

HIGHLIGHTS



Responsible and sustainable sourcing through Fair Trade

Brussels Development Briefing No. 44

Brussels, 22nd June 2016

On June 22nd 2016, CTA organised the 44th Brussels Development Briefing – part of a series of bi-monthly development briefings on ACP-EU rural and agricultural issues. Over 120 participants gathered in Brussels to discuss the major developments and lessons in responsible and sustainable sourcing through Fair Trade model, with a broad range of perspectives across the value chains.

Responsible and sustainable sourcing through Fair Trade This Briefing focused on the successful approaches to sourcing from ACP countries using the Fair Trade model, with an emphasis on how this has contributed to responsible and sustainable production and business practices in both Northern and Southern markets. The Briefing was a follow up to the 2008 Briefing on the theme of “Does Fair Trade contribute to sustainable development?” and demonstrated the significant developments and achievements of the movement, its members and partners since this period.

Partners in the Briefing:

- CTA
- European Commission (DG DEVCO)
- ACP Secretariat
- CONCORD
- Fair Trade Advocacy Office

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Ms Isolina Boto



Viwanou Gnassounou



Regis Meritan



Sergi Corbalán

The Brussels Briefing was opened by **Ms Isolina Boto**, Manager of CTA Brussels Office, who noted that the topic was an important and exciting one for CTA and partners as a way of organising farmers to improve their market access, facilitating consumers' awareness, and integrating the farmers better into value chains.

Viwanou Gnassounou Assistant Secretary-General, ACP Secretariat, noted that since the subject was first raised, it has been realised that Fair Trade is not a panacea but rather there are a lot of market factors that have to be taken into account, e.g. affordability for consumers, price gap etc. The ACP group should therefore focus on the rights of producers, particularly smallholders, small scale producers, which according to Mr Gnassounou, are responsible for 85% of global food production, and Fair Trade is well positioned address this. Mr Gnassounou was especially concerned with the low share of producers who receive fair pay or a fair share of the value of what they produce, and also the challenges that Fair Trade organisations face in the value chain.

Regis Meritan, European Commission /EuropeAid, lamented that Fair Trade had not developed as much as was hoped thirty years ago, although it fits very well with the Commission's current guidelines on and the EC's willingness expressed in 2014 to improve cooperation with private sector for development, and in the agricultural sector, particularly in respect of the value chains. What is most important, according to Mr Meritan is to determine how this model of Fair trade is looked at as means of achieving more inclusive and sustainable growth, and how the EC can better assist the organisations supporting Fair Trade, and lastly, how it can influence public policy.

Sergi Corbalán, Executive Director of Fair Trade Advocacy Office (FTAO), welcomed the opportunity to have a multi-stakeholder dialogue on the subject. He introduced the Fair Trade movement as a concept to change the terms of trade, and emphasised the different activities done under Fair Trade. A key issue is the sourcing dimension to work with supply chains to change supply practices from within, with the most known approach being the FAIRTRADE Mark, although it's not the only one.



Michael Hailu



Aynur Mammadova



Dr. Adrian de Groot Ruiz

Michael Hailu Director of CTA, noted that the Sustainable Development Goals, especially SDG2, have set clear targets on agriculture and nutrition security, in particular the target of doubling smallholder productivity and income by 2030. He emphasised that private sector agribusiness as well as consumers have a key role to play in lifting those in the agricultural sector out of poverty by promoting and supporting fairer and more sustainable commercial and trading practices. Fair Trade has a huge contribution to make to this, as it has grown to become a globally significant market worth almost \$7 billion in retail sales in 2014 (excluding US figures), where ACP countries are key suppliers. CTA can play a pivotal role to help their small scale producers to take advantage of schemes like Fair Trade, and have the access to the right information and structure themselves to negotiate the best deals, and this is the area where.

Panel 1: Responsible value chains, sustainable sourcing and Fair Trade

Opening the first panel was **Aynur Mammadova**, IISD Associate, SSI Team Member, who discussed sustainability of supply chains and fair schemes favourable to farmers. The Standards in the Green Economy

report of 2014 constituted the basis of her presentation. There has been a surge in the number of sustainability standards, particularly single sector standards. Fair Trade standards date from 1988 when the first Fair Trade national standard was developed in the Netherlands, which led in 1997 to the development of a Fair Trade International by a collective action of the national Fair Trade organisation. Ms Mammadova noted that there has been a significant growth in standard compliant production, although this growth has not necessarily translated into sales of standards compliant product. An additional challenge is that most of the sustainable production is happening in more integrated and developed markets, in Latin America, rather than Africa or Asia. Where Fair Trade has seen the most success is in terms of capacity building and decision making processes. According to the report, Fair Trade tends to cover almost all aspects of environmental criteria and comes top of the list in terms of the social criteria coverage, and again, it dominates in terms of economic criteria as well. The opportunities of Fair Trade were emphasised by Ms Mammadova, notably its concentration on developing countries, enabling equitable governance among developing country smallholders, and it tries to accommodate the needs of smallholders by extending period of certification, and is the

only initiative that covers all aspects related to contractual transparency. Fair Trade is one of only two standards which give priority to price premiums. More public policy frameworks are needed in order to promote the principles of Fair Trade and achieve more sustainable supply chains. Further interventions are needed to bring down the costs of certification and to increase transparency.

Facts and figures on unsustainable sourcing were presented by **Dr. Adrian de Groot Ruiz**, Executive Director, True Price. The True Price model or method works taking the retail price of a product (as determined by the market forces e.g. supply and demand), and including the costs of externalities such covering environmental and social issues such as pollution, resource scarcity, labour rights, underpayment, legal requirements of society etc. The definition of the externalities is based on norms which come from generally agreed international principles and norms. It is actually only recently that business have been integrating externalities into their accounting, as the cost of failure to address the externalities is greater than the cost of action. Dr de Groot Ruiz argues that the goal is to avoid and prevent these external costs, rather than to compensate for them. This means the True Price will not necessarily

Responsible and sustainable sourcing through Fair Trade | HIGHLIGHTS



Lily Deforce



Rosita Zilli

always translate to a higher price for the consumer, depending on the supply chain for the product. According to Dr de Groot Ruiz, two things are essential for True Pricing to reduce externalities: transparency and incentives. Businesses need incentives, which could come from various sources like taxes, smart policy incentives, taking away barriers to internalise externalities, as well as incentives from the market – consumers, investors. This is where market based initiatives like Fair trade are important. Without transparency, consumers become sceptical of the claims by businesses that they are sustainable, and therefore limits the willingness of consumers to pay more for the products; this information asymmetry between businesses and consumers should be addressed by transparency as it leads to market inefficiencies. Using case studies, Dr de Groot Ruiz was able to demonstrate how true pricing can help pinpoint sustainability issues in the supply chain, in order to focus interventions to make the greatest impact, including through sourcing Fair Trade.

Lily Deforce, the outgoing Director of Fairtrade Belgium discussed the Fair Trade market and consumers' choice contribution to sustainable sourcing. Today Fair Trade is the most widely recognised ethical label around the world – in some countries

up to 90 % of consumers recognise the FAIRTRADE Mark. There are now 74 producer countries for Fair Trade, and it is also sold in over 125 countries. Despite the global economic crisis, year on year, Fair Trade saw a global growth in retail value which stood at €7.2 billion in 2015, and is forecasted to increase in 2016 by 12 to 15%. This growth is spread between the core products – bananas, cocoa and coffee – but also includes over 400 other products covered by Fair Trade standards. Nowadays Fair Trade products are also sold in the global South: Kenya, Brazil, India, South Africa have become new markets for Fair Trade. Ms Deforce explained the push and pull factors that have led to the success of Fair Trade, such as raising consumer awareness with the strong and active support of development agencies and civil society. Retailers play a strong push factor, for example in UK, Sainsbury's decided in 2007 to only sell Fair Trade bananas, and they have been followed by most of the retailers in UK in doing so. The biggest challenge for Fair Trade, particularly in the case of cocoa, is the restricted absorption of certified products into the market. This has led FAIRTRADE International to introduce a new FAIRTRADE Sourcing Mark which have seen brands or companies commit to sourcing through Fair Trade all, or an agreed volume of key inputs such as cocoa or sugar.

Ms Deforce closed her presentation by outlining a ten-point action plan for the key actors in the supply chain to undertake action that promotes Fair Trade sourcing.

Rosita Zilli Deputy Secretary-General of Eurocoop (European association of consumer cooperatives) concluded the first panel with a presentation on supermarket sourcing Fair Trade based on the retail activities of the Eurocoop members who cover 19 European countries, with an annual retail turnover of €76 billion. Ms Zilli emphasised the values and principles at the core what defines a cooperative. Fair Trade has been boosted by consumer's demands and Ms Zilli explained that cooperatives have been pioneers of Fair Trade in many markets. Many of Eurocoop's suppliers from the global South are themselves also organised as cooperatives. Ms Zilli further argued that own-brands have become the most important avenue for promoting key standards for environmental and social issues, which has made selling Fair Trade more economical for Eurocoop's members. Labelling has allowed Fair Trade to achieve high uptake but as the number of labels proliferate, so does the degree to which consumers are overwhelmed; more work has to be done to encourage a convergence around just a handful of the most well-known ones, such as Fair Trade. Consumer members

Responsible and sustainable sourcing through Fair Trade | HIGHLIGHTS



Bernd Lange



Marike De Peña

also need information, training and education, which is part of the Eurocoop approach. One key point Ms Zilli addressed was to reduce the barriers for consumers to buy Fair Trade by making the right option the easiest option. A number of examples were also provided in Ms Zilli's presentation on successful Fair Trade sourcing, such as the Cooperative Group in the UK, which is the biggest UK convenience seller of Fair Trade products. It was the first worldwide to launch in-store label for Fair Trade products across a range of goods and developed a "Beyond Fair Trade" programme to support farmers, cooperatives and producer associations in ACP countries. Since 2009, over 250,000 farmers have benefitted from 16 projects under this scheme.

The **Questions and Answers** saw a very passionate engagement with the participants of the Briefing, touching on the various issues from the affordability of Fair Trade for consumers who earn less, whether in Europe or developing countries, and also the cost of compliance by producers of so many standards and rules. In her response, **Ms Deforce** proposed that achieving economies of scale is the best approach to making Fair Trade more affordable for consumers. South-south activity on Fair Trade has been engaged now to have greater marketing and availability of Fair Trade in

developing countries. Furthermore, Fair Trade has also broadened its certification of products across non-agricultural goods. Simplifying the norms is a delicate balance between achieving and maintaining credibility, and also delivering standards that producers are able to comply with and afford. Fair Trade producers have an incentive to invest in quality, which according to Ms Deforce, is demonstrated in the fact that over 20% of the Fair Trade premium producers get is invested into quality.

Dr de Groot Ruiz addressed the issue of price, and argued that in fact it is the very poorest in the worst conditions in the producer countries who subsidise the cheap products that are bought by the relatively poor in Europe, so the focus should be about addressing this issue.

Ms Mammadova emphasised making certification less expensive through policy interventions to support marginalised small scale producers; however, simplified standards, such as in single products standards do not have the same degree of uptake by marginalised producers.

Ms Zilli noted that cooperative retailers work on scale to make Fair Trade products more affordable, and also through the use of own branding to address the decrease in purchasing power of the consumers. Quality has become the key aspect of differentiation for Fair Trade and has allowed it to become more mainstream.

The second panel addressed **Scaling up successes in sustainable sourcing and Fair Trade**, and the Chair **Mr Bernd Lange**, Chairman of the International Trade Committee of the European Parliament, opened it by reiterating the commitment of the European Parliament to promote and improve the Fair Trade movement. He noted in particular a desire to see in the revision of the EU Aid for Trade strategy, more Fair Trade related projects, especially for EU delegations.

Bringing the perspective of the producers in Fair Trade was **Marike De Peña**, Chair of Fairtrade International and Chair of the Latin American and Caribbean Network of Small Producer Organizations (CLAC). Through Fair Trade, small producers are able to build up stronger organisation, have access to finance and have improved market and production information, particularly on costs. The long-term effect of the current market structure, in which farmer's get the least share of the value chain, is that productivity is dropping in small scale farms as they cannot afford to invest in their farms or in their families. This has the knock-on effect of discouraging youth from remaining or entering into agriculture and farming. The role of quality was also touched on by Ms De Peña, as she argued that the only way that producers can claim better prices

Responsible and sustainable sourcing through Fair Trade | HIGHLIGHTS



Frank Okyere



Charlotte Borger

is through better quality products, which the Fair Trade organisation should be helping them to achieve. Producer organisations are supported on handling standards compliance across a broad range, including organic and global GAP (Good Agricultural Practices standards) and other standards that make the Fair Trade production more credible. The success of the organisation has been achieved through: (a) empowerment of farmers through strong organisations; (b) supporting farmers to combat climate change; (c) working through partnerships on rules and standards; (d) improving farmer's access to markets and under better terms; (e) promoting biodiversity and food sovereignty; (f) sharing best practices and lessons learnt; (g) strengthening the voice and capacities of female farmers; and lastly (h) promoting the inclusion of youth in agriculture and farming.

Frank Okyere, Kuapa Kokoo environmental and extension manager Fairtrade programme, Ghana, introduced the landmark example of business to business Fair Trade sourcing. He provided an overview of Kuapa Kokoo, founded in 1993, and its farmer's union, formed two years later with the support of Twin-UK. During this period Kuapa Kokoo got certified as a Fairtrade producer, and according to Mr Okyere, it is now the largest cocoa cooperative in the world,

and also the highest producer of Fairtrade certified cocoa globally. Its membership has grown to 100,000 farmers, with 33% of these being women, and provide 48,000 metric tonnes of cocoa for Kuapa Kokoo, of which 30% to 40% depending on the year is sold as Fairtrade. In 2015 Kuapa Kokoo registered as a cooperative; cooperative principles are central to the operation of Kuapa Kokoo at all levels, particularly democratic governance and transparency. Mr Okyere then discussed the business activities of Kuapa Kokoo: Kuaka Kokoo limited which is 99% owned by the Union, Divine Chocolate in the UK and the US, of which Kuapa Kokoo Union is the majority shareholder with 44% of ownership, and also its Fairtrade cocoa sales. Key successes that have contributed to sustainable production are (1) the extension services Kuapa Kokoo provides for members; (2) productivity enhancement programmes; (3) women's empowerment, capacity development for off farm income and adult literacy classes; (4) climate change mitigation and adaptation activities for farmers; (5) payment of additional cash bonus and incentives for farmers through the Fairtrade premium; (6) around 458 community development projects; and (7) health care delivery to farmers,. Going forwards means that farmer's livelihoods have to continue to

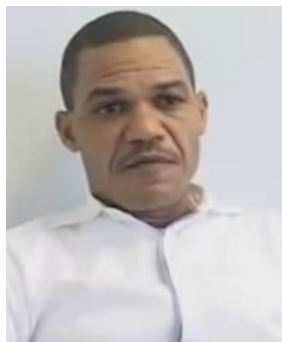
be increased, which entails more partnerships and collaboration to enhance current successes, adopting more certification approached and promoting farmers' income diversification.

The next presentation, by **Charlotte Borger**, Communications Director at Divine Chocolate, provided the perspective of the buyers of Fairtrade cocoa. Divine Chocolate began in 1997 at the AGM of Kuapa Kokoo who voted to set up their own chocolate company. Its communication and advocacy are critical to informing consumers not only of the ethics, but also of the quality and taste of the chocolate, and its Ghanaian heritage. In 2002 Divine Chocolate was assisted the Coop in the UK to transform its entire own brand chocolate to Fair Trade. Divine works hard to introduce the consumers to the farmers, through annual visits by farmers from Kuapa Kokoo to the UK, helping them to have a platform which amplifies their voice. Divine also visits Kuapa Kokoo, and the farmers then have the opportunity to learn more about the product. Divine Chocolate UK and US is now a USD \$12.6 million company with a fully traceable supply chain. It now sells in ten countries across the world, and its chocolates are now produced in 12 factories across Europe. In addition to cocoa, Divine also sources Fairtrade ingredients such as sugar, almonds, from other

Responsible and sustainable sourcing through Fair Trade | HIGHLIGHTS



Fredrick Masinde



Abel Fernández

farmer organisation around the world. As a result, the company has won many awards for its social enterprise model. Ms Borger also reinforced the message on the importance of the Fairtrade premium. Farmer ownership lies at the heart of the business which translates to (i) increased farmer profits; (ii) increased farmer knowledge; and (iii) more power for farmers. Divine delivers its benefits for the farmers through four income streams – direct sales, the Fairtrade premium, profit dividends and a special producer support and development fund. Ms Borger's takeaway messages for sustainable cocoa farming was: sustainable remuneration, value addition, more skills, improved literacy and women's empowerment, community action and development and greater farmer control.

Fredrick Masinde, Business Development Manager, Undugu Fair Trade Limited, Kenya discussed how PPPs can successfully promote sustainable sourcing through Fair Trade. Undugu Society Kenya was begun in 1973 by a missionary worker in Nairobi who wanted to address the plight of street children in the city. The programme required income generation activities to make it sustainable. It was found that most of the migrants from the rural to the urban centres had come looking for white collar jobs, which they then did not find. However,

these communities were nevertheless very capable of working with their hands, but needed were means to hone their skills and identify the best type of products that they could make. Undugu Society assisted them to do so. It was also necessary to create opportunities for rural communities to discourage migration to urban areas. This resulted in the establishment of Undugu Fair Trade Limited to identify and diversify craft products and expand product portfolios from marginalised communities across Kenya, Tanzania, Uganda and Rwanda. Undugu Fair Trade seeks both local and international markets. According to Mr Masinde, the business has experienced tremendous growth. It set up the first Fair Trade shop in Nairobi, and now provides sustainable incomes for about 800 family workshops across Kenya, each supporting 7 to 15 families in production. An expansion and restructuring drive resulted in better support for the producers and suppliers, particularly on skills and capacity, and also identifying reliable markets for the producers. The key achievements of Undugu Fair Trade have been in offering employment opportunities and income to over 12,000 households, investing in traditional skills, providing interest free pre-financing for orders and more financing opportunities generally, ensuring fairer wages and prices, introducing voluntary savings

and investment schemes, creating economic opportunities in rural areas and a decent standard of life for producers and artisans.

The panel was concluded by **Abel Fernández** CONACADO Commercial Manager, Dominican Republic, who presented via video link. Mr Fernández explained the four objectives of CONACADO, which deal with advocacy for small cocoa producers, business support to improve cocoa producers' living standards, community development through sustainable projects and environmentally sound use of resources. CONACADO represents 172 small producer associations who have in total around 10,301 members. The role of CONACADO, which as the umbrella body, is to develop policy and undertake marketing on behalf of this network and provide other services. The majority of the CONACADO's producer members have small farm holdings, of an average size of 2.5 hectares, delivering 17,000 MT of coca. Of this total, 12,080 MT is organic, and 2,400 MT is either conventional or transition cultivation. The range of services provided by CONACADO to its members are very varied, covering core commercialisation activities, as well as certification, provision of credit through its credit union founded in 2010, and training, Certification has been central to CONACADO's development, in

Responsible and sustainable sourcing through Fair Trade | HIGHLIGHTS

order to promote diversification, differentiation, and added value for the production of its cocoa. CONACADO has managed to reach Fair Trade sales of up to 70% of its annual production, although the annual mean is closer to between 30% to 40%. According to Mr Fernández, through investing Fair Trade funds CONACADO has managed to develop the biggest infrastructure for post-harvest cocoa management in the world. Another important investment from Fair Trade funds has been on the social dimension to benefit communities. CONACADO's challenges are to plant new cocoa trees, bring more youth into farming, improve the infrastructure for production and expand into new niche markets. Mr Fernández put the success of CONACADO down to its trust in its farmers, its strong leadership and management, its continuous pursuit of quality, and especially its Fair Trade certified production.

The **Questions and Answers** on the second panel drew very interesting interventions touching on the role of supermarkets and the relationship between the brands and the retailers, also on the subject of the cooperative model, the potential of bringing manufacturing of chocolate into Africa, and including farmers in

the policy debate. Other questions related to possibly intra-ACP lessons for producers in the various regions, the implications of the Economic Partnership Agreements (EPA) between the ACP and the EU, and how to better integrate Fair Trade into free trade agreements. **Marika De Peña** argued that cooperatives bring more opportunities to smallholder farmers than the costs incurred, and are critical to the ability of small scale producers and the farmers she represents to be able to operate in a way that they would not be able to do if they were operating at the individual level. Charlotte Borger noted that the relationship with retailers is very challenging. On the subject of producing the chocolate locally, there were many barriers to this such as on logistics and price, although she emphasised that whatever possibilities there may be for first stage processing, which could take place in the country of origin, this would have to ensure supply chain traceability which is necessary for Fair Trade. **Frank Okyere** explained that although there may be entry costs for membership into the cooperative of Kuapa Kokoo, this is offset because the Union pays all the certification expenses and the cooperative members then get payments and other incentives

once they are members as a result of the Fair Trade premium.

Regis Meritan argued that most of the products covered by Fair Trade would have better entry into the EU market under the EPAs. He also felt that the most important message coming from the Briefing was the support that the farmer's organisations provide to farmers is essential to making Fair Trade work and enabling small scale farmers to develop and be profitable, and reflects the policy that the EU wants to take on value chain support.

The Briefing was closed by **Sergi Corbalán**, who hoped that the participants got a broad perspective of Fair Trade to show that partnerships are available between the policymakers – diplomats and governments – and the farmers and civil society, who are eager to carry out dialogue and cooperation. **Michael Hailu** emphasised the role and objective of the Briefing to demonstrate the importance of multistakeholder engagements for these sort of issues, and Fair Trade in particular makes a great case for a successful approach to small scale production and smallholder farmers, and the lessons that can be learnt for other programmes and to scale up or replicate these achievements.

Further information available online:

- Brussels Briefings: www.brusselsbriefings.net
- Reader: <http://bit.ly/2dofNO>
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