes to sourcing.³⁴

2.6. The role of the Consumer

From the beginning, the Fair Trade movement aimed to raise awareness among consumers of the problems caused by conventional trade, and to introduce changes to its rules. The sale of products always goes alongside with information on the production, producers and their conditions of living. It has become the role of World / Fair Trade Shops to mobilize consumers to participate

in campaigning activities for more global justice.

The first European World Shops conference took place in 1984. This conference set the beginning of close cooperation between volunteers working in World Shops from all over Europe. The Network of European World Shops (NEWS!) was formally established in 1994 and now represents approximately 3.000 World Shops in close to 20 European countries.

The first World Fair Trade Day, which involves the worldwide Fair Trade movement, was celebrated on May 4, 2002. Now World Fair Trade Day takes place every year on the second Saturday of May.

Another tool was the establishment of the FINE Advocacy Office in Brussels, which focuses on influencing the (European) policy-makers. It is supported, managed and funded by the whole movement, represented in FLO, IFAT (now WFTO), NEWS and EFTA – hence its acronym FINE.

A TNS Omnimas survey done in 2007 ³⁵ showed 57% of adults can identify the independent Fairtrade consumer label, up five points in just one year, and 53% of respondents correctly associated the symbol with a better deal for producers in the developing world.³⁶ The 2009/2010 annual review revealed that the FAIRTRADE Mark is now recognized by almost three in four British adults.³⁷ A 2011 international consumer survey from GlobeScan found that Fairtrade is the most widely recognized ethical label in the world with almost 6 out of every 10 (57%) people seeing the Fairtrade certification mark. For those stating they recognized the mark, 9 in 10 found it trustworthy (Fairtrade International, 2011).³⁸

Emerging economy consumers are increasing featuring in the picture

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of consumer awareness about Fair Trade. An investigation by Datamonitor into consumer attitudes toward both Fair Trade and Fairtrade and found that its influence has expanded beyond the traditional European and North American bases and is now more pronounced in emerging markets like Brazil, Russia, India, and China, as well as Saudi Arabia and the United Arab Emirates (U.A.E.). Datamonitor has also tracked consumer interest in paying more for Fair Trade and Fairtrade and has generally found that in the last two years there has been a trend toward more agreement on this question in all countries, even in emerging markets.³⁹

2.7 Equitable Trade and its relationship to Fair Trade

The concept of equitable trade (ET), which concerns the development and achievement of greater “equity” between trade partners and in trading relationships, is a broader and more dynamic issue than that of FT, which specifically concerns standards and premium prices that ensure producers get a guaranteed premium on produce/productions that meets certain criteria. In this sense, FT is one of means by which ET can be achieved, and as a matter of fact, FT organisations are often at the frontline of the promotion and advocacy in favour of ET.

Equitable trade calls for the rules which apply to global trade – such as tariffs, market access and liberalisation rules, services and investment rules and soon – to be

Figure 3: How much influence does the ‘Fairtrade’ (or ‘Fair Trade’) claim have when making food and beverage choices?

Country	Very High	High	Medium	Low	Very Low
Brazil	21%	26%	35%	10%	7%
U.S.	10%	15%	31%	21%	22%
Canada	11%	20%	35%	20%	14%
Australia	11%	21%	37%	18%	12%
China	21%	40%	32%	5%	2%
India	31%	36%	25%	6%	2%
Japan	4%	12%	42%	31%	11%
Korea	14%	28%	37%	16%	5%
Singapore	13%	30%	41%	11%	5%
South Africa	12%	22%	37%	18%	11%
Saudi Arabia	29%	25%	31%	7%	8%
U.A.E.	25%	31%	31%	6%	7%
France	10%	20%	38%	18%	14%
Germany	10%	21%	37%	18%	14%
Italy	16%	33%	35%	9%	7%
Russia	22%	31%	28%	11%	8%
Sweden	11%	17%	32%	25%	15%
U.K.	11%	20%	38%	17%	14%
TOTAL	15%	24%	35%	15%	10

Source: Datamonitor Consumer Research, May-June 2011.

reformed or reviewed in order to promote equity in trade, namely that trade should be inclusive (non-discriminatory), based on transparent rules, and all involved should be treated on the basis of equality⁴⁰. This equity should apply across the entire spectrum of the trade relationship, and concerns as much the inputs (rules, regulations, standards, negotiations etc) as the outputs (benefits such as

economic growth, opportunity and development) which global trade is supposed to achieve.

Whereas FT is based on private rules or standards, ET targets global and public rules and standards, including those set at local, national, regional and international levels. For example, at the regional level, the European Union has been strongly appealed by stakeholders such as its developing

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Figure 4: To what extent do you agree or disagree with the following statement? “Fair trade or fair trade food and beverages are worth paying a little extra for.”

Country	Strongly agree		Tend to agree		Neither agree nor Disagree		Tend to Disagree		Strongly Disagree	
	2009	2011	2009	2011	2009	2011	2009	2011	2009	2011
Brazil	9%	13%	28%	29%	43%	45%	11%	8%	9%	4%
U.S.	4%	8%	13%	26%	41%	38%	21%	19%	22%	10%
Canada	-	8%	-	19%	-	46%	-	18%	-	10%
Australia	5%	7%	17%	24%	43%	46%	22%	17%	14%	6%
China	6%	13%	28%	38%	49%	42%	14%	6%	3%	1%
India	9%	20%	33%	40%	43%	31%	12%	6%	3%	2%
Japan	1%	3%	22%	16%	55%	67%	16%	11%	7%	3%
Korea	4%	6%	30%	24%	48%	48%	14%	17%	3%	5%
Singapore	-	6%	-	28%	-	52%	-	11%	-	2%
South Africa	-	7%	-	23%	-	50%	-	14%	-	6%
Saudi Arabia	10%	23%	26%	29%	28%	32%	22%	9%	14%	6%
U.A.E.	9%	20%	24%	33%	42%	37%	15%	6%	10%	5%
France	5%	9%	28%	31%	36%	35%	18%	16%	13%	9%
Germany	8%	10%	28%	29%	38%	42%	14%	11%	13%	8%
Italy	5%	10%	25%	37%	41%	37%	19%	11%	11%	5%
Russia	3%	12%	19%	34%	45%	37%	20%	11%	13%	6%
Sweden	10%	11%	25%	26%	32%	37%	16%	17%	17%	9%
U.K.	5%	8%	24%	29%	36%	39%	22%	15%	13%	9%
OVERALL	6%	10%	24%	28%	40%	43%	18%	13%	12%	6%

Source: Datamonitor consumer research 2009 and 2011.

country partners as well as NGOs and other institutions, to seek greater trade equity in the review of its trade rules under the Common Commercial Policy. This was a key issue of concern during the revision of the EU Generalised System of Preferences, which defines the tariffs applied to development country exports to the EU.⁴¹ Similarly, at the WTO various initiatives have been development in order to achieve greater equity in global trade rules⁴² and various NGOs and other global institutions have emphasised the key role played by the WTO in promoting equitable trade around the world⁴³.

Perhaps the most convincing rationale for linking ET and FT, is that the latter depends on the former – without transparent, inclusive and equitable trade rules, FT (and other private sustainable trade standards) cannot operate effectively. This dynamic can be illustrated in two distinct scenarios, both of which put FT against trade rules that prohibit rules or conduct which could be considered discriminatory or protectionist:⁴⁴ firstly, with regards public procurement where FT is upscaled from producer-private consumer relationship to producer-public consumer relationship, and

the question arises as to what criteria can apply to public procurement tenders, especially criteria relating to FT such as sustainability or social standards; secondly, with regards non-trade objectives in trade rules, the concern that rules which seek to liberalise trade and eliminate non-tariff barriers in order to promote trade in goods and services and investment, would be undermined by an increase in public rules and regulations that promote labour, sustainability, environmental or other social issues. In order for the stakeholders that FT supports, namely smallholder

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farmers, craftsmen and women, and producers in developing countries, to be fully integrated into global trading systems, ET has to unequivocally protect social and environmental standards.

2.8 Voluntary vs. Mandatory Approaches

One key tenet or principle which should be recognised as critical to the ongoing success of FT, and which is sometimes at odds with ET is the notion that standards are *voluntary*, namely they are often not already part of the farmer or producers or buyer or consumer's obligations under national or international law.

The voluntary aspect of FT recognises the fact that the implementation and enforcement of mandatory social or environmental standards and rules at national and international levels is essentially an impossible feat. On the one hand, many developing countries, and some developed countries have shown reluctance or outright opposition to the development of mandatory social or environmental rules on various grounds: that they will discriminate between developing and developed countries (as the rules are often formulated by developed countries), that they will be impossible to enforce in any case, and the burden for paying for the enforcement will often fall on developed countries, that they will jeopardise the competitiveness of developing country economies by creating more costs and expenses for businesses to comply, that

developing countries will face punitive measures which developed countries don't in the event that these standards are breached etc. The response from the private sector is seldom enthusiastic, as again the issue of costs and regulation to enforce mandatory standards are often decried as burdening business and especially small and medium sized enterprises. Lastly, even in the event that a country is willing to implement such mandatory standards, there is a real risk that its trading partners could interpret them as protectionist measures which seek to create non-tariff barriers to trade.⁴⁵

For the FT system, a key issue is whether the development and enforcement of public standards which match or even supersede the private standards currently used by FTO and others, would result in a marginalisation of the FT operators and eventually make the entire FT system as a standard setting and enforcement tool, redundant. This has become the case with other private standards setting schemes, particularly in the organic sector which went from largely being a privately operated economy to one which is now almost entirely regulated from the public domain.⁴⁶

With so many challenges to the development of mandatory rules, the question then becomes how to integrate the many voluntary standards-setting and enforcement approaches (including FT as well as environmental standards) into the global trade and ET domain without making it more challenging for farmers and producers in developing countries to export. One possible response to this dilemma has been for public sector bodies and entities

(such as local governments or public institutions such as hospitals or schools) to become stakeholders in the FT system as consumers, and for their engagement in FT to be protected within the trade rules that apply to their country of establishment. This is especially relevant because the public sector is a significant economic player in many countries and the rules that apply to it are, especially in the case of the EU and other developed countries, part of the multilateral trade framework through the Government Procurement Agreement⁴⁷. Another possible response is for developing country governments to support FT as a means of achieving greater ET. In recognition of the particular desire of developing countries to achieve ET, as well as the difficulties of agreeing on and enforcing mandatory standards, and their commitment to supporting key economic sectors such as agriculture, and empowering smallholder farmers, producers, craftsmen etc, who are in and of themselves part of the SME sector, then developing country governments can leverage the voluntary private standards such as FT to directly promote ET. This can be done, for example, through Free Trade Agreement/ Economic Partnership Agreement negotiations, seeking to get greater tariff reductions or have no tariffs at all applied to developing country goods that have FT or like certification. An approach such as this one could also be further applied as a response to the challenge of preference erosion for key commodities which are often the same commodities that are targeted for FT certification in developing countries (bananas, sugar etc).

3. Standards and standards setting

Compliance with standards is the primary means by which the Fair Trade certification is gained, and the standards themselves are set by the certifying body. As the certifying bodies or organisations are private, their standards are also considered private and are not publicly enforceable. Nevertheless, there is a strong public aspect to these standards as often they concern compliance with some existing domestic legal obligations (on child labour and other illegal labour practices).

A standard can be generally defined as “a document that provides requirements, specifications, guidelines or characteristics that can be used consistently to ensure that materials, products, processes and services are fit for their purpose.”⁴⁸ The WTO Agreement on Technical Barriers to Trade goes further still and defines standards as document approved by a recognised body, that provides, for common and repeated use, rules, guidelines or characteristics for products or related processes and production methods, with which compliance is not mandatory.⁴⁹ Therefore, unlike rules or regulations, standards are not mandatory and as such, are a suitable instrument for private certification.

However, standards, whether private or public, are not without their critics and are an issue that often raises contention between countries, both developed and developing alike. The most frequent contexts in which standards are questioned are at the WTO and other trade-related fora, and then also in the context of consumer affairs, including consumer rights and protection. Some of the criticisms

which standards face include lack of transparency (in the development and application of standards), unfairness or discrimination (where standards apply to one group of economic entities but not another), legal uncertainty (in some cases, where a voluntary standard overlaps with a legal obligation, and parties may not be sure where a law ends and a standard begins), acting as a barrier to trade (where standards put additional burdens beyond legal obligations, for economic entities to trade in goods or services).

The two aforementioned routes to market Fair Trade products (traditional or integrated route and the Fair Trade labelling route) are reflected in two sets of Fair Trade Standards: international Fair Trade standards for labelled products have been developed by FLO (Fairtrade Labelling Organizations International or Fairtrade International) and international standards for Fair Trade Organizations have been developed by WFTO (World Fair Trade Organization, formerly IFAT).

Both systems are based on the joint Fair Trade definition and principles.

3.1 International Standards for Fairtrade labelled products

FLO is the leading Fairtrade standard setting body for labelled products. Its affiliated company FLO-Cert regularly inspects and certifies over 500 producer organizations in more than 50 countries in Africa, Asia and Latin America.⁵⁰ Fairtrade Standards are developed by the FLO Standards

Committee which is composed of FLO's labelling initiatives, producer organizations, traders and external experts.

Producers and traders need to comply with the applicable Generic Trade standards and Producer Standards as well as Product Standards. All standards are divided into core and development standards.

3.1.a. Generic standards for Trade and Production

FLO stipulates three categories of generic *producer* standards, one for small farmers⁵¹, one for hired labour,⁵² and another for contract production.⁵³

The first set applies to smallholders organised in cooperatives or other organisations with a democratic, participative structure. The second set applies to organisations that employ hired labour to supply particular Fairtrade products. Part of the standard also applies to the companies that trade with them. The final set applies to small-scale producers who are not yet democratically organised. As a temporary measure, they can join Fairtrade if they have a partnership with an organisation (such as an exporter or NGO) who will assist them to form an independent organisation.

In addition to these three producer standards, FLO also stipulates generic *trade* standards (GTS), which apply to those operators in the supply chain who ‘trade (buy, sell or process) Fairtrade certified products, up to the point where the product is in its final packaging’ as well as Fairtrade

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payers (being responsible for paying the Fairtrade Price and Fairtrade Premium) and conveyors (receiving or handling the Fairtrade price and Fairtrade Premium). Operators who are part of the processing of FT goods and products are certified against the GTS and their purpose is to strengthen the relationship between producers and traders of FT products in the context of the FT principles and especially to 'provide greater transparency of the flow of Fairtrade Premium and prices'.⁵⁴

As Fairtrade is also about development, the generic standards distinguish between *core standards*, which are minimum requirements that producers must meet to be certified Fairtrade, and *development standards* which constitute requirements for progress that encourage producer organisations continuously to improve working conditions and product quality, to increase the environmental sustainability of their activities and to invest in the development of the organisations and their producers/workers⁵⁵.

Standards for Small Farmer's Organisations

Two principles are outlined by FLO with regards this standard:

- Members must be small-scale producers. The majority of the members of the organisation must be smallholders who don't depend on hired workers all the time, but run their farm mainly by using their own and their family's labour.
- Democracy: Profits should be equally distributed among the producers. All members have a voice and vote in the decision-making process of the organisation.

These standards, which have been in application since 1 February 2014, cover the following issues (number of obligations in parentheses):

- General Requirements, which defines what Fairtrade understands by small producers and their organisations (4).
- Trade, which defines what producers can do to build fair trading practices. It covers traceability (8), sourcing (1), contracts (4), and use of the FT Trademark (2).
- Production, which defines what producers can do via production methods to better secure sustainable livelihoods. It covers management of production practices (5), environmental development (28), and labour conditions (36).
- Business and Development, which defines the unique Fairtrade approach to development. It explains how through social organisation producers can build a basis for empowerment and sustainable livelihoods. Three issues are covered, non-discrimination (4), democracy, participation and transparency (13) and development potential (11).

Standards for Contract Production⁵⁶

The latest standards for contract production, in application since 1 March 2014, cover two subjects of the Fairtrade contract production approach – promoting bodies⁵⁷ and producer organisations⁵⁸. Part A contains the requirements that the promoting body must comply with. Part B contains the requirements that the registered producers and producer organisation must comply with, with support from

and under the responsibility of the promoting body. It is structured into the following sections (number of obligations in parentheses):

Part A:

- General Requirements, which defines Fairtrade small producers and lays out the prerequisites for promoting bodies (11).
- Trade, which defines what promoting bodies can do to build fair trading practices. It covers traceability (7), sourcing (1), contracts (10), and use of the FT Trademark (2).
- Production, which defines what producers can do via production methods to better secure sustainable livelihoods. There are provisions on monitoring systems (1), environmental development (26), and labour conditions (3).
- Business and Development, which defines the unique Fairtrade approach to development. It explains how, through social organisation, producers can build a basis for empowerment and sustainable livelihoods. This covers development potential (7), democracy, participation and transparency (7), non-discrimination (2), Fairtrade Price (2) and Fairtrade Premium (8).

Part B:

- General Requirements, which defines Fairtrade small producers and lays out the prerequisites for promoting bodies (1).
- Trade, (there are no trade obligations).
- Production, which defines what producers can do via production methods to better secure

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sustainable livelihoods. There are provisions on environmental development (15), and labour conditions (12).

- Business and Development, which defines the unique Fairtrade approach to development. It explains how, through social organisation, producers can build a basis for empowerment and sustainable livelihoods. This covers development potential (8), democracy, participation and transparency (5), non-discrimination (2), and Fairtrade Premium (2).

Standards for Hired Labour

Organisations which use hired labour are informed, in the application of this standard, by the following principles elaborated by FLO:

- Management of the Fairtrade Premium: The Joint Body, which includes workers and management, is responsible for the management of the Fairtrade Premium in accordance with Fairtrade standards.
- Freedom of association & collective bargaining: Workers have the right to join an independent union to collectively negotiate their working conditions.
- Working conditions: Working conditions are equitable for all workers. Salaries must be equal or higher than the regional average or than the minimum wage in effect. Health and safety measures must be established in order to avoid work-related injuries.

The standards for hired labour, which came into force on 1 February 2014, and are structured as follows (number of obligations in parentheses):

- General Requirements set the requirements related to the certification process and to the scope of the standard (7).
- Social Development consists of requirements that are unique to Fairtrade and is intended to lay the foundations for empowerment and development to take place. The provisions relate to management of FT Premium (20), and capacity building (9)
- Labour Conditions requirements are intended to ensure decent working conditions. They are based on the 1998 ILO Declaration on Fundamental Principles and Rights at Work, as well as all other applicable ILO Conventions as references for decent working conditions. There are provisions on freedom from discrimination (9), freedom of labour (2), child labour and child protection (5), freedom of association and collective bargaining (12), conditions of employment (28), and occupational health and safety (31).
- Environmental Development requirements intend to make certain that agricultural and environmental practices contribute to a more sustainable production system. It covers environmental management (2), pest management (15), soil and water (13), waste (3), genetically modified organisms (1) biodiversity (6), and energy and greenhouse gas emissions (2)
- Trade requirements define what must be done when you produce Fairtrade products and then sell them. Provisions are outlined on traceability (6), sourcing (1), contracts (3), and use of Fairtrade trademarks (2).

Generic Trade Standards

FLO defines a number of principles which underlie this standard, and meaning that traders must:

- Pay a price to producers that aims to cover the costs of sustainable production: the Fairtrade Minimum Price.
- Pay an additional sum that producers can invest in development: the Fairtrade Premium.
- Partially pay in advance, when producers ask for it.
- Sign contracts that allow for long-term planning and sustainable production practices.

The latest version of these standards was amended in July 2014, and covers the following issues (number of obligations in parentheses):

- General Requirements, which define requirements related to certification, and to the labelling and packaging of finished and unfinished products (8).
- Trade, which define requirements related to trading practices. It concerns traceability (14), product composition (5), and contracts (7).
- Production, which may only apply to product specific requirements. There are no generic production requirements.
- Business and Development, which defines requirements that make the unique Fairtrade approach to development more visible. They concern sustainable trade (3), pre-finance (7), and pricing (7).

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3.1.b Product standards

Product standards have so far been developed for 17 classes food and non-food products, ranging from coffee, tea, sugar, cocoa, rice, and fruit to flowers, cotton and sportballs.⁵⁹ The product standards specify the minimum price and premium as well as other product-specific requirements. Certification of compliance with these standards is done by the independent organization FLO-Cert GmbH⁶⁰.

The setting of standards or criteria, certification that those standards have been met, and labelling to indicate that the producer has been certified are critical elements for the operation of Fair Trade schemes. Fair Trade membership organisations certify and monitor producers, traders and retailers based on these standards and authorise them to use their labels or logos⁶¹.

Finally, there are a few product-specific Fairtrade standards for each product that determine such things as minimum quality, price, and processing requirements that have to be complied with⁶².

The most notable development in relation to Product standards was the introduction of gold and associated precious metals, including silver and platinum as a Fairtrade product in 2013.⁶³ This is the first time that mineral products can receive Fairtrade labelling, and the standard will be valid from November 2014. According to the FLO, the aim is for 'Fairtrade to offer a small, but scalable solution to companies looking to source gold from artisanal and small-scale miners that can demonstrate conformance with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Area'.⁶⁴

This initiative to develop fairly traded precious metals had also sought broad based partnerships to support the development of artisanal and small-scale miners through trade. Along with the FLO, there are numerous regional, international and multilateral institutions, as well as NGOs, and the private sector involved in engaging with stakeholders and to providing technical and non-technical inputs, including Fairtrade Africa, Environmental Women in Action for Development (EWAD) Uganda, Solidaridad East Africa, MTL Consulting, Estelle Levin Ltd and the Artisanal Gold Council.⁶⁵

3.2. International Standards for Fair Trade Organizations: what does Fair Trade mean for producers' organizations?

The World Fair Trade Organization (WFTO) is the global network of Fair Trade Organizations, with around 386 members in 71 countries.⁶⁶ The membership is very diverse, ranging from small producer organizations to large cooperatives and from one person importers to retailers with turnover of several million Euros. Two thirds of WFTO members are located in developing countries. WFTO standards are developed in the Standards and Monitoring subcommittee with input from various stakeholders including producers, southern exporters, importers, retailers and Fair Trade support organizations, and approved by the Annual General Meeting.

WFTO has developed 10 international standards for Fair Trade Organizations (FTOs), namely:

1. Creating Opportunities for Economically Disadvantaged Producers
2. Transparency and Accountability
3. Fair trading practices
4. Payment of a Fair Price
5. Ensuring no Child Labour and Forced Labour
6. Commitment to Non Discrimination, Gender Equity, Women's Economic Empowerment and Freedom of Association
7. Ensuring good Working Conditions
8. Providing Capacity Building
9. Promoting Fair Trade
10. Respect for the Environment

Each standard is accompanied by a set of measurable indicators and compliance criteria which differ between "entry" and "progress" level. FTOs in compliance with these standards can acquire the right to use the FTO Mark for their organisation⁶⁷.

3.2.a. Fair Price

The defining characteristic of Fair Trade in comparison to other private and voluntary standards is that it provides producers with a price guarantee for their goods, by virtue of the Fairtrade price premium.⁶⁸ Price premiums are a price which the producer of a FT good or product received in addition to the price for the product or good itself. The premium is ultimately paid by the

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consumer, on the price of the final consumer good into which the FT produce goes.

Definitions and Procedures

FLO has established a specific table for the calculation of the Fairtrade Premium which takes into account the product and its Fairtrade Minimum Price (where applicable), its Commercial or market price, which is the price is a negotiated price between the seller and the buyer. Most of the products are assigned a specific Fairtrade Minimum Price (for some, this is the Commercial Price) and Fairtrade Premium which is calculated as either a share of the Minimum or Commercial Price (10% to 15% on average), or it is calculated as 'Currency / Quantity x Unit' (for example, x US dollars or Euros per metric tonne or kilos).⁶⁹

According to the FLO "For Fairtrade products, a Fairtrade Minimum Price (where it exists) and a Fairtrade Premium have to be paid. Wherever the market price or negotiated price is higher than the Fairtrade Minimum Price, the relevant market price applies. In any case, the Fairtrade Premium has to be paid on top of the price."

Below are some of the definitions provided by the FLO in relation to the Fairtrade price:

- *Fairtrade Minimum Price* (where it exists) is the lowest possible

price that may be paid by buyers to producers for a product to become certified against the Fairtrade standards.

- *Fairtrade payer* means the buyer responsible for paying the Fairtrade Minimum Price and the Fairtrade Premium Buyers must check their potential status as Fairtrade payer with the certification body.
- *Fairtrade Premium* is an amount paid to producers in addition to the payment for their products. The Fairtrade Premium is intended for investment in the producers' business and community (for a small farmers' organization or contract production set-up) or for the socio-economic development of the workers and their community (for a hired labour situation).
- *Fairtrade price* means the total price paid to producers and includes the Fairtrade Minimum Price (or relevant market price where applicable) and the Fairtrade Premium.
- *Farm Gate price* as used by FLO refers to the gate of the certified producer entity (e.g., the Small Producers' Organization), and not the gate of the individual producer's farm. Farm Gate therefore means that the seller (the certified producer entity) delivers when they place the

goods at the disposal of the buyer at the premises of the seller.

- *Market price* means the price calculated under normal/ordinary conditions (including any differentials due to quality, variety or other factors), with no reference to any additional Fairtrade Premium.

Additional considerations are also stipulated by FLO for the calculation of the Fairtrade price which may go to the producer, and the costs which may be involved, in addition to the products specific premium price. These include transport, specific packing or processing, for which the parties to the contract (producer and buyer in most instances), must stipulate who is responsible for such costs in the contract.⁷⁰

The rules are also clear as to how the Fairtrade premium must be calculated for transformed or blended products, which, such as a chocolate bar, may contain Fairtrade produce (cocoa, sugar) and non-FT produce (milk, stabiliser). Only the raw FT ingredient serves as the basis of the calculation of the price and Fairtrade Premium.⁷¹

The Explanatory document for the Fairtrade Trade Standard provides an illustrated guide as to *how* the Fairtrade premium must be transferred down various value chains and finally to the producer:

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Box 1: Illustrating Fairtrade Premium transfer in the Product Value Chain (source: FLO)

Fairtrade Payer and Conveyor

Fairtrade payers are responsible for paying to producers the Fairtrade Minimum Price or the relevant market or negotiated price whichever is higher. Which operator acts as the Fairtrade payer depends on the supply chain and may be different in each case. It is usually the trader who buys from the producer organization.

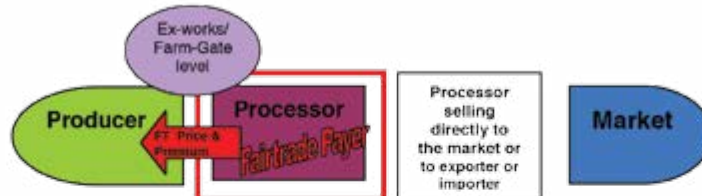
It is the exporter if the producers do not export directly and prices are set at ex works/ farmgate level.



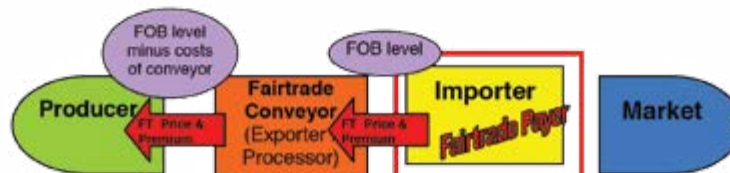
When producers export directly, the importer is the Fairtrade payer.



When producers sell to the processor and prices are set at ex works/ farm-gate level, it is the processor.



In contrast to the Fairtrade payer, the Fairtrade **conveyor** only receives the Fairtrade Premium money from the Fairtrade payer and passes it on to the certified producers. This can happen for example where the applicable price is at FOB level but producers do not export themselves. In this case, there is a processor or exporter between the producers and the importer. The operator in-between just passes the Fairtrade Minimum Price and Fairtrade Premium from the Fairtrade payer to producers.





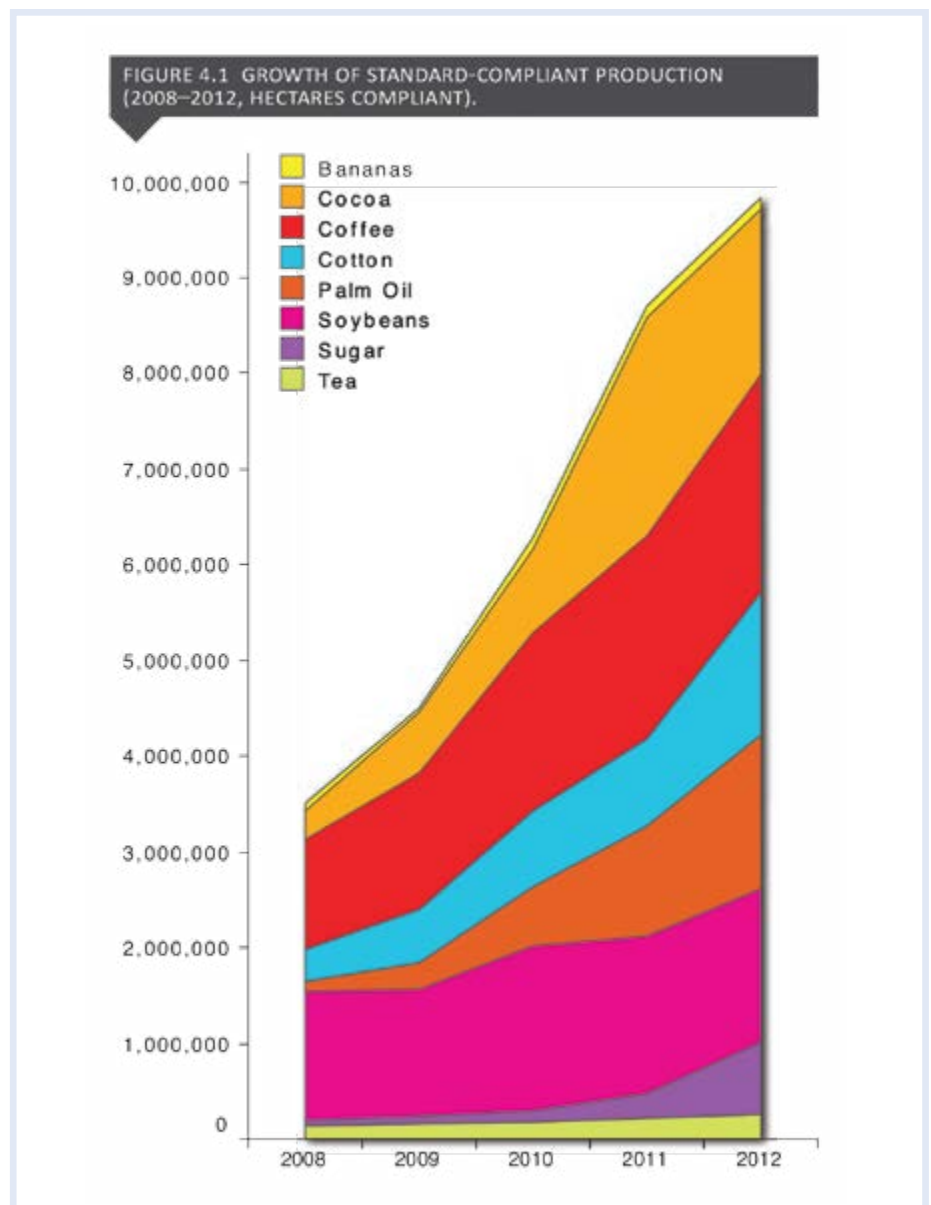
4. Fairtrade standards in the Global Marketplace: Issues and Implications for the ACP

4.1 Issues with Fair Trade in the Global Marketplace

There is a considerable volume of literature about Fairtrade in the context of analyses and critiques of private or voluntary standards and their effects on local, global and regional markets. The study of standards has also become an increasingly urgent issue in the food and agriculture sector, as growth of standard-compliant production across key commodities for smallholders has increased much more rapidly than for conventional commodity markets (2012: 41% increased growth for standard compliant productions vs. 2% growth for conventional commodity markets), across all commodity groups (sugar: 79%, cocoa: 69%, cotton 55% growth). As it stands, standard compliant products have also seen a strong growth in their market share⁷², and constitute an ever increasing production system.⁷³

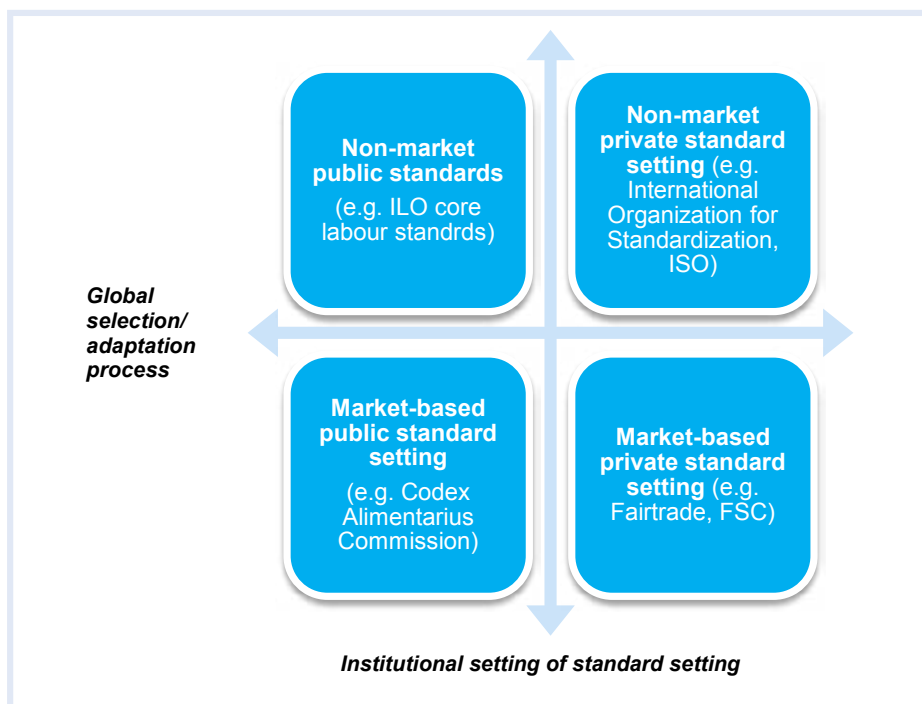
From the consumer perspective, it is estimated that there are more than 400 consumer facing eco-labels operating globally⁷⁴, and the European Commission's Directorate for Agriculture estimated that in 2010, there were also over 400 private certification schemes in the EU.⁷⁵

Figure 5 : Growth of standard-compliant production (2008–2012, hectares compliant).



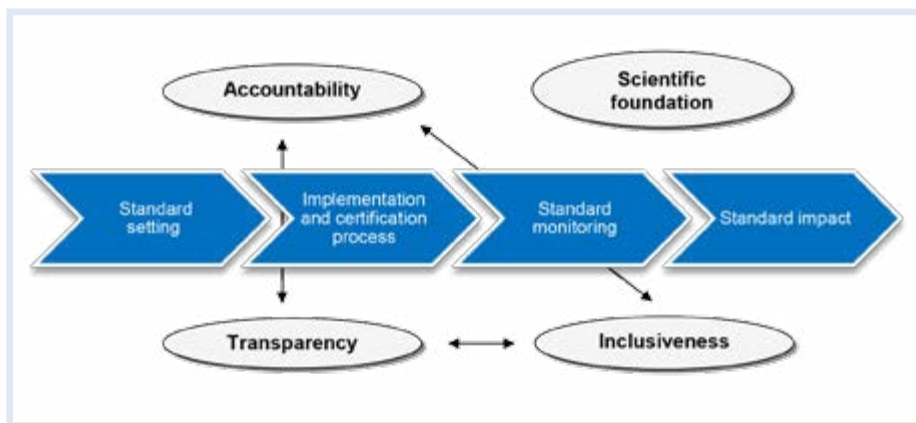
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Figure 6: Typology of Standards



Source: Büthe & Mattli 2011.

Figure 7: Elements of Legitimacy



Source: Authors.

Within the broader scheme of private standards, Fairtrade can be categorised as a 'market-based private standard' (International Trade Centre (2011); Hiscox, M.J. 2007)

This analysis of Fair Trade and other private standards has tended to centre around two issues, the normative and the substantive.

4.2. Normative Issues with Fair Trade

A norm is colloquially a standard, pattern or model which is regarded as typical⁷⁶. As the popularity and application of Fair Trade continues to increase, according to several criteria⁷⁷, it becomes increasingly subject to normative evaluation. Generally, normative review of

Fair Trade as a private standard have considered issues such as its legitimacy as a private standards (and the legitimacy of private standards in general), its level of transparency, inclusiveness, rationale, the extent to which it conflicts or overlaps with public standards, its relevance to smallholder farmers and their needs, its relevance or appropriateness as a market or trade instrument and so on.

I. Legitimacy

The issue of the legitimacy of Fair Trade as a private standard is a complex one, and also largely subjective as there are no hard and fast rules as to what constitutes a legitimate standard. The International Trade Centre explores this issue substantially in a technical paper on The Interplay of Public and Private Standards⁷⁸.

In this regard, several of the WFTO principles correspond strongly with responding to legitimacy, such as Transparency and Accountability. The issues of inclusiveness or accountability of the Fair Trade organisations and the WFTO have been subject to criticism and praise. For example, in a comparison between Fairtrade and the fifteen of the most important global standards initiatives currently covering the agriculture, forestry and biofuels sectors, Fairtrade was only one of two which only had civil society as stakeholders in their founding.

Furthermore, in terms of the board representation by supply chain, Fairtrade was found to have a positively even distribution between producers, industry/private sector, NGOs and civil society, and other groups.

Lastly, looking at board representation by geographical location (developing/developed countries), the same study also

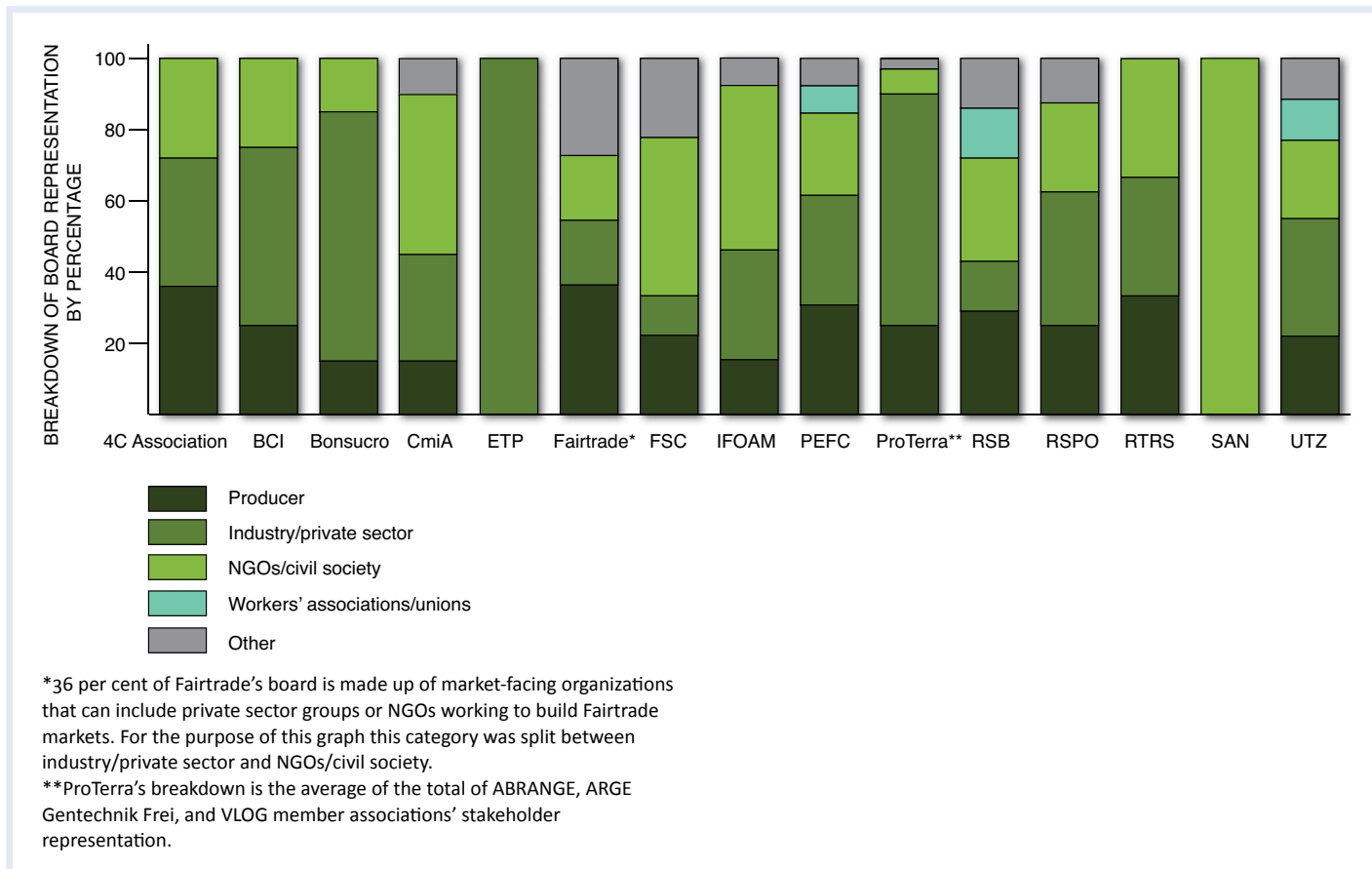
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Figure 8: Founding stakeholders by initiative

Initiative (from date of establishment)	Stakeholder groups that established the initiative			
	Civil society	Producers	Private sector	Public sector
IFOAM	✓			
SAN/RA	✓			
FSC	✓	✓	✓	
ETP			✓	
Fairtrade	✓			
GLOBALG.A.P.			✓	
PEFC		✓		
UTZ Certified		✓	✓	
RSPO	✓	✓	✓	
BCI	✓	✓	✓	
CmiA	✓	✓	✓	✓
4C Association			✓	✓
RTRS	✓	✓	✓	
RSB	✓	✓	✓	
Bonsucro	✓	✓	✓	
ProTerra	✓		✓	

source: SSI 2014

Figure 9: Board representation by stakeholder role in Supply Chain



source: SSI 2014

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found Fairtrade to have an approximate balance of 50/50 from each region.

The other evaluations comparing Fairtrade to other global sustainability initiatives on

inclusiveness, transparency and accountability found as follows:

II. Relevance of Fairtrade to Producers

The stated aim of the WTOF is to enable producers to improve their

livelihoods and communities through Fair Trade.⁷⁹

To put the market in which FT operates into context, it is necessary to have a cursory view at some figures on agricultural trade

Figure 10: External participation in rule-making processes for voluntary standards.

	4C Association	BCI	Bonsucro	CmiA	ETP	Fairtrade	FSC	GLOBALG.A.P.	IFOAM	PEFC	PROTERRA	RSB	RSPO	RTRS	SAN/RA	UTZ †
Stakeholder participation on boards and committees		✓		✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Stakeholder consultation in standard-setting processes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Stakeholder decision making in standard-setting processes		✓		✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓

† Participation of stakeholders: The Standards Committee and Product Advisory Committees provide the fora for stakeholders along the value chain, from producers to buyers to be involved and influence the operations of UTZ Certified (UTZ, 2013).

source: SSI 2014

Figure 11: Dispute settlement index for voluntary sustainability standards reviewed in the SSI Report.

	4C Association	BCI	Bonsucro	CmiA	ETP	Fairtrade	FSC	IFOAM	PEFC	ProTerra	RSB	RSPO	RTRS	SAN/RA	UTZ
Existence of independent dispute settlement body	✓						✓	✓	✓						✓
Public access to policies and procedures for complaints	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Complaints and dispute resolution procedures available in languages other than English §	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓†	
Ability to launch complaints at the local level	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Complaints accepted through informal means		✓			✓		✓	✓	✓	✓	✓		✓	✓	✓

† Rainforest Alliance, 2013a.
 § It is perhaps worth noting here that there are various levels of disputes concerning different issues such as certification decisions and standard setting. These complaints occur at both the national and international level. At PEFC, for example, the availability of different languages with respect to disputes is distinguished between international activities (English), endorsement decisions (English), PEFC members (local languages as well as English for international) and certification decisions (local language).
 GLOBALG.A.P.: Information unavailable.

source: SSI 2014

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Figure 12: Availability of documents and decisions online.

Type of information	Information detail	4C Association	BCI	Bonsucro	CmiA	ETP	Fairtrade	FSC	GLOBALG.A.P.	IFOAM	PEFC	ProTerra	RSB	RSPO	RTRS	SAN/RA	UTZ
Decision makers	List of board members	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	List of committee members	✓	✓				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Decisions	List of compliant enterprises	✓					✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
	Certification decisions			✓			✓	✓	✓		✓	✓	✓	✓	✓		
Documents	Committee meeting minutes and records		✓						✓					✓	✓		
	Standard-setting and review procedures	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Independently audited full financial statements	✓					✓	✓		✓	✓	✓			✓	✓	
	Annual report	✓	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

35 Some information extracted from ITC Standards Map (ITC, 2013b) and some provided directly from the standards bodies.

SSI data: Rainforest Alliance, 2011 (independently audited full financial statements); Rainforest Alliance, 2012 (financial summary in annual report, policies and procedures for complaints).

4C: The list of committee members is in reference to technical committee members and Mediation Board members (4C Association, 2013c; 2013e). See 4C Association (2013a) for list of compliant enterprises.

BCI: Although BCI makes complaints and dispute resolutions available online, the initiative has not received any official complaints since its inauguration (SSI correspondence with BCI).

Fairtrade: Fairtrade's website provides an annual statistical report with aggregated figures for complaints, appeals and allegations, as well as for certification decisions.

FSC: All ca. 1300 FM/CoC certification decisions are publicly online (including CARs/follow-up) (SSI direct communication with FSC).

RSB: RSB (2011a).

RTRS: RTRS "committee members" refers to the Task Force Brazil and the Pesticides' Use Working Group (SSI correspondence with RTRS).

SAN/RA: The list of the International Standards Committee is available online (A. de Freitas, SAN/RA, personal communication, December 2013).

UTZ: UTZ makes lists of some committee members available online, but not members of all committees. UTZ will begin publishing independently audited full financial statements online in 2014 (SSI correspondence with UTZ Certified).

source: SSI 2014

between developing and developed countries. According to UNCTAD, between 2007 and 2012, the share of agricultural goods in global trade remained stable, growing marginally from 8.3 to 9.2 per cent. Furthermore, the top ten South-North agricultural exports included cash crop products such as coffee and bananas, which have shown little change since 2007. In 2012, the value of exports in South-North agricultural trade was US\$296 billion and making up 33.6 percent of global agricultural trade flows⁸⁰.

With regards to agricultural producers in developing countries,

UNCTAD has found that they make up 98% of the world's 1.3 billion agricultural workers, and in Africa, this equates to over 60 per cent of the workforce. Furthermore, poverty is highly concentrated within workers in rural areas, particularly in Sub-Saharan Africa.

The agricultural sector in developing countries also has the highest incidence in child labour, with over 60 per cent of all child labourers working in agriculture.⁸¹

It is evident that notwithstanding the contribution of farmers in

developing countries to agriculture and the global food value chain, they nevertheless remain marginalised and impoverished even though the global food and agriculture sector continues to grow in value. In light of this picture, the question then becomes whether Fairtrade is relevant to addressing the needs of farmers in developing countries.

One of the criticisms often levied against Fairtrade is whether its standards are suitable or even relevant for the situation of smallholders and producers in

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Figure 13: Poverty incidence and depth in low-income and lower middle-income countries (Percentage) (UNCTAD, 2014)

	Poverty headcount ratio	Poverty gap
Low-income countries		
Rural	53	20
Urban	29	10
Total	46	17
Lower middle-income countries		
Rural	48	15
Urban	27	8
Total	40	12
Sub-Saharan Africa		
Rural	57	22
Urban	29	11
Total	47	20
South Asia		
Rural	27	6
Urban	15	3
Total	25	5

Note: Country averages are based on the latest available data for 2008–2012. The poverty headcount ratio corresponds to the percentage of the population (total, rural or urban) living on less than \$1.25 a day at 2005 international prices. The poverty gap is the mean shortfall from the poverty line (counting the non-poor as having zero shortfalls), expressed as a percentage of the poverty line.

Source: World Bank World Development Indicators database, available at <http://data.worldbank.org/data-catalog/world-development-indicators>.

developing countries. For example, some standards such as the absolute prohibition of child labour or the use of GMOs have been argued, from the perspective of orthodox economics, to be potentially inconsistent with the immediate economic needs of farming families in developing countries.⁸²

Another criticism of Fairtrade, elaborated by Jaffee, D. (2012), is the increased risk of co-option, whereby the private sector, and corporate institutions in particular, have undermined the social and economic imperatives of Fairtrade by developing their own like and sometimes misleading private standards. In fact, the issue of overlapping standards and certification initiatives and their potential cost to smallholder farmers is one that is often raised by both proponents and detractors of Fairtrade and private certification and standards in general.⁸³ The problem that is outlined in the co-option scenario, is that producers in developing countries are not

seeing the benefits of increased consumption of Fairtrade products where large private sector operators have co-opted the Fairtrade brand to access a niche market, but have not implemented the corresponding rules and obligations on how the label should be used and for which specific goods:

The greatest concern expressed by fair trade movement groups and many 100 percent fair trade companies is that without binding commitments to volume growth, large firms can utilize the fair trade seal to burnish their corporate images and mislead consumers about their overall business practices, without meaningfully altering those practices. The potential of the fair trade label to serve as a vehicle for “fair-washing” (Renard 2005) in the fast-growing arena of corporate social responsibility claims is acknowledged by the licensing bodies.⁸⁴

As private sector participation in Fairtrade grows, especially large multinational food and agro-industry operators, including in the areas of retail and food services, criticism has arisen as to the degree to which these operators implement the Fairtrade values, particularly in light of numerous studies which argue that the largest share of the gains from the Fairtrade Price are largely captured by the downstream operators such as retail sector, and the Fairtrade Premium which the producer gets is actually minimal by comparison.⁸⁵

From the political perspective, some critics argue that Fairtrade, and private standards in general, are of a disservice to farmers and all other constituents in developing countries overall because it shifts regulatory responsibility from the state to consumers⁸⁶.

In response to these criticisms of Fairtrade, a number of studies have argued that from the conceptual or theoretical perspective, the Fairtrade approach can respond to the needs of smallholders in various ways. However, lack of timely and explicit data concerning smallholder farmers and developing countries in general, also raises limitations with regards to the accuracy of any model which evaluates the relevance of Fairtrade.

With regards the issue of whether standards should be applied, and if so, whether the standards being chosen are the most relevant or appropriate ones, this question can be looked at from the counterfactual – namely, what the scenario would be in the absence of any initiative which seeks to encourage and certify the compliance of producers in developing countries with global standards. Although Fairtrade

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standards and certification are voluntary, some of the provisions which are included in these standards concern obligations by developing countries under international law, for example with regards labour provisions and some environmental provisions. As noted in Hiscox (2007), developing countries may not have the means, capacity or political will to enforce these global standards in the face of other competing demands or as a result of corruption. However, failure to comply with obligations on child labour or rights of workers can have a very negative effect on exports from developing countries, especially in the agricultural trade context. Entry into developed country markets has been listed by some producers as a motivation for gaining Fairtrade certification,⁸⁷ over and beyond the gains made from the Fairtrade Premium, as certification can act as an assurance to buyers, traders, retailers and consumers that, notwithstanding the national situation, a producer or group of producers at least comply with what are regarded minimum international norms.

In response to the political criticism, that instead of the governments in developing countries drafting, implementing and enforcing regulations, it is now private entities and organisations that are taking on this responsibility, the proponents of Fairtrade argue that it acts as an *incentivising* mechanism for all stakeholders, public and private, to improve domestic standards. If governments in developing countries can see that the private sector in developed countries respond positively to the establishment of a framework for the respect of international rules on social issues, then it is possible that the standards that Fairtrade expects of its producers could be normalised. As the FAO notes, “some governments and national level producers’ associations have taken

the lead from private standards initiatives to create national standards that are harmonized with international standards.”⁸⁸

There is also some scepticism as to whether governments are, in the first place, the best or most suited institutions to exclusively respond to the rapidly evolving food and agricultural sector, especially taking into account consumer demands. At the international level, adopting decisions on items such as agricultural trade, social issues such as labour standards and so on, takes a long time and often is fraught with contention and lack of consensus. It is arguable that private institutions, and notably Fairtrade, can play a role in the event of paralysis at the state and international level. Furthermore, such a private institution is able to focus its resources more efficiently to address a specific challenge, such as guaranteeing a fairer price for agricultural producers, which governments may not be able to do without falling foul of their international trade obligations.⁸⁹ Therefore, through Fairtrade

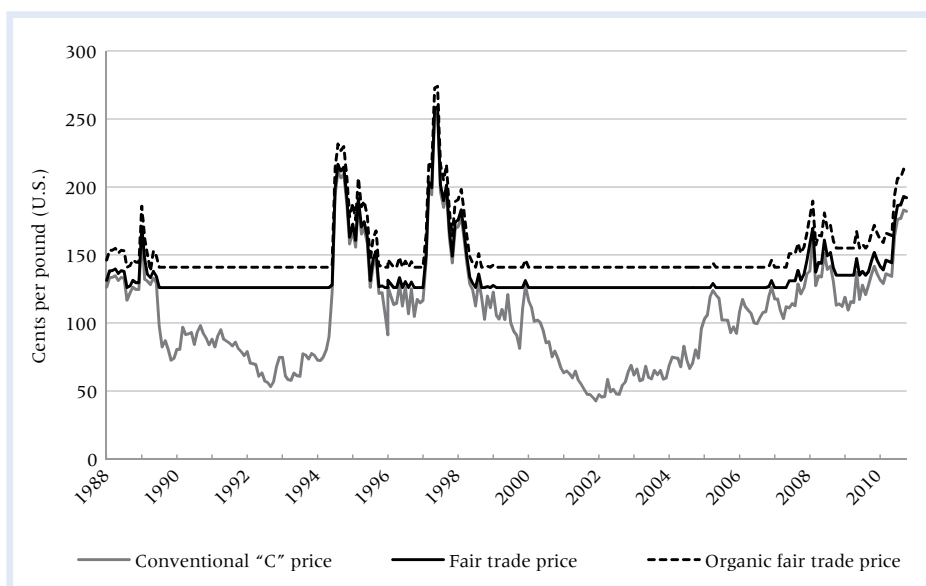
producers benefit from having to comply with standards that are developed for their specific circumstances, rather than the broader, less clear and sometimes more onerous rules or regulations that the public bodies may initiate.⁹⁰

Lastly, public regulation in agriculture and agri-food works through negative enforcement, namely penalties or other costs to producers or other operators who breach the rules. Fairtrade works through positive enforcement, i.e. rewarding producers and other operators who comply with the rules, thereby acting as an incentive for certified operators to maintain and sometimes build on their commitments under the Fairtrade scheme.

4.3. Substantive Issues with Fairtrade

At the substantive level, the evaluation of Fairtrade looks at the measurable effects that Fairtrade has on various groups, notably smallholder farmers and cooperatives, but also looking at

Figure 14: Conventional and Fair Trade Minimum Arabica Coffee Prices (Nominal), 1988–2010



Sources: FLO 2010; ICE Futures 2010, Jaffee, D. (2012)

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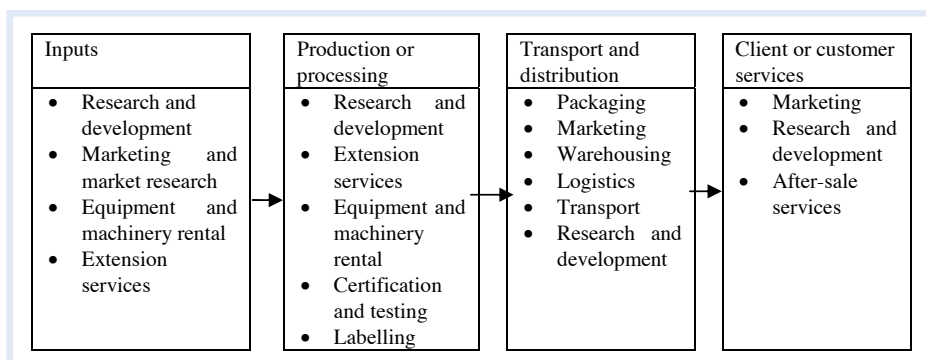
other agents in the value and supply chains for food and agricultural produce. This includes consumers, supermarkets, buyers and other agents, as well as other private sector and public sector bodies. There are various disciplines concerned with the substantive effects of Fairtrade, notably social sciences such as economics, agriculture and sociology, as well as trade, agriculture and development in the context of public sector cooperation.

I. Fairtrade effect on Prices

As the Fairtrade price is the hallmark of the Fairtrade system, and also one of the easier outcomes to measure across different commodities and countries, it has been subject to the broadest range of analysis as a means of quantitatively demonstrating the substantive outcomes of Fairtrade. Undoubtedly, the Fairtrade Premium means that a farmer will receive a higher price for a Fairtrade product than for a non-Fairtrade product.⁹¹ Furthermore, because of the price floors for Fairtrade products (Fairtrade Minimum Price), producers are also less vulnerable to extreme market price fluctuations which can be devastating for smallholders as they often are less resilient than other agricultural operators in the value chain.⁹²

The case for the Fairtrade price is not so clear cut, however. A substantial body of literature also demonstrates that, compared to the costs of certification, and other expenses that are not factored into the Fairtrade Price, the premium that farmers gain from Fairtrade certification may not actually result in markedly increased profit margins.⁹³ This issue is particularly contentious with Fairtrade certification, compared to other forms of private standards and labels, because arguably the

Figure 15: Specialized services associated with agricultural production in different stages of the value chain



Source: Economic Commission for Latin America and the Caribbean, 2014, studies presented at the Third Conference of the Latin American Network for Research on Services – Innovation and internationalization in services: New sources of economic development in Latin America, Mexico City, 13 and 14 March, and N Oddone and RP Pérez, 2014, *El mejoramiento de las cadenas de valor através de servicios profesionales y de soporte*, International Centre for Trade and Sustainable Development, 6 May, available at <http://www.ictsd.org/bridges-news/puentes/news/el-mejoramientode-las-cadenas-de-valor-a-trav%C3%A9s-de-servicios> (accessed 1 July 2014). UNCTAD. 2014

consumer choice is influenced by the representation made through the Fairtrade label that the producer or farmer is making a fairer or healthier profit for their product.⁹⁴ Other forms of certification, such as organic, which do not make such a representation, have often been found to actually result in a higher profit margin for producers than Fairtrade certification for the same goods.⁹⁵

Another issue raised in the literature review of Fairtrade is that, in the context of certified producers who use hired labour, the gains of the Premium may be eroded once you factor in distributional considerations. Subsequently, “although the records of Fair Trade farmers indicated that they received higher prices for their coffee, their qualitative research indicated no evidence that workers received higher wages or benefited in any way from certification... while Fair Trade certification is associated with significantly greater incomes for farmers, it is not associated with

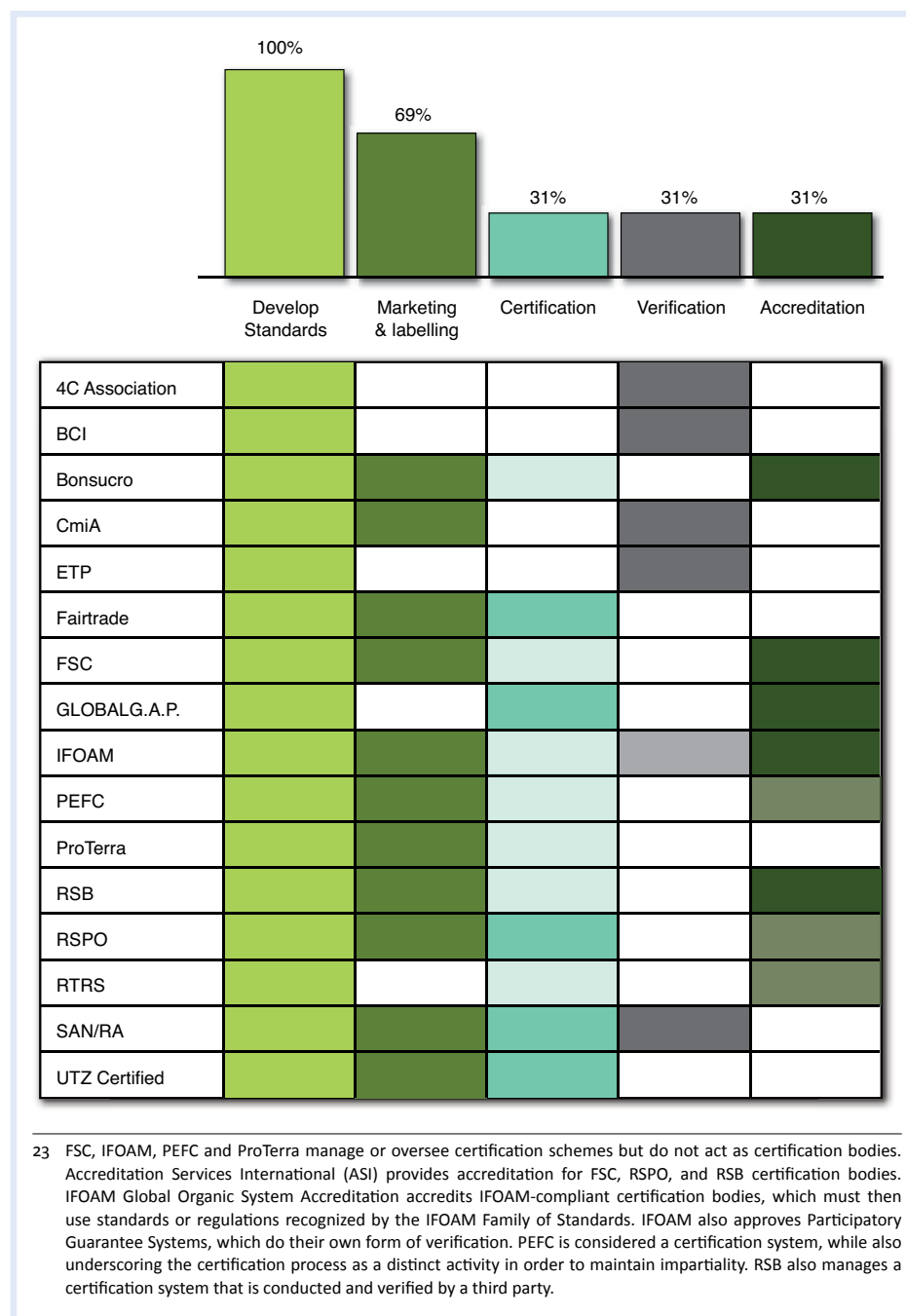
increased incomes for hired workers. Jaffee’s (2009) study of 51 coffee farmers from Oaxaca, Mexico also finds that few of the benefits of Fair Trade are passed on to workers. Although he finds that Fair Trade certified farmers get 130% higher prices, the wage paid to hired workers is only 7% higher (47 vs. 44 pesos per day). In addition, labour costs as a percent of coffee sales was actually lower among the Fair Trade certified farms relative to the conventional farms (57.2% versus 68.3%).”⁹⁶

II. Fairtrade effects on Access to Credit and other Services

One of the greatest barriers to growth and development for producers of agricultural products in developing countries is the lack of access to agriculture-related services, which also play a key role for producers and other operators in developing country supply chains to overcome technical barriers to trade and comply with sanitary and phytosanitary measures.⁹⁷

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Figure 16: Main activities of voluntary sustainability initiatives.



source: SSI 2014

In addition to the Fairtrade Premium, Fairtrade organisations provide a range of services for certified producers, which result in ancillary benefits to smallholders, cooperatives and even non-certified local producers.⁹⁸ Therefore, in addition to developing standards and

certification, Fairtrade also provides marketing and labelling services for its producers and producer groups, and through its standards, it also promotes the development or application of services for its certified producers. Further, developing services for Fairtrade

farmers has also been outlined as one of the future priorities of Fairtrade International in its 2013-2014 Annual Report.⁹⁹

All of the FLO standard areas, covering Producers and Trade, include Development Requirements (in addition to Core requirements), which are the continuous improvements that certified organizations must make on average against a scoring system (also defining the minimum average thresholds) defined by the certification body.¹⁰⁰ Furthermore, under the Fairtrade Standard for Small Producer Organizations, there is a specific chapter on Business and Development, which obliges certified producers to build a basis for empowerment and sustainable livelihoods. This chapter also introduces rules and guidelines on the application and use of the Fairtrade Premium¹⁰¹, namely that the producer organisation must ensure that the premium is only used in accordance with the rules established under its Fairtrade Development Plan. According to Fairtrade International, this strategy saw 86% of the Fairtrade Premium invested in services to farmers or strengthening cooperatives between 2013 and 2014.¹⁰²

Access to finance and levels of savings have been shown to improve with Fairtrade certification,

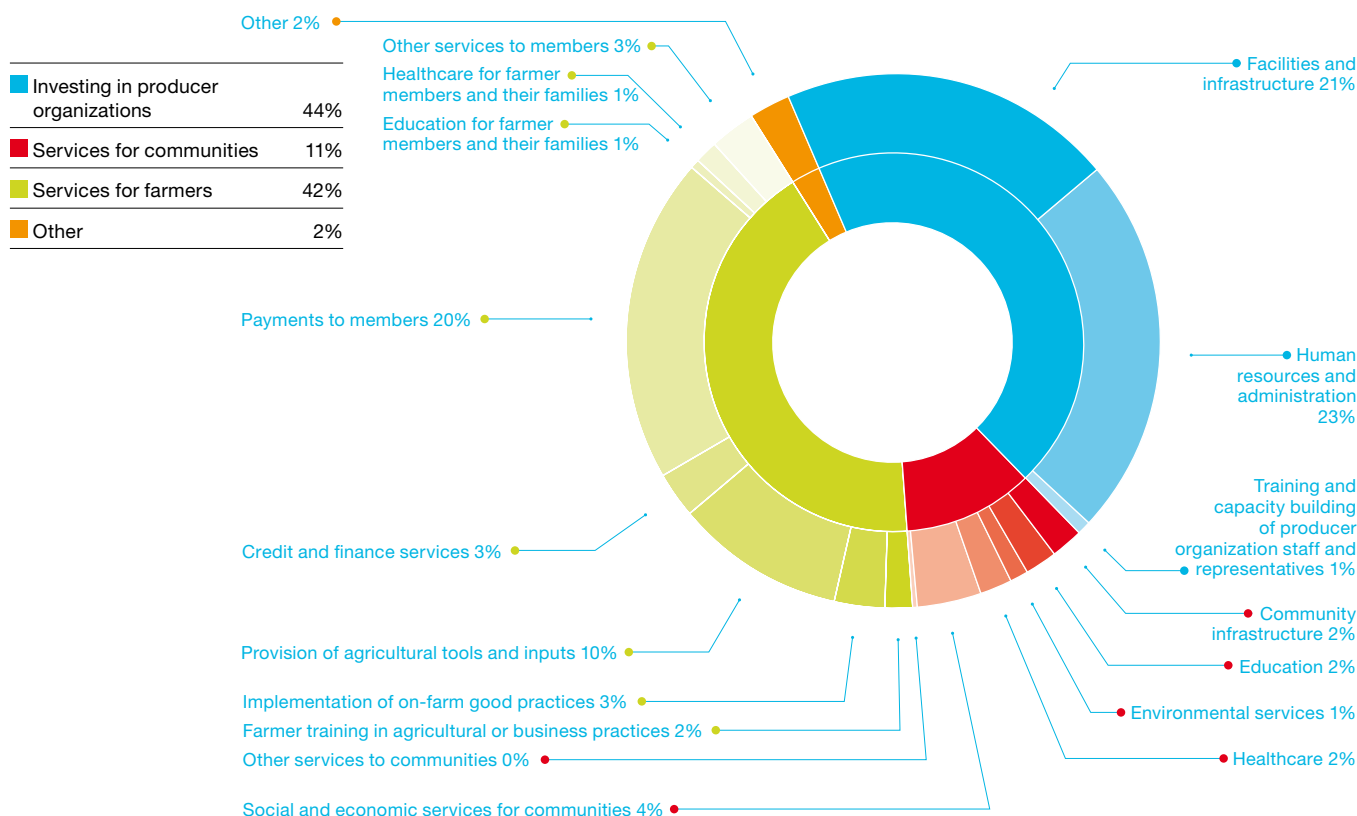
[I]n a study by Mendez et al. (2010) of 469 coffee producers in Central America and Mexico, Fair Trade farmers had higher reported access to credit (42%) than conventional coffee farmers (34%). This could be related to the fact that the Fair Trade social premium finances "credit funds" that are run by cooperatives to make credit available to producers (Ronchi 2002;

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Figure 17:

Fairtrade Premium expenditure by category: Small Producer Organizations and Contract Production 2011–12 (€)



Source: Monitoring the Scope and Benefits of Fairtrade - fifth edition - 2013

Ruben et al 2009). These funds are particularly useful insofar as banks often fail to provide credit to small-scale producers (Utting-Chamorro 2005), despite the need for access to working capital for financing investments (Farnworth et al 2006; Nelson and Pound 2009)...There is also suggestive evidence on savings and assets. Geiger-Oneto and Arnould (2011) found that, among 1,269 coffee producers in Guatemala, Nicaragua, and Peru, more Fair Trade coffee producers opened savings accounts over a three-year period than their conventional counterparts,

and a significantly higher percentage of Fair Trade farmers reported an increase in their savings. Jaffee's study of 51 coffee producers in Oaxaca, Mexico, revealed that only 30.8% of Fair Trade members were indebted, compared to 41% of conventional producers.¹⁰³

Therefore, it is widely acknowledged that the non-price benefits of Fairtrade also play a strong role in attracting producers to become certified or remain certified. In fact, some of the non-monetary benefits to Fairtrade also support the robustness of the system, as the more Fairtrade certification

expands, the greater the increase in the value of the non-price goals of Fairtrade which encourage the creation of better conditions for hired workers, more democratic and transparent cooperatives, encourage environmentally sustainable production, improved access to credit, and establishment of stable long-term buyer-seller relationships. "To the extent that these are the goals of Fair Trade, greater entry [of newly certified producers] is a good thing. Even if higher-than-normal economic rents do become fully dissipated, the free entry that causes this is also causing the spread of these important outcomes within the farming community, etc. Therefore, even if the monetary

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benefit of Fair Trade is an elusive shrinking carrot that draws farmers into certification, it serves an important and beneficial purpose.”¹⁰⁴

Another non-price benefit which has also been demonstrated in Fairtrade certified cooperatives and farm families concerns social benefits, such as education, capacity development etc.:

Bacon (2005) investigates a sample of 228 small-scale coffee producers in northern Nicaragua in a livelihood vulnerability framework. Participation in alternative coffee trade networks (FT, organic, direct to roaster) is able to reduce exposure and vulnerability to low coffee prices, even if many FT certified cooperatives sell up to 70 percent of the harvest to conventional markets. In a follow-up study, Bacon et al. (2008) find that in households selling to FT markets, children show higher primary school attendance rates and women work more days on coffee farms. Also, more water purification

*systems and soil and water conservation practices were installed. On average, six days more of technical assistance, easier access to pre-harvest credit and better contact to development programs of non-governmental organizations (NGOs), including scholarships, education, coffee quality training, and micro credit programs were reported.*¹⁰⁵

III. Fairtrade vs. market dynamics – the problem with oversupply

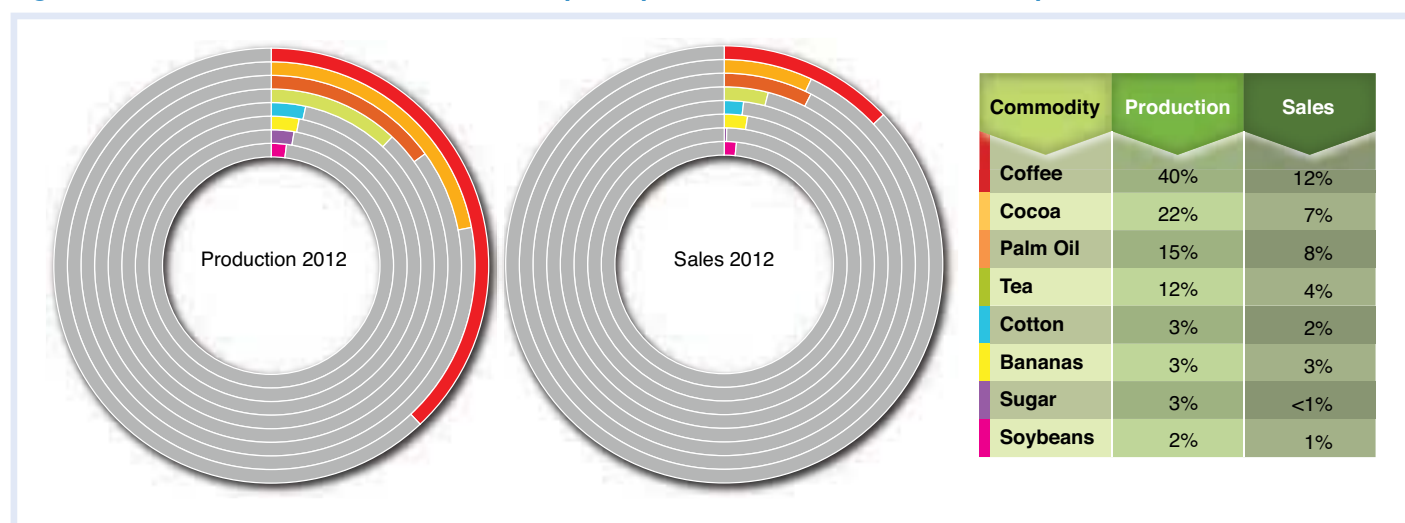
A key concern for Fairtrade producers has been the fact that Fairtrade production has grown at a pace that outstripped the growth in demand and sales of Fairtrade produce (market growth), a trend which is reflected in standard compliant produce more generally. The resulting oversupply has had two consequences: (a) an increase in the share of standard compliant produce that is sold in the conventional marketplace and (b) a downward pressure on the price of standard compliant produce. According to some studies, only between one third and one-half of total compliant production is actually sold as compliant¹⁰⁶, and there is no

guarantee to the producer that just because the product has been grown and certified as Fairtrade, that the buyer will purchase it as such and pay the minimum Fairtrade price.¹⁰⁷ Therefore, when the downward price pressure of oversupply and the rise in commodity prices are combined, “the price difference [is] reduced significantly, with the result that the Fairtrade social premium is sometimes the only remaining difference. Unlike the Fairtrade price, the Fairtrade social premium is not normally paid to farmers but is used collectively by the farmer cooperative. The impact of the social premium may therefore be more important if it is used well by the farmer organization.”¹⁰⁸

Specifically in the context of oversupply for the Fairtrade market, Nindl outlines two sources of macro-economic disequilibrium in the Fairtrade system, all of which directly relate to the inefficient balance between supply and demand for Fairtrade goods:

Firstly, asking for an above-market price without delivering extra (physical) product quality will cause oversupply

Figure 18: Sustainable markets: Standard-compliant production versus standard-compliant sales for 2012.



source: SSI 2014

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and a welfare loss. The price floor enables inefficient producers to stay in the market even if marginal costs exceed marginal revenue at world market prices (Mann, 2008). The FLO responds to the problem of potential oversupply by demand induced producer registration, such that the finalization of certification depends on demand of importers (Booth and Whetstone, 2007).

Secondly, a transfer in the form of a price floor and a price premium is inefficient relative to a direct transfer. Anecdotal evidence for coffee

says that only 10 percent of the higher price paid by consumers reaches the producers. Besides causing price distortions, consumers not only pay a higher price, but also carry the costs from a suboptimal level of aggregate production, caused by oversupply of FT commodities (Yanchus and de Vanssay, 2003; The Economist, 2007; Sidwell, 2008; Lindsey, 2004).¹⁰⁹

In acknowledgement and response to the issue of oversupply of FT produce, Fairtrade International has made it a key priority to improve market access so more farmers can

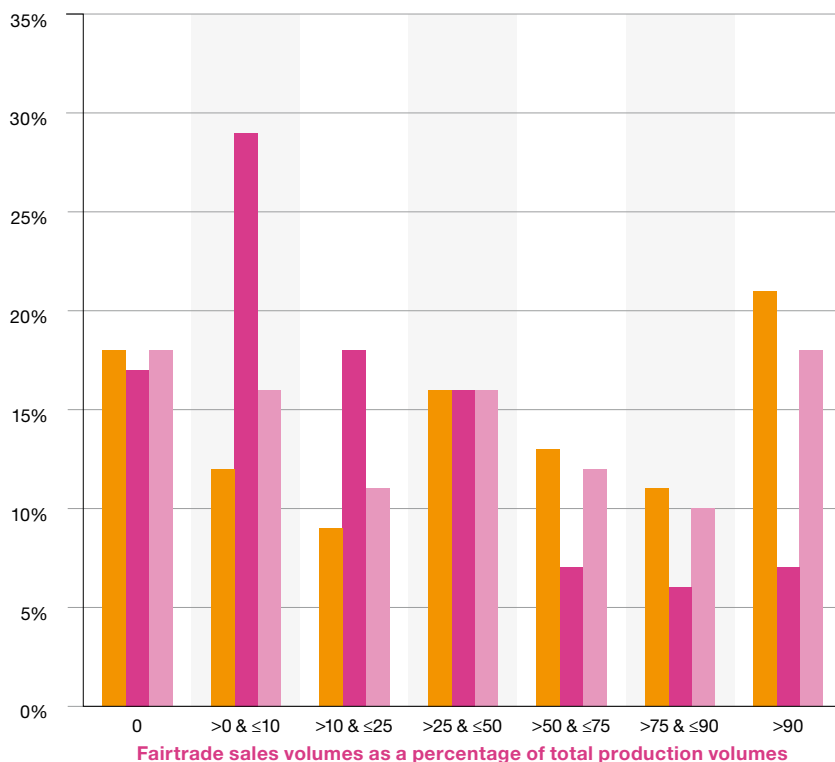
sell the majority of their crops on Fairtrade terms.¹¹⁰ The report on Monitoring the Scope and Benefits of Fairtrade paints the picture more clearly:

*The data indicate that a significant number of certified organizations were not yet able to find market opportunities for their certified products in 2011-12. At current market levels there is significant oversupply of certifiable product for almost all products, although the degree of oversupply depends on the product in question, and is complicated by the diversity of sub-products and qualities within any given product category.*¹¹¹

Figure 19:

Fairtrade sales volumes as a proportion of total production volumes 2011-12

Percentage of all producer organizations



This figure is based on data from 908 Fairtrade certified producer organizations. It excludes organizations that gained their Fairtrade certification during 2012 and had not held Fairtrade certification during the sales period under review. It also excludes any certified organizations that did not report their sales data for the period under review.

Source: Monitoring the Scope and Benefits of Fairtrade - fifth edition - 2013

5. Fair Trade in ACP-EU Trade context: scale, opportunities, successes and Case Studies

Fairtrade plays a strong role in the EU and the ACP under different contexts. The EU has the biggest global retail and consumption rate of FT products, and the Fairtrade Mark is one of the most widely used and recognised private standards. In African, Caribbean and Pacific countries, Fair Trade is also well integrated as a voluntary productions approach, particularly in key commodities such as cocoa, bananas, sugar, tea, coffee, with further potential expansion for non-food commodities and products. For the majority of ACP Fair Trade producers, the biggest export market is the EU.

The scope and potential for Fairtrade commerce in the context of ACP-EU trade has generally been understated, as dialogue between the two groups on the trade front has more often than not centred around the reduction of tariffs (market liberalisation), the elimination of non-tariff barriers, compliance with mandatory standards and other forms of trade regulation (sanitary and phytosanitary measures in particular), and addressing preference erosion as the EU adopts changes to its generalised system of preferences and phases out preferential market access for the ACP Group.

Other dynamics are also leading to change for the Fair Trade system in the context of the ACP-EU relationship. First, the changes in demographics in developing countries, particularly in Africa, which is leading to a growing middle class, combined with the increase and ongoing push towards regional

trade in the ACP, has the result of opening new avenues for Fair Trade products to be exported within the region or to other developing countries (South-South trade) to satisfy the demand of this expanding demographic. Secondly, the EU public sector has increasingly become involved in Fairtrade, as a consumer but also as a stakeholder, whereas historically Fair Trade has always been in the domain of the private consumer and NGOs. Lastly, notwithstanding the Euro-crisis and the global economic downturn since 2008, consumers in the newer EU Member States from the Baltic, Central and Eastern Europe (EU 25 to EU 28 group) have also led to a strong increase in the demand for Fairtrade and other sustainably labelled products.

5.1 Fair Trade in the EU

1. Data

According to the latest figures from Fairtrade International¹¹², between 2012 and 2013, Fairtrade sales saw a steady growth within the EU, with the UK market breaking the €2 billion mark.

The total value of estimated Fairtrade retail sales in twenty EU countries in 2013 amounted to €4,682,221,317. Two EU countries posted phenomenal growth rates: the Czech Republic saw a 142% growth in estimated retail sales between 2012 and 2013, and Estonia the figure was 65%.

Of the total global estimated retail sales which stood at €5,500,317,789

in 2013, European countries made up 85% of this value.

United Kingdom (U.K.) (*International Markets Bureau (2012)* "Socially Conscious Consumer Trends Fair Trade"; Fairtrade Foundation)

The U.K. was one of the first regions of the world to embrace the Fair Trade movement and Fairtrade certified products and it has remained a stronghold for the market niche. The Fairtrade Foundation reported that there are 9.3 million cups of Fairtrade tea, 6.4 million cups of Fairtrade coffee, 2.3 million Fairtrade chocolate bars, 530,000 cups of Fairtrade drinking chocolate and 3.1 million Fairtrade bananas consumed each day in the U.K. (Fairtrade Foundation, 2011).

According to the GlobeScan survey, U.K. consumer trust in Fairtrade is the highest it has ever been at 90% and the same survey also found that word of mouth is a key way of finding out about Fairtrade. In addition, 77% of those familiar with the Fairtrade mark strongly associated it with helping farmers and workers in poor countries tackle poverty (Fairtrade Foundation 2011).¹¹³

Source: Fairtrade Foundation, 2011.

- *In the UK, sales of Fairtrade products in 2012 reached £1.5 billion – an 18 per cent increase on the previous year*
- *78 per cent of consumers recognise the FAIRTRADE Mark*

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Figure 20: Estimated Fairtrade retail sales by country 2013 (source: Fairtrade International Annual Report 2012-2013)

Country	2012 (in Euros)	2013 (in Euros)	Growth rate
Austria	107,000,000	130,000,000	21%
Belgium	85,837,221	93,209,845	9%
Czech Republic	2,744,524	6,439,976	142%*
Denmark	71,836,714	81,080,778	13%
Estonia	1,061,938	1,756,251	65%
Finland	152,263,629	156,785,309	3%
France	345,829,378	354,845,458	3%
Germany	533,062,796	653,956,927	23%
Ireland	174,954,927	197,296,405	13%
Italy	65,435,059	76,355,675	17%
Latvia	938,975	975,010	4%
Lithuania	846,027	842,258	0%
Luxembourg	8,319,391	9,628,859	16%
Netherlands	186,100,623	197,142,624	6%
Norway	65,450,834	68,441,095	9%*
Spain/Portugal	22,274,635	23,663,783	6%
Sweden	178,951,375	231,668,646	29%
Switzerland	311,590,237	353,206,210	13%
UK	1,904,891,092	2,044,926,208	12%*
Total	4,219,389,375	4,682,221,317	11%

* Growth rate is based on the percentage increase reported in the local currency, not the value converted into Euros.
Source: *Monitoring the Scope and Benefits of Fairtrade - fifth edition - 2013*

- One in every three bananas sold in the UK is Fairtrade
- 44 per cent of bagged sugar sold in the UK is Fairtrade certified
- 25 per cent of all roast and ground retail coffee in the UK is Fairtrade certified
- Fairtrade products are now sold in more than 125 countries
- The FAIRTRADE Mark is the most widely-recognised ethical label globally
- Fairtrade sales continued to perform strongly in the UK despite a continually challenging economic climate. Sales of Fairtrade products in 2013 exceeded an estimated retail value of £1.7bn, a 12% increase on 2012. However, it is volumes of sales rather than retail value that provide a more useful indicator of producer market access, and these increased by 14%. This means that the UK market generated £26m of premium to producers for investment in their own business and community development priorities, an increase of £2.7m over 2012.
- Coffee is a well established Fairtrade category, and sales grew slightly during 2013, showing a 4% increase over 2012 despite a challenging climate with relentless price promotions.

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Figure 21: Estimated UK Retail Sales for Fairtrade

Estimated UK retail sales by value 2002-2012 (£ million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Coffee	23.1	34.3	49.3	65.8	93	117	137.3	160	179.8	193*	192.4
Tea	7.2	9.5	12.9	16.6	25.1	30	64.8	70.3	82.6	87.1*	79.7
Cocoa products**	3.9*	7.3*	9.6*	13.2*	16.4*	25.6*	25.6*	44.5*	162	212.8*	320.9
Sugar products**	5.7	8.7	14.3	19.5	23.7	50.6	107.7	164.6	384	441.7*	549.1
Honey products**	4.9	6.1	3.4	3.5	3.4	2.7	5.2	3.6	6.8	3.8*	3.6
Bananas	17.3	24.3	30.6	47.7	65.6	150	184.6	215.5	206.6	210.9*	242.5
Flowers	n/a	n/a	4.3	5.7	14	24	33.4	30	27.6	26.4*	23.7*
Wine	n/a	n/a	1.5	3.3	5.3	8.2	10	18.1	18.5	21.8*	23.9
Cotton	n/a	n/a	n/a	0.2	4.5	34.8	77.9	73.2	51.7	41	39.6
Fresh Fruit	0.1	1	5.9	8.5	17.6	28	32.2	24.3	15.5	12.5*	12.3
Fruit Juices	0.8	1.1	2.3	4.6	7.7	13.8	21.1	13.1	15.2	16.1*	14.5
Other***	n/a	n/a	6.7	6.4	10.1	8.3	21.8	26.2	23.5	27*	28
TOTAL	63	92.3	140.8	195	286.3	493	712.6	843.4*	1173.8	1294.1	1530.2
Year-on-Year Growth	25%	47%	53%	38%	47%	72%	45%	18%	39%	10%	18%
Chocolate	6.2	9.2	13.7	18.4	23.2	35.8	38.3	88.6	346	413.1	542.4

* Along with the 2012 sales analysis, these 2011 figures have been reviewed and updated

** After review, the 2009 and historical cocoa figures have been reviewed and the sales values updated. The figures against these products represent the cocoa part of all products containing cocoa, the honey part of all products containing sugar.

*** These figures cover all Fairtrade commodities not covered by other categories. These include gold, vegetables, dried fruit, pulses, rice, quinoa, sesame seeds, nuts and oils, sportsballs and spices.

Chocolate includes figures listed elsewhere in this table (e.g. sugar and cocoa) so are not included in the totals.

Source: Fairtrade Foundation

Tea also remains a challenging market for producers, with many brands competing via fierce price promotions, and sales experiencing a slight 4% decline. Despite this, UK sales delivered an estimated US\$5m in premiums back to farmers' organisations in 2013. Fairtrade tea retains commitments from several retailers, especially Sainsbury's, Coop, Waitrose and M&S, including own label and stocking other

Fairtrade tea brands such as Cafedirect and Clipper.

Bananas remain a flagship product for Fairtrade, and in 2013 sales with the FAIRTRADE Mark increased by 9% in volume, to achieve a 35% market share by value, according to Nielsen (4 January 2013).

Sales of **Fairtrade cocoa** rose 25% in 2013, compared with 2012, with

growth led by Fairtrade certification of Kit Kat 2 Finger in Fairtrade Fortnight 2013, as well as the first full year of sales of Maltesers, which converted in mid-2012. As well as a commitment by Morrisons to stock Fairtrade sugar, chocolate conversions also fuelled healthy growth in **Fairtrade sugar** sales, up 25% on 2012. These generated an estimated US\$9.3m to growers in countries including Malawi, Zambia,

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Swaziland, Belize, Fiji, Guyana and Paraguay.

Sales of **Fairtrade wine** (up 27%), **flowers** (up 18%) and **vegetables** (up 316%, although still relatively small in volume overall) were all further indication of continued business and public appetite for Fairtrade in 2013.

Fairtrade cotton sales declined again significantly in 2013, due to changes in ranges made by stockists and retailers. Supply chain issues enabling West African producers to connect to the UK market, and the cost of certifying a fully traceable supply chain for cotton are key issues the

Foundation, with its partners globally, are seeking to address in order to halt the decline and enable sales to grow for producers again.

Belgium¹¹⁴

The sale of Fairtrade products in Belgium, measured by volume, increased 7.5% in 2013, bringing the total estimated value of Belgium's Fairtrade market up to €94 million. The Fairtrade products with the greatest volume on the Belgian market are fresh bananas, followed by flowers, sugar, juice and coffee. In terms of market value, Fairtrade coffee tops the charts, followed by bananas and chocolate. The positive trend is mainly attributed to increased sales at Delhaize, Colruyt, Oxfam, Ethiquable, Miko and Café Liegeois.

Awareness of the Fairtrade logo among Belgians has also increased, from 67% in 2011 to 78 % in 2013, which indicates that an increasing number of consumers recognise the logo and know that it stands for products that meet agreed environmental, labour, and developmental standards.

Germany¹¹⁵

Certified products in Germany recorded revenue growth of 23 percent last year, which translates into a rise in sales of 654 million Euros. Of this amount, 95 million Euros directly benefit producer countries.

Fair trade goods are perceived as a viable alternative to conventional production, despite the price. As a result, these products have found a place on the shelves of large discount retail chains such as Lidl, Penny and Netto.

Last year, another retail outlet, Aldi, also successfully incorporated Fairtrade bananas and coffee in its regular list of products. Now that the products are more visible, customers are increasingly going for the good-conscience option: 50 percent of bananas sold at Aldi are fair trade, 26 percent of flowers and 20 percent of all coffee products.

While fair trade coffee currently has a market share of 2.5 percent, one out of every four roses sold in Germany and every other banana are already being supplied by certified businesses, and a new Fairtrade product is launched in the German market every day.

But sales of cocoa beans fell slightly in 2013 and the market share stood at just 0.2 percent. A "partnership" model is now expected to provide the solution. The model was previously used in cases of sugar and cotton, where companies were obliged to partially migrate to fair trade products.

Five major partners - Ferrero, Mars, and the supermarket chains Lidl, Rewe and Kaufland - have been found for cocoa. In the meanwhile, these retail outlets have been

purchasing thousands of tons of cocoa according to fair criteria, leading to a sevenfold increase in sales in the first months of the year.

II. Policy on Fair Trade

Due to the status of Fair Trade as a voluntary private standard, the EU and EU Member States do not have a specific legal or regulatory framework that applies to Fair Trade. However, as Fair Trade has grown in both commercial and political importance, the EU, EU Members States and other public institutions in Europe have begun to develop specific policy positions on Fair Trade, initially in the context of their activities on development cooperation, but increasingly also with respect to the private sector as well as consumer affairs.

The cornerstone of the EU's approach to Fair Trade is the European Commission Communication on Fairtrade¹¹⁶, which outlines and clarifies the Commission's understanding of Fair Trade, and also discusses the EU's support of Fair Trade in the internal market and internationally. In the Communication, the Commission rightly makes the link between the objectives of the Fair Trade system, and the role which preferential market access could have in supporting FT and its outcomes, both generally through the EU's Generalised System of Preferences, and more specifically, for ACP Countries in the context of the Cotonou Agreement.

Since 2009, a number of other EU policy documents have made reference to Fair Trade, most notably those concerning trade and development. Furthermore, other EU institutions such as the European Parliament and the Committee of the Regions have also included Fair Trade and its support or promotion

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in their official documents.¹¹⁷ In the 2012 Communication on Trade Growth and Development,¹¹⁸ the European Commission states that:

“Trade incentives arise not only from government action, but also from a shift in the market place towards more sustainable products. Private sustainability-bound schemes (e.g. fair, ethical or organic) can be an effective way to foster sustainable and inclusive growth in developing countries. Public authorities can promote these initiatives. We will strengthen our support for developing country producers taking part in sustainable trade schemes by further mobilising cooperation, including AfT measures, improve monitoring of related activities and continue to encourage our partner countries to promote fair and ethical trade. We also intend to further facilitate fair and ethical purchasing choices by public authorities in Europe in the context of the upcoming review of public procurement directives.”

More recently, the European Commission issued a Communication on the Private Sector and Developing Countries, which noted that “[a]dherence to social, environmental and fiscal standards is also considered a precondition for any EU engagement with, or public support to, the private sector. Responsible business practices by companies will be reinforced through the promotion of consumer awareness concerning sustainable consumption and production patterns and practices, and the promotion of fair and ethical trade.”¹¹⁹

Many Member States have also included Fair Trade as a priority issue in both their internal and international affairs (in the context of trade and development cooperation). Northern and Western

European countries, where consumer awareness of, and civil society advocacy for Fair Trade are the highest, also tend to have the most advanced programmes and policy uptakes on Fair Trade. The private sector has also played an increasingly important role in demonstrating the value of Fair Trade, although not all parties or stakeholders in the debate – NGOs, civil society, consumers, private sector such as producers and retailers, government and public sector – see eye to eye on different aspects of Fair Trade.

(a) EU Support of Fair Trade

Following the Communication on Fair Trade, the EU has become more strongly and directly engaged in support of Fair Trade, either through funding or collaboration.

“Handicraft and Business through Regional Integration and Fair Trade Market”

*Central Asia Crafts Support Associations’ Resource Centre in Kyrgyzstan (CACSARC-kg) and Bishkek Business Club (BBC) were the chief organizers of the Festival, whose main components were funded by the European Union under the project “Handicraft and Business through Regional Integration and Fair Trade Market”. The project has a 2-year duration and, as part of the EU Central Asia Invest Program, will reinforce the cooperation among Tajikistan and Kyrgyzstan in the handicraft sector.*¹²⁰

European Business Awards for the Environment: M&S delivers on Plan A commitments to become Responsible Retailer of the Year

Thanks to the achievements of Plan A – an ambitious environmental and ethical programme – the international retailer Marks & Spencer (M&S) has continued to meet its commitment to become carbon neutral. In addition

to collecting the top prize in the management category of the EBAE 2012, the company has been named Responsible Retailer of the Year at the World Retailer Awards and Company of the Year in the Business Community’s Awards for Excellence.

M&S received the EBAE Management Award for its project ‘Marks & Spencer Plan A - Doing the Right Thing’, which outlined a strategy to reduce the company’s resource impact by meeting 180 sustainable commitments. Launched in 2007, Plan A sets out objectives to be achieved in the areas of green procurement, fair trade, waste management, biodiversity conservation, corporate social responsibility, carbon emissions reduction and energy efficiency.

The company has made significant progress in terms of achieving the Plan A objectives. A report published in June 2012 confirms that M&S is the first major retailer to become carbon neutral. The ‘2012 How We Do Business Report’ states that 138 of the Plan A commitments have already been achieved, while a further 30 are currently on schedule. According to the report, M&S now recycles 100% of its waste – ensuring nothing goes to landfill. It also states that 31% of M&S products now have a ‘Plan A attribute’ – meaning they are either free range, produced at an ‘eco-factory’ or made from recycled material.

In line with its Plan A commitments, M&S introduced a new clothes recycling policy known as ‘Shwopping’. First launched in April 2012, the Shwopping initiative encourages customers to bring any brand of unwanted clothing to M&S clothes stores. The company believes that unwanted clothes should be put to good use, not just thrown away. It is therefore asking its customers to ‘shwop’ – donate an unwanted piece

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*of clothing every time they buy a new one.*¹²¹

The EU Horizon 2020 Work Programme for 2014-2015, also aims to support Fair Trade under the chapter on Food security, sustainable agriculture and forestry, marine and maritime and inland water research and the bioeconomy.¹²² The Call for Sustainable Food Security 'SFS-15-2014: Proteins of the future' is expected to have, as one of its impacts "A clear contribution to social innovation due to Fair Trade/ fairer trade, as well as an increase in socio-economic and environmental sustainability." A budget of €128,000,000 was allocated to this Call.¹²³

Members States are also part of the EU equation when it comes to Fair Trade, and a number have increased their support via official development assistance programmes through their development cooperation institutions. This is in line with the shared competency between the European Commission and Members States on development cooperation, whereas the European Commission has exclusive competency with regards international trade in the EU, which since the Lisbon Treaty, has also included the area of foreign direct investment (FDI).¹²⁴

Belgium The Trade for Development Centre, which is a Belgian Development Agency (BTC) programme, supports Fair Trade through its work to promote fair and sustainable trade as a means to decrease poverty.¹²⁵ It works around three main themes:

- Trade Support
- Awareness Raising
- Spreading and exchanging information.

An example of one of their activities is the documentary in Fair Trade coffee. *The Trade for Development Centre commissioned a documentary about fair trade coffee from Kivu for TV5Monde. The documentary is now available, with English subtitles. A camera crew visited three coffee organisations in Kivu: RAEK, Sopacdi and COOPAC. It shows how fair trade coffee can positively impact the living conditions of the local population, even when the circumstances are tough.*¹²⁶

DFID The British Department for International Development provides financial support through grants to the Fairtrade Foundation (UK), which is the national Fairtrade Organisation of the UK. DFID has also signed a Programme Partnership Agreement of £12 million with FLO from 2011 to 2014¹²⁷ to help scale up DFID's work supporting farmers in developing countries to access better terms of trade in global markets. DFID's funding has also helped support smallholders directly in a number of ACP countries, such as Fintea Growers Co-operative Union in Kenya.¹²⁸

Fairtrade International lists among its partners several other EU and European national development agencies and public institutions:¹²⁹

- *Agence Française de Développement (AFD)*¹³⁰

A project financed by French Development agency (AFD), the African Association of Cotton Producers (AProCA), an execution institution, and implementation partners like Fairtrade International, Max Havelaar France and Helvetas, work together to assist West African cotton producers to as they improve their competitiveness and access to markets.

- *German Development Bank (KfW)*¹³¹

KfW, the German Development Bank together with Incofin and Grameen Foundation and Fairtrade International work jointly to improve access to finance for Fairtrade certified producers through the Fairtrade Access Fund.

- *German International Development Cooperation (GIZ)*¹³²

Fairtrade collaborates with GIZ to provide certification advice to cocoa farmers in Liberia.

- *Irish Aid*¹³³ / Solidaridad

Fairtrade partnered with Irish Aid and Solidaridad to enhance the capacities of producer organizations in Central America (Guatemala, Honduras, Nicaragua and El Salvador) and East Africa (Kenya, Tanzania, Uganda, Ethiopia). The main emphasis of the partnership has been in the coffee sector supporting sustainable production for both Fairtrade and Utz certified producers.

- *Swiss State Secretariat for Economic Affairs (SECO)*¹³⁴

SECO has supported Fairtrade International since 2008 in the framework of the Strategic Funding Consortium alongside DFID, IrishAid, ICCO and NORAD. SECO has now extended its funding to Fairtrade International, in particular assisting us in developing new markets and in the ongoing work on Fairtrade gold. This work will conclude in 2015.

- *UK's Department for International Development (DFID)*¹³⁵

DFID provides longer-term funding for selected civil society organisations through its Programme Partnership Arrangements (PPAs). Fairtrade International currently

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receives PPA funding for 2011-2014, part of the Strategic Funding Consortium. An extension for the PPA funding until 2016 has been granted.

(b) Fair Trade and Public Procurement in the EU

Perhaps the most concrete example of the inroads that Fair Trade has made into EU policy has been the inclusion of Fair Trade in the EU Public Procurement Directive of 2014¹³⁶. This development followed years of wrangling between EU institutions, Member States, public bodies and even led to a Member State being taken by the Commission before the European Court of Justice.

As a growing proportion of European citizens care more and more about contributing towards sustainable economic and social development in developing countries through their purchasing preferences, notably buying Fair Trade, this concern has also transferred to preoccupation about sourcing of goods and services by public bodies.

This concern of consumers for Fair Trade, more common in western European Member States than in the rest of the EU, has been relayed by civil society, local authorities, and also echoed at EU level by the EU institutions, notably the European Parliament.

Public authorities in the EU can play an active role in sustainable development through their purchasing decisions, by promoting Fair Trade in their procedures, while respecting the fundamental principles of EU law. Some public authorities are already putting fair trade procurement into practice, by introducing Fair Trade considerations into the different stages of public procurement procedures.

The EU legal framework had been criticised for its lack of clarity as the European Parliament has repeatedly pointed out. As a result various interpretations of the legal framework exist, creating legal insecurity for contracting authorities and inhibiting expansion of fair trade public procurement. This resulted in the revision of EU public procurement directives which could help bring clarity.¹³⁷

Some examples of the challenges that Member States face are explored by Fisher, E. and Sheppard, H. (2012), in their overview of the case that the European Commission brought against the Netherlands concerning the terms of a call for tender issued by province in the Netherlands which made reference to Fair Trade¹³⁸:

An example of legal dynamism relates to a 2012 ruling from the Court of Justice of the European Union (CJEU), which is the first piece of European case law on fair trade (Fairtrade Foundation, 2012). In May 2010 the EC referred the Netherlands to the CJEU over a call for tender for the supply and management of automatic coffee machines by Noord-Holland Province (EC, 2010b), due to a complaint to the EC by Douwe Egberts (Scholten Verheijen, 2011). The Province wanted to procure sustainably with regards to environmental and socially responsible methods of production. The EC argued that it was infringing EC procurement regulations because the notice for tenders requested bidders to supply beverages with specific labels: EKO and/or Max Havelaar (EC, 2010b). Although equivalent labels were acceptable, the Province did not specify substantive criteria regarding which labels would be considered equivalent.

Passing judgement on the 10 May 2012, the CJEU concluded that the Province had not respected the current EU Public Procurement Directive by requiring products to bear a specific label and for the way it required bidders to prove suitability requirements and minimum capacity levels. However, the Court clarified that it is compatible with the current EU Public Procurement Directive to define the minimum requirements of products in the technical specifications plus to give extra points in the award criteria based on considerations of environmental or social nature and to products 'of fair trade origin' (CJEU, 2012). It also gave advice that to incorporate an ethical trade label, the underlying criteria should be identified and the label used as means of proof. This ruling is the subject of SMO advocacy for incorporation of a more progressive position on fair trade into procurement law (Fairtrade Foundation, 2012), assuming no legal appeal is successful.

Fisher and Sheppard (2012) also provide the examples of other initiatives where EU public bodies or governments had tried to promote Fair Trade without falling foul of procurement rules, for example the Welsh Government's initiative on Fair Trade procurement.

In 2010, the first major recognition of Fair Trade in EU public procurement came through the European Commission publication "Buying Social: A Guide to Taking Account of Social Considerations in Public Procurement"¹³⁹. According to this publication, the existing Public Procurement Directive 2004/18/EC¹⁴⁰ allowed a contracting authority which wished to purchase goods which make a contribution to sustainable development (hereafter referred to as "ethical trade goods") to do so, provided it complied with

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certain rules. Such an authority was allowed to take appropriate considerations into account in the tender specifications, but it could not require the products to bear a specific ethical trade label/certification because this would limit access to the contract for products which are not certified but meet similar sustainable trade standards.

The revision of the Public Procurement Directive in 2014 led to a specific recognition that:

[...]with a view to the better integration of social and environmental considerations in the procurement procedures, contracting authorities should be allowed to use award criteria or contract performance conditions relating to the works, supplies or services to be provided under the public contract in any respect and at any stage of their life cycles from extraction of raw materials for the product to the stage of disposal of the product, including factors involved in the specific process of production, provision or trading and its conditions of those works, supplies or services or a specific process during a later stage of their life cycle, even where such factors do not form part of their material substance. Criteria and conditions referring to such a production or provision process are for example that the manufacturing of the purchased products did not involve toxic chemicals, or that the purchased services are provided using energy-efficient machines. In accordance with the case-law of the Court of Justice of the European Union, this also includes award criteria or contract performance conditions relating to the supply or utilisation of fair trade products in the course of the performance of the contract to be awarded. Criteria and conditions relating to trading and its conditions can for

instance refer to the fact that the product concerned is of fair trade origin, including the requirement to pay a minimum price and price premium to producers. Contract performance conditions pertaining to environmental considerations might include, for example, the delivery, package and disposal of products, and in respect of works and services contracts, waste minimisation or resource efficiency.

This finally established under EU law that Fair Trade could constitute a legal criteria or condition in EU public procurement provided it is framed in accordance with the decision of the EU Court of Justice. Namely, the social conditions concerned with the process by which the goods being procured were produced could be defined in a public tender, provided the conditions apply to specific goods, as opposed to being of a general nature.¹⁴¹ A number of EU Member States, such as Belgium, Germany, the Netherlands, Sweden and the UK have included some aspects of Private Certification System, particularly relating to sustainability, in their public procurement and tenders¹⁴². In the case of the UK, Sweden and the Netherlands, the criteria have included Fair Trade obligations.

Fair Trade is also included in the new Directive on concession contracts,¹⁴³ which also includes a paragraph permitting award criteria or conditions based on Fair Trade. EU Member States have until April 2016 to transpose the new rules into their national law.

5.2. Fair Trade in the ACP

Fair Trade has had a long presence in the ACP region as far as certification of producers and production of FT

goods are concerned. Furthermore, some of the NGOs and other institutions which have played a strong role in advocating in favour of Fair Trade at national, regional and international levels have come from Africa, the Caribbean and the Pacific. Needless to say, in the context of global commodities trade, the balance of power has often not been on the favour of producers or even countries in the ACP region, and so Fair Trade has presented an attractive opportunity for the producers and increasingly even for governments to leverage the critical role that the ACP region plays in the production of agricultural and non-agricultural commodities. The unique and very asymmetrical relationship between the ACP and the EU in trade terms has also been recognised by Fairtrade International, which has launched a number of initiatives to support ACP FT producers in the face of preference erosion and the changing trade dynamics with the EU.

I. Data

(a) Fair Trade Production

According to Fairtrade International, there are a total of 37 ACP countries which have certified FT production out a total of 79 countries in the Group, which constitutes almost half of ACP countries.

The figures from the Fairtrade Monitoring Report¹⁴⁴ show that there are more Fairtrade farmers in Africa than in any other region in the world. Their data for 2012, shows that 61 percent of all farmers and workers within the Fairtrade system lived in Africa and the Middle East. Latin America and the Caribbean accounted for 21 percent of all farmers and workers within the Fairtrade system, and Asia and Oceania for 18 percent—similar to the relative proportions in 2011¹⁴⁵. In fact, East Africa alone has 652,900 Fairtrade farmers and workers, the

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Figure 22:

Global distribution of Fairtrade farmers and workers 2012

Africa and the Middle East

Farmers	781,500
Workers	78,600
Farmers and workers	860,100

Asia and Oceania

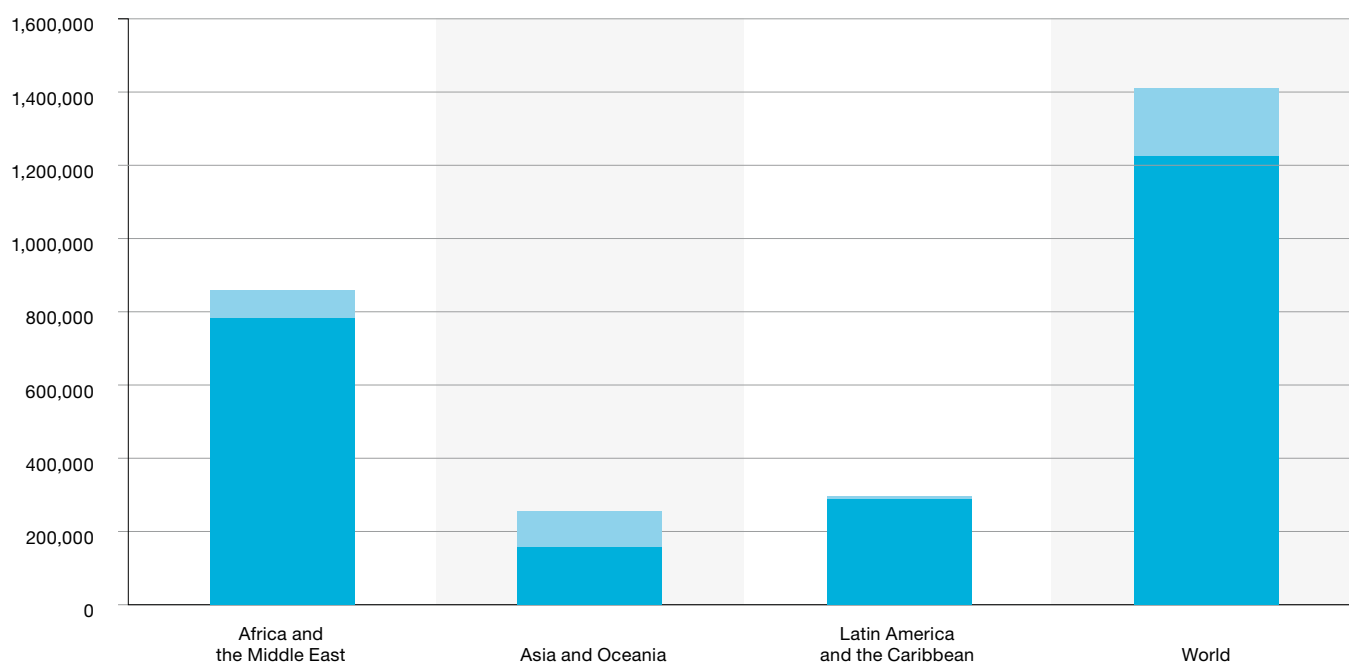
Farmers	156,500
Workers	99,400
Farmers and workers	255,900

Latin America and the Caribbean

Farmers	287,200
Workers	9,500
Farmers and workers	296,700

World

Farmers	1,225,200
Workers	187,500
Farmers and workers	1,412,700



Source: Fairtrade International

most of any sub-region in Africa or the rest of the world.

The Report also noted that Fairtrade in Kenya grew further in 2012, with several large smallholder coffee organizations entering Fairtrade. Combining all farmers and workers, 19 percent of all farmers and workers in the Fairtrade system are now found in Kenya. Côte d'Ivoire is a new entrant into the top ten lists in 2012, while numbers in Ghana also grew significantly, reflecting the rapid growth of certification within the cocoa industry in West Africa. India continues to have the largest number of workers among Fairtrade

hired labour organizations, though Ethiopia showed strong growth in worker numbers since the 2012 report. The growth in certification of flower plantations makes Ethiopia the fourth most important country in the Fairtrade system in terms of worker numbers.

Africa also registered the fastest growth in the rate of Fairtrade certification in 2012, which increased by 23% as 74 new producer organisations were certified. Latin America and the Caribbean has the greatest number of certified organisations, at 588 or just over half (52%) of the global figure, followed

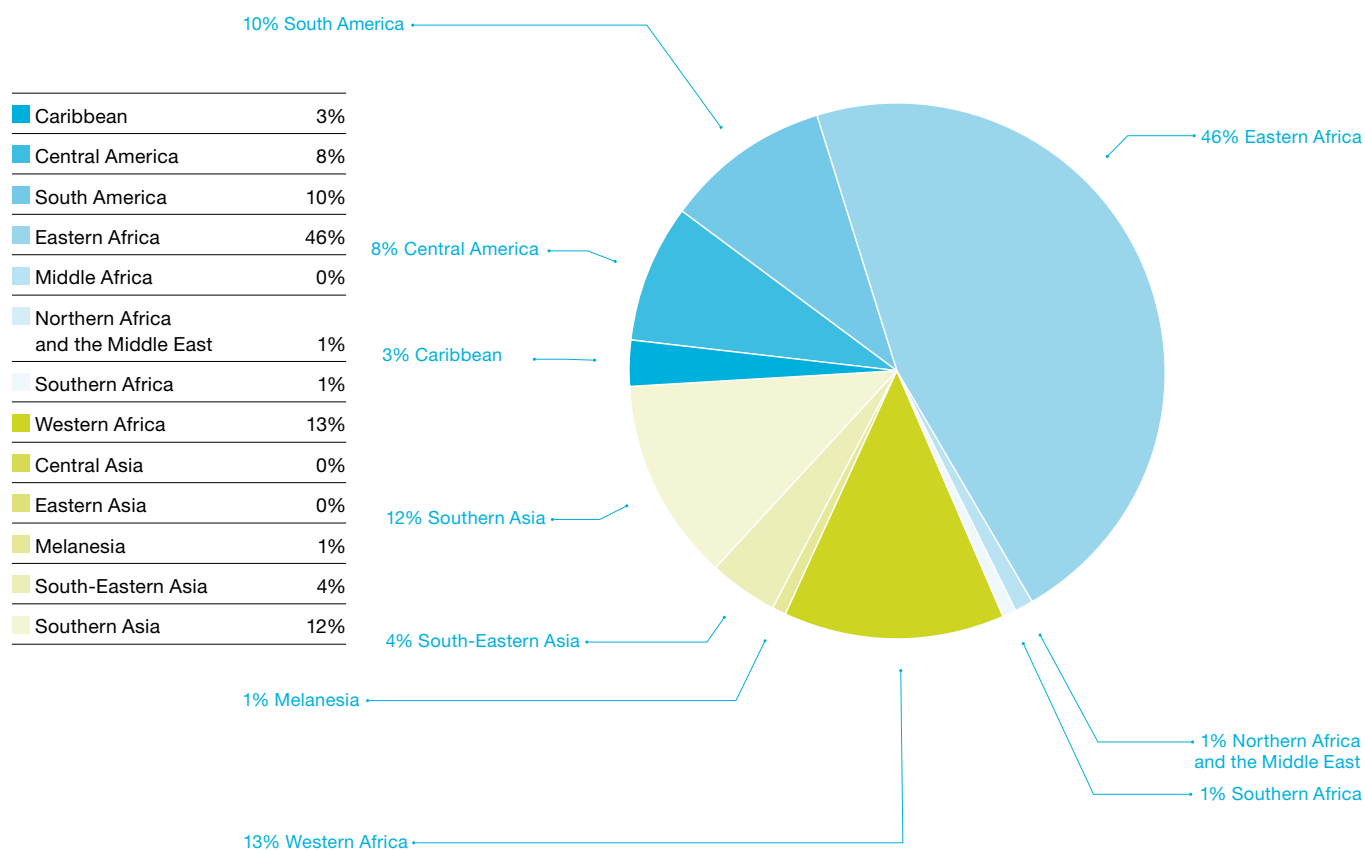
by Africa and the Middle East (390 or 34%) and lastly Asia and Oceania (161 or 14%).

In the Asia and Oceania region, to which the ACP Pacific countries belong, there are three countries which have Fairtrade certified farmers organisations (FOs), namely Papua New Guinea (5), Fiji (3) and Timor Leste (1). Despite their limited numbers, these FOs are strong performers in the region. For example in terms of the five top premium receiving countries with FOs in this region between 2011 and 2012, Fiji and Papua New Guinea performed well, with 19% and 7%

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Figure 23:

Regional distribution of all Fairtrade farmers and workers 2012



Source: Fairtrade International

of the regional share respectively, putting them in second and third. Timor Leste and Fiji were also in the top-five countries with Fairtrade farmers and workers in 2012.

Latin America and the Caribbean is the most successful region in terms of FT Premium, receiving 66% of all Fairtrade Premium flows for their Fairtrade coffee, bananas, sugar, and fine-flavour cocoa. In total, there are eight ACP Caribbean countries which have Fairtrade certified small producer organisations: Belize (2), Cuba (18), Dominican Republic (21, with an additional 12 Hired Labour Organizations), Guyana (7), Haiti

(5), Jamaica (2), Saint Lucia (1) and Saint Vincent and the Grenadines (1). From the ACP Group, Dominican Republic is sixth and Haiti eighth in the rankings of the top ten Latin American and Caribbean countries Fairtrade farmers and workers 2012. In terms of FT Premium receipts for 2012, Dominican Republic, Belize and the Windward Islands all feature in the top ten, with the Dominican Republic boasting a 12% share of the entire region's Fairtrade Premium.

(b) Fair Trade Consumption in the ACP

The ACP region is emerging a consumer of Fair Trade products, in

line with the growth of the middle class in select ACP countries, and also growing awareness of and consumer action in response to concerns about food production and the conditions of farmers and rural communities in their own or other developing countries.

South Africa represents the biggest consumer market in the ACP region¹⁴⁶, with a Fairtrade retail sector worth approximately €23 million in 2013. After five years in operation, Fairtrade Label South Africa (FLSA), the national Fairtrade Organisation of South Africa, has achieved the following milestones:

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Figure 24:

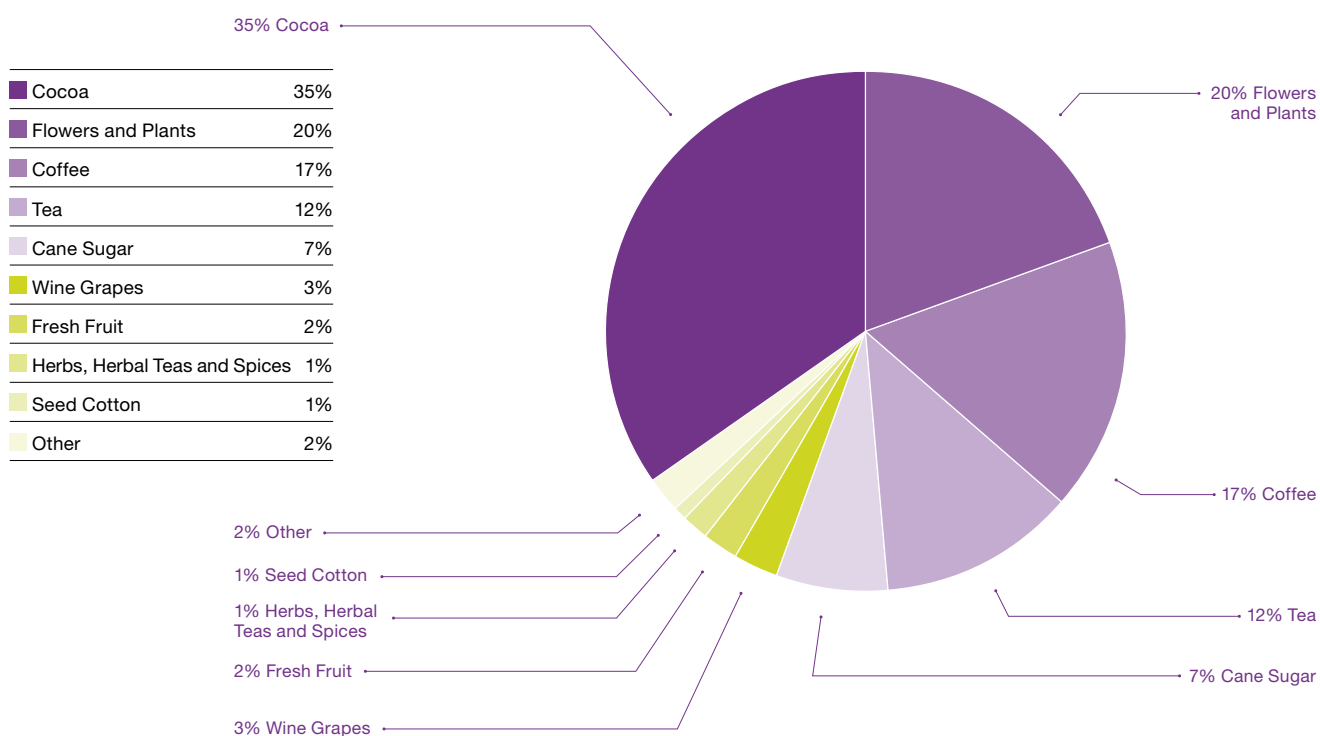
Fairtrade in Africa and the Middle East: Top ten countries Fairtrade farmers and workers 2012

	Total farmers and workers	Percentage of all the Fairtrade farmers and workers in Africa and the Middle East
Kenya	265,800	31%
Tanzania	157,400	18%
Ethiopia	121,900	14%
Ghana	95,400	11%
Uganda	48,000	6%
Côte d'Ivoire	35,000	4%
Malawi	25,900	3%
Rwanda	18,900	2%
Mali	16,400	2%
Burkina Faso	13,500	2%
Top ten countries total	798,200	93%

Source: Fairtrade International

Figure 25:

Fairtrade in Africa and the Middle East: Fairtrade Premium distribution by product 2011-12



Source: Fairtrade International

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- 2010, May - FLSA starts actively promoting Fairtrade to local consumers. The first products to become available are some locally produced Fairtrade wines and one coffee brand made with Fairtrade beans from East African co-operatives.
- 2011, June - Kraft Foods SA announces that their Cadbury Dairy Milk [plain chocolate] is to achieve Fairtrade certification. The chocolates will appear in store in November 2011.
- 2011 - Over 15 South African companies are selling Fairtrade labelled products locally. Local Fairtrade sales increase fourfold, from ZAR 18.4m in 2010 to ZAR 73m as South African consumers choose Fairtrade.
- 2012, May - All coffee based beverages sold at Woolworths cafes are Fairtrade certified. Woolworths also launches a range of Fairtrade coffees in-store.
- 2012, Dec - The list of Fairtrade products available to consumers has grown. South Africans can now choose between a variety of wines, teas, coffees and some food products.
- 2013, May - The sales report for 2012 is ready: in 2012 South Africans bought R234m worth of Fairtrade products - a 220% growth from 2011.
- 2013, July - Protea Hotels switch to Fairtrade coffee - the first African hotel chain to make a Fairtrade commitment.
- 2014, September - One of South Africa's must loved wine company Fairview, owned by Charles Back, becomes Fairtrade certified.
- 2014, March - Fairtrade leads the research on sustainable consumerism and shows that 70% of South Africans are potential consumers of Fairtrade and other sustainable products.

Kenya joined South Africa in 2012 to become the second retail market for Fairtrade in Africa, and along with India (which also became a new market in 2012) and Brazil, these four countries represent the emerging and growing South-South production and consumption markets, namely countries that both produce and consume a substantial amount of Fairtrade produce. The potential of South-South Fair Trade has also been explored in a report by BTC (a Belgian Development Agency (BTC) programme).¹⁴⁷

Figure 26 : Estimated Fairtrade retail sales by country 2013

Country	2012 (in €)	2013 (in €)	Growth rate
Kenya	-	51,064	n/a
South Africa	22,263,619	22,573,605	22%*
Total	22,263,619	22,624,669	2%

* Growth rate is based on the percentage increase reported in the local currency, not the value converted into Euros.

II. ACP Policy and Partnerships on Fair Trade

Although there is no framework or guiding document for Fair Trade for the ACP Group, the principles which the Fair Trade movement pursues are in part captured in the Cotonou Agreement Article 23(i), which calls for ACP-EU cooperation to achieve "trade development, including the promotion of fair trade". Likewise, there is no framework on voluntary standards related to sustainable or ethical trading. However, individual ACP countries or regions have, often in partnership

with development institutions or multilateral institutions, donors and so on, have undertaken policy-related activities or created action plans for Fair Trade. Swaziland, for example, explicitly included Fair Trade in its 11th EDF National Indicative Programme with respect to EU support for agriculture with an emphasis on food security¹⁴⁸. Uganda has also partnered with the EU in the implementation of a Small Agribusiness Development Fund which would, through the matching grant facility, provide additional financial support in order to improve the capacity in specialised

sectors agreed by the beneficiaries and the Fund Manager: i.e., obtaining international certification to access export markets or internationally recognised quality certification (i.e.: FSC, ISO, Fair Trade, etc.)¹⁴⁹

Centre for the Development of Enterprise Project: Enhancement of Sugar productivity in Swaziland

The sugar industry is the mainstay of the Swaziland economy. Beneficiaries of the industry as a whole are estimated at well over 30-40% of the population. CDE assisted the

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Swaziland Sugar Association (SSA) in 2012 with the view to increase production output of the sugar industry and facilitate access to markets for sugar products. Through CDE assistance, the Swaziland Sugar Association has been able to capacitate sugar SMEs to obtain fair-trade certification which is key for accessing regional and international markets. In addition, a service level agreement review was undertaken on 4 Miller cum planters, 12 experienced planters and 24 new growers. In 2013, the project will address the challenges of access to finance, procurement and application of inputs. The project will also benefit the SSA stakeholders such as the Swaziland Cane Growers Association (SCGA), Swaziland Cane Millers Association (SCMA), Swaziland Water and Agricultural Development Enterprise (SWADE), Federation of Swaziland Employers and Chambers of Commerce (FSE & CC).¹⁵⁰

Fairtrade Support for the ACP Sugar sector

Fairtrade International has itself launched a campaign to support the ACP Group sugar producers in light of the anticipated end of the EU sugar quotas in 2017, which could have seriously negative consequences for Fairtrade ACP sugar. As the principal importer of cane sugar in the world, the EU is the number one export market for ACP sugar, especially Fairtrade sugar which is produced in the following ACP countries: Fiji, Jamaica, Malawi, Mauritius, Mozambique and Swaziland. In fact, the sugar sector plays a very strong role in the uptake of Fairtrade certification in Africa, where a Fairtrade Sugar network has been established, and according to Fairtrade International, "Mauritius, Swaziland, Jamaica and Fiji have made policy supporting Fairtrade, and are supporting Fairtrade certification connected to market

demand as a programme for small farmers in their countries."

In 2013, Fairtrade Foundation (UK) also lobbied and campaigned on behalf of producers in the ACP during the reform process for the EU Sugar Regime. With the abolition of European sugar beet quotas by 2017 now posing a threat to future market access for cane producers, work to win financial support for these producers, enabling them to diversify and find alternative markets will continue in 2014.¹⁵¹

The specific aim of Fairtrade International's sugar strategy is very clear:¹⁵²

Fairtrade's global strategy for sugar focuses on supporting farmers in ACP (African, Caribbean and Pacific) and least-developed countries, recognizing that sugar farmers there experience very low prices and are not prepared for the challenges of operating in fully liberalized trade environments. New rules in Europe abolishing quotas for sugar beet and isoglucose from 2017 will negatively impact on farmers in these countries. Fairtrade is working with producers and companies to consider how we can develop adaptation strategies.

In the January 2013 Fairtrade and Sugar Commodity Briefing, Fairtrade International outlined the six main challenges facing the Fairtrade Sugar sector: liberalisation of the EU sugar market, volatile world prices, rising production costs, competition from alternative sweeteners, the impacts of climate change, and food security and poverty in the communities that grow sugar cane. The phasing out of the reference prices for imports of in-quota white and raw sugar between 2006 and 2010, has already cost ACP sugar exporters an estimated €462m in lost export earnings.¹⁵³ Efforts are ongoing to find a common ground between the EU position of

eliminating sugar beet production quotas on the one hand, and the ACP Group and EU refinery sector position of maintaining EU quotas until 2020, and extending the 'sugar protocol accompanying measures' funding programme¹⁵⁴ for the ACP sugar sector. Additionally, the ACP sugar producing countries will also have to contend with increased competition from sugar producing economies with higher production and lower costs, notably Brazil. In light of this, Fairtrade International has proposed the following recommendations for the ACP sugar producing countries:

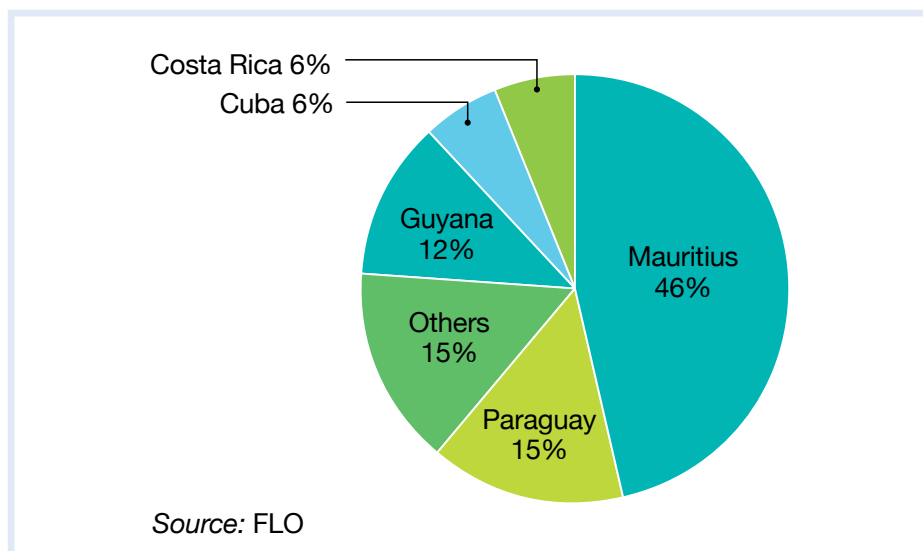
- expand domestic production
- invest in infrastructure and export facilities and/or attract foreign investment
- maintain or increase their competitiveness with other EU suppliers such as Brazil and Cuba (for cane sugar) and the Balkans (beet sugar).

According to Fairtrade International, eighty per cent of Fairtrade sugar is produced by the ACP or LDCs, where sugar is often the most important source of income. There are now 69 Fairtrade certified sugar cane producer organisations, in 15 countries: Belize, Brazil, Costa Rica, Cuba, Ecuador, Fiji, Ghana, Guyana, India, Malawi, Mauritius, Paraguay, Peru, Philippines, and Zambia.

In addition to the strong role played by Fairtrade in terms of certifying sugar producers in ACP countries, Fairtrade has also established a specific Producer Services and Relations (PSR) unit which, through Liaison Officers, provides targeted support for capacity building for small producer and worker organisations to help them achieve sustainable development through fair trade. Its general functions

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Figure 27: Fairtrade sugar cane producer organisations by country, 2012 (total 69)



and specific activities in ACP sugar producing countries are outlined below:

- providing training in local languages
- offering guidance on Fairtrade certification requirements
- facilitating relationships with buyers and access to new markets
- supporting producer involvement in consultations on Fairtrade Standards and Pricing

- supporting networking and partnership development.

Guyana In Guyana in 2011, PSR organised extended training for seven sugar cane co-operatives in meeting Fairtrade standards. This also presented an opportunity for producers to interact and share experiences, and they held detailed discussions on how to use premiums, supported with advice from the liaison officer. One year on, the groups had used the premium to replant long-abandoned fields and replace old and poor-yielding cane with new plants. Since the initiative,

farmers have shown renewed interest in their farms, their environment and in the better functioning of their co-operatives. Meanwhile, as awareness of Fairtrade has grown, other cane-farming groups have become motivated to join Fairtrade.

Mauritius In July 2012, liaison officers in Mauritius provided pre-audit support over 15 days to 32 sugar co-operatives. They found that most of the co-operatives had grown much stronger since their first audits, and that the first Fairtrade Premium investments were having an impact on farmers' communities and the profitability of their businesses. Producers had used their premiums to invest in subsidised fertilisers and a tractor to reduce the cost of delivering cane to the collection point.

Swaziland and Mozambique Liaison officers provided post-audit support to three producer organisations in Swaziland, and one in Mozambique, to enable them achieve Fairtrade certification in autumn 2012. This brought the number of sugar producer organisations in the region to 40, in response to increased demand for Fairtrade sugar.

Jamaica In Jamaica, PSR supported six sugar cane producer organisations that were going through the last

Figure 28: Fairtrade sugar cane producer organisations and members by region

Country	Tonnes
Belize	69,900
Fiji	40,700
Zambia	30,000
Paraguay	20,700
Malawi	8,500
Others	15,000
TOTAL	184,800

Source: Fairtrade International

Figure 29: Fairtrade sugar exports by top 5 countries 2010-11

Region	Producer Organisations	Members
Africa	35	10,100
Latin America and Caribbean	31	21,100
Asia and Oceania	3	6,000
TOTAL	69	37,200

Source: Fairtrade International

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steps towards Fairtrade certification. It hired a consultant to work directly with the farmers to help them meet the standards by addressing nonconformities identified during their initial inspections. Despite the disruption caused by Hurricane Sandy, the first group was successfully certified in early November 2012.

Africa Fairtrade Africa and PSR jointly organised a meeting for African Fairtrade sugar producers ahead of the Africa Fairtrade Conference in Addis in November 2012 – a joint effort that will strengthen information sharing and networking amongst sugar producers.

On the retail side, Fairtrade International and the Fairtrade Foundation (UK) have also played a strong role in the expansion of the Fairtrade sugar retail market, and increased use of Fairtrade sugar in consumer products, through commitments for sugar sourcing from major confectionary producers. A notable success story is that of the UK, in 2011, the value of the Fairtrade sugar retail market was £464m.

Fairtrade sugar was launched in the UK in 2000, pioneered by alternative trade organisations Traidcraft and Equal Exchange. Sales of Fairtrade sugar products have grown fourfold since 2008, driven by Tate & Lyle converting 100 per cent of its retail branded sugar to Fairtrade in 2008-9. As an ingredient in chocolate, Fairtrade sugar sales have been boosted by the commitment of Traidcraft, Divine Chocolate and Ben & Jerry's, along with major conversions to Fairtrade by Cadbury Dairy Milk, four-finger Kit Kat, Maltesers and Green & Black's entire range of chocolate products. UK consumers spent £464m on Fairtrade sugar products in 2011, with a total volume of almost 101,000 tonnes. With sales

worth £118m, Fairtrade now accounts for 36 per cent of the £326m UK retail bagged sugar market.

Around 1,500 Fairtrade certified sugar and sugar products from 180 companies are now available. Of those, 18 per cent comprise packaged sugar, 79 per cent are composite products containing sugar, and 3 per cent are beauty products with a sugar ingredient. The range of Fairtrade packaged sugar includes white granulated, raw cane, demerara, soft light brown, soft dark brown, muscovado and caster sugar. Many are also available in cubes, sachets and catering sticks. Billington's range of Fairtrade unrefined sugars is also widely available, while branded Fairtrade packaged sugar is available in most UK supermarkets, along with own-label ranges in The Co-operative, Marks & Spencer, Sainsbury's, Tesco and Waitrose. Since 2008, all sugar sold in The Co-operative Food stores – branded and own label – has been Fairtrade, and in 2012 Morrisons switched the majority of its sugar range to Tate & Lyle Fairtrade granulated and baking sugars.

Outside of retail, Fairtrade sugar can be found almost everywhere – in sachets on Virgin Atlantic and BA planes, on ScotRail and First Great Western trains, and in cafés including Greggs, Pret and Eat. It is available in cubes and bags from nearly all wholesalers, including Brakes, 3663 and Booker, as well as catering companies such as Sodexo and Compass where Fairtrade sugar is standard. And all sugar at the London 2012 games was Fairtrade. Fairtrade sugar is also used as an ingredient in more than 1,100 Fairtrade products. The huge range includes cakes, biscuits, chocolates, sweets, hot chocolate, ice cream, jams, marmalade, baked beans, beer, moisturisers and body scrubs.

5.3. ACP Opportunities for Fair Trade

Fair Trade presents a number of ways in which ACP countries and regions can improve their trading opportunities and to leverage their characteristics as key commodity exporters with a long-standing trade relationship with the EU and a growing domestic middle class. With these opportunities, potential qualitative and quantitative improvements can be made to the economic and social conditions of farmers in ACP countries, as the Fair Trade system looks to address both issues. In summary, these key opportunities are:

i. Revision of the European Union Public Procurement rules

The latest revision to the European Directive on Public Procurement, which was signed into law in 2014 introduced Fair Trade (and other environmental and social standards) for the first time as permissible criteria or obligations for the award of public procurement tenders and also concession contracts, by virtue of a new European Directive on Concession Contracts.

Producers of Fair Trade products and goods now have a legally secure access to the EU public sector, which opens up a market of immense value for ACP Fair Trade exporters. According to the European Commission, “[t]otal public expenditure on goods, works and services accounts for a large part of economic activity – amounting to over €2 trillion in 2009.”¹⁵⁵

ii. Expansion of the range of products which can be certified

In 2013, Fairtrade International launched a new standard for

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Fairtrade Gold and Precious Metals, following the lead of some national Fairtrade Organisations which had begun to approve Fairtrade gold. A public consultation on the Revision of Standard for Gold and Associated Precious Metals from Artisanal and Small-scale Mining was concluded in 2014, with a view to responding to changes in regulation and legislation in the gold industry. A key goal of this undertaking is for Fairtrade to eventually be able to offer “a small, but scalable solution to companies looking to source gold from artisanal and small-scale miners that can demonstrate conformance with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.”¹⁵⁶

A Fairtrade standard for gold and precious metals which is in line with global guidelines that already apply to business in most of the economically developed countries in the world would open up new markets for ACP gold and mineral exporting countries, and also respond to calls from both developing and developed countries for Fairtrade to apply to a greater number of non-agricultural exports.

iii. New Fair Trade markets and expansion of South-South Fair Trade

Consumers in emerging and growing economies in the ACP, such as South Africa and Kenya, as well as those in other regions of the world, notably Brazil and India, are leading to an increase in the demand of Fair Trade products. As food and other consumer products become more global, producers are increasingly keen to harmonise their supply chains across different regions, which is especially evident in the chocolate industry. For example, Cadbury Dairy Milk is now sold as Fairtrade both

in the UK and in South Africa. ACP countries could capitalise on this opportunity to serve growing local and regional markets.

iv. Reforms to the ACP-EU trade regime

The phasing out of duty-free preferential market access for exports from the ACP Group to be replaced by trade agreements (as Economic Partnership Agreements) or the EU's Generalised System of Preferences has presented an ongoing threat to ACP exports to the EU for a substantial period of time. Exacerbating this challenge

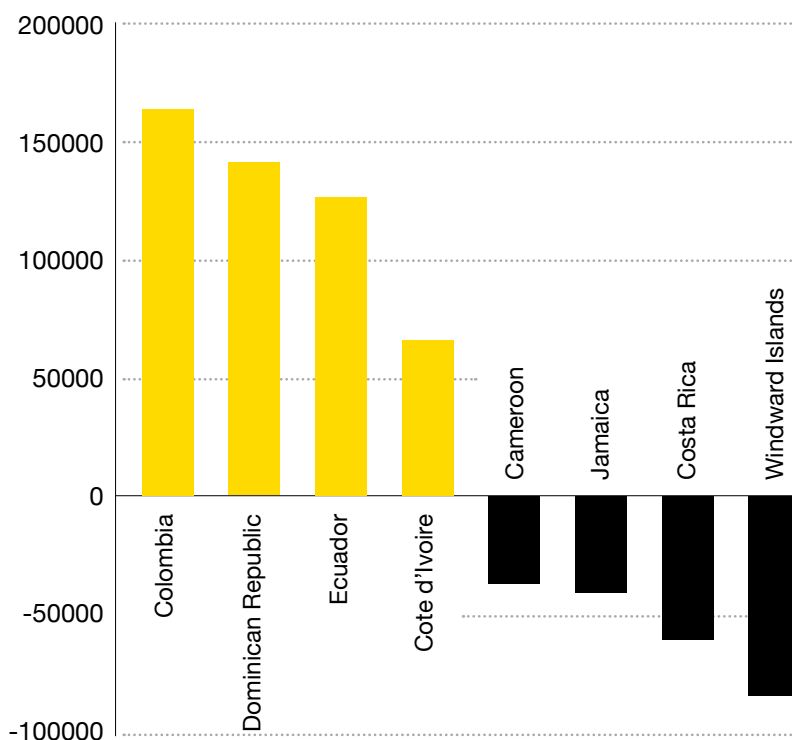
is the preference erosion that has arisen as a result of the lowering of EU import tariffs across the board for many products that are key exports commodities for ACP countries and the signing of preferential trade agreements between the EU and other countries that export products which directly compete with those from the ACP countries.¹⁵⁷

In response to this changing trade dynamic between the ACP and the EU, and also with a view to leveraging their role as key commodity exporters, a number of ACP countries have responded by promoting value addition for

Figure 30:

Winners and losers: Changes in volume of bananas imported into Britain 2002 – 2012 By origin (Metric tonnes)

Source: Eurostat



Source: Fairtrade Foundation (UK)

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their exports, including by means of applying standards that assure quality, sustainability or other social considerations. In the ACP Group, the Dominican Republic and the Windward Islands¹⁵⁸ are the top exporters of Fairtrade bananas, and in both markets, virtually all of the bananas grown for export are Fairtrade certified.¹⁵⁹ In the Dominican Republic, up to 60 percent of banana production for export is organic certified, with a very high proportion of Organic Fairtrade certification.¹⁶⁰ Increasing supply and seeking a very high standard certification has seen imports of bananas from the Dominican Republic to the UK soar over the past ten years.

In order to truly maximise the potential of increased standard certification (Fair Trade or Organic and Fair Trade) for both agricultural and non-agricultural goods, Fairtrade Organisations and other equitable trade institutions and advocate have called on greater reforms to the EU's trade and internal regulations in order to support Fair Trade and its objectives. Some specific targets have been the EU's internal budget rules which do not allow for the targeted application of tariff revenues. This effectively means that the EU at present cannot apply the revenue from banana import tariffs to support Fair Trade, despite the fact that supporting Fair Trade is line with its commitments under Cotonou Agreement.¹⁶¹ In terms of the EU trade rules, another potential means of supporting Fair Trade would be a revision to the EU rules of origin to allow increased cumulation for Fair Trade inputs. More flexible EU

rules of origin for Least Developed Countries have already gained widespread support.¹⁶² This issue has been particularly pertinent in the context of Fairtrade composite products,¹⁶³ where various Fairtrade products can be sourced from different developing countries, but the resulting loss of preferential access for the final product means that there would be little incentive for composite products to be made in developing countries.¹⁶⁴

5.4. Case studies of Fair Trade in the ACP – EU Context

The case studies in this section are taken directly from articles, journals, reports, presentations and other sources. They are structured in order to give an overview of the context, opportunities, challenges and lessons learnt on the application of Fair Trade in various contexts – at the producer, local, national or even regional level, and with regards specific commodities or markets. Although neither comprehensive nor definitive, they do provide a glance into some of the potential avenues for Fair Trade to develop within the ACP-EU trade and cooperation framework.

5.4.1 Dual Certification

As the number, scope and significance of private standards for sustainability and traceability in consumer goods grows, so does the incidence of dual certification or labelling by exporters of commodities and products. This

applies to circumstances where the same good will comply with distinct standards which concern different issues – one increasingly common example in the ACP is Fair Trade and organic certification. Whereas these are not equivalents of each other, they are nevertheless found to correlate across certain commodities, with some very high incidences in the bananas sector, as well as with other commodities such as sugar, tea, coffee and so on.

Case Study 1: Bananas in the Dominican Republic: organic as a complement to Fair Trade

Sources: *Potts J. et al. (2014) IISD Fairtrade Foundation (2014)*

a. Context

Fairtrade certified bananas account for approximately 0.5 per cent of global banana production, with 550,000 metric tons of production certified in 2012 on 28 thousand hectares, up 4 per cent per annum from 2008. In 2011, two-thirds of Fairtrade production was sold as Fairtrade certified, representing 2 per cent of the total world banana trade. Both sales and production have grown relatively consistently from 2008 to 2011, with the exception of a dip in production in 2011 due in part to the effect of Hurricane Thomas in the Windward Islands (St-Vincent, St-Lucia, Dominica, Grenada and Martinique) (FLO, 2012). Fairtrade expects its certified banana sales volumes will grow about 10 per cent in 2013 and reach a level of 400,000 metric tons in 2014 (M. Blaser, Fairtrade, personal communication, September 13, 2013). Almost all (94 per cent) of Fairtrade banana

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sales occurred in four countries: Colombia, the Dominican Republic, Ecuador and Peru. The Windward Islands accounted for only 3 per cent of Fairtrade banana sales but exported 90 per cent Fairtrade bananas, and bananas account for 20 per cent or more of the domestic economy (Fairtrade Foundation, 2012). Also notable is that Fairtrade has increased production capacity in Africa to 600,000 metric tons in 2013 (in itself more than doubling total 2011 production capacity from all regions), from virtually nothing in 2011 (M. Blaser, Fairtrade, personal communication, September 13, 2013).

Organic bananas have been on the market for more than two decades, but growth has been especially strong since the early 2000s, albeit tapering more recently. The growth in Organic banana production and sales slowed to under 2 per cent per annum from 2008 to 2012. As of 2011, more than 780,000 metric tons of Organic bananas were produced, accounting for 1 per cent of global production. During the same year, 488,000 metric tons of bananas were sold as Organic, accounting for 3 per cent of global exports. Organic certified bananas are grown throughout the world, with a particular concentration in Asia and Latin America. The Dominican Republic (29 per cent), Ecuador (25 per cent) and Peru (15 per cent) account for almost three-quarters of global Organic banana production. While four of the top five producers of Organic bananas (Ecuador, Peru, the Philippines and Colombia) control similar levels of market share relative to their banana exports, the Dominican Republic stands out as the most important source of Organic bananas, despite its being a relatively small player on the international export market. Guatemala, on the other hand, which serves as a major exporter of bananas, has a

relatively low presence of Organic banana production. Organic banana production has remained relatively stable over the period under analysis, averaging around an estimated 0.8 million metric tons, even though a major increase was noted from 2008 to 2009.

A very significant proportion of bananas from the Dominican Republic are certified organic. The country is the number one exporter of organic bananas in the world, and more than 60 percent of banana production for export is organic certified. Almost three quarters of banana producers in the Dominican Republic are organic – 100 percent in the southern region and 60 percent in the northern region. However, the Eurostat figures for imports do not allow specific volumes and values for organic bananas to be identified, and the average price calculated for bananas traded on the conventional market (i.e. excluding Fairtrade) includes both organic and non-organic. To make a single comparison with Fairtrade, a composite of the two minimum prices has been used assuming that just 50 percent of Fairtrade sales are organic (\$0.67 per kilo). This is a cautious estimate and almost certainly understates the true picture. Producers supplying the Fairtrade market also receive a premium payment of \$1 per 18.14 kilogram box (\$55 per tonne), which is earmarked for social and economic investment but which can also be used as cash payments for farmers and for other forms of economic support for workers in some circumstances. On average 24 percent of the premium is used in this way.

Fairtrade is the only standard that fixes price premiums. By October 2013, the Fairtrade social premium was US\$1 per box, and minimum prices were between US\$6.05 per

box (Panama) and US\$12.20 per box (Caribbean, excluding the Dominican Republic and Windward Islands) (Fairtrade International, 2013b). The Fairtrade social premium represents 17 per cent and 8 per cent of the abovementioned minimum prices, respectively. In October 2013, Fairtrade raised its minimum prices for bananas, but conventional banana prices have been rising in recent years and remained higher than Fairtrade minimum prices in some regions; for example, Central American export prices were around US\$11 (producer's port) per box in October 2013 (IndexMundi, 2013a), which is about US\$3 higher than Fairtrade minimums set during the same month. Fairtrade estimates that US\$18 million of its premiums have been transferred on the specific premium accounts of producer organizations in 2012 alone, which corresponds with 327,000 metric tons sold at US\$1 per box (about the same as the 332,000 metric tons reported sold). Like Fairtrade minimum prices, premiums for Organic bananas vary not only by country of production, but also by country of consumption. European markets are reportedly willing to pay more for Organic bananas than their American counterparts are (Fresh Plaza, 2012), which may be explained in part by the more developed market for double-certified Fairtrade/Organic bananas in the European market. Fairtrade minimum prices for double-certified Fairtrade/Organic bananas ranged from US\$8 per box (Peru) to US\$13 per box (Caribbean, excluding the Dominican Republic and Windward Islands) in 2013 (Fairtrade International, 2013b). As a reference, Organic bananas imported into the United States from Colombia in November 2013 hovered around US\$20 per box (U.S. Department of Agriculture, 2013b). Like Fairtrade conventional bananas, double-certified Fairtrade/Organic

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bananas received a fixed social premium of US\$1 per box, equivalent to 13 per cent and 8 per cent of the above-mentioned minimum prices, respectively.

Double-certified Fairtrade/Organic minimum prices range from about 30 to 40 per cent above Fairtrade minimum prices, which is in line with a separate study's observed prices for Organic bananas relative to conventional bananas from 2007 to 2010. The study estimated that farm gate prices for non-Fairtrade/Organic bananas averaged 38 per cent over conventional banana prices between 2007 and 2010, with Organic prices displaying modestly improved stability over conventional bananas (Evans & Gordon, 2011). However, Organic premiums can be even higher where niche buyers and markets are considered, such as in one report of 75 per cent premiums for Organic bananas in the Philippines (Business World Online, 2013).

b. Opportunities

Going organic in the Dominican Republic

Jetta Van Den Berg is the owner and President of SAVID, a banana producer in the Dominican Republic. Jetta explains the set up: 'We have our own farms and also work with small producers. On our own farms we have 400 workers. We also work with six small farmers' organisations and associations. We run model farms to teach good farming practices.' The Dominican Republic is an important origin for bananas, with around 30 per cent of SAVID's production going to the UK. Jetta says: 'For the last few years we have been selling roughly 50-60 containers of bananas per week. 75-80 percent is Fairtrade and 75 percent is organic. Most of the conventional Fairtrade bananas go to the UK, and most of the organic

Fairtrade bananas go to Europe.' As SAVID's owner, Jetta has clear sight of the pressures on the banana trade, and top of her list is the need for long-term commitments from buyers. 'A major issue is ensuring commitments to volume. Volumes are not guaranteed but can go up and down quickly from 6,000 to 30,000 boxes per week which is unworkable. Supermarkets run tenders every year, but for stability we need five-year contracts,' she says. SAVID does not sell directly to supermarkets, but to intermediary ripening companies. But supermarket price wars are still a worry. Jetta says: 'Buyers are under a lot of pressure to negotiate the best price possible. They are working in a context where bananas are used for price fights between supermarkets.' She sees a lot of pressure from buyers to pass costs on to producers. 'We experience problems after contracts have been agreed, asking for retrospective discounts,' she adds.

If it were not for the Fairtrade and Fairtrade Organic bananas the producer sells Jetta is sure that SAVID would be in trouble. She says: 'The conventional market does not pay the amount we would need to meet costs of production. With the Fairtrade Minimum Price it is enough to cover costs.' She also speaks proudly of the ways in which the Fairtrade Premium has been used: 'This has been used for housing, medical care, and education programmes, among other things,' she adds.

c. Challenges

In the Dominican Republic migrants from Haiti have made up much of the agricultural labour force since the 1920s, but the country has maintained labour laws requiring at least 80 per cent of a firm's employees to be Dominican. This forces migrants to work illegally and without documents, which then leaves them vulnerable to

economic, social and political disadvantages. A study conducted in 2010 by the Dominican Ministry of Labour concluded that 66 percent of all banana workers were Haitian, varying from 54 percent in the south to 77 percent in the north west. It also showed that 86 percent of field workers and 69 percent of packhouse workers were Haitian, while 61 percent of supervisors (field and packhouse) were Dominican. Fairtrade has actively supported the movement to legalise Haitian migrant labour and improve working conditions for migrants. Only very recently, and as a result of international campaigns to highlight the situation of migrant workers, have Dominican trade unions started to take an interest in organising Haitian banana workers, even though nothing in the national legislation prevents migrant workers from joining a union. In 2012 banana workers were for the first time issued so-called 'NM1' visas, giving them full permission to work and access to the social security system. However, the process for getting a passport in order to qualify for the visa is complicated, costly and time-consuming for many workers. Employer-worker labour relations are characteristically informal and based on verbal contracts. National statistics state that 66 percent of producers do not register any of their workers with the Ministry of Labour. Data from 2010 shows that there are substantial wage differences between Dominican and Haitian employees.

d. Lessons on organic as a complement to Fair Trade

From the perspective of the bottom line, producers in the Dominican Republic have shown the value addition they have gained from having double certification of both Fair Trade and organic for their bananas. In addition to receiving the mandatory

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FT premium for the bananas sold as FT and FT Organic, the producers of the Dominican Republic have also achieved a disproportionately strong position in the European organic banana retail market due to the higher demand in Europe for organic bananas. These advantages appear notwithstanding the cost of both forms of certification, and the overall fall in the price of bananas in the retail market, most notably in the UK.

The labour challenges faced by the Dominican Republic in its banana sector are not unique to this country, and the ubiquity of migrant, undocumented and informal labour in the agricultural sector is in fact one of the issues which Fair Trade deals with very closely and directly. In fact, because organic certification is primarily concerned with traceability and production standards that deal with specific inputs into the production process, the need for Fair Trade will continue to exist in order have a standard which incentivises producers to comply with national labour laws or ILO rules for the benefit of the farm workers.

5.4.2 Fairtrade in EU Public Procurement

Public procurement represents the new frontier in Fair Trade, where the dynamic has changed from one of private consumer purchase choices, to one of public spending and the role of public authorities and bodies as consumers. A key outcome of this debate has been whether private standards are or can be compatible with global trade rules such as those concerning Government Procurement in the WTO (notwithstanding that the GPA is not obligatory to all WTO Member States, only includes signatories such as the EU and numerous other OECD and middle income

countries). This development goes some way towards breaking the historical “one or the other” dichotomy that marked the concept and goals of Fair Trade vis-à-vis the reality of the global multilateral trading framework, and reinforces that the pursuit of Fair Trade is not *a priori* contrary to global multilateral trade rules or systems. As such, EU governments at national and state (local) levels are free to influence the purchasing choices made with tax-payer money in favour of Fair Trade, bringing this concept to a broader audience. Likewise, Fair Trade producers may now consider how to broach and pursue a new market which may demand the supply of Fair Trade products for extended periods of time.

Case Study 2: Fair Trade in EU Public Procurement – the approach of Bremen (Germany)

Sources: Sarter E.K., Sack D. and Fuchs S. (2014) “[Public Procurement as Social Policy? An introduction to social criteria in public procurement in Germany](#)” Working Paper No. 1 Working Paper Series Comparative Governance’ August 2014 Universität Bielefeld; Dr. Wiese, K. and Schmidt, T. (2014) “[Bremen on its way to socially and ecologically responsible procurement](#)” LANDMARK Bremen, Freie Hansestadt Bremen

a. Context

Public Procurement – i.e. the purchase of goods and services by public sector bodies – accounts for nearly one fifth of GDP in the European Union (European Commission, 2012). In Germany, public procurement by general government and state-owned utilities is estimated to account for about 17% of GDP (OECD,

2011). Until the reform of 2004 European regulations were largely characterized as neoliberal and focused on competition and the creation of the single market without focussing on social criteria (Rolfstam, 2009). In the beginning of the 20th century – and especially during the negotiations of a new Directive on public procurement, a debate on social standards in the economically based process of tendering gained momentum (Rolfstam 2009; Scherrer et al., 2010); this resulted in an intrusion of social criteria in Directive 2004/18 (Scherrer et al., 2010: 118). Also at the national level, social criteria became more important (Kahlenborn et al., 2011; Schulten et al., 2012; Sack, 2012). Seeing that public procurement is based in competition and market building these goals, however, are only taken into account up to a certain point and if they are treated rather restrictively.

In brief, public procurement is – as every purchase – based on a succession of decisions and choices: The first decision, which also lays ground for the purchase, is the decision to purchase a certain good or service. Secondly, the specific characteristics of that good or service to be purchased have to be decided. Thirdly, the criteria on which the choice between different options will be based have to be decided on: thus, how important will the price be and which other criteria will be taken into account and to which extend?

The criteria of public purchasing are of great interest not only to business but also politically: Due to the high volumina spent, public procurement can be used to influence economic and social outcomes. By purposefully and strategically choosing and purchasing, the authority can foster employment opportunities for

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distinct groups, distinct sorts of businesses (e.g. SMEs or minority run businesses) or societal goals. Public procurement thereby can be used as “a powerful tool for policy making.” (Bovis, 1998: 226)

Being placed in the context of competition law [legal regulation regarding the economy are (with the exception of certain areas) part of what is commonly referred to as “competitive legislation” (‘konkurri-erende Gesetzgebung’)], public procurement is regulated at national as well as at subnational level. At national level the Anti-Trust Law (Gesetz gegen Wettbewerbsbeschränkungen, GWB) regulates public purchasing. At the Federal level as well as in some States, statutory decrees regulate public purchasing or specific aspects therefore even further. At sub-national level, the Federal States (Länder) are also entitled to adopt Federal State laws on public procurement, which, in 2014, 15 out of 16 Länder did. However, next to the GWB and the public procurement laws of the Länder, further regulations

exist. Furthermore, in some Länder, decrees exist. [note: the Federal law is superior and exceeds Federal States’ laws].

According to the stipulations of § 97.1 and §97.2 GWB the general principles of public procurement are defined as competition, transparency and non-discrimination. Within this framework, tenders are awarded to the “most economically advantageous tender” (§97.5 GWB). Since the reform of 2009, the GBW (which already had been in place since 1958), allows social and ecological criteria in public tendering are explicitly admitted as criteria in public tendering: §97.4 states that the criteria used may include ‘social, environmental or innovative aspects as long as these are related to the subject matter and made explicit in the specifications.’ [authors’ translation] While the GWB does not specify these criteria, today, specifications are to be found in the Federal States’ public procurement laws and the specific Federal States’ decrees.

In Germany, the inclusion of Fairtrade as a criterion in public procurement is relatively new. It was first introduced in North Rhine-Westphalia (§18.1 TVgG NRW) in 2012. The only other Land that holds a stipulation on Fairtrade in its public procurement laws until now is Schleswig-Holstein, where it was introduced one year later, in 2013 (§18.1 TTG).

Next to the specific criteria used in the distinct public procurement laws, their specific design varies. Thus, while some criteria tend to be mandatory requirements (e.g. the compliance with minimum wages), others (such as integration or reconciliation of work and family) tend to be optional for the procurer.

Furthermore, variance can be found regarding the type of proof of compliance with a certain stipulation; this differs heavily between different types of criteria and the different Federal States laws. If specified, as a general line, four modes of proofs are to be found:

Figure 31: Types of proofs

Type of proof	Mostly used for...	Issued by...
Provider's Declarations (<i>Eigenerklärungen</i>)	Minimum wages, minimum working conditions, compliance with collective agreements	Bidder
Statements on how compliance is reached	Gender equality, reconciliation, integration	Bidder
Certificates and Labels	ILO Core Labour Standards, Fairtrade	Independent agencies
Official attestations	Participation in Dual Vocational Training, employment of persons with disabilities	Public administration/Chambers of craft/Chambers of commerce/ Trade Unions

Source: Own compilation

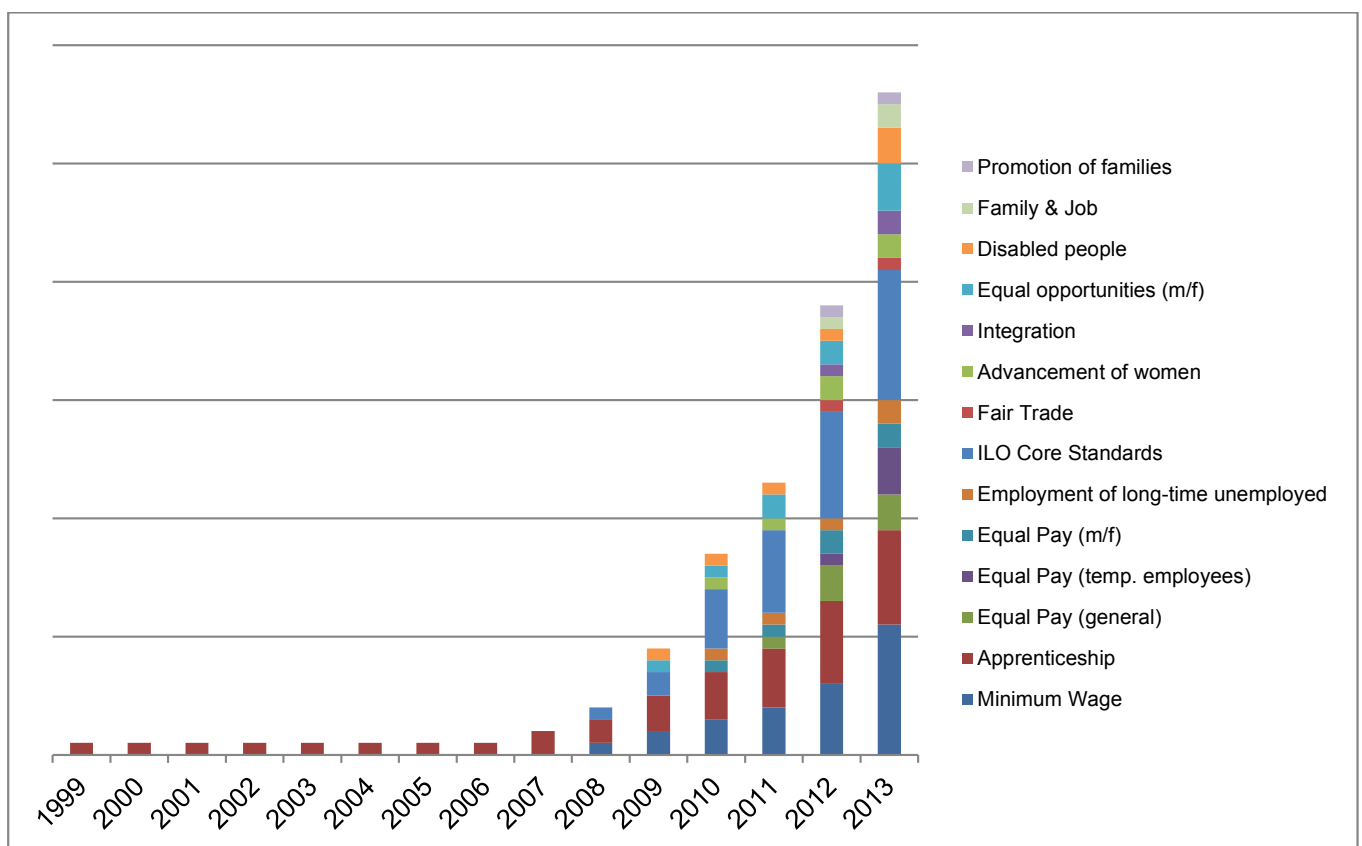
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A third way to show compliance is to use labels and certificates. Given the fact that labels and certificates only exist for certain areas (e.g. Fairtrade), the use of labels is already structurally restricted. Therefore, it comes as no surprise that labels and certificates are mainly used in order to proof compliance with

ILO Core Labour Standards and Fairtrade, despite the fact that the implementation of this principle differs in the single states: Bremen, for example, defines certain certificates that can be used in a dedicated decree (BremKernV) whereas Saxony-Anhalt only regulates, that "suitable certificates

or self-declarations" can be used as a proof of compliance with the ILO Core Labour Standards (§12.2 LVG LSA). This use of self-declarations or other not specified proofs is an alternative in all states with ILO or Fairtrade stipulations if no label exists for a group of products or if an independent proof cannot be found.

Figure 32: Expansion of social criteria in German procurement law



Source: Own compilation; **Notes:** Criteria relating to the promotion of SMEs as well as ecological criteria were excluded.

Today, 15 out of 16 German Federal States have public procurement laws; 14 of these included social criteria. However, it seems important to stress that this does not mean that the specific criteria or their regulation are similar. Rather, the stipulations in the Federal States' laws are highly divergent regarding the number of social criteria as well

as the specific criteria and their mode of regulation.

b. Opportunities and challenges

Bremen on its way to socially and ecologically responsible procurement: LANDMARK

LANDMARK Bremen

Priorities in Bremen:

- Advice for tenderers in Bremen
- Events: seminars, trainings, company-dialogues, multi-media exhibitions and closing conference
- Networking of the procurers (as well with NGOs and other communes and states)

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Framework in Bremen

1. Budget consolidation: disproportional personnel reduction for internal services (such as purchase)
2. Instruction to take into account social and ecological procurement criteria as a result of the 2007 and 2011 coalition agreement
3. Decision of the parliament against exploitative child labour (2008)
4. Bremen laws on collective bargaining or public procurement (2009)
5. Bremen core labour standard provision (2011)
 - "Multilateral order situation" for a systematic reorganisation of public procurement
 - Not 'solely' implementation of additional award criteria

Advisory board for socially and ecologically responsible administrative action alongside LANDMARK

- Directly linked to the Senator of Finance, Mayoress Linnert
- Knowledge transfer between science, NGOs and administration
- Effective project consulting
- Arrangement of joint projects

New Bremian tariff- and allocation-law:

§ 19 Eco-friendly procurement Public procurers have to...

consider environmental features of goods when allocating services of construction, delivery or of public interest

§ 18 Consideration of social criteria Public allocators have to...

aim towards goods - for services of construction, delivery or of public interest - not being objects produced under conditions violating the minimum labour standards of the International Labour Organization (ILO).

The Regulation of Core Labour Standards of the city of Bremen (since 2011)

Area of usage for certain sensitive categories of goods:

- Uniforms and working clothes, fabrics and other textiles: Fair Wear Foundation, Ethical Trade Initiative, Fair Labour Association, Social Accountability International Standard 8000
- Natural stone and products made of natural stone: Fair Stone, WGDN (Werkgroep Duurzame Natuursteen), Xertix
- Tea-, coffee- and cocoa products: Fairtrade, Rainforest Alliance, 4C Association
- Flowers: Fairtrade, Rainforest Alliance, Flower-Label-Program
- Toys and sports balls: Fairtrade, Social Accountability International Standard 8000, certificate in line with the ICTICodex

Tiered verification process:

1. Verification of compliance of the ILO-core labour norms by valid seal, label or certificate or proof of membership to an initiative (according to a list published by the administration; or seal, label, certificate or membership of equal value). Tenderer has to proof equivalence. or
2. Self-declaration, if no certificate exists. *"I hereby declare that in the process of extraction or production of the goods the agreements of paragraph 1 of the supplementary contract conditions 'ILO - core labour*

norms' have been met. Information regarding extraction of resources and production of the goods as well as a list of involved companies will immediately be given upon request. I regularly inform myself about the labour conditions during the process of extraction and/or production of the good. [...]"

3. Verification after conclusion of the contract Tenderers which have given a self-declaration are obliged to answer any questions regarding the compliance of the ILO - core labour norms in the production of the goods to be delivered.

Corporate dialogue as a new tool 'A LANDMARK-Product'

- Since 2011 supplier dialogues focused on social and ecological requirements
- Classification within the Public Procurement Law: formally it is not a procurement procedure but market exploration!
- Conversation guide for procurers for orientation and support

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<ul style="list-style-type: none"> - Result example: Idea for a pilot with life-cycle chip, integration of further services 	<p>working- and social-standards in the production of the machine (first reporting obligation of its kind in the country).</p>	<ul style="list-style-type: none"> - Effects of changed procurement behaviour on working conditions have not been sufficiently proved
<p>Landmark-events regarding sensitive products</p>	<p>Pilot-call example: 'pinafores'</p>	<ul style="list-style-type: none"> - Controlling of suppliers during the duration of the contract
<ul style="list-style-type: none"> - Clean buying, but how? – buying uniforms etc. from the Fair Wear Foundation (2012) - Company-dialogue “Working-clothes and uniforms” (2012) - Clean buying, but how? – recognizing eco-friendly and socially produced clothing. Example GOTS (2013) - Getting started – fair nature stones for Bremen, in cooperation with WIN=WIN Fair Stone (2012) - Fair buying, but how? – buying flowers, in cooperation with vamos e.V. (2013) - Sustainable wood (2013) - Fair-played: toys in Bremen – eco-friendly, social and economical buying, in cooperation with KiTa Bremen and Clean Clothes Campaign (30.09.2013) - Fair-play means fair-pay: recognizing socially and eco-friendly produced sports balls (19.11.2013) 	<p>Recognized standards: ILO-labour standards and eco-friendly features</p> <ul style="list-style-type: none"> - 1.000 pinafores for 500 cleaners - Consultation of the tendering process by NGOs (Clean Clothes Campaign, Christian Initiative Romero and Fair Wear Foundation) to be able to approach tenderers <p>Pilot-call example: 'congress hall carpet'</p> <p>Made of highland-wool from Nepal.</p> <ul style="list-style-type: none"> - Proof of meeting social criteria with the 'Label-Step'- certificate. - 'Label Step' accompanies the production process in Nepal. - No additional costs by meeting social criteria (budget: 100k €). <p>Next steps? What stays problematic?</p> <ul style="list-style-type: none"> - Establishing new mandates for working clothes and protective clothing, disposal services and electronic equipment at service provider IB - Partly lacking supply of certain products/labels - Dealing with unexpected additional costs, complicated self declarations - Standardization and bundling to increase effects - Further development of planning processes (corporate dialogues and procurement conferences) 	<ul style="list-style-type: none"> - Consolidation of the reformation process <p>Lessons learned: “Keeping up the good work! Managing actively!”</p> <ol style="list-style-type: none"> 1. Socially and ecologically oriented public procurement works – as well in times of budget crisis. 2. Structures for systematic procurement control are necessary. 3. Awareness raising of procurers and consumer is fundamental. 4. Dialogue with NGOs are beneficial for the process of implementation 5. Dialogues with companies are fundamental. (articulating demand!) 6. Implementation of environment criteria, where alternative products have been established on the market, is realistic. 7. Buying all products in compliance with the ILO-core labour norms stays a challenge.
<p>Pilot-call example: IT-Procurement by the states (Bremen, Hamburg and Schleswig Holstein)</p>		<p>c. Lessons on Fair Trade in public procurement</p> <p><i>The case study demonstrates clearly that there is little uniformity in the social and environmental dimension of public procurement in the EU, let alone in one country such as Germany. As a result of the latest Directive on Public Procurement, the overall framework of public procurement in the EU has been clarified, insofar as it has made it explicitly clear that fair trade criteria can be included in a public tender,</i></p>
<ul style="list-style-type: none"> - Consultation by LANDMARK - Duration of 4 years, budget ca. 70 Mil. € - Demands of negotiation procedures: Designing a concept of compliance with the ILO – agreement by the tenderers - Reporting regularly about 		

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but the Directive does not go so far as to outline the way these criteria are to be set and evaluated. In Germany, the situation is made even more complex by the fact that both national and state (Federal States) authorities can legislate on public procurement.

Germany has demonstrated that Fair Trade has a strong potential in public procurement and that for certain tenders, for example those involving food and drinks, as well as textiles, ACP producers can now gain access to a potentially lucrative market. Some public authorities have approached social and environmental public procurement proactively, such as Bremen with the Landmark Project. In this case, a lot of effort has gone into not only establishing sustainability criteria into the tender process, but a substantial amount of outreach and events with stakeholders such as NGOs have also been initiated.

Sustainable public procurement also provides an incentive for both private sector bidders and the producers of Fair Trade goods to enter into supply agreements for the purposes of delivering the services or goods under the tender.

5.4.3. Long term implications for Fair Trade certification

Coffee is a key commodity for the ACP region, and has been the subject of the greatest variety of certification schemes. As the Fair Trade system is itself quite mature in the coffee sector, numerous studies have been undertaken to evaluate the longer term effects of certification of coffee growing cooperatives, especially looking beyond just the issue of the FT premium, which historically was the initial measure of the impact of FT certification for farmers and cooperatives. The social and capacity-building dimension

of Fair Trade has also come under increasing scrutiny, particularly the effects on the ability of farmers in the long term to become more resilient, by having greater access to finance, having a stronger position in the supply chain, improving their knowledge and skills in terms of farming processes, standards and rules and also the impact on more vulnerable and marginalised members of farming communities, such as women and children. The ancillary effects of Fair Trade have increasingly become a key issue in the analysis of the overall value that farmers and cooperatives get out of the often expensive and onerous certification process.

Case Study 3: Fair Trade Coffee in Kenya, Uganda and Ethiopia

Sources: [Potts J. et al. \(2014\)](#)
[IISD Hoebink P., Ruben R., Elbers W. and van Rijsbergen, B. \(2014\)](#)
[“The Impact of Coffee Certification on Smallholder Farmers in Kenya, Uganda and Ethiopia”](#), Centre for International Development Issues Nijmegen (CIDIN), Radboud University Nijmegen, The Netherlands
[For Solidaridad Bagal, M. \(2013\)](#)
[“Study on the potential of marketing of Kenyan Coffee as Geographical Indication Case study related to the study on the potential for marketing agricultural products of the ACP countries using geographical indications and origin branding”](#)
European Commission

a. Context

All major ACP (African, Caribbean and Pacific region Countries) coffee producers are located in Africa, with an exception for Papua New Guinea (PNG). The main ACP producers in 2009-2010 were Ethiopia (with almost 7,5 million bags produced, and an

increase of 7,5% over the previous year), Uganda (3,1 million), Ivory Coast (2,2 million), PNG (1,1 million) and Tanzania and Kenya (approximately 0,9million). Over the 2001-2010 period, ACP countries accounted for less than 15 per cent of the total coffee production, showing a decreasing trend if compared with the 19 per cent share they held in 1990 and 25 per cent in the 1980s. The EU accounts for over 40 per cent of the total coffee consumption in importing countries, and remains the most important market for ACP producers. ACP countries' share in global coffee exportation almost halved over the last 20 years, due to a production increase in non-ACP countries, such as Indonesia and Vietnam. However, production value in some ACP countries has been increasing since 2000, and at a higher rate than other non-ACP countries.

Coffee is generally regarded as the pioneering industry for sustainability standards and certification (Reinecke, Manning & von Hagen, 2011). As with many other primary commodities, the global coffee market has been defined by high volatility and long-term declining prices. Notwithstanding international efforts to secure more stability and predictability in the relationship between supply and demand of coffee through the International Coffee Organization (ICO), growing global production, speculation and climatic uncertainty have continued to drive price volatility and long-term price decline within the sector. With coffee production being dominated by smallholder producers in tropical regions, themselves often subject to conditions of poverty and in close interaction with highly biodiverse biomes, the coffee sector has

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provided fertile ground for the development and adoption of sustainability standards.

While certification initiatives for sustainable coffee have been around for more than 20 years, the past decade has seen a rapid increase in the development of new schemes and mainstream uptake of sustainable coffees. Many labels and certifications for coffee exist. The most important in terms of volumes certified include Nespresso AAA Sustainable Quality, 4C Association⁴, Starbucks Coffee And Farmer Equity (C.A.F.E.) Practices, Fairtrade, Organic (IFOAM is the standard-setting body), Rainforest Alliance (Sustainable Agriculture Network is the standard-setting body) and UTZ Certified. In 2012, 3.3 million metric tons of coffee were produced in compliance with a voluntary sustainability standard (40 per cent of global production), of which 840,000 metric tons were sold as standard compliant (25 per cent of standard-compliant production, 10 per cent of global production and 12 per cent of global exports). Brazil and Vietnam were the largest producers of standard-compliant coffee by volume in 2011/2012.

Standard-compliant coffee production grew 26 per cent per annum from 2008 to 2012. Regional importance Brazil (40 per cent), Colombia (17 per cent) and Vietnam (15 per cent) produce the lion's share of the world's standard-compliant coffee. Premiums for standard compliant sales have been reported at 1 to 30 per cent over the 2011–2012 period. Highest premiums were observed for Fairtrade/

Organic certified coffee, and lowest premiums were observed for 4C-compliant coffee.

The coffee sector indeed has the highest presence of sustainability standards among major agricultural commodity sectors in regards to both supply and demand; both continue to grow across all voluntary sustainability standards active within the sector. The pervasiveness of these standards throughout the sector has been driven by many factors, but can in large part be attributed to the maturity of the market, the 2001 coffee crisis and corresponding consumer and private sector awareness, and the high concentration in manufacturing, as well as the limited processing between production and consumption, and retail products with one single or very few ingredients. The last two factors allow for easier consumer recognition of certified ingredients.

Coffee pricing is well known for its volatility and long-term decline in real terms over the past century.

The first certification initiative to explicitly target trade itself as a tool for improving farmer livelihoods was the Max Havelaar label, established in Holland in 1988. The Max Havelaar model, which required licensees (manufacturers) to pay a minimum price for coffee while also ensuring other trade benefits, was quickly adopted in other countries; these eventually came together to form Fairtrade Labelling Organizations International (FLO) in 1997. In addition to the specification of a minimum price, Fairtrade is

exceptional in that it works only with democratically organized smallholders (i.e., those organized into cooperatives), while also specifying a fixed social premium to be distributed to the producer organizations for reinvestment in the local community.

Up until the end of the twentieth century, Organic, Fairtrade and Rainforest Alliance shared the market for certified coffee principally by leveraging market niches within the specialty coffee sector. Total sales of sustainable coffee by 2000 were still under 1 per cent of global production. Media campaigns by NGOs arising out of the 2001 coffee crisis (e.g., Oxfam through its Coffee Rescue Plan [Oxfam, 2002]) called for action by governments, NGOs, consumers and the private sector to commit to sustainable development and procurement of coffee. Although Fairtrade, Rainforest Alliance and Organic certification already had well-established markets by 2001, the depth of the crisis led to an unprecedented convergence among major private sector players through a number of pre-competitive initiatives, including the Common Code for the Coffee Community (otherwise known as “4C Association”) and the Sustainable Agriculture Initiative (SAI) Platform. These initiatives set the stage for a paradigm shift in the manner in which mainstream businesses integrate multistakeholder, standards-based initiatives across their supply chains (Alvarez, Pilbeam, & Wilding, 2010).

Although neither Fairtrade nor

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Organic, the two oldest initiatives, have secured the same level of growth experienced by UTZ and Rainforest Alliance under the new mainstream paradigm, they have continued to benefit from the growing corporate and consumer interest in sustainable sourcing, with constant growth well beyond that of the conventional coffee sector as a whole. The latest reported sales for both Fairtrade (2012) and Organic (2011) are in the range of 130,000 metric tons (each approximately 2.1 per cent of the 2012 coffee trade), making them major players in total sales of sustainable coffee. Beyond the usual demand constraints facing the entire sustainability sector, both Organic and Fairtrade do face potential challenges in expansion, despite their current oversupply. In 2011, 60 per cent of Organic production came from only three countries: Peru, Ethiopia and Mexico. Nearly half of Fairtrade coffee production came from Colombia and Peru during the same year. The role and importance of these two standards will depend on their ability to maintain a broad supply base within the context of major uptake of voluntary sustainability standards within mainstream supply chains.

In 2012, 430,000 metric tons of Fairtrade certified coffee were produced, making it the third-largest supplier of sustainable coffee on the global market. As with many of the other coffee initiatives, Fairtrade's production has relied heavily on Latin American sources, with an estimated 77 per cent of Fairtrade coffee production coming from Latin America and 57 per cent coming

from just three countries:

Colombia (28 per cent), Peru (16 per cent) and Brazil (13 per cent). Although Fairtrade is one of the pioneers in sustainability certification, sales of Fairtrade coffee, although still experiencing growth, have not kept up with the pace of growth within the sector more generally. With sales of 128,000 metric tons in 2012, Fairtrade sales were the lowest among the other four competing global initiatives. Per-annum growth of Fairtrade production and sales were identical, at 13 per cent over the last five years, giving rise to a constant ratio of sales to production (30 per cent) over the same period. Although the ratio between sales and demand for Fairtrade (34 per cent) is slightly above the industry average (25 per cent), the potential importance of sales versus production is arguably greater within the context of Fairtrade, where many of the criteria relate to the trading relationship itself and therefore depend upon actual sales for their fulfilment. For example, farmers seeking to secure the minimum Fairtrade price may produce all of the Fairtrade compliant coffee they like, but without actual sales will not be able to benefit from this element of the system. Notwithstanding its relatively lower growth rates, Fairtrade remains a major player in both the production and sales of sustainable coffee. In 2012 Fairtrade accounted for 10 per cent of total certified or verified production and 5 per cent of global coffee production. In Colombia, Peru, Nicaragua and Tanzania, Fairtrade

represents 20 per cent or more of domestic production. Notably, in 2012, while no Fairtrade coffee was produced in Vietnam, Indonesian Fairtrade production (27,100 metric tons) was higher than that of any of the other sustainability initiatives. Similarly, Fairtrade's presence in Tanzania shows its potential to develop strong markets in non-Latin American countries.

b. Opportunities and challenges

In July 2008 Solidaridad started the implementation of the 5-year programme called "Building Trade Capacity and Sustainable Livelihoods through Fairtrade and Ethical Trade" in Ethiopia, Tanzania, Kenya and Uganda. This programme is funded by Irish Aid via Solidaridad's partner Irish Fair Trade Network. The overall objective of this coffee support programme is to improve the income position of small-scale coffee producers in East Africa through Utz and Fairtrade certification and strengthen the producer organizations.

The main component of the Solidaridad support programme is to assist small-scale farmers in achieving Utz and Fairtrade certification. Training programmes in good agricultural practices have been implemented to improve the coffee production and outcomes for farmers. Since producer organizations play an important role for farmers in East Africa, Solidaridad works (e.g. in Kenya) directly with cooperatives to reach the farmers and strengthen the organizations in the areas of management and record keeping. Additional support activities are implemented with local

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Figure 33: Sample size and composition

	Kenya	Uganda	Ethiopia
Utz farmers	77	302	
FT farmers	74	280	
FT organic			280
FT + Utz	62		140
Control (non certified)	280	271	
TOTAL	493	573	700

Source: Hoebink P., Ruben R., Elbers W. and van Rijsbergen, B. (2014)

partners in improved market linkage, diversification (e.g. beekeeping in Ethiopia) and addressing social issues like gender integration and youth involvement in coffee.

(1) Production effects

In general, involvement in Utz-certification enhances knowledge of good agricultural practices and initially increases production and yield levels. FT certification basically leads to expansion of coffee areas and farmers become overly dependent on coffee. Within the same region, noncertified farmers also adjust their input use and thus the volume-effect of certification is largely socialized over time. Prices paid to Utz producers remain positive compared to FT certification in Kenya, and are usually better than prices for non-certified producers, even if the coffee is not sold under certification. In Uganda, fewer effects on coffee systems are registered, due to stronger free market price equalization tendencies.

(2) Welfare effects

The effect of the price payments associated with FT and Utz certification on the total (gross) income of farmers is modest and fairly limited. On average, coffee makes up roughly only one third to a quarter of farmers' total income

in Kenya. When less than one third of the FT and Utz certified coffee in Kenya is sold as certified, this means that only one ninth or one twelfth of farmers' income comes from coffee which is sold at a certified price. While most certified farmers maintain a stronger specialization in coffee, other farmers also invest in other crops, livestock and non-farm employment. Particularly in Kenya, this leads to wealth accumulation and income diversification amongst farmers.

(3) Graduation effects

Farmers selected for FT certification are usually found in sub-optimal production areas. Consequently, initial gains from certification are usually high, but these tend to spread once non-certified farmers catch up in the process. Utz farmers maintain their relative advantage in expenditure levels compared to FT farmers, but differences with non-certified farmers become considerably smaller (in Kenya) or eventually disappears (in Uganda). Most initial gains from trade are thus spread through spatial externalities. Most important certification effects occur at the beginning of the coffee life cycle and gradually even-out over time.

(4) Behavioural change

Many farmers are scarcely informed about certification and its different aspects. This influences their attitudes towards investments and risk, both at cooperative and intra-household level. Such behavioural changes only occur if cooperative trust and loyalty are sufficiently guaranteed. Certification hardly reduced the incidence of external shocks, but farmers do become less risk-averse if the cooperative framework offers sufficient guarantees. This becomes particularly important when (FT) farmers' income is more dependent on coffee and thus less alternative livelihood options are available.

(5) Gender relations

Certification influences decision-making procedures in the cooperative domain, but women's bargaining position in the private domain remains largely unaffected, unless women are accepted as full members of the cooperative and are included in the board. Women are a very small minority in the cooperatives and among coffee farmers and play a limited role in the governance structures. Case studies in Ethiopia and Kenya show that independent female cooperative membership, female land/tree-ownership and more

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female education can increase their bargaining position.

(6) Cooperative governance

Membership of coffee cooperatives proved to be a key mediating variable for reinforcing the use of good agricultural practices. Certified farms are generally fairly satisfied with the technical assistance provided by their cooperatives. Certification leads to reduced membership of other organizations, thus limiting the networks in which smallholders are usually involved. The certified market only absorbs between a quarter and a half of total coffee production. Cooperatives are therefore forced to sell a substantial share of certified coffee on conventional markets. As shown in the Ethiopia study, multi-certification then provides an attractive alternative. Moreover, many members are frequently involved in side sales ('hawking') to receive earlier payments. These side sales range from at least 25% in Kenya and Uganda up to 50% in Ethiopia.

(7) Chain effects

All certification programmes exercise a decisive influence on the improvement of coffee production systems, but change hardly anything in the structure of the value chain. Reliance on production knowledge alone has a positive impact on yields and quality but turns out to be insufficient for guaranteeing long-term welfare gains. In general, Utz certification proved of little help for generalizing improved marketing and bargaining skills amongst cooperative members. The share

of primary producers in the final consumer price of (certified) coffee still remains low (approx. 6-8%) and has not structurally been changed. This is partly due to over-certification and is otherwise influenced by the increasing quality segmentation in the coffee market. Pre-finance is scarcely available and late payments drive farmers to sell outside the cooperative.

Based on the finding from the comparative field study and the in-depth case studies we can identify the following main challenges for coffee certification programs:

(1) Support programmes

From our group interviews it can be concluded that farmers were very positive about the trainings in good agricultural practices. It means that if certification is accompanied by training and capacity building, the effects are likely to be more significant. The coffee support programme in East Africa, implemented by Solidaridad over the past 5 years, focussed indeed on training and capacity building linked to Utz and FT certification and diversification. Diversification is an important element to increase other sources of income for farmers. Furthermore, multi-certification has proven to be a successful strategy for coffee cooperatives to increase benefits from certification.

(2) Selection of partners

Certification programmes tend to select potential partners in areas where farmers' organisation is effective. It is difficult to

disentangle the effects of cooperative reinforcement from the outcomes of certified market exchange. Reinforcing cooperatives organization precedes the generation of individual welfare effects. The initial selection of marginal coffee producers as FT target groups guarantees pay-offs in the early stage of certification, but this advantage can only be sustained if further development of dynamic competitive advantages takes place. Utz certification (or other private labels) then provides an adequate continuation to FT. Instead of competing, the labels should reinforce each other in a sequential manner.

(3) Cooperatives loyalty and trust

Considerable differences are observed between cooperatives in terms of internal organization, trust and quality of service provision. FT is more pro-poor oriented, while for Utz certification some self-selection takes place. In some cases (Uganda), this was based on accumulated experience from earlier projects. Side sales are strongly related to lack of cooperative trust and absence of pre-finance. Whereas the provision of technical assistance is generally appreciated by members, more attention should be devoted to the strengthening of cooperative bargaining power and reinforcing internal social coherence.

(4) Regional targeting of certification

Differences in regional conditions strongly influence prices and market opportunities. Where FT certification focuses more on relatively poor

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farmers living in marginal regions, initial effects are likely to be considerable, but these effects are dispersed once regional market integration has been strengthened and non-certified farmers equally benefit. Returns from certification are highest in remote areas characterized by high dependence on coffee farming where less alternative livelihood options are available. In more commercialized regions, other alternatives out-compete coffee, especially if coffee prices decline. Coffee marketing margins for Utz certified farms are more stable while for FT certified farms the price margin reduces over time.

(5) Structural changes of certification

Structural change of bargaining relations throughout the coffee chain hardly occurred. Resources for pre-finance are scarce and certification does not provide farmers sufficient incentives for in-depth investments. Farmers are scarcely informed about certification and only observe short-term effects. Certification has not resulted in a widespread perception that coffee farming is a profitable business venture. Many coffee farmers expressed worries about their children taking over their farms. In the Kenya survey the average age of farmers

was 64 years (in Uganda: 47 years). Young farmers seem to be opting-out of coffee farming. Scarce disclosure of premium payments makes the system vulnerable for corruption.

(c) Lessons learnt from FT certified coffee production

The FT certified coffee market is a mature one, and perhaps one of the most demonstrable cases of the long-term challenges of FT certification, particularly with the advent of newer, commodity specific forms of voluntary certification schemes and labels. Furthermore, coffee is also one of the commodities which has seen a boom in private sector led and developed certification schemes.

One of the big issues in the context of FT is whether in the long run, it is an investment of diminishing returns. Perhaps if assessed purely from the bottom line, looking at the level of additional income gained from the FT Premium, then as the case study in Kenya, Uganda and Ethiopia indicated, this may be the case. The positive ripple effects that certification has on neighbouring uncertified producers has been shown to also occur in other sectors, such as Fair Trade cotton in Mali, where it was shown that "FT increases the share of top quality

cotton in certified cooperatives by 7 percentage points (pp), and that it has large spillover effects as the impact of FT on neighbouring non-FT cooperatives is a 5pp rise in the top quality cotton". Therefore, the margin of profit between FT and non-FT in the same region or within neighbouring FT and non-FT cooperatives or farms may decrease over time.

Nevertheless, a key outcome of this case study on FT coffee is that support programmes and capacity building are viewed by certified farmers to be one of the most positive outcomes of certification. This echoes the analysis on the ancillary benefits of certification, which demonstrates that the long-term benefits of FT go beyond the pecuniary, and more broadly support the resilience of farmers by providing assistance through programmes addressing capacity or finance or other needs of smallholders and cooperatives.

In a direct response to the issue of growing number of private certification schemes, the case study recommends that instead of competing, schemes should seek to find complementarities and work collectively to achieve common goals.

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GLOSSARY

Aid for Trade - Aid for Trade is an initiative that aims to assist developing countries, particularly least-developed countries, in building their supply-side capacity and trade-related infrastructure to expand their trade opportunities, and to integrate better into the multilateral rules-based trading system. Launched at the World Trade Organization's (WTO) Hong Kong Ministerial Conference in December 2005, Aid for Trade has four pillars (Aid for Trade Agenda): trade policy and regulations, trade development, trade-related adjustment and infrastructure, and building productive capacity.

Certification Committee - Certification Committee (CC) is a body which controls and advises on the quality of certification decisions, policies and procedures of a certification body.

Certification of Trade - Certification of Trade (Or Trade transactions): the process by which a certification body determines operator's compliance with Fairtrade Standards for traders and related certification policies and contracts.

Certification system - Certification System is a system with its own rules, procedures and management for carrying out certification.

Certification Unit - Certification Unit (CU) is the unit which evaluates operator's compliance with Fairtrade Standards and certification policies and contracts. There are two Certification Units in FLO-CERT: Producer Certification and Trade Certification.

Chain of Custody - Chain of Custody are the steps from the start of the primary production, including the growing, handling, processing and retailing up to buying by the consumer.

Child - Child means any person less than 15 years of age, unless otherwise defined by local legislation.

Child Labour - Child labour means any work carried out by a child.

Code of Practice/Conduct - Code of practice/conduct means, in the context of ethical trading, a set of rules concerning labour practices adopted by a company and meant to apply internationally, and, in particular, to the labour practices of its suppliers and subcontractors.

Collective Bargaining Agreement (CBA) - Collective Bargaining Agreement (CBA) means the right for workers' organisations to negotiate with employers or employers' organisations on behalf of their members to determine working conditions and terms of employment.

Commercial Price - For some products, no Fairtrade Minimum Price exists. The paid price is a negotiated price between the seller and the buyer.

Concession - A concession is a kind of partnership between the public sector and a (usually) private company whereby the company is remunerated mostly through being permitted to run and exploit the work or service and is exposed to a potential loss on its investment.

It differs from a public contract, where a company is paid a fixed amount for completing the required work or providing a service.

Example of a contract: a private company builds and manages a motorway for a fixed price.

Example of a concession: a private company builds and manages a motorway and is remunerated through tolls, running the risk that the revenue generated will not cover its investment and other costs incurred.

Conformity - Conformity is the fulfilment of a requirement.

Consensus - Consensus is an agreement supported by all parties concerned without using the rule of majority, but by taking into account the views of all parties concerned and by reconciliation of any conflicting arguments.

Constitution - Constitution is a legally binding document that defines how the power and authority are distributed and limited within an organisation or company.

Continuous Improvement - Continuous Improvement is, as a management concept, a system of constant or ongoing incremental improvements to a process or product based on constant or ongoing examination and evaluation of the process or product.

Contract Production - Contract Production (CP) means unorganised farmers who are contracted for performing specific production tasks to sell their products to a service

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provider. In the Fairtrade context, CP also means the partnership between the promoting body and the Fairtrade Producers.

Conventional Product - Conventional product is any product not produced or traded according to the requirements of Fairtrade Standards.

Corporate Social Responsibility (CSR) - Corporate Social Responsibility (CSR) is a concept of business ethics based on the idea that companies have stakeholders who are broadly defined as anyone or a group affected by the activities of the company. The idea of CSR is that a company should be accountable to its stakeholders. For this reason, the subjects of CSR focus on how companies should identify and “engage” stakeholders and how they should determine, measure and report the impact of their activities on others.

Corrective Action - Corrective Actions are measures taken to address existing non-conformance or to prevent recurrence of non-conformance.

Cost of Sustainable Production (COSP) - Cost of Sustainable Production (COSP) are the costs related to sustainably producing a product in a social, economic and environmental way in conformity with Fairtrade Standards.

Criteria Fairtrade Standards - Fairtrade Standards (Fairtrade Generic Standards and Fairtrade Product-specific Standards) are the set of requirements that producers and traders have to meet to be

certified as Fairtrade Producers or Traders.

Cumulation - Cumulation allows producers from a Preferential Trade Agreement country to import non-originating materials from other member countries without the final product's originating status being affected. The EU's GSP rules of origin are, in principle, based on the concept of single-country origin, that is, the origin requirements must be fully met within one exporting preference-receiving country, which must also be the country where the finished products are manufactured. Cumulation, however, permits beneficiary countries to consider inputs from other countries as originating content, and the European Union GSP rules of origin allow several possibilities for cumulation. There are three types of cumulation rules: bilateral, diagonal, regional and full cumulation. Bilateral cumulation applies to trade between two partners, allowing country A to use inputs from country B without the final good's originating status being affected, provided that the inputs themselves originate in country B (i.e. they satisfy the area's Rules of Origin). Under diagonal cumulation, producers can use materials originating in any member country of the PTA as if those materials originated in the country where the processing is undertaken. Regional cumulation is a form of diagonal cumulation, which only exists under the GSP and operates between members of a regional group of beneficiary countries (e.g. ASEAN). Finally, under full cumulation, all stages of processing or transformation of a product within the PTA can

be counted as qualifying content regardless of whether the processing is sufficient to confer originating status on the materials themselves.

Distributor - Distributor means any operator or entity that purchases certified products for sale and does not transform that product in any way.

Draft Standards - Draft Standard is a proposed standard that is available generally for comment, voting or approval.

Empowerment - Empowerment means increased opportunity for women and men to control their life. It gives power to make decisions, to have your voice heard, and/or put things on the agenda.

Ethical Trade - Ethical trade is trade that contributes to sustainable development.

Ethical trade label/ certification - ethical trade label/certification' means any non-governmental trade related sustainability assurance scheme (for example, Fair Trade, Fairtrade, Max Havelaar, UTZ, Rainforest Alliance, etc.).

Evaluation - Evaluation means interpreting and analysing the monitoring data against requirements of Fairtrade Standards.

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

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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 conventional international trade. (FINE's definition).

Fair Trade's rules guarantee: a living wage in the local context, offering employees opportunities for advancement, providing equal opportunities for all people, particularly the most disadvantaged, engaging in environmentally sustainable practices, being open to public accountability, building long-term trade relationships, providing healthy and safe working conditions within the local context, providing financial and technical assistance to producers whenever possible.

Fairtrade - Fairtrade (FT) means all or any part of the activities, standards and certification systems (in particular products or operators) of FLO e.V., FLO-CERT and its Labelling Initiatives.

Fairtrade benefits - Fairtrade benefits are those means created through the Fairtrade system that allow small farmers and workers to improve their standard of living.

Fairtrade benefits include amongst others facilitated market access, long-term trade relationships, better trading conditions and, in most cases, a Fairtrade minimum price for the product as well as a Fairtrade premium.

Fairtrade Bodies - Fairtrade Bodies is a term referring to any unit, organisation or decision-making body in the Fairtrade system; comprising, for example, the FLO Board, the Standards Committee, PBU, FLO CERT, Lis.

Fairtrade Certification - Fairtrade Certification is the process by which a certification body determines operator's compliance with relevant Fairtrade Standards and certification policies and contracts.

Fairtrade Certified - Fairtrade Certified means that a determination against Fairtrade Standards has been made and that an operator/a product is in compliance with Fairtrade Standards.

Fairtrade Certified Producer - Fairtrade Certified Producer is a Fairtrade Producer which has been certified against the Fairtrade Standards relevant to that organisation.

Fairtrade Certified Trader - Fairtrade Certified Trader is an exporter, importer, manufacturer or processor which has been certified against the Fairtrade Standards relevant to that organisation.

Fairtrade Explanatory Documents - Fairtrade explanatory documents are documents which further detail how the Fairtrade Standards need to be interpreted and put into practice.

Fairtrade Generic Product Standards - Fairtrade Generic Product Standards are the set of requirements that producers or traders must meet irrespective of the product produced or traded to be certified as Fairtrade Producers or Traders.

Fairtrade Generic Standards - Fairtrade Generic Standards are the set of requirements that producers or traders of any Fairtrade Products have to meet to be certified as Fairtrade Producers or Traders.

Fairtrade Import - Fairtrade Import is the first purchase of a Fairtrade Product from the original producing country.

Fairtrade Label - Fairtrade Label means any product certification label owned by FLO or one or more of its members that is used to denote compliance with Fairtrade Standards.

Fairtrade Labelling - Fairtrade Labelling means FLO e.V., FLO-CERT and all Labelling Initiatives.

Fairtrade Standards - Fairtrade Standards (Fairtrade Generic Standards and Fairtrade Product-specific Standards) are the set of requirements that producers and traders have to meet to be certified as Fairtrade Producers or Traders.

Fairtrade Minimum Price - Fairtrade Minimum Price (where it exists) is the minimum price that must be paid by buyers to producers for a product to become certified against the Fairtrade Standards. The FMP is a floor price which covers producers' average costs of production and allows them access to their product markets. The FMP represents a formal safety net that protects producers from being forced to sell their products at too low a price when the market price is below the FMP. It is therefore the lowest possible price that the Fairtrade payer may pay to the producer. When the relevant market price for a product is higher than the Fairtrade minimum price, then at least the market price must be paid.

Fairtrade Premium - Fairtrade Premium is an amount paid to producers in addition to the payment for their products. The use of the Fairtrade Premium is restricted to investment in the producers' business, livelihood and community (for a small producer organization or contract production set-up) or to the socio-economic development of the workers and their community (for a hired labour situation). Its specific

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use is democratically decided by the producers.

The level of the Fairtrade Premium is set by FLO Standards Unit (SU) for each specific product and is available in the FLO product standards (see http://www.fairtrade.net/product_standards.html for more details). The amount of Fairtrade Premium that a Fairtrade organization receives will depend on the quantity of Fairtrade products that have been sold. The Fairtrade Premium is not paid to the company, but instead is paid directly into a separate bank account, managed by the Joint Body. The Fairtrade Premium is paid separately from payments for the product and the company does not own the Fairtrade Premium. The Fairtrade Premium is intended to be used for the benefit of the workers, their families and their communities, within the framework of Fairtrade Premium projects. The Fairtrade Premium may not be used for expenditure for which the company is legally responsible, nor may it be used to support the company's running costs or costs of compliance with Fairtrade standards.

Fairtrade Producer - Fairtrade Producer means any entity located in a producing country that has been certified under the Generic Standards for Small Farmers' Organizations, Generic Standards for Hired Labour Situations or Contract Production standards of FLO.

FLO-CERT - FLO CERT/FLO-CERT GmbH is the wholly-owned subsidiary of FLO (including any body partly or wholly owned by FLO-CERT/FLO-CERT GmbH or

contracted to provide services to it) responsible for the Fairtrade inspection and/or certification of producers and traders.

Forced Labour - Forced Labour means work or service undertaken by a person under duress or menace of penalty in circumstances where the person has not offered him/herself voluntarily.

Freedom of association - Freedom of association is the right of all workers to join or form a trade union of their own choosing and carry out trade union activities without interference from their employer or from public authorities.

Government Procurement - The Agreement on Government Procurement (GPA) is a "plurilateral" WTO agreement and only binds signatory states. The GPA has currently 15 Parties, mainly major industrialised economies: Armenia, Canada, European Union, Hong Kong, Iceland, Israel, Japan, Korea, Liechtenstein, the Netherlands with respect to Aruba, Norway, Singapore, Switzerland, Chinese Taipei and the United States. The GPA lays down rules guaranteeing fair and non-discriminatory conditions for international competitive tendering. Participating governments are required to put in place domestic procedures by which aggrieved private bidders can challenge procurement decisions and obtain redress in the event such decisions are found to be inconsistent with the rules of the agreement

Hired Labour - Hired Labour (HL) means employed workers who work for somebody else, for example a commercial farm or a factory.

Horizon 2020 - Horizon 2020 is the financial instrument implementing the Innovation Union, a Europe 2020 flagship initiative aimed at securing Europe's global competitiveness. It is the biggest EU Research and Innovation programme ever with nearly €80 billion of funding available over 7 years (2014 to 2020). Europe 2020 is the European Union's ten-year growth and jobs strategy that was launched in 2010. Five headline targets have been set for the EU to achieve by the end of 2020. These cover employment; research and development; climate/energy; education; social inclusion and poverty reduction.

International Fairtrade Certification Mark - International Fairtrade Certification Mark (ICM) is a trademark owned by FLO and used by all Labelling Initiatives except for Max Havelaar Switzerland, Transfair Canada and Transfair USA. The mark identifies the related product as being Fairtrade Certified.

International Labour Convention - International Labour Convention has the force of international law, and states that ratify them are required to incorporate the principles in national law and to ensure the implementation of the law. In addition, all ILO member states, regardless of ratification, are obliged to respect, promote and realise the principles contained in the core ILO Conventions, which address freedom of association and the right

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to collective bargaining, forced labour, discrimination and equal remuneration.

International Labour Organisation -

International Labour Organisation (ILO) is the UN specialised agency which seeks the promotion of social justice and internationally recognised human and labour rights. It formulates international labour standards in the form of Conventions and Recommendations setting minimum standards of basic labour rights.

Joint Body - To ensure that the Fairtrade Premium is managed for the benefit of the workers and their families and communities, the FLO Generic Standards for Hired Labour require that the Fairtrade Premium is owned by a separate legal body representing all the workers. The Joint Body is an elected group of worker representatives and management representatives who are responsible for 'jointly' managing, investing and spending the Fairtrade Premium on behalf of this legal body. In other words, the workers and management of the company work together to achieve improvements in the workers' lives using the Fairtrade Premium. The Joint Body has two main responsibilities: firstly to inform and consult all the workers of the company about the Fairtrade standards and the Fairtrade Premium and its use; and secondly to manage and invest the Fairtrade Premium transparently and responsibly.

Labelling - Labelling means any words, particulars, trademarks, brand names, pictorial matter or symbol placed on any packaging,

document, notice, label, ring or collar accompanying or referring to a product referred to as a certified product.

Labelling Initiative - Labelling Initiatives are national organizations which license companies to use the FAIRTRADE Mark on consumer products and promote Fairtrade in their countries. Labelling Initiative shall mean full member organisations of FLO with an exclusive, defined geographical territory whose main purpose is to licence a Fairtrade label and which are responsible for local licensing of a Fairtrade label as well as marketing, promoting sales of Fairtrade Products and education in respect of Fairtrade.

Liaison Officer - Liaison Officer (LO) is a consultant working for FLO e.V. and carrying out information and support functions with Fairtrade Producers. Liaison officers assist Fairtrade Producers in understanding and meeting requirements (certification) and are involved in supporting market access and development.

License fee - License fee is the fee which Licensees pay to a Labelling Initiative for the use of the International Fairtrade Certification Mark on a Fairtrade Product.

Licensee - Licensee is an organisation licensed by a Labelling Initiative to use a Fairtrade label on Fairtrade Products.

Mass balance - Principle means that certified produce may be mixed with conventional produce. At any stage of the supply chain, certification systems require the respective actors

to keep administration of the volume going in and out of the unit.

Membership fee - Fixed fee paid by a buyer in the supply chain on an annual basis.

Minimum Requirements - Minimum Requirements are Fairtrade Standards requirements which all producers must meet from the moment they join Fairtrade.

Monitoring - Monitoring means measuring a set of indicators that are tracked over time to identify trends

Organic Differential - For some certified organic products, a minimum organic differential is set. It is the lowest possible differential that producers must receive in addition to the Fairtrade Minimum Price or market price, whichever is higher. If a Premium is set for the conventional product variety, this Premium also applies to the organic product, unless stated differently.

In the case of Fairtrade coffee for example, buyers pay the Fairtrade Minimum Price or the market price, whichever is higher, and a Premium for conventional coffee. For organic coffee, an organic differential needs to be paid on top of price and Premium.

Conventional coffee: Minimum Price or market price + Premium

Organic coffee: Minimum Price or market price + organic differential + Premium

Outgrowers - Outgrowers are understood as all small producers

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not yet certified under the Fairtrade Generic Standard for Small Producer Organizations from whom Fairtrade Fresh Vegetables are being sourced by the certified Hired Labour operator.

Policy Coherence for Development

Policy Coherence for Development (PCD) is a principle which obliges the EU to take into account of the objectives of development cooperation in all policies that it implements which are likely to affect developing countries, and that these policies support development objectives. It has three legal bases: Treaty of Maastricht (1992), Art. 130v. 'The 3 Cs'; the Lisbon Treaty (2009), Art. 208; and the Cotonou Agreement (2000; revised 2010), Art. 12.

Producer - Grower or farmer of Certified Fairtrade products

Producer Business Unit - Producer Business Unit (PBU) is the FLO business unit that advises producers on compliance with Fairtrade Standards and assists in market access and development.

Producer certification - Producer Certification (PC) is the certification of producers against the Fairtrade Standards relevant to them.

Producer Executive Body (PEB) - The producer executive body comprises elected representatives of all the registered producers. It is the intermediary between the registered producers and the promoting body until the producer organization can adequately represent the producers' interest and manage the Fairtrade Premium money. Once the producer organization has developed these capacities, the producer executive body can, if so wished, assume the function of a structure similar to an executive committee.

Producer Organization - The producer organization is a group of registered producers contracted and/or supported by the promoting body. Its purpose is to enable the registered producers to democratically decide on the Fairtrade Premium use and negotiate with the promoting body over terms of trade. The producer organization is expected to become stronger over time and become an autonomous small producer organization which can comply with the Fairtrade Standard for Small Producer Organizations. When producer organization is referred to in the text, it can mean one or more than one producer organization.

Progress Requirements - For companies: these are requirements against which certified companies must demonstrate performance or efforts towards long-term improvement and which should be developed according to a plan agreed by the management of the company, some within a specified period of time.

For Small Farmers: these are requirements on which certified producers must show permanent improvement.

Promoting Body (PB) - The promoting body is the intermediary organization that either contracts and/or supports small producers in producing and marketing one or more crops. It is responsible for supporting these producers to get organized. The promoting body can either be a trader (exporter/processor), or non-trader (NGO or private) which is a legal entity forming a partnership with the producers it contracts and/or supports, i.e. the registered producers. The promoting body is the holder of the Fairtrade certificate and is responsible for supporting the

registered producers in complying with this standard.

Public procurement - Public procurement is the purchase of goods and services by governments and state-owned enterprises. It encompasses a sequence of related activities starting with the assessment of needs through award to the contract management and final payment.

Quick Entrance - Quick Entrance is the name of a procedure allowing new products in existing categories to enter Fairtrade without Fairtrade minimum price, only with a Fairtrade premium, during one full annual production and trading season. Meanwhile the paid price is a negotiated price between the seller and the buyer. The Fairtrade premium is paid in addition of the negotiated price. Sellers and buyers are explicitly asked to ensure that the negotiated price covers the costs of sustainable production (COSP).

After one full annual production and trading season thanks to the Quick Entrance, producers are asked to feedback data to the pricing unit of Fairtrade International. Currently, for almost all Herbs and Spices, this rule is extended without time limit.

Registered producers - Registered producers refer to all the small producers contracted and/or supported by the promoting body and participating in Fairtrade. The registered producers form the membership of the producer organization once it is established.

Requirement - Requirement is a provision that conveys criteria to be fulfilled.

Review - Review is an activity of checking a document or process

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to determine whether it is to be reaffirmed, changed or withdrawn.

Revision - Revision is an introduction of all necessary changes to the substance and presentation of a document or process.

Rules of origin - Rules of origin are the criteria needed to determine the national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports.

There is wide variation in the practice of governments with regard to the rules of origin. While the requirement of substantial transformation is universally recognised, some governments apply the criterion of change of tariff classification, others the ad valorem percentage criterion and yet others the criterion of manufacturing or processing operation.

Segregation - Principle implies that certified produce may not be mixed with conventional produce at any stage of the supply chain.

Smallholder farmer - The term 'smallholder' refers to the limited resource endowments of certain farmers relative to other larger scale and more commercial farmers. The precise definition differs among

countries with variations in farm size, allocation of resources, use of external inputs and proportion of food crops that are marketed. Smallholder farmers characteristically have limited business skills, low financial literacy and financial

management skills, little knowledge management and risk aversion.

Small Farmers - Small Farmers (SF) are producers who are not structurally dependent on permanent hired labour and who manage their production activity mainly with own and family labour.

Small farmers Organisation - Small Farmer Organisation (SFO) is a group primarily consisting of organised small farmers who work for themselves, for example a co-operative or association.

Social Responsibility - Social responsibility means actions of an organisation to take responsibility for the impacts of its activities on society and the environment, where these actions are consistent with the interests of society and sustainable development; are based on ethical behaviour, compliance with applicable law and intergovernmental instruments and are integrated into the ongoing activities of an organisation.

Socially responsible public procurement (SRPP) - 'SRPP' means procurement operations that take into account one or more of the following social considerations: employment opportunities, decent work, compliance with social and labour rights, social inclusion (including persons with disabilities), equal opportunities, accessibility design for all, taking account of sustainability criteria, including ethical trade issues and wider voluntary compliance with corporate social responsibility (CSR), while observing the principles enshrined

in the Treaty for the European Union (TFEU) and the Procurement Directives.

Socio-economic development - FLO considers socio-economic development to be a process resulting in changes which improve the capacity of a community to fulfil its aspirations. The aim is to empower individuals and groups with the skills they need to identify their needs and priorities and to develop plans and projects to address these. The Fairtrade Premium is intended to be used both for the empowerment of workers, and also for investing in plans and projects for social and economic improvement in the wider community. The Fairtrade Premium cannot solve all the social and economic problems and needs of the workers and the community. But if it is invested wisely and builds the capacity of workers to change their own lives, the Fairtrade Premium can have long-lasting benefits.

Standards - Standard is a set of defined criteria giving the requirements which must be attained. A standard provides, for common and repeated use, rules, guidelines or characteristics for products or related processes and production methods. It may also include terminology, symbols, packaging, marking or labelling requirements. Standard requirements are meant to comply with and are based on stated objectives.

Standards Body - Standards Body is a recognised body at national, regional or international level that has as a principal function, by virtue of its statutes, the preparation,

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approval or adoption of standards that are made available to the public.

Standards Committee - Standards Committee (SC) is a committee created by the FLO Board and made up of representatives of the stakeholders for Fairtrade Standards. It acts as a decision maker and provides guidance in the development of Fairtrade Standards.

Standards Unit - Standards Unit (SU) is the FLO business unit that manages the development of Fairtrade Standards.

Sustainability - Sustainability means the capacity of economic, social, institutional and environmental aspects of human activity, and the non-human environment, to continue into the long-term.

Traceability - Traceability is the ability to trace the history, application and/or location of a product.

Trade Certification - Trade Certification (TC) is the certification of traders against the Fairtrade Standards relevant to them

Trader - Buyer, seller, manufacturer, transformer of a Certified Fairtrade product

Transformer - Transformer means any operator or entity that alters the characteristics of a Fairtrade Product through the use of physical or chemical or similar processes.

Verification - Verification is the confirmation through the provision of evidence that specified requirements have been fulfilled. Verification can be first party/internal (self assessment), second party (by an entity of the supply chain leading to approval) or third party/external (by an independent party leading to certification).

Worker - Worker refers to all workers contracted by a company or producer organisation including migrant, temporary, seasonal, sub-contracted and permanent workers. It is not limited to field workers but includes all other hired labour personnel, e.g. employees working in the administration. The term, however, is limited to personnel which is entitled to join unions and therefore normally excludes middle and senior management.

Workers Committee - Workers Committee (WC) is a committee of representatives of workers of a company dealing with workers' rights and working conditions.

World Shop - A World Shop is defined as:

- A shop that endorses, through its own mission or values statements, publicity material and actions, the definition and principles of Fair Trade.
- The primary purpose for existing as a shop is to promote Fair Trade. Fairly traded products therefore take up the most important share of the shop's stock.
- The shop reinvests the profits from its sale of products into the Fair Trade system.
- The shop informs the public about its aims, the origin of the products, the producers and about world trade. It supports campaigns to improve the situation of producers, as well as to influence national and international and international policies.

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ACRONYMS

ACP	African, Caribbean and Pacific group of States
AfT	Aid for Trade
ATOs	Alternative Trade Organizations
BCI	Better Cotton Initiative
BTC	Belgian Development Agency
CARICOM	Caribbean Community and Common Market
CARIFORUM	Forum of the Caribbean Group of African, Caribbean and Pacific (ACP) States
CDE	Centre for the Development of Enterprise (ACP-EU)
CmiA	Cotton made in Africa
CSR	Corporate Social Responsibility
DFID	British Department for International Development
EAC	East African Community
EBAE	European Business Awards for the Environment
ECOWAS	Economic Community of West African States
EDF	European Development Fund (ACP-EU)
EFTA	European Fair Trade Association
EPA	Economic Partnership Agreement
ET	Ethical Trade
ETI	Ethical Trade Initiative
ETP	Ethical Tea Partnership
EWAD	Environmental Women in Action for Development, Uganda
FAO	Food and Agriculture Organization of the United Nations
FINE	FLO, IFAT, NEWS and EFTA group
FLO	Fairtrade Labelling Organizations International (“Fairtrade” or “Fairtrade International”)

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FLO-CERT	Fairtrade Labelling Organizations International Certification Body
FLSA	Fairtrade Label South Africa
FSC	Forest Stewardship Council
FT	Fair Trade
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German Agency for International Cooperation)
GMO	Genetically Modified Organism
GPA	Government Procurement Agreement (WTO)
GPP	Green Public Procurement
GSP	Generalised System of Preferences
GTS	generic trade standards
IADB	Inter American Development Bank
IFAT	International Federation for Alternative Trade and International Fair Trade Association
IFOAM	International Federation of Organic Agriculture Movements ("Organic")
IIED	International Institute for Environment and Development
IISD	International Institute for Sustainable Development
ILO	International Labour Organisation
ISEAL	International Social and Environmental Accreditation and Labelling Alliance
ISO	International Organization for Standardization
ITC	International Trade Centre
NEWS	Network of World Shops
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
PDC	Policy Coherence for Development (EU)

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PPM	production and processing method
PSR	Producer Services and Relations
RA	Rainforest Alliance
RSB	Roundtable on Sustainable Biomaterials
RSPO	Roundtable on Sustainable Palm Oil
RTRS	Round Table on Responsible Soy
SADC	Southern African Development Community
SAN	Sustainable Agriculture Network
SPS	Sanitary and Phyto-Sanitary Agreement
SRPP	Socially Responsible Public Procurement
SSI	State of Sustainability Initiatives
TFEU	Treaty on the Functioning of the EU
UNCTAD	United Nations Conference on Trade and Development
VSS	voluntary sustainability standard
WFTO	World Fair Trade Organization (formerly IFAT)
WTO	World Trade Organisation Agreement
TBT	Technical Barriers to Trade
ZAR	South African Rand



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