

## The Role of Regions in the promotion of Fair Trade

### 1. Background

Today, at the beginning of the 21<sup>st</sup> Century, it can be confidently stated that the levels of global wealth are higher than at any other time in the history of the world. Knowledge, human development and new technologies have generated prosperity that would have been viewed as miraculous only a couple of centuries ago. However, amid this wealth poverty persists and utmost despair exists – especially in certain parts of Africa where people still live much in the same way as they did at the end of the 18<sup>th</sup> Century.

No clear solution to this problem has emerged, but economic theory (and evidence from practice) predicts that international trade may significantly contribute to the economic stimulation of developing countries or developing regions within countries. For this reason developed countries often enter into preferential free trade arrangements with developing countries. Good examples are the Lomé / Cotonou initiative of the EU and the AGOA initiative of the USA. Likewise one of the driving forces behind the “development principles” proclaimed in the Doha-Declaration, the “Trade not Aid” catchphrase and even in the Marrakech Agreement, is clear asymmetrical preferences for developing countries.

Yet, the expected benefits often do not materialise in practice as, for instance, the exports from ACP countries to the EU declined from \$26 billion in 1995 to \$24 billion in 1998 despite the benefits of the Marrakech Agreement. Some argue that this is the result of an underlying disparity in bargaining power and information that *inter alia* resulted in the Marrakech Agreement shaving 2% off Sub-Saharan GDP (see Stiglitz, 2002). Others maintain that an absence of appropriate institutions, for instance dysfunctional property rights institutions, is the culprit (see De Soto, 2000). While some argue in favour of transplanting certain value systems (see Friedman 2000; Huntington 1997), others assert that value systems must be recognised and are in fact at the root of the erosion of the nation state (Castells, 1997). At this stage it is clear from this debate that high-level International Treaties *per se* are not enough. They should be supported by micro-level targeted interventions in the real economy. One example of such an intervention is the global “Fair Trade” initiative with its countervailing domestic measure of preferential procurement.

The first vestiges of Fair Trade are said to have started in Italy in the 19<sup>th</sup> Century with the development of the co-operative movement. In the 1940’s in the US the Mennonite Central Committee, from which Ten Thousand Villages arose, started trading with the poor communities in the South. In the 1960’s Oxfam started with a similar initiative. Since then, and in reaction to the deteriorating terms of trade of commodities (traditionally the main export products of developing countries), various other similar initiatives have been started in developed countries.

Four major Fair Trade Associations may be identified:

- a) The Fair Trade Labelling Organisation (FLO) is a worldwide umbrella organisation of 17 national labelling initiatives, which sets Fair Trade standards and monitors producer and trader compliance. Members include Max Havelaar and TransFair.
- b) The European Fair Trade Association (EFTA) is a network of Fair Trade organisations in nine European countries, which imports products from over 600 producer groups in Africa, Asia and Latin America.
- c) The International Federation of Alternative Trade (IFAT) is a global network of Alternative Trading Organisations and producer organisations in Africa, Asia, Europe, Latin America, North America and the Pacific Rim.
- d) The Fair Trade Federation (FTF) is predominantly a North American Organisation.

Until recently most of these associations maintained their own shops or retail outlets. However, an increasing emphasis is now being placed on entering the mainstream economy through the major retailers. Similarly, the initial products sold were handicrafts and farming products with a long shelf life (for instance preserves). As it is realised that the most significant competitive edge that poor communities have is their natural resources, labour and indigenous knowledge, the emphasis on farming products is increasing.

It would seem that modern consumers prefer to add to their consumption habits, combined with increasing levels of consumer responsibility to the society and the environment (the “triple bottom line” concept), businesses now realise that altruism makes good financial logic. Consumers show preference for specific social and ecological attributes, e.g. demand for organically grown products.

## 2. Fair Trade Principles

Fair Trade principles usually include:

- a) Products purchased as far as possible directly from small producer organisations.
- b) Product development assistance is provided to enable producers to gain access to mainstream markets.
- c) The price is usually derived from, but in principle a little bit higher than, the world price.
- d) Payments should take place at the agreed time.
- e) Workers should receive a living wage and should be in a free, transparent but long term relationships with employers.
- f) Specific emphasis is placed on the empowerment of women
- g) The position of children in the working environment is a specific concern.
- h) Part of the harvest can be financed in advance if both producer and importer provide mutual security and thereby laying the foundation for a long-term relationship.
- i) Cultural identity is encouraged.
- j) Economic activity within a sustainable ecological environment is promoted.

It is important to note that although “Ethical Trade” and “Fair Trade” are closely related, slight differences exist. Ethical Trade focuses on labour standards, and particularly on fundamental human rights (i.e. absence of child labour, freedom of movement, workplace safety, etc.) in the workplace of suppliers to major brand names and local branches of foreign companies within the existing mainstream economy. Those companies which operate in the economies of developing countries are getting more and more questions about their social, ecological and other non-commercial aspects of their investments abroad and their approach to corporate social responsibility.

The demand for ethical trade has grown as a result of the negative image created by “sweatshops” suppliers and environmentally irresponsible multinationals. In some instances alliances between ethical trade activists and trades unionists in developed countries have, in some instances, resulted in a new form of trade protectionism aimed against developing countries, i.e. non-tariff barriers, but this should not deter regions from promoting fair and ethical trade as a critical aspect of sustainable development.

### **3. Action for the Regions**

It is evident that negotiation and granting of trade preferences (or, negative preferences in the form of sanctions) are common policy instruments of national governments. However, regional governments are required to implement the micro-level interventions in the real economy. To this end regional governments may make interventions or promote Fair Trade criteria within their region as follow:

1. Create awareness amongst consumers as well as producers regarding Fair Trade principles. As producers need to become market-ready before they can export, developing regions should never neglect the development of their domestic markets first. Furthermore, regional governments should promote their products domestically first.
2. As Fair Trade products are usually culturally or agriculturally based, regions should play an active role in identifying appropriate products with specific emphasis on traditional and cultural farming activities. To this end it is necessary to identify, quantify and describe the resource base available.
3. One of the main constraints that resource poor entrepreneurs experience in adding social attributes is the costs associated with certification and/or auditing. Furthermore, the production of the necessary volumes, amelioration of risks and the challenges associated with marketing necessitates co-operative marketing to be established amongst the target group.
4. Both physical (cold storage facilities, roads, harbours, etc.) as well as business support infrastructure should be directly or indirectly provided for. In this regard the need for trace ability (“products of origin”) should not be forgotten.
5. It could be argued that preferential procurement is a domestic form of “Fair Trade”. It follows that the same principles should apply, with added responsibility when government is procurer. For instance, the late payment of bills can sink budding

- enterprises. Preferential procurement may destroy jobs in other businesses and, in the process, erode the general competitive position of an industry.
6. Regions can play a general role of catalyst through extensive consultation with various role-players in the attainment of sustainable development.
  7. Regions can establish a benchmark of consumer awareness to judge the progress made.
  8. Top companies can have commitment to use and internally promote Fair Trade – caution needed to ensure that none of these companies have ‘questionable involvement’ or connections that would make them unsuitable for involvement.
  9. Small and medium enterprises can have commitment to use and internally promote Fair Trade
  10. Coffee, tea and chocolate companies can offer Fair Trade alternatives and include pledge to use and promote Fair Trade.
  11. Trade Unions can pass resolutions in support of Fair Trade and pledge to use and internally promote Fair-trade.
  12. Region wide voluntary organisations and major faith groups can resolve to use and promote fair-trade internally.
  13. Political Support - conference resolutions from major political parties in support of Fair-trade with pledge to use and promote Fair-trade internally.
  14. Regional Governments and agencies can highlight Fair Trade as a workable alternative trade model, demonstrating support for Trade Justice worldwide.
  15. Use Sustainable Development Strategy (see nrg4SD policy paper on SD Strategies) to report on Fair Trade campaign.
  16. Regional Government can provide financial support for Fair Trade eg. funding outreach post; bilingual materials; producers tour.
  17. Government can include a duty to promote Fair Trade in agency remit letters.
  18. Promote Fair Trade through trade agreements, MOA’s etc.
  19. Education institutions can become Fair-trade Schools/Colleges and pledge to promote and use Fair-trade internally.

Annually the nrg4SD will prepare a progress report on implementation of fair trade in the regions. In preparation for future conferences, and where possible contributing to Doha rounds, the Network will promote a sustainable development approach to trade and communicate best practises achieved in the regions.

#### REFERENCES

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