Fair Trade in the Wider World

July 2004 - This briefing summarises the key areas of current trade policy and practice which undermine the security of poor people in developing countries. It sets out the principles of fair trade and explores areas where fair trade can be useful as a model.

This is the first of a series of briefings on trade policy which Traidcraft's policy team will be publishing this year. Others in the series will look in more detail at specific policy areas and their impact on poor producers.

Fair Trade Tool Kit

How are trade and poverty linked?
For the last 25 years Traidcraft has demonstrated that trade can be a powerful tool for poverty reduction. The importance of trade in development is now widely acknowledged: the potential for trade to act as a vehicle for poverty reduction is now recognised by governments and policy makers in both rich and poor countries.

Trade is of course increasingly global, with many of our staple products now being sourced from around the world; increasingly complex international supply chains will include components sourced in numerous countries and assembled in yet another, based on who can offer the most competitive price. Improved communications and faster and more integrated transport facilitate this. For example, flowers grown in Kenya can now be in UK shops the day after they are picked and customers of UK banks often find that they are talking to call centres located in other countries. According to OECD figures[1], international sourcing now accounts for more than 50% of all world trade.

Global supply chains and investment flows link people across the world and communities are more inter-dependent than ever before, yet there is an increasing gap between rich and poor. Quite simply, the benefits of globalisation are not being shared. The average Gross National Income of developed countries was $27,450 per capita in 2002 compared to just $1,560 per capita in Sub Saharan Africa[2]. Trade rules continue to be set in favour of rich countries, whilst poor countries have seen their share of world trade reduce. Between 1990 and 2002, 31 countries saw a reduction in real trade, all of which are lower and middle income countries[3].

There is however a growing body of research which demonstrates that trade could have a much greater impact on poverty alleviation than aid.

If Africa, East Asia, South Asia, and Latin America were each to increase their share of world exports by one per cent, the resulting gains in income could lift 128 million people out of poverty. In Africa alone, this would generate $70bn - approximately five times what the continent receives in aid.

Why are current systems unfair?
Those who benefit most from trade are rich countries and large multinational companies. Inherent unfairness in global trading systems means that trade rules and practices favour the rich. Trade does not take place in isolation; it is governed by a whole host of rules, regulations, agreements and institutions. For trade to contribute towards poverty reduction the environment in which trade happens needs to be changed. This means influencing trade and poverty policies regionally and internationally.

[1]http://www.oecd.org/
[2]World Development Report 2002
[3]World Development Indicators 2004
[4]*Oxfam Trade Report – www.maketradefair.com*

Traidcraft
Fighting poverty through trade

There is a lack of democracy in many trade agreements
Trade agreements between nations are developed in a number of ways: Through bilateral negotiations, where two countries or two groups of countries negotiate a trade agreement between themselves; through multilateral negotiations, i.e. through the World Trade Organisation (WTO) which seeks to set global trade rules, or lastly through conditions which the two main development lenders, the International Monetary Fund and the World Bank, attach to the loans they give. However when international trade agreements are developed, the huge inequality between nations means that there is often a stronger party that is able to influence proceedings in their favour. Whist at the WTO member states are each only allowed one vote on decisions, the richer nations have vastly more resources available for WTO negotiations and thus are much more likely to be able to identify and press for agreements which favour their own trade interests. Rich countries generally send many more delegates to take part in on going negotiations (at the Doha WTO Ministerial meeting in 2001, the European Union (EU) delegation numbered 502 people whilst the delegation from the Maldives consisted of just two people[5]). This is just one example of how rich countries load the negotiation process in their favour. With such an imbalance in resources it is hardly surprising that in practice, trade agreements tend to follow the free trade agenda extensively promoted by the United States, EU and other institutions such as the World Bank and the International Monetary Fund.

Forced liberalisation will not reduce poverty
The neo-liberal trade model, which promotes free trade, came to the fore during the 1980s and now forms the basis of all major trade agreements. The idea is that if all tariff and non-tariff barriers between countries are removed, then market forces will regulate prices and each country or region will specialise in producing those goods and services in which they are most competitive. There is however a growing consensus now that in practice, free trade is only possible on equal terms if all countries have reached the same level of development. Free trade is therefore an ideological rather than a practical model. To impose a free trade agenda between the very rich and the very poor is to ignore the different needs and capacities between different countries and assume all countries are on a level playing field – this is simply not true.

Up until the end of the Second World War, Europe and North America sought to protect and develop their own industries by placing tariffs on the import of those goods which they could produce themselves, even if they were not the most competitive producers of that product. At the height of their industrial development, rich countries had the highest tariff barriers in history. For example, in the early 1820s, import duties on French goods into the UK were around 57%. Yet today rich countries are kicking away the ladder from poor countries by advocating a trade model which stops poor countries from both protecting the development of their own industries and generating much needed income through import taxes.

One rule for the rich, another for the poor
Rich countries are also able to find loopholes in trade agreements to favour their own markets. In addition they have the capacity to defend their actions in trade disputes. The US and EU heavily subsidise their agricultural production in order to sustain their own farming communities—the average cow in the EU receives more than $2 a day in subsidies, whist more than 3 billion people are struggling to survive on less than this. Surplus crops are dumped onto the world markets pushing down commodity prices below the cost of production. Yet structural adjustment programmes imposed upon poor countries by the IMF and the World Bank, hypocritically do not allow developing countries to subsidise their own agricultural production. Consequently local products are unable to compete effectively with cheap subsidised foreign products.

Corporate decisions are taken in one place and felt in another
More than half of the 100 largest economies in the world are multinational companies[6]. The sheer size of their buying-power means that their activities have a significant effect on communities throughout the world.

As trade becomes increasingly global, international supply chains are the norm, as companies race to find the cheapest suppliers for their products. Whilst the major markets are based in the rich north, most manufacturing has now shifted to poor countries where labour costs are much lower. Whilst this has the potential to bring benefits to developing countries through increased employment and foreign direct investment, this in reality rarely leads to a sustained reduction in poverty and increased economic development. This is because within many supply chains all the power is concentrated in the purchasing departments of large companies. In their quest to remain competitive, purchasers put pressure on suppliers to keep their costs low and to fulfil orders often at short notice. This can force suppliers to pay wages below the cost of living and to offer generally poor working conditions. With prices squeezed by the large purchasing companies and short delivery times, developing country suppliers are unable to either invest in improvements to their businesses, seek to improve working conditions, or adhere to environmental standards. Low wages mean that workers struggle to

[5] Rough Guide to the WTO – CAFOD.
[6] Rough Guide to Multinational Corporations - CAFOD

find money for necessities such as food, healthcare and education and do not have money which in return would boost the local economy.

There is a lack of robust company regulation
Despite the increase in interest in Corporate Social Responsibility (CSR) in recent years, the vast majority of companies persist in ignoring the social and environmental impact of their operations. With only limited legislation to hold companies accountable for their impacts - most systems rely upon voluntary standards and codes of conduct. Yet if a company's primary function is only interpreted as being to provide a profit to its shareholders, it is unlikely to be adequately equipped to develop the necessary internal functions which safeguard the environment & human rights, decrease poverty and encourage development. This means that many CSR initiatives are often misplaced, providing no more than an opportunity to gain some good public relations for the companies involved. Where legislation does exist - for example on international labour standards - it is often not enforced by governments, who do not have the capacity to monitor company practice or who turn a blind eye to violations of standards in order to maintain their country's competitiveness internationally.

Poor producers have little chance of influencing policies which affect them
Large companies have the resources to lobby governments on a regular basis, and many do so very effectively. In consequence, their perspectives tend to be represented in government policy. By contrast, the voice of small-scale producers is often absent in trade policy debates. National and international trade policy-makers rarely take account of the needs or the voice of the poorest trading groups informal sector and Micro and Small Enterprises (MSEs), who are at the bottom of the supply chain and lack negotiating power. Where governments in developing countries or international negotiators do consult with the private sector, this tends to be with larger multinational enterprises. Evidence for this can be seen repeatedly in the Poverty Reduction Strategy Paper (PRSP) process and in the strong business lobby around the World Trade Organisation agenda.

What is Fair Trade?

Fair trade is a practical response to the unfairness of current global trade, which has brought significant livelihood benefits to producers through long-term partnerships and secure and clear terms of trade. Fair trade has also been instrumental in raising awareness among consumers in rich countries of the conditions in which many agricultural, craft and textile products are made. Fair trade not only provides a fair price to producers but also radically changes the trading relationship between producer and consumer.

The goals of Fair Trade are:

- To improve the livelihoods and well being of producers by improving market access, strengthening producer organisations, paying a better price and providing continuity in the trading relationship.
- To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
- To raise awareness among consumers of the negative effects on producers of international trade so that they can exercise their purchasing power positively.
- To set an example of partnership in trade through dialogue, transparency and respect.
- To campaign for changes in the rules and practice of conventional international trade.

Fair trade has now grown to become an internationally recognised set of standards with a large range of goods sold in a variety of outlets. Turnover of fair trade products worldwide now accounts for over US$500 million per year. There are almost a million Fairtrade-certified producers, who in 2002 received over US$ 40 million in Fairtrade benefits.

Some fairly- traded goods carry the Fairtrade Mark, monitored by the Fairtrade Labelling Organisation (FLO) - the Fairtrade Foundation licenses this mark in the UK. The Fairtrade Mark was initially developed to certify food products, and standards will be developed to certify manufactured goods, the first of which are fairly-traded footballs. Currently the Fairtrade Mark covers 12 product categories (Coffee, Tea, Rice, Bananas, Fresh Fruit, Juices, Cocoa, Sugar, Honey, Sports Balls, Wine and Flowers). Other fair trade products, for which a label has not yet been established, are sold by organisations who are members of the International Fair Trade Association, such as Traidcraft plc.

Fair trade offers marginalised producers the opportunity to participate in overseas trade in a transparent and equitable manner so that they are able to access wider markets. By working in partnership with producers over a number of years, fair trade results in trading relationships which reduce poverty.

Taking the fair trade message wider – by tackling unfair trade rules and business practices

Fair trade remains a small but growing market. Many more people in developing countries would benefit from trade if trade rules and business practices were changed so they are fair and transparent for all producers. Fair trade has shown that trade can work for the poor. It provides valuable practical experience of how to organise supply chains in favour of poverty reduction, and how to operate truly social enterprises.

Challenging trade rules

Fair trade challenges the predominant neo-liberal trade ideology. Trade rules need to be made which do not unfairly favour large companies and developed countries. The growing market for fair trade products sends a clear message that many people can see the existing unfairness in current trade rules and are actively choosing an alternative.

The importance of small enterprises

Fair trade works with Micro and Small Enterprises (MSEs) - widely recognised as a vital group in strategies to reduce poverty in developing countries. In many developing countries, MSEs account for the greatest number of businesses and collectively employ the greatest number of people. A strong MSE sector is an essential component of national development plans. However MSEs are often overlooked in the formulation of policies which affect them. All too often governments and international bodies listen to the interests of big business, and do not take account of how their trade or development policies will affect small producers. Fair trade aims to raise the voice of small producers around the trade rules which will directly affect them, to make sure that their needs are taken into consideration.

Using the fair trade model

Fair trade companies can provide a model that shows that trade can be carried out in a way which contributes to poverty alleviation, whilst at the same time building a sustainable business.

Improving the social impact of business practices within supply chains: The social impact of business practices within supply chains on workers, small producers and homeworkers needs to be improved. International labour laws exist to protect workers, but these are often undermined by the purchasing practices of international buyers and low awareness of workers rights. International businesses purchasing from overseas need to understand the local context of where they are sourcing from and support activities which make adherence to those rights a reality. It is also important to build the capacity of developing countries to enforce labour laws.

Corporate governance**:** The decisions of companies can have significant social and environmental impacts. Companies are not currently accountable for those impacts, unless they are covered by specific legislation, e.g. consumer protection or health and safety. Decision makers in companies must be held accountable. That is why responsibility for social and environmental impacts *both in the UK and overseas* needs to be incorporated into company law.

Future papers in this series will examine specific trade policy issues and outline the fair trade perspective in more detail. We would welcome all feedback and comments regarding the contents of this or future issues, to **policy@traidcraft.org.uk**

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Methodist Relief & Development Fund