

Fair Trade provides models for Corporate Social Responsibility **By Fiona Gooch, Traidcraft and Stefan Chrobok, European Fair Trade Association**

Influence of Social Enterprises on the rise of CSR

Businesses have been benefiting from the globalisation of trade and investment for many decades. However it is only recently that mainstream businesses have grown sensitive to the need to address their social impacts, giving rise to Corporate Social Responsibility (CSR) activities. This has also been stimulated by increased access to information and by the success of pioneering businesses in the social economy. Fair Trade organisations in particular have demonstrated the viability of a business approach that makes sustainable poverty reduction a central element of all their business operations.

The socially responsible management of global supply chains is an area that is frequently neglected in the CSR debate. This article sets out how Fair Trade works, the differences between CSR and Fair Trade, which are sometimes confused, and models Fair Trade provides for improving the social impact of business practices.

What is Fair Trade?

The internationally agreed definition and intent of Fair Trade are as follows:

“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, 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.”¹

Fair Trade's strategic intent is:

- deliberately to work with marginalised producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency
- to empower producers and workers as stakeholders in their own organisations
- actively to play a wider role in the global arena to achieve greater equity in international trade.

The following characterise the standards used in practice by producers and importers.

Producer Groups in developing countries

- marginalised but organised & able to export
- democratic & transparent management
- decent working conditions and a living wage
- workers have freedom of association
- equal opportunities for all, particularly the most disadvantaged
- long term co-operative relationships

Importers in developed countries

- raison d'être is to put people before profits
- Fair Trade price
- buy from disadvantaged producers (including registered producers where Fair Trade Label exists)
- provide business, design or credit support (including advance payment where necessary)
- long term co-operative and transparent trading relationships

Products that are sold by Fair Trade organisations include food, household products, soft furnishings and clothing. Most of the primary food products are sold under the Fair Trade label. Fairtrade Labelling Organisations International (FLO)² monitors standards that lie behind the Fair Trade label. The first label was developed in 1998 by Max Havelaar³ in the Netherlands for coffee. Standards are being developed so that the Fair Trade label can be used on more products.

The Fair Trade labelling scheme enables product claims to be verified and enables all businesses (i.e. not only Fair Trade enterprises) to sell Fair Trade products with consumer recognition.

Fair Trade is a growing in market size and impact. There are more than 800,000 small-scale producers working in nearly 3,000 grassroots organisations producing Fair Trade goods. In 2002, European Fair Trade Association members had a combined turnover of almost € 150m⁴. World-wide Fair Trade sales are more than half a billion Euros⁵. In 2002 sales of Fair Trade labelled products increased 22% on the previous year⁶ and this is estimated to have generated 50 million US\$/€ of additional income to producers and workers.

¹ Source: FINE, formed through the informal co-operation between Fairtrade Labelling Organizations International (FLO), the International Federation for Alternative Trade (IFAT), Network of European World Shops (NEWS), and the European Fair Trade Association (EFTA).

² www.fairtrade.net

³ www.maxhavelaar.nl

⁴ Source: European Fair Trade Association (EFTA) www.eftafairtrade.org. Figure on the basis of retail-figure calculations

⁵ Graham Young for the King Baudouin Foundation 'Fair trade's influential past and the challenges of its future.' May 2003. Where a billion equals a thousand million.

⁶ Source: Fairtrade Labelling Organizations International (FLO) www.fairtrade.net

Fair Trade and Corporate Social Responsibility

The principles that underpin CSR - that businesses should recognise, understand and seek to improve their environmental and social impacts - are ones that the Fair Trade movement supports. However there are fundamental differences between the two approaches:

- CSR activities seek to make the trading environment benign, without challenging the status quo. Fair Trade advocates for greater equity in the international trading system.
- CSR relies on its power within a supply chain (usually as purchasers) to force compliance with standards that have been developed with minimum local consultation. Fair Trade develops standards through partnership with suppliers and involves them in monitoring impact.
- CSR aims to help companies voluntarily comply with already agreed and accepted norms (UN Universal Declaration of Human Rights) which continue to be widely flouted. Fair Trade objectives go beyond legal compliance, and Fair Trade advocates for stronger regulatory systems to improve the social impact of mainstream business practices.
- CSR can result in the further marginalisation of small businesses when it involves unreasonable demands, not based on local understanding. Suppliers, especially small businesses, may be eliminated from the supply chain either because they are perceived as representing a 'risk' or are not able to prove their compliance with certain set standards. This short-sighted approach can actively increase poverty. Fair Trade aims to, and does, improve the livelihoods of small producers and their families.

Fair Trade experience provides good practice models for CSR

Fair Trade organisations take a pro-active approach to socially responsible business practices, focusing on the positive benefits of sustainable business practices for all. The success of Fair Trade in coupling profitability and economic effectiveness with international development objectives makes it a particularly valuable model to inform mainstream businesses on how to move their CSR activities beyond rhetoric towards impact.

- Understanding impact. CSR initiatives will be judged on their social and environmental outcomes. Twin (UK), Fair Trade Organisatie (NL) and Oxfam Trading (UK) have undertaken studies of their impact. In addition a number of independent impact studies have been conducted.⁷
- Stakeholder engagement. Genuine stakeholder dialogue is critical to ensure a company's future operations are developed in recognition of its impacts and reflects the concerns of its stakeholders. Fair Trade organisations have embedded stakeholder dialogue into their management approaches in various ways.⁸
- Balancing commercial and social considerations in management. All Fair Trade companies state clearly in their legal articles that they are not for profit. At Day Chocolate Company⁹ raw material producer representatives are part owners of the company and sit on the Board. For CSR initiatives to be taken seriously social issues need to be considered at the heart of the company's corporate governance and management approach.
- Managing global supply chain relationships. All businesses are dependent on their supply chains to deliver products and services. Fair Trade organisations establish transparent and long-term trading relations with their suppliers and consider social factors that lie beyond the workplace. Through effective dialogue and partnering relationships, Fair Trade organisations are able to understand the local context and work with their suppliers to improve their businesses as well as bring benefits to the local community. Alleviating poverty in the supply chain can contribute to reduced absenteeism and staff turnover, improved staff motivation, product quality and increased productivity.

Conclusions

CSR has the potential to bring benefits, if businesses understand and seek to improve their environmental and social impacts. However, ill-conceived or mismanaged CSR initiatives will discredit the CSR-process as a whole and feed current accusations of CSR as "corporate window-dressing". Lack of commitment to address the real challenges in a company's core operations and lack of corporate understanding of their social impact are the biggest problems behind current CSR activities.

Fair Trade is organised to bring disadvantaged producers into the market under conditions that give them access to wider commercial expertise and brings social benefits to their community in order to reduce poverty in the long term. The pro-active experience of Fair Trade provides good practice models in stakeholder engagement, supplier relations, understanding social impact, and the balancing of social and commercial considerations in management for those companies genuinely interested in improving their social impact.

⁷ Misereor, Brot für die Welt, Friedrich-Ebert-Stiftung: "Entwicklungspolitische Wirkungen des Fairen Handels", September 2000; Loraine Ronchi: "Monitoring the impact of Fair trade Initiatives: a Case study of Kuapa Kokoo and the Day Chocolate Company" 2002 or see www.eftafairtrade.org for a list of impact studies

⁸ For example FLO holds regular conferences to consult suppliers from the south, as well as traders in the north (both Fair Trade and mainstream) on future developments behind the label. Various European importers involve the 'World Shops' directly in their decision-making structures. Traidcraft pioneered social accounting in 1993 to find out how stakeholders thought Traidcraft was performing against its international development objectives.

⁹ www.traidcraft.co.uk

⁹ www.divinechocolate.com